A Perspective on Federal Involvement in Agricultural Credit Programs

by

John R. Brake

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A PERSPECTIVE ON FEDERAL INVOLVEMENT IN AGRICULTURAL CREDIT PROGRAMS*

By JOHN R. BRAKE**

Over the past sixty years, the federal government has initiated new agricultural credit programs, and discontinued certain programs. This article reviews the involvement of the federal government in agricultural credit, summarizes some of the major changes that have occurred during the past sixty years and describes the present level of federal involvement by comparing two principal sources of agricultural credit—the Farm Credit System and the Farmers Home Administration. In addition, an effort is made to analyze selected effects of federal credit programs on agriculture and on rural areas.

BACKGROUND TO FEDERAL INVOLVEMENT IN AGRICULTURAL CREDIT

In the early 1900's, farm credit was difficult to obtain on reasonable terms. Sometimes credit was difficult to obtain on any terms. Prevailing interest rates ranged from seven to twelve percent.[1] Often the farm mortgage company agent assessed an additional one to two percent charge for his commission. The length of term on real estate loans ranged from three to five years. At loan maturity the farmer was expected to pay off the entire principal. If a farmer could not pay it was often possible to renew a loan for another short period, but the renewal decision depended in large part upon economic conditions in the locality. Economic circumstances sometimes made it impossible for banks to renew farm real estate loans. Banks were forced to call these loans for payment in full. If a farmer could not borrow from some other source to pay the bank loan, he was subject to foreclosure. Often this resulted in loss of the farm by the bank borrower.

During this early period, nonreal estate credit needs of farmers for operating capital, purchase of equipment and similar needs were minimal. Mechanization was barely underway. A team of horses and a few horse-drawn tools were the extent of labor-saving

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** Professor of Agricultural Economics, Michigan State University. B.S. 1955, Michigan State University; M.S. 1956, Michigan State University; Ph.D. 1959, North Carolina State University of Raleigh.

1. Farm Credit Administration, The Federal Land Bank System, 1917-1967 (Circular E43, 1967).

devices. Commercial fertilizers, insecticides, feed supplements, and fuel had not yet become typical operating expenses for most farms.

Mainly because of concern over the farm credit needs for real estate purchases, several commissions were established to study farm credit needs. In 1908 President Theodore Roosevelt appointed a Country Life Commission and charged the commission to study all aspects of farm living. In March 1912 President Taft asked the American ambassadors to Europe to investigate and report on the cooperative rural credit systems in the countries to which they were assigned. Also in 1912, the Southern Commercial Congress, a nonofficial organization, devoted a considerable part of its convention program to questions of rural credit. It appointed a commission (the American Commission) to visit Europe and report on cooperative credit systems there. In 1913 President Wilson appointed a United States Commission of seven persons to participate in the study of European rural credit systems.

The United States Commission and the American Commission, set up by the Southern Commercial Congress, made a joint study abroad and delivered a joint preliminary report to Congress. In 1914 the two commissions made separate and more extensive reports to Congress.[2] Three different proposals for agricultural credit forms came out of these reports.[3] One proposal was to obtain loan funds through the sale of mortgage bonds to investors. This proposal was based on the method used by the Landschaften banks of Germany. This particular form of obtaining funds was adopted by the federal land banks, the banks for cooperatives, and the federal intermediate credit banks, who sell bonds and debentures on the money markets to obtain funds.[4]

A second proposal was to organize cooperatives to serve farm lending needs. This approach was based on the organization of the Raiffeisen banks, which were the European counterparts of our present credit unions. This proposal became the basic form of the cooperatively organized local federal land bank associations and

2. AGRICULTURAL COOPERATION AND RURAL CREDIT IN EUROPE, S. DOC. No. 261, 63d Cong., 2d Sess. 3 (1914); AGRICULTURAL CREDIT, S. DOC. NO. 380, 63d Cong., 2d Sess. 26 (1914).

3. Address by James L. Robinson at the International Rural Credit Conference in Madison, Wisconsin, March 4-6, 1958.

4. Bonds are usually defined as long term notes of governments and corporations. These are generally sold to investors as a means for the government or corporation to borrow large amounts of money. Debentures are shorter maturity than bonds (usually less than one year maturity), but they too are notes on the federal intermediate credit banks (FICB's) and banks for cooperatives (BC's) and are sold to investors as a means of borrowing large amounts of money. These bonds and debentures of the cooperative Farm Credit System agencies are marketed through the office of their fiscal agent in New York City. The fiscal agent markets them through the various brokerage houses and institutions which buy and sell such securities. The money markets are the aggregate of institutions which buy and sell these types of securities.

production credit associations. The third form for providing agricultural credit growing out of these Commission reports was direct government loans to farmers. This means was later incorporated into Farmers Home Administration programs.

The reports presented to Congress by these two commissions contained information which was used in the establishment of several agricultural credit organizations. The federal land banks were established in 1916 for the purpose of making long term loans on farm real estate security. The federal intermediate credit banks (FICB's) were established in 1923 to discount[5] agricultural loans made on a short term basis. Banks and other rural credit institutions were to loan to farmers and in turn rediscount the paper to an FICB as a means of bringing funds into the local area. The FICB's, with their short-intermediate term loans, were designed to supplement the real estate loans of the federal land banks while building upon existing rural credit institutions.

However, existing rural credit institutions made little use of the FICB's. Hence, in 1933 regional production credit corporations and their local arms, production credit associations, were established to provide short-intermediate term credit to farmers. Also in 1933, the banks for cooperatives were established to make loans to farmer cooperatives. In 1956, the regional production credit corporations and the federal intermediate credit banks were merged into one organization. All of these are cooperatively organized and obtain their funds from the nation's money markets.

As early as the 1920's the federal government made direct loans to farmers, but these were primarily disaster loans for emergency purposes. These disaster loans became known as "crop and seed loans." These disaster loans, along with lending programs designed for low income farmers, became incorporated into a succession of agencies culminating with the Farmers Home Administration.

While the cooperative Farm Credit System (the federal land banks, federal intermediate credit banks, banks for cooperatives and local federal land bank associations and production credit associations) and the Farmers Home Administration are the two main federal government efforts in agricultural credit, there have been other involvements as well. The Federal Reserve System was originated in 1914, and some of its policies directly affect farm lending. Other agencies, such as the Rural Electrification Administration (REA), were established to provide forms of rural credit.

The major federal efforts in agricultural credit will now be reviewed in more detail.

5. Discounting (sometimes called rediscounting) is the purchase by one bank of notes of individual borrowers of another bank or agency. When the note of a farmer, for example, is sold to the FICB by the Production Credit Association (PCA) which made the loan, the note is said to have been discounted or rediscounted.

THE FEDERALLY SPONSORED COOPERATIVE FARM CREDIT SYSTEM

Establishment of the System

Table 1 traces the major developments in the evolution of the present cooperative Farm Credit System which began in 1916 with the passage of the Federal Farm Loan Act.[6] This Act grew out of the commission reports discussed previously. The 1916 Act provided for both federal land banks with borrower participation in policymaking and for joint stock land banks, to be organized and owned by private investors. The joint stock land banks were later liquidated.

The intent of the Federal Farm Loan Act was stated by President Woodrow Wilson at its signing as follows:

> The farmers, it seems to me, have occupied hitherto a singular position of disadvantage. They have not had the same freedom to get credit on their real estate that others have had who were in manufacturing and commercial enterprises and, while they have sustained our life, they did not in the same degree with some others share in the benefits of that life.
>
> Therefore, this bill, along with the very liberal provisions of the Federal Reserve Act, puts them upon an equality with all others who have genuine assets, and makes the great credit of the country available to them.[7]

The Federal Farm Loan Act placed supervision of the federal land banks under a Treasury Department bureau with direction to be given by a five-member Federal Farm Loan Board.[8] The Act provided that each federal land bank should be capitalized in the amount of $750,000.[9] Because the program was new, there was little public interest; eventually most of the subscription was provided by the Secretary of the Treasury. The Act also prescribed that the government-owned stock should eventually be retired. Hence, the original Act carried the thought that the farmer-borrowers should not only control their institutions but eventually become sole owners of the federal land banks. Some of the government capital was repaid in the 1920's, although additional government capital was subscribed in the 1930's. By 1947, all government capital had been repaid. Since that date the federal land banks have been completely farmer-owned.[10]

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6. Act of July 17, 1916, ch. 245, 39 Stat. 360 *as amended by* Act of March 4, 1923, ch. 252, 42 Stat. 1454 (codified in scattered sections of 12 U.S.C.).
7. Farm Credit Administration, The Federal Land Bank System, 1917-1967 (Circular E43, 1967).
8. Act of July 17, 1916, ch. 245, § 3, 39 Stat. 360 *as amended by* Act of March 4, 1923, ch. 252, 42 Stat. 1454 (codified in scattered sections of 12 U.S.C.).
9. Act of July 17, 1916, ch. 245, § 5, 39 Stat. 364.
10. Farm Credit Administration, The Federal Land Bank System, 1917-1967 (Circular E43, 1967).

Table I.

Major Developments in the Evolution of the Cooperative Farm Credit System

1912	President Taft requested American ambassadors in Europe to investigate and report on cooperative rural credit systems. Southern Commercial Congress established the American Commission to study European cooperative credit institutions.
1913	President Wilson appointed U.S. Commission to study European rural credit system.
1916	Federal Farm Loan Act passed providing for 12 federal land banks and system of local cooperatively organized lending associations. Act also established joint stock land banks utilizing private capital. (Joint stock land banks liquidated in 1933).
1923	Agricultural Credits Act established 12 federal intermediate credit banks to discount short term agricultural loans.
1933	Executive order created the Farm Credit Administration to coordinate all federal lending activities. Farm Credit Act established 12 district production credit corporations as discounting banks for a nationwide system of PCA's also established by the Act. Farm Credit Act established 13 banks for cooperatives.
1939	Farm Credit Administration transferred to USDA by Executive order.
1947	Federal Land Banks repaid all government capital.
1953	Farm Credit Act established Farm Credit Administration as an independent agency under direction of Federal Farm Credit Board to supervise the cooperative Farm Credit System. Increased decentralization of the System.
1956	Farm Credit Act merged 12 district production credit corporations into the 12 federal intermediate credit banks and provided plans for remaining agencies to become completely owned by borrower members.
1968	Remaining federal government capital was repaid. System became completely member owned.
1971	Farm Credit Act broadened lending authority and liberalized credit availability.

After hearings, the Federal Farm Loan Board decided on twelve federal land bank districts. These districts have remained intact. The same districts have been used for each of the credit systems that were later added to the cooperative Farm Credit System.[11] However, the regional federal land banks had little direct contact with farmers. Instead, that contact came through the local agencies originally called the national farm loan associations and more recently renamed the federal land bank association

11. Farm Credit Act of 1971, § 1.3, 12 U.S.C.A. § 2011 (Supp. 1974).

(FLBA's).[12] Typically FLBA's are organized to serve several counties.

The constitutionality of the Federal Farm Loan Act was tested in 1920 and 1921. Suit was brought in a federal district court of Missouri. A favorable decision of the district court was appealed to the United States Supreme Court, and on February 28, 1921, the Court held the Act constitutional.[13]

With the agricultural depression of the early 1920's, demand appeared for a source of short and intermediate term farm credit.[14] Congress appointed a "Joint Commission of Agricultural Inquiry" to study the situation. The report of this Commission led to introduction in Congress of the Lenroot-Anderson Bill. However, another group pushed the Capper-McFadden Bill which put more emphasis on the Federal Reserve System to meet credit needs. The resulting compromise bill was passed as the Agricultural Credits Act of 1923,[15] establishing the federal intermediate credit banks (FICB's) for agriculture. The FICB's were to rediscount agricultural loans for commercial banks, livestock loan companies, and the new agricultural credit corporations provided for under the Act. Funds for making their loans were to be obtained by sale of debentures in the investment market. These federal intermediate credit banks were regional banks and were not to make loans directly to farmers. Neither did they have any of the usual banking functions such as receiving deposits or providing checking service. The government supplied $60 million of capital to the federal intermediate credit bank system. Later an additional $40 million revolving fund was provided by the Secretary of the Treasury.

Since FICB's could not loan directly to farmers, their usefulness in increasing the availability of agricultural credit depended primarily on agencies which discounted agricultural loans with them and on the volume of acceptable loans offered to them for rediscount. The FICB's were not used to a very large extent by the local lending agencies. An important reason was that the FICB's required that the first lenders charge no more than a 1½ percent markup on their loans. This amount of markup was apparently inadequate. Also, rural banks found that they could often rediscount with the Federal Reserve Banks on more favorable terms than from the FICB's.[16]

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12. Farm Credit Act of 1971, §§ 1.13-1.16, 12 U.S.C.A. §§ 2031-34 (Supp. 1974).
13. Smith v. Kansas City Title & Trust Co., 255 U.S. 180 (1921).
14. Credit is often classified by length of term. Short term credit refers to loans maturing in one year or less. Intermediate term denotes one to five year maturity, and long term credit is five years or more. Short and intermediate term credit are usually associated with operating and equipment needs, respectively. Long term credit is usually based on real estate security.
15. Act of March 4, 1923, ch. 252, 42 Stat. 1461.
16. Arnold, 1933-1958: Farmers Build Their Own Production Credit System (Circular E45, Farm Credit Administration, Aug., 1958).

While it was evident that the short term credit needs of farmers were not being met in the decade after 1923, the situation was brought to a head during 1932 and 1933 with the increasing foreclosures on farm mortgages. One of the first executive orders of President Franklin D. Roosevelt was to reorganize the agricultural credit agencies of the United States. His executive order of March 27, 1933, created the Farm Credit Administration and brought all the government-sponsored and direct lending farm credit agencies under its control. Again, the intent of federal credit programs in agriculture can be seen in the President's message:

> Important as are the foregoing, of greater and controlling importance is the maintenance of the longstanding policy of the Federal government to maintain and strengthen a sound and permanent system of cooperative agricultural credit, subject to Federal supervision and operated on the basis of providing the maximum of security to present and prospective investors in bonds and debentures resting on farm mortgages or other agricultural securities—all for the purpose of meeting the credit needs of agriculture at minimum cost.[17]

On June 16, 1933, the President signed the Farm Credit Act of 1933[18] which created twelve regional production credit corporations, twelve regional banks for cooperatives, and the Central Bank for Cooperatives. The Act provided for establishment of local production credit associations which were to be operated in a manner similar to the FLBA's.[19] Local production credit associations (PCA's) were to make loans to farmers and discount the paper with the regional production credit corporations. In 1956, the assets of the production credit corporations were put in the federal intermediate credit banks which presently serve as the rediscounting bank for PCA paper.

After the Farm Credit Act of 1933, the government owned practically all of the farm credit institutions. The federal land banks had received additional government capital because of the large number of farm real estate mortgage foreclosures and the generally depressed situation of farmers. The equity of the federal intermediate credit banks was owned entirely by the government, with no provision for government capital to be repaid. Similarly, the original capital for the banks for cooperatives was supplied by the government.

Control and Centralization Issues

In 1933, the lawmakers gave little thought to a future time when farmers might be chief stockholders. Probably many law-

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17. *Id.*
18. Act of June 16, 1933, ch. 98, 48 Stat. 257.
19. Farm Credit Act of 1933, ch. 98, § 2, 48 Stat. 257.

makers thought this would never happen. As a result, the Governor of the Farm Credit Administration had a great deal of authority and control in the cooperative Farm Credit System. There were few, if any, provisions for changes in these controls as farmers took over the ownership and retired the government capital.[20]

During the latter part of the 1930's, a number of issues rose to the surface. One of the important issues was that of centralization vs. decentralization of the cooperative Farm Credit System. A part of this issue revolved around the control exerted by the twelve district farm credit boards. With most members of district boards of directors appointed by the Governor of the Farm Credit Administration, a highly centralized district organization would have been possible. However, rather than have a combined or joint president of all four banks in each district (these four being the federal land bank, bank for cooperatives, federal intermediate credit banks and the production credit corporations), the decision was made to set up four distinct and separate administrative structures in each of the twelve districts. Each of the four bank presidents answered to the same district board of directors. Hence, each district had four separate and distinct organizations, each with its own officers and employees, yet answering to the same board of directors. (A few districts have since reorganized so that one president is in charge of more than one bank in the district.)

From 1933 to 1939, the Farm Credit Administration (FCA) operated as an independent agency of the executive branch of the federal government with the Governor of the FCA responsible directly to the President. Then, in 1939, by executive order of the President, independent status of the Farm Credit Administration was rescinded and the agency was placed in the Department of Agriculture. The ensuing years were later described as follows by an official of the cooperative Farm Credit System:

> [D]uring this whole period the management and direction of the system was largely from the top down, operating much as a regular type of centralized government bureau, with changing direction according to the views of the Administration in current power, and with various attempts to include government lending, soft credit, compliance with government farm programs and so on from time to time. Some of you will recall the Flanigan Bill that would have completely destroyed the cooperative nature and farmer ownership of the system. The concern it evoked among farmer users, and the resulting legislation we now know as the Farm Credit Act of 1953.[21]

As the above paragraph indicates, there were many philosophi-

20. Arnold, *supra* note 16.
21. Address by Glen R. Harris at National Conference of Farm Credit Directors, Louisville, Ky., Sept. 23, 1968.

cal conflicts concerning ownership and control. Apparently, the conflict reached its climax in the mid-1940's, and from that point on those who wished to build a farmer-owned cooperative system gained the upper hand. In 1947, the federal land banks repaid all of the government capital, and by 1953 the future direction of the cooperative Farm Credit System became clear. Except for the original legislation establishing each different part of that System, the Farm Credit Act of 1953[22] was probably the most significant legislation in the first fifty years of the System's history. That Act *re-established* the Farm Credit Administration as an independent agency. For the first time, there was a clear differentiation between the regional banks (FLB's and FICB's) and their local associations (FLBA's and PCA's), all of which are chartered instrumentalities of the federal government, on the one hand, and the Farm Credit Administration, a supervisory agency, on the other. A Federal Farm Credit Board was created as a policy making body of the Farm Credit Administration.[23] The Governor of the Farm Credit Administration was made responsible to the Board rather than directly to the President. The 1953 Act clearly moved toward decentralization, farmer ownership and control, and cooperative development of the System.

The statement of purpose of the Farm Credit Act of 1953 was as follows:

> It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration . . . [24]

The 1953 Act also broadened farmer participation and control at the district level by giving farmer members the authority to elect six of the seven members of each of the twelve district farm credit boards.[25] Also, the Act required the Federal Farm Credit Board to recommend to Congress means by which the remaining government capital would be retired from the cooperative Farm Credit System. Later, these and other recommendations by the Federal Farm Credit Board were adopted by Congress in the Farm Credit Act of 1956.

While the groundwork was laid in 1956 for eventual farmer ownership of the cooperative Farm Credit System agencies, the ownership issue was brought to a head in the late 1960's when cooperative Farm Credit System lending operations were included in the federal budget. Limits were put on the lending that System

22. Act of Aug. 6, 1953, ch. 335, 67 Stat. 390.
23. Farm Credit Act of 1953, ch. 335, § 4, 67 Stat. 390.
24. Farm Credit Act of 1953, ch. 335, § 2, 67 Stat. 390.
25. Farm Credit Act of 1953, ch. 335, § 14, 67 Stat. 390.

agencies could do in an attempt to help keep the federal budget in line. This degree of federal control was completely unacceptable to the cooperative Farm Credit System. As a direct result, all government capital was repaid by the end of 1968. The district federal land banks are now completely owned by the local federal land bank associations which are completely owned by the farmer-borrowers. The district federal intermediate credit banks are now completely owned by the local PCA's which in turn are completely owned by farmer-borrowers. Similarly, the banks for cooperatives are owned by their borrowers.

Expanded Lending Authority

The most recent significant legislation came with passage of the Farm Credit Act of 1971.[26] In May of 1969, the Federal Farm Credit Board commissioned a panel of farm leaders and representatives of the farm credit institutions to study present and future credit needs of agriculture. The report of this panel recommended a number of changes in procedures and in overall objectives for the Farm Credit System. Their recommendations were the basis of the Farm Credit Act of 1971. The Act did not change the existing structure of the System nor of the Farm Credit Administration as an independent executive agency charged with providing general policy guidelines for and supervision of the lending institutions. It did, however, authorize that more decisions would be made at the local and district bank level.

The Act expanded lending authority in several ways. Land banks were authorized to provide long term mortgage loans for housing in rural areas to fill a gap for nonfarm rural housing credit.[27] The Act also authorized loans to persons furnishing custom services[28] to farmers in addition to loans to farmers themselves.[29] It authorized the cooperative Farm Credit System to provide financial-related services such as record keeping services, assistance in estate planning, transfer of farms between generations, and other financial management services.[30]

Authority was given the PCA's to make short and intermediate term loans for rural housing and for custom operators. PCA's were authorized to participate with commercial banks in loans to farmers. The participation would allow rural commercial banks to continue a line of credit with customers, but PCA's could carry

26. Farm Credit Act of 1971, §§ 1.1-5.25, 12 U.S.C.A. §§ 2001-2259 (Supp. 1974).
27. Farm Credit Act of 1971, § 1.6, 12 U.S.C.A. § 2014 (Supp. 1974).
28. Custom Services are specific farm work which an operator might hire rather than do himself. Custom harvesting and hired pesticide application are examples. Custom operators may, or may not, be operators of their farm units.
29. Farm Credit Act of 1971, § 1.8, 12 U.S.C.A. § 2016 (Supp. 1974).
30. Farm Credit Act of 1971, § 2.5, 12 U.S.C.A. § 2076 (Supp. 1974).

the overline. Rural commercial banks are competitors of the farm credit agencies described here, but the participation between the two institutions permits the rural commercial bank to continue to service a farm customer whose credit needs might otherwise be too large for the bank to carry.

Current Organization and Operation

The district banks of the cooperative Farm Credit System and the local associations are federally *chartered* corporations and as such they are legal entities separate and apart from the federal government in the usual sense. The constitutional power of the Congress to create them has been repeatedly upheld. Even though all of the corporations are now privately owned, they still qualify as federal instrumentalities. These institutions are therefore necessarily vested with a public interest and will remain so as long as they are federally chartered.[31]

The organization of the cooperative Farm Credit System is shown in Figure 1. The Farm Credit Administration (FCA) is a supervisory organization and an independent agency in the executive branch of the federal government. The FCA does some auditing and examination of cooperative Farm Credit System banks and associations, and certain of their loans have to be approved in advance by the FCA. Typically, these are extraordinarily large loans.

The chief official of the Farm Credit Association is the Governor, who is appointed by, and answerable to, the Federal Farm Credit Board.[32] The Board is comprised of thirteen members; twelve of the thirteen members come one each from the twelve farm credit districts. The thirteenth member is appointed by the Secretary of Agriculture.[33] Appointments to the Board are made by the President of the United States with the advice and consent of the Senate after giving consideration to nominations made by borrowers of the cooperative Farm Credit System.[34] Costs of the Farm Credit Administration are paid by assessing the district banks.[35]

The states included in each of the twelve farm credit districts are shown in Table 2. Each of the twelve farm credit districts has a board of directors consisting of seven members. Six of these members are elected, two each by member-borrowers of the local federal land bank associations, the local production credit associations, and the banks for cooperatives. The seventh director is ap-

31. Address by Glen R. Harris at National Conference of Farm Credit Directors, Louisville, Ky., Sept., 1968.
32. Farm Credit Act of 1971, § 5.10, 12 U.S.C.A. § 2244 (Supp. 1974).
33. Farm Credit Act of 1971, § 5.8, 12 U.S.C.A. § 2242(d) (Supp. 1974).
34. Farm Credit Act of 1971, § 5.8, 12 U.S.C.A. § 2242(a) (Supp. 1974).
35. Farm Credit Act of 1971, § 5.16, 12 U.S.C.A. § 2250 (Supp. 1974).

Figure 1.

Organization of the Cooperative Farm Credit System

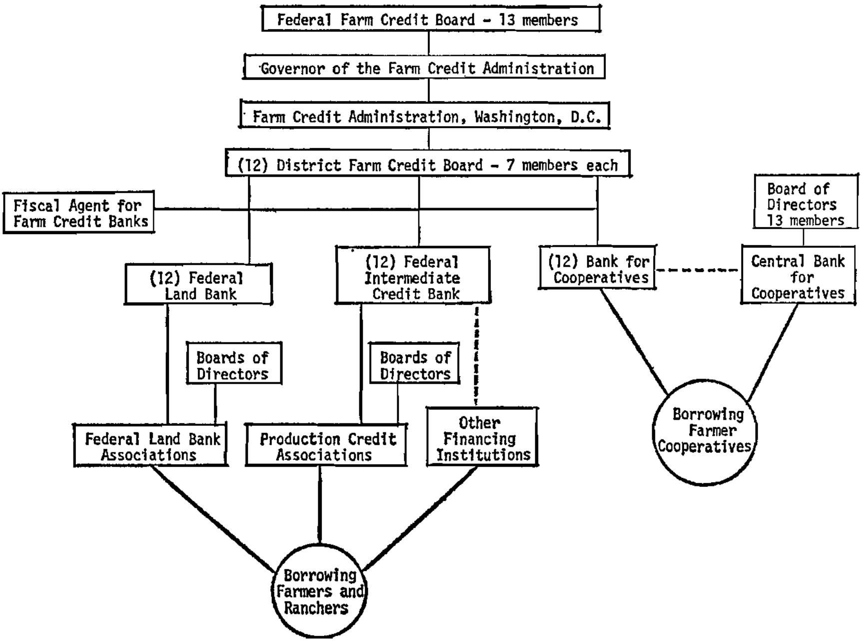


Table 2.

The Twelve Farm Credit Districts

District	City	States in the District
1	Springfield	Massachusetts, Connecticut, New York, Maine, Vermont, New Hampshire, Rhode Island, New Jersey
2	Baltimore	Maryland, Pennsylvania, Delaware, Virginia, West Virginia, D. C., Puerto Rico
3	Columbia	South Carolina, North Carolina, Georgia, Florida
4	Louisville	Kentucky, Ohio, Indiana, Tennessee
5	New Orleans	Louisiana, Alabama, Mississippi
6	St. Louis	Missouri, Illinois, Arkansas
7	St. Paul	Minnesota, Michigan, North Dakota, Wisconsin
8	Omaha	Nebraska, Iowa, South Dakota, Wyoming
9	Wichita	Kansas, Oklahoma, Colorado, New Mexico
10	Houston	Texas
11	Berkeley	California, Arizona, Hawaii, Nevada, Utah
12	Spokane	Washington, Oregon, Montana, Idaho, Alaska

pointed by the Governor of the Farm Credit Administration.[36] This district farm credit board directs the three banks in each district: the federal land bank, the bank for cooperatives, and the federal intermediate credit bank.

The federal land bank system consists of the twelve district federal land banks and the local federal land bank associations that

36. Farm Credit Act of 1971, § 5.2, 12 U.S.C.A. § 2223(a) (Supp. 1974).

make loans to farmers. The district federal land bank and each of the local federal land bank associations are separate corporations and are independent except that the local associations own the regional federal land bank. Each FLBA borrower purchases capital stock in the local association equal to five percent of the face value of his loan. This stock makes him a voting member of the local association.[37] Each local association has a board of directors elected on a one-man one-vote basis. The main source of federal land bank loan funds comes from the sale of consolidated federal land bank bonds in the national financial markets. All of the bonds are the joint obligations of the twelve district federal land banks. These funds are utilized by the local associations which make first mortgage loans to farmers, farm-related businesses, and owners of rural homes. By statute, loans may not exceed eighty-five percent of the appraised value of the real estate security although limits somewhat lower than eighty-five percent are often imposed.[38]

Loans made to farmers are for almost any purpose and terms range from five to forty years. However, loans are generally amortized over a period of thirty years or less. Interest rates depend upon the cost of the bonds to the federal land banks. In recent years their loans have been made with variable interest rates. Interest rates on the loan are adjusted up or down as money market conditions change. Federal land banks and the local associations are exempt from taxation except on owned real property.

The production credit system is a direct parallel to the federal land bank system with the exception that PCA's make only short and intermediate term loans.[39] Generally they do not require real estate security, though they may, to adequately secure a loan. The twelve district federal intermediate credit banks which serve the local PCA's obtain funds by sale of consolidated debentures on the money markets. These securities are marketed approximately once each month through the fiscal agent in New York City. These funds go to the local PCA's when they discount agricultural paper with the FICB's. Operating loans granted by local production credit associations are usually repayable within one year or less, and intermediate term loans may provide up to seven years for repayment. PCA borrowers purchase stock in the association in the amount of five percent (or more) of the loan. This stock entitles the borrower-member to vote in the local association.[40] Each local association has a board of directors which sets policy and hires employees.

In addition to discounting loans of the PCA's, the FICB's may

37. Farm Credit Act of 1971, § 1.16, 12 U.S.C.A. § 2034 (Supp. 1974).
38. Farm Credit Act of 1971, § 1.9, 12 U.S.C.A. § 2017 (Supp. 1974).
39. Farm Credit Act of 1971, § 2.15, 12 U.S.C.A. § 2096 (Supp. 1974).
40. Farm Credit Act of 1971, § 2.13, 12 U.S.C.A. § 2094 (Supp. 1974).

also discount agricultural loans for commercial banks and other financing institutions which meet certain requirements. The FICB's are exempt from taxation except on owned real estate. However, PCA's are subject to federal income taxes as well as state and local taxes in addition to taxes on owned real estate.

The third part of the cooperative Farm Credit System is the banks for cooperatives (BC's).[41] There are thirteen BC's including the twelve district banks and the Central Bank located in Denver, Colorado. Each of the district banks is organized in a manner similar to the federal land banks and the federal intermediate credit banks; however, the Central Bank for Cooperatives has its own Board of Directors, one director elected by each of the twelve farm credit district boards, and a director at large appointed by the Governor of the FCA.[42] The primary function of the Central Bank for Cooperatives is to participate with district banks in loans that are too large for a district bank to handle alone.

The banks for cooperatives have no local agency counterpart to the PCA's or FLBA's. The banks for cooperatives make fewer loans since they loan not to individual farmers but to farmer cooperatives such as farm supply cooperatives. The BC's obtain their loan funds from sale of debentures in the national money markets in the same manner as the FICB's. They make both long and short term loans to qualifying cooperatives. Repayment plans are adapted to the particular requirements of the cooperative being financed.

DIRECT GOVERNMENT LENDING: THE FARMERS HOME ADMINISTRATION

Major developments in direct government lending are summarized in Figure 2. Probably the first direct government lending to farmers occurred in 1918 with an appropriation by Congress for loans to farmers who suffered severe flood damage. With that precedent established, similar loans were made annually with but four exceptions until 1931. Such loans became known as crop and seed loans.

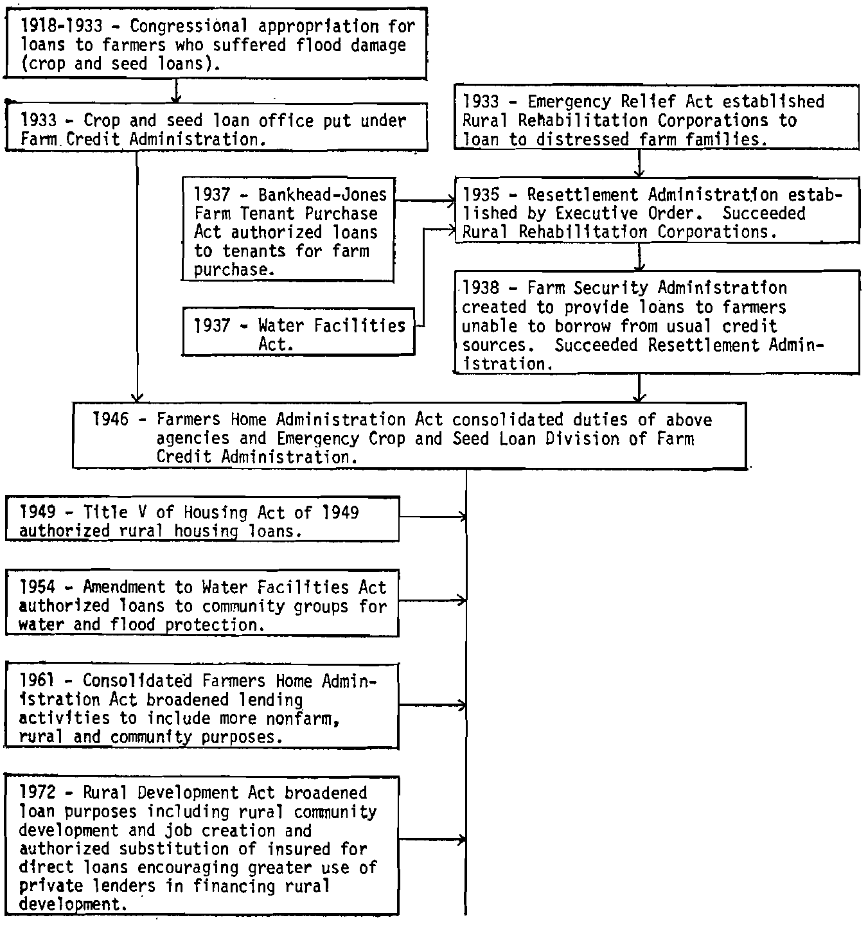
With the establishment of the Farm Credit Administration in 1933,[43] the crop and seed loan office was located in the United States Department of Agriculture under the general supervision of the Farm Credit Administration. Also in 1933, the rural rehabilitation corporations (RRC) were established under the Emergency Relief Act.[44] One RRC was set up in each of about forty states to loan to farm families in distress. The purpose of RRC loans

41. Farm Credit Act of 1971, §§ 3.0-.13, 12 U.S.C.A. §§ 2121-34 (Supp. 1974).
42. Farm Credit Act of 1971, § 3.2, 12 U.S.C.A. § 2123(a) (Supp. 1974).
43. Farm Credit Act of 1933, ch. 98, § 5, 48 Stat. 257.
44. Act of May 12, 1933, ch. 30, § 2(b), 48 Stat. 55.

was to allow distressed farm families to continue operating their farms and thereby reduce relief roles. RRC loans provided for supervision of farm operations. In 1935 the Resettlement Administration was established by executive order and it took over lending previously done by the rural rehabilitation corporations. The Resettlement Administration encompassed a more systematic program and supervision was provided for both home and farm operations.

Figure 2.

Major Developments in Direct Government Lending to Farmers



The Bankhead-Jones Farm Tenant Act of 1937[45] authorized loans to farm tenants for purchase of farms. The administration of this Act was given to the Resettlement Administration. In the same year the Water Facilities Act[46] was passed providing loans in seventeen Western states. These loans were also disbursed by

45. Act of July 22, 1937, ch. 517, 50 Stat. 522.
46. Act of Aug. 28, 1937, ch. 870, 50 Stat. 869.

the Resettlement Administration and constituted another form of direct government lending to farmers.

In 1938 the Farm Security Administration was created and placed in the United States Department of Agriculture succeeding the Resettlement Administration. Its purpose was to provide loans to farmers who were unable to borrow from the usual credit sources.

In 1946 the Farmers Home Administration Act[47] was passed. This Act consolidated the Farm Security Administration and Emergency Crop and Feed Loan Division of the Farm Credit Administration. It provided authority for making farm ownership loans, farm operating loans, and emergency loans to farmers unable to secure credit from usual sources. Since the 1946 Act, a number of other authorizations have been added to the Farmers Home Administration.

As the various agencies mentioned above evolved, there were some shifts in philosophy underlying the purposes and types of loans to be made. The stated aim of rural rehabilitation loans was to serve the destitute and low income groups in agriculture.[48] With the establishment of the Farmers Home Administration in 1946 the emphasis changed from a credit program oriented heavily toward the very low income farmers and containing major welfare elements to a credit program serving borrowers unable to obtain financing elsewhere.[49]

The Farmers Home Administration makes loans under a large number of authorizations. Among others, major authorizations come from the Farmers Home Administration Act of 1946, Title V of the Housing Act of 1949,[50] the Consolidated Farmers Home Administration Act of 1961[51] and the Rural Development Act of 1972.[52]

As a direct lending government agency, activities are influenced substantially by current public policy. For example, the Farmers Home Administration Act of 1946 stipulated the following points: (1) Loans were authorized for farm enlargement and development as well as initial land purchase; (2) loans were to be given only to those otherwise eligible but who were unable to

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47. Act of Aug. 14, 1946, ch. 964, 60 Stat. 1062.
48. Hathaway, *The Federal Credit Programs for Individual Farm Development*, in FEDERAL CREDIT AGENCIES—A SERIES OF RESEARCH REPORTS PREPARED FOR THE COMMISSION ON MONEY AND CREDIT 319 (Prentice Hall, 1963).
49. *Id.*
50. Act of July 15, 1949, ch. 338, 63 Stat. 413, *as amended* (codified in scattered sections of 14, 17 U.S.C.).
51. Act of Aug. 8, 1961, Pub. L. No. 87-128, 75 Stat. 307, *as amended* (codified in scattered sections of 7 U.S.C.).
52. Act of Aug. 30, 1972, Pub. L. No. 92-419, 86 Stat. 657, *as amended* (codified in scattered sections of 7 U.S.C.).

obtain sufficient credit from private or cooperative sources; (3) veterans were to receive preference; (4) loans could not be made for acquisition or enlargement of farms having a value greater than the average value of efficient family type farms in the county; (5) as soon as the borrower could obtain credit from other sources, he would be asked to apply for and accept such credit; and (6) interest rates on FHA loans would be lower than for loans from competitors.[53]

In part, programs of the Farmers Home Administration have come about in recognition of a credit gap. Authority for the FHA to make farm housing loans and soil and water conservation loans apparently was not aimed specifically at any single group in agriculture so much as to fill an apparent credit gap. In more recent years FHA lending programs have been enlarged to include loans for providing rural communities with needed recreation facilities. Included have been loans to individual farmers for development of marshes and swamps into profitable wildlife hunting areas. Expanded programs have included watershed loans to local organizations developing land or water resources. Loans are also made to rural communities for water treatment and sewer facilities. Farmer lending has become less important in the overall programs of FHA as new types of lending authorities have been extended for community services.

Currently the Farmers Home Administration is an agency of the United States Department of Agriculture.[54] There is a national office, which determines policies as established by Congress, and state offices serve all fifty states. Under the state offices there are some 1,750 county offices. Loan applications are funneled through the county offices to the state office for final approval.

Each county has an advisory committee called the Farmers Home Administration Committee which consists of three members appointed by the State Director. At least two of the three members must be farmers. The committee acts in an advisory capacity concerning eligibility of applicants, borrower progress, and loan approval recommendations.[55]

Funds for making FHA loans come from three sources. The first is a loan account provided by Congress with the amount available to be determined by Congress and the Office of Management and Budget. The second source of funds is a revolving fund derived from the sale of Farmers Home Administration insured loans. A third source of funds comes from commercial banks and other

53. Farmer's Home Administration Act of 1946, ch. 964, §§ 43-44, 60 Stat. 1062.

54. A. Nelson, W. Lee, & W. Murray, Agricultural Finance ch. 25 (6th ed. 1973).

55. Consolidated Farm and Rural Development Act, 7 U.S.C. § 1982 (1970).

private lenders through guaranteed loans. Qualifying loans made by commercial lenders may be guaranteed up to ninety percent of value by FHA.

Current FHA policies revolve around two main objectives. The first is to strengthen the economic position of individual family farmers through the provision of supervised credit to farmers who are unable to obtain credit from commercial lenders at reasonable rates and terms. The second main objective is to improve rural communities through lending for such items as business and industrial development, community facilities, rural housing, rural community water and waste disposal systems, and for other purposes.

In meeting farm credit needs a major characteristic of FHA loans is the supervised loan program. County FHA personnel help borrowers develop long term financial plans for their farm units. County FHA personnel visit farmers periodically during the year to advise on credit needs and farm plans. They work closely with farm borrowers at year-end to complete records and reformulate plans for the next year. The goal of the supervised credit program is to "graduate" borrowers to the status of self-sustaining farmers who can get credit from traditional lenders.

The Rural Development Act of 1972[56] made a few changes in the Farmers Home Administration programs. The Act authorized rural development loans to improve the rural economy and environment. It authorized FHA to guarantee these loans at interest rates agreed upon by the borrower and lender rather than at the interest rate ceiling of five percent which was in effect prior to the Act. The purpose of this Act continues the broadening of objectives of the Farmers Home Administration. To obtain a loan the applicant must not be able to obtain credit elsewhere at reasonable rates and terms and he must agree to refinance when possible with another responsible cooperative or private credit source. The Act also authorized FHA to guarantee rural, above moderate, housing loans made by approved lenders. When FHA guarantees a loan made by another lender, it cannot participate in more than ninety percent of any loss.[57] The Act also authorized insured loans to encourage increased financing of rural development by private lenders rather than reliance on direct lending by the federal government.

OTHER GOVERNMENT AGRICULTURAL CREDIT PROGRAMS

There were several other efforts by government to improve

56. Act of Aug. 30, 1972, Pub. L. No. 92-419, 86 Stat. 657 (codified in scattered sections of 7 U.S.C.A.).

57. Rural Development Act of 1972, Aug. 30, 1972, Pub. L. No. 92-419, tit. I, § 344, 86 Stat. 657 (codified in scattered sections of 7 U.S.C.A.).

credit conditions of agriculture. Some of these, such as the joint stock land banks, which were established by the Federal Farm Loan Act of 1916 along with the federal land banks, have been liquidated, so there is little point in discussing them. There are, however, at least two remaining government efforts which should be mentioned briefly. One of these is the Federal Reserve System and the other is the Rural Electrification Administration (REA).

The Federal Reserve System

While the Federal Reserve System does not make direct loans to farmers, their policies do affect the credit available to farmers. The Board of Governors of the Federal Reserve System is responsible for setting policy of the System. In general these policies have two objectives. One is to maintain price stability in the economy, and the second is to maintain full employment in the economy. Monetary policies are decided upon by the Board to achieve these objectives.

The major means by which the Board achieves monetary policy include: (1) Setting reserve requirements for commercial banks. These requirements specify the percentage of reserves that must be kept for each dollar of checking (demand) deposits and savings deposits. (2) Authorizing the purchase and sale of (primarily) government securities for its account. These open market operations bring about changes in the total reserves of the banking system. (3) Setting the rate of discount at which member banks may borrow from the federal reserve banks. (4) Setting certain other policies affecting financial institutions including maximum interest rates that may be paid on savings accounts (at savings and loan institutions as well as at commercial banks) and margin requirements that brokerage houses must adhere to on credit purchases of securities by their customers.

Hence, while the Federal Reserve System does not make loans to farmers, the policies set by the Board of Governors have a direct effect on credit availability to farmers through commercial banks. In general, the Federal Reserve System has not emphasized policies for the specific purpose of affecting *farm* lending rates and terms. Yet, these matters are of concern to the Board. A considerable amount of research on agricultural finance takes place in the Federal Reserve System.

However, recently some actions have rather directly affected agriculture. Specifically these concern use by commercial banks of the Federal Reserve System discount mechanism. Emanuel Melichar points out that the 1959 guidelines on the use of discounting by commercial banks were essentially that the Federal Reserve System felt some responsibility for reacting to the seasonal swings in reserves that affect the banking system as a whole but that member banks should generally meet foreseeable seasonal swings out of their own resources.[58]

In 1968, a Federal Reserve System committee studying the discount mechanism recommended a seasonal discount privilege for smaller banks recognizing that "many of the small banks with large relative seasonal flows are probably heavily involved in financing agriculture, a sector that in recent decades has been generating credit demands in excess of its contribution to the growth of country banking resources."[59]

A discount privilege was initiated by the Federal Reserve Board on April 19, 1973, making it possible for a number of rural commercial banks serving agriculture to obtain additional funds. In general, eligibility requires first that a bank have a well defined need resulting from seasonal movement in its deposits and loans, and secondly, that a bank lack reasonably reliable access to national money markets. Qualifying banks may discount agricultural loans with the Federal Reserve System during these seasonal peak periods, thus bringing additional funds into their local areas. Hence, many rural banks which are too small to sell large denomination, negotiable time certificates of deposit (CD's) or to use other means of raising funds on the nation's money markets qualify for such loans.

In a study of member banks that might qualify for the seasonal borrowing privilege, Melichar found that about fourteen percent of all insured[60] commercial banks and thirty-four percent of all member banks[61] would have qualified in 1973.[62] The proportion of member banks qualifying, however, varies considerably among the major agricultural production regions of the United States. The proportion of qualifying banks ranges from about fifteen percent in the Mideast to about fifty percent or more in the Plains and Rocky Mountain states. Among total United States member banks for which farm loans constituted at least one-half of all loans outstanding, sixty-eight percent of the banks would have qualified for the seasonal borrowing privilege in 1973.

While this Federal Reserve action may be of importance for

58. E. Melichar, Rural Banks and the Federal Reserve's New Seasonal Borrowing Privilege (paper presented at the joint annual meetings of the American and Canadian Agricultural Economics Associations, Edmonton, Alberta, Aug., 1973).

59. *Id.*

60. Banks whose deposits are insured by the Federal Deposit Insurance Corporation.

61. Not all banks are members of the Federal Reserve System. Whether banks are members of the System is somewhat correlated to bank size though many small, rural banks are members of the Federal Reserve System.

62. E. Melichar, Rural Banks and the Federal Reserve's New Seasonal Borrowing Privilege (paper presented at the joint annual meetings of the American and Canadian Agricultural Economics Associations, Edmonton, Alberta, Aug., 1973).

individual banks serving farmers in many rural areas, the nationwide volume of loans will not be great. Melichar estimated that the maximum borrowing in June 1973 using the discount mechanism would have been only $883 million (less than 1.5 percent of farm loans outstanding). Yet for the small rural bank where farm loans were one-half or more of total loans, the seasonal borrowing privilege would have amounted to twelve percent of outstanding loans. In other words, this could increase lending capability at such banks by about one-eighth. Hence, for individual banks this privilege could be a source of substantial additional funds. Further, it provides the rural bank with nonlocal sources of funds to meet the competition from agencies such as those of the cooperative Farm Credit System which have nonlocal sources of funds from the nation's money markets.

The Rural Electrification Administration

The Rural Electrification Administration (REA) was created by executive order of President Roosevelt in 1935. It was made permanent by the Rural Electrification Act of 1936.[63] The original purpose of the REA was to make loans for rural electric lines and to purchase electrical equipment to serve rural areas that likely would not be served by private companies. When the REA Act of 1936 was passed, it became clear that local cooperatives would be the primary vehicle for extending government sponsored farm electrification.[64] While REA loans could be made to persons, corporations, states, territories, municipalities, peoples utility districts, and cooperative nonprofit or limited dividend associations, the Act stated that preference be given to cooperative borrowers. For many years REA loans carried a two percent interest rate.

In 1949, authorization was expanded for the REA to provide loans for constructing telephone lines in rural areas. In 1973, the REA Act was amended to create insured and guaranteed loan programs.[65] Insured loans are funded through a Rural Electrification and Telephone Revolving Fund derived from current assets of the REA and all loan payments received each year. All future interest payments to REA will remain in the fund. Congressional appropriation would be required to cover losses sustained by the fund on bad loans and interest rate differentials between interest rates charged on loans by the fund and the cost of monies to the fund from the private market.

The fund is to be available for two types of insured loans—

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63. Act of May 20, 1936, ch. 432, §§ 1-14, 49 Stat. 1363.
64. Tolley, *The Rural Electrification Administration*, in FEDERAL CREDIT AGENCIES—A SERIES OF RESEARCH STUDIES PREPARED FOR THE COMMISSION ON MONEY AND CREDIT (Prentice Hall, 1963).
65. 7 U.S.C.A. § 930 (Supp. 1974), *amending* 7 U.S.C. §§ 901-14 (1970).

a special rate of two percent and a standard rate of five percent.[66] The special rate would apply only to those electric or telephone borrowers who are disadvantaged because of a low density of subscribers or a low average gross revenue or extenuating circumstances. Approximately one-fifth of the borrowers qualify for the two percent financing.

While REA loans have not had a direct impact on capital available to farmers, they have had an impact on electric and telephone services available in rural areas. Because of REA, it is likely that both of these services have been available earlier in sparsely settled rural areas than would otherwise have been the case.[67]

EVALUATION OF FEDERAL EFFORTS IN AGRICULTURAL CREDIT

Relative Importance of Various Lenders

It may be useful as a first step in evaluation to review the lending data of various farm credit agencies. Table 3 presents information on outstanding farm mortgage loans of principal lenders. Several points emerge from these data. Prior to federal involvement in agricultural credit, approximately three-fourths of total farm mortgage debt was provided by "other" lenders. These were primarily noninstitutional lenders such as relatives and private sources. With the establishment of the federal land bank system and the depression of the 1930's, the "other" farm mortgage debt dropped to approximately one-third of total farm mortgage debt by 1940 and 1945. However, since 1950 the "other" farm mortgage debt has remained in the range of forty to forty-five percent of total farm mortgage debt.

A second point is the importance of the federal land banks in providing credit over the depression years. By 1940, the federal land banks alone held over thirty percent of the total farm mortgage debt. They played a substantial part in refinancing the farm mortgage debt during the depression years and in ameliorating the difficulties that farmers faced. Then, from 1940 through 1955, their share of the market decreased. Since 1955 they have increased their proportion of the total farm mortgage debt rather consistently.

A third point evident in the data concerns the relative importance of Farmers Home Administration farm mortgage debt activity. FHA activities hit a peak in 1965 with outstanding loans of $619 million. This amounted to only approximately three percent of the total farm mortgage debt in 1965. Since 1965, FHA mortgage debt outstandings have continually decreased. By January of 1972,

66. 7 U.S.C.A. § 935(b) (Supp. 1974), *amending* 7 U.S.C. §§ 901-14 (1970).

67. Tolley, *The Rural Electrification Administration*, in FEDERAL CREDIT AGENCIES—A SERIES OF RESEARCH STUDIES PREPARED FOR THE COMMISSION ON MONEY AND CREDIT (Prentice Hall, 1963).

Table 3. Farm Mortgage Debt: Amount of Outstanding Loans Reported by Principal Lenders, Other Debt, and Total Debt, United States, Specified Dates, 1910-1972[1]

Beginning of year or month	Outstanding loans reported by: Federal Land Banks	Federal Farm Mortgage Corporation[2]	Joint Stock Land Banks[3]	Farmers Home Administration	Life Insurance Companies	Banks	Other Farm Mortgage Debt[4]	Total Farm Mortgage Debt
					1,000 dollars			
1910	—	—	—	—	386,961	406,248	2,414,654	3,207,863
1920	293,595	—	60,038	—	974,826	1,204,383	5,915,930	8,448,772
1930	1,201,732	—	637,789	—	2,118,439	997,468	4,675,340	9,630,768
1940	2,009,820	713,290	91,726	32,178	984,290	534,170	2,220,925	6,586,399
1945	1,209,676	347,307	5,455	195,519	938,275	449,582	1,795,101	4,940,915
1950	906,077	58,650	270	193,301	1,172,326	937,144	2,311,510	5,579,278
1955	1,266,953	12,834	—	287,171	2,051,784	1,210,676	3,415,860	8,245,278
1960	2,335,124	—	—	439,269	2,819,542	1,631,271	4,857,203	12,082,409
1965	3,686,755	—	—	619,492	4,287,671	2,688,535	7,631,787	18,894,240
1970:								
Jan.	6,671,222	—	—	455,338	5,733,900	4,113,251	11,433,580	28,407,291
July	6,947,790	—	—	442,848	—	4,139,852	—	—
1971:								
Jan.	7,145,363	—	—	346,569	5,610,300	4,444,769	11,985,520	29,532,521
July	7,532,647	—	—	336,463	—	4,073,764	—	—
1972:								
Jan.	7,879,914	—	—	312,221	5,564,300	4,218,482	13,385,531	31,360,448

1. Data for 48 states only prior to 1960.
2. Loans held by Corporation were made on its behalf by the Land Bank Commissioner. Authority to make new loans, except incidental to liquidation, expired July 1, 1947. On June 30, 1955, loans of the Federal Farm Mortgage Corporation were sold to the 12 Federal Land Banks.
3. Liquidation of the joint stock land banks began May 12, 1933, and was completed April 26, 1951. Data include banks in receivership.
4. The amounts shown in this column are residuals or differences between the amounts reported by institutional lenders and the estimates of total farm mortgage debt. The amounts shown may be taken as a rough measure of the farm mortgage debt held by individuals and other nonreporting lenders.

Source: *Agricultural Finance Statistics*, AFS-1, ERS, USDA, May 1973, Table 2.

outstandings of FHA were only about half the 1965-66 level and amounted to only about one percent of total farm mortgage debt. In short, FHA has substantially diminished its financing of farm mortgages in the past eight to ten years.

Table 4 presents data on the farm mortgage loans made or recorded by principal lenders. While the outstanding loans shown in Table 3 represent effects of both current and past loans, the data in Table 4 present only the disbursements made by lenders. Many of the same conclusions can be drawn from these data. For example, the recent decreasing relative emphasis of the Farmers Home Administration toward farm mortgage loans is even more sharply evident.

Another point is evident. Some of the highest interest rates of recent decades were witnessed in 1969 and 1970. The effect of these high interest rates on lending by various agencies is of particular significance. Federal land bank loans, after increasing ten percent from 1968 to 1969, decreased by about ten percent from 1969 to 1970. In this same era of high interest rates, new loans of insurance companies dropped by over one-third from 1968 to 1969 and by almost fifty percent from 1969 to 1970. During this high interest rate period, insurance companies put more of their funds in investments with higher returns than those in agriculture. New commercial bank loans also showed a slight drop from 1968 to 1969 and from 1969 to 1970.

Reductions in new mortgage recordings by lending agencies during this recent period of high interest rates were apparently made up by the increased recordings by individuals, a group which showed substantial increases in 1969 and 1970. Much of this shift in the use of agricultural credit sources by borrowers can be explained by differences in interest rates charged between individuals, less influenced by the money markets, and agencies tied directly to money markets.

Table 5 provides data on nonreal estate loans to farmers by principal lending institutions. Only institutional credit data are available. Commercial banks continue to be the major nonreal estate farm lender. Since 1950 commercial banks have continued to provide two-thirds to three-fourths of total nonreal estate loans of farmers. However, since 1935 production credit associations have continually increased their share of the market. By 1940 they had about fifteen percent of the nonreal estate farm debt. This proportion rose to twenty percent in 1960 and to thirty percent by 1972.

In nonreal estate lending, the Farmers Home Administration has tended to become relatively less important in recent years. In 1940 FHA held over one-fourth of the outstanding nonreal estate

Table 4. Farm Mortgage Loans Made or Recorded by Principal Lenders, United States, Specified Dates, 1910-71[1]

Period	Loans made					Mortgages Recorded			Total, all lenders
	Federal Land Banks[2]	Federal Farm Mortgage Corporation	Joint Stock Land Banks	Farmers Home Administration: Direct Loans	Farmers Home Administration: Insured Loans	Insurance Companies[3]	Commercial and Savings Banks	Individuals and Miscellaneous Lenders	
	$1,000 dollars								
1910	—	—	—	—	—	105,359	207,734	936,792	1,249,885
1920	66,985	—	19,324	—	—	386,788	663,202	2,489,481	3,625,780
1930	47,146	—	5,236	—	—	173,665	355,232	783,346	1,364,625
1940	63,926	36,391	—	39,588	—	145,483	219,835	267,239	772,462
1950	203,129	25	—	45,469	19,200	347,680	471,599	568,793	1,655,895
1955	482,697	6	—	15,306	54,810	505,581	582,001	761,462	2,401,863
1960	520,213	—	—	76,372	18,231	412,763	541,022	1,001,134	2,569,735
1965	1,237,876	—	—	63,318	193,350	963,627	1,036,524	1,658,425	5,158,120
1970	1,088,371	—	—	6,933	286,885	200,279	1,063,728	2,439,298	5,085,494
1971	1,575,734	—	—	6,952	367,808	403,308	1,516,582	2,908,911	6,779,295

1. Data for 48 states only.
2. Beginning 1958, data include outstanding balances of all additional loans obtained by borrowers.
3. Excludes mortgages recorded in New England States; these have been too few to classify separately and they are included with "individuals and miscellaneous" lenders.

Source: *Agricultural Finance Statistics*, AFS-1, ERS, USDA, May 1973, Table 7.

Table 5. Nonreal Estate Loans to Farmers: Outstanding Amounts Reported by Principal Lending Institutions, United States, Specified Dates, 1920-72[1]

Beginning of year or month	All Operating Banks: Excluding loans guaranteed by Commodity Credit Corporation	All Operating Banks: Including loans guaranteed by Commodity Credit Corporation[2]	Agencies Supervised by Farm Credit Administration: Production Credit Associations: Excluding loans guaranteed by Commodity Credit Corporation	Agencies Supervised by Farm Credit Administration: Production Credit Associations: Including loans guaranteed by Commodity Credit Corporation	Agencies Supervised by Farm Credit Administration: Federal intermediate Credit Banks[3]	Farmers Home Administration: Operating Loans	Farmers Home Administration: Emergency Loans	Farmers Home Administration: Emergency Crop and Feed Loans	Farmers Home Administration: Total	Total, excluding loans guaranteed by Commodity Credit Corporation	Commodity Credit Corporation[4]: Loans Held	Commodity Credit Corporation[4]: Loans guaranteed[2]	Total, including loans held and guaranteed by Commodity Credit Corporation[2]
	1,000 dollars												
1920	3,453,794	—	—	—	—	—	—	—	—	3,455,253	—	—	—
1930	2,940,742	—	—	—	—	—	—	7,976	7,976	2,546,104	—	—	—
1940	900,079	1,134,573	153,425	153,425	32,316	242,200	8,005	167,795	418,000	1,503,820	208,193	237,065	1,949,078
1945	948,829	1,377,405	188,306	203,794	29,966	300,908	13,618	138,068	452,594	1,619,521	146,670	536,022	2,302,213
1950	2,048,819	3,052,339	387,454	387,547	50,825	262,714	12,771	71,186	346,671	2,833,769	717,429	1,003,613	4,554,811
1955	2,933,851	4,659,703	576,997	595,789	58,276	330,345	70,532	16,327	417,204	3,986,328	474,755	1,744,644	6,205,727
1960	4,819,340	5,019,355	1,361,198	1,361,212	89,576	346,526	47,031	4,028	397,585	6,667,699	965,261	200,029	7,832,989
1965	6,990,021	7,506,859	2,277,510	2,277,510	124,707	586,253	56,083	1,577	643,913	10,036,151	1,026,445	516,838	11,579,434
1970	10,329,766	—	4,494,821	4,494,821	217,838	714,783	70,003	323	785,109	15,827,534	2,675,811	—	18,503,345
1971	11,101,768	—	5,294,808	5,294,808	220,066	723,075	71,659	185	794,919	17,411,561	1,875,981	—	19,287,542
1972	12,498,340	—	6,077,749	6,077,749	237,091	695,084	75,734	116	770,934	19,584,114	2,262,034	—	21,846,153

1. Data for 48 states only prior to 1960.
2. Beginning 1942, includes certificates of interest in pooled loans. Data on loans guaranteed by Commodity Credit Corporation and included in all operating bank loans are not available after Jan. 1, 1966.
3. Loans to and discounts for livestock loan companies and agricultural credit corporations.
4. Commodity Credit Corporation (CCC) is not a lender in the usual sense. CCC guaranteed loans were, in effect, a means for paying farmers in advance for commodities put into approved storage. If prices were below the CCC "loan" rate, farmers let CCC take the crop. When prices were above the CCC rate, farmers would "repay" the CCC loan and sell the crop at those higher prices.

Source: *Agricultural Finance Statistics,* AFS-1, ERS, USDA, May 1973, Table 14.

farm loans. Their proportion of nonreal estate loans has continually decreased even though the absolute amount of loans increased until 1969. By 1969, FHA was financing less than six percent of nonreal estate farm loans. By 1972, FHA loans had dropped to less than four percent of the total nonreal estate farm loans.

Table 6 presents data on loans to farmers' cooperative organizations. From this table one can observe the relative importance of various lenders serving farmer cooperative organizations. REA loans outstanding in 1972 were more than twice those of the banks for cooperatives. Of course, the two agencies financed cooperatives for different purposes, but nevertheless the relative size of the debt is of some interest. Farmers Home Administration lending amounted to less than ten percent of total lending to cooperatives. However, this type of FHA lending shows a rather strong upward trend. FHA outstanding loans to cooperative organizations have quadrupled from 1967 to 1972—a rate of increase far in excess of any other lender listed.

To summarize these empirical data, the federally sponsored cooperative Farm Credit System has become a major agricultural lender. The federal land banks are the single most important institutional lender in the farm mortgage field, having mortgage loans equal to about one-fourth of total farm mortgage debt. The production credit associations, while less important than commercial banks, nevertheless hold approximately thirty percent of the nonreal estate institutional loans to farmers. The Farmers Home Administration, while not being a major lender in terms of proportion of the debt it holds, is still an important lender especially since nearly all its funds go to farmers who would not qualify for loans from other lenders.

Benefits and Effects of Federal Efforts

Any attempt to evaluate how necessary the federal efforts in agricultural credit were, or are, to the functioning of agriculture is difficult. There are several pieces of evidence which should be reviewed.

Several research studies have analyzed the various federal credit programs in agriculture. One set of studies was prepared for the Commission on Money and Credit.[68] In one of these studies, Gale Johnson listed the reasons for the origins of various fed-

68. Hathaway, *The Federal Credit Programs for Individual Farm Development* [hereinafter cited as Hathaway], Johnson, *Agricultural Credit, Capital and Credit Policy in the United States* [hereinafter cited as Johnson, *Agricultural Credit*], Johnson, *The Credit Programs Supervised by the Farm Credit Administration* [hereinafter cited as Johnson, *Credit Programs*], and Tolley, *The Rural Electrification Administration* [hereinafter cited as Tolley], in FEDERAL CREDIT AGENCIES—A SERIES OF RESEARCH STUDIES PREPARED FOR THE COMMISSION ON MONEY AND CREDIT (Prentice Hall, 1963).

Table 6. Loans to Farmers' Cooperative Organizations: Amounts Held by Selected Lending Agencies, United States, Specified Years, 1930 to 1972[1]

Beginning of year or month	Agencies Supervised by Farm Credit Administration			Rural Electrification Administration		Farmers Home Administration[2]	Commodity Credit Corporation
	Federal Intermediate Credit Banks	Banks for Cooperatives	Agricultural Market Act Revolving Fund	Electrification Loans	Telephone Loans		
				1,000 dollars			
1930	26,073	—	14,510	—	—	—	—
1940	1,835	76,252	20,547	169,122	—	6,721	26,845
1945	700[3]	214,278	3,067	345,688	—	25,150	1,552
1950	2,400	301,887	1,365	1,252,648	—	8,574	224,535
1955	2,200	361,615	—	2,037,704	47,706	9,703	143,783
1960	—	622,433	—	2,453,937	181,037	10,249	557,956
1965	—	957,816	—	2,890,173	282,770	48,416	1,280,538
1970	—	1,731,972	—	3,785,256	424,685	351,624	1,037,381
1971	—	2,029,864	—	4,047,624	471,467	417,810	1,170,585
1972	—	2,013,491	—	4,312,091	511,969	451,892	1,018,881

1. Includes data for all states and other areas where loans were made.
2. Includes mainly direct loans to soil and water associations and watershed protection loans to organizations. Excludes insured loans.
3. Also includes loans and advances under Commodity Credit Corporation programs, except advances on wool in which farmers had no beneficial interest.

Source: *Agricultural Finance Statistics*, AFS-1, ERS, USDA, May 1973, Table 22.

eral credit programs as follows: (1) There was not enough credit available to farmers; (2) change in the supply or availability of credit was unrelated to the needs of farmers; (3) credit was not available on terms suited to the particular needs of farmers; (4) farm credit provided by private sources was too costly; and (5) certain categories of farmers—especially low income farmers and tenant farmers who desired to become farm owners—either could not obtain credit at all or could obtain it only in inadequate amounts.[69]

Johnson concluded that at the time of his study, 1963, the credit requirements of farmers with a high debt to asset ratio were probably not being adequately met by existing credit institutions. In fact, PCA's serviced fewer of the high debt to asset ratio farmers than did commercial banks. Only the Farmers Home Administration was able to provide credit to such farmers. At the time of this study, Johnson saw little cost advantage to Farm Credit System loans compared to private sources although he felt the competition provided by the cooperative Farm Credit System agencies helped lower the cost of credit. Neither did he see a significant difference in the terms of agricultural credit among lending institutions. (This is to say, interest rates, down payment requirements, and loan maturities were similar between commercial banks and the cooperative agencies.)

In a companion study analyzing the programs supervised by the Farm Credit Administration,[70] Johnson concluded that agencies of the cooperative Farm Credit System have exhibited considerable vitality and that "the structure of administration that has evolved represents one of the better products of the American democratic system." Johnson goes on to say that the federally sponsored credit programs have made some contribution to efficiency in the use of national resources and that the cost of credit to farmers has been reduced somewhat without a significant element of subsidy. He lists as perhaps most significant the contribution the Farm Credit System agencies made to economic stability during the depression of the 1930's. Further, he states that if the Farm Credit System agencies are appraised in terms of the objectives of reducing regional variations in interests rates, reducing the average cost of credit, providing long-term amortized loans, providing intermediate term credit and insuring more consistent availability of agricultural credit, their record is on the whole a favorable one.

In the same series of studies, Dale Hathaway reviewed the Farmers Home Administration programs and concluded that the characteristics of borrowers from FHA tended to be different from those of borrowers from commercial banks and production credit

69. Johnson, *Agricultural Credit*, *supra* note 68.
70. Johnson, *Credit Programs*, *supra* note 68.

associations.[71] FHA borrowers were generally younger than borrowers from banks and PCA's and had lower net worths than borrowers from PCA's and commercial banks. Hathaway concluded that FHA loan programs had resulted in an expansion of credit and capital available to the agricultural economy, especially to the younger, lower income farmers.

Hathaway also found that the terms of loans tended to be more favorable to the borrowers through FHA than with other lenders. FHA guaranteed loans were substantially larger and had longer maturities than similar purpose non-FHA guaranteed loans. Looking at such features as size of loan and length of loan, it was apparent that loans were larger in relation to net worth and provided longer repayment periods for comparable purposes than those of commercial banks.

However, even in 1963 at the time of his study, Hathaway sensed a change in the major purposes of FHA programs. He saw them becoming more oriented toward filling apparent credit gaps in agriculture and in financing rural area development rather than financing improvement of the low farm income problems for which the programs had originally been initiated. He saw the government placing more reliance on private credit institutions whenever possible with the government standing ready to fill in when adverse circumstances dictated the need for special credit for farmers.

More recent studies of FHA farm operator borrowers tend to substantiate earlier findings. For example, William Herr concluded that FHA borrowers operated smaller units, were younger, more likely to be tenants and part owners, and their equity ratios were lower than the average of all United States farm operators.[72]

It should also be noted that FHA has its program critics. They have argued that at times FHA programs have kept farmers in agriculture who would have been better off leaving the farm. Perhaps in leaving the farm these people would have found better jobs than in remaining on the farm. Another critical argument is that FHA credit programs are designed to provide a business unit of not greater than the average size unit in the county. In many instances this requirement simply perpetuates poverty because the average size unit is uneconomic. The need is to help the operator achieve a viable size of unit rather than the average size.

In examining the Rural Electrification Administration program, George Tolley concluded that the net effects were unques-

71. Hathaway, *supra* note 68.
72. Herr, Characteristics of New Borrowers Obtaining Farm Ownership Loans from the Farmers Home Administration—Fiscal, 1966 (Agric. Econ. Rep't No. 184, Economic Research Service, USDA, May, 1970).

tionably good in terms of virtually any set of values.[73] REA speeded up electrification, and there were desirable effects in extending electricity into marginal areas not profitable for private companies.

There are at least two innovations that came about from federal involvement in agricultural credit programs. These should also be mentioned as contributions of the programs. The federal land banks system was responsible for initiating, developing and popularizing the long-term amortized real estate loan. Prior to land bank involvement in agricultural lending, nearly all real estate credit was written on a relatively short term basis with a lump sum repayment due at the end of the loan period. The land banks developed an amortized loan plan so that the principal could be repaid in installments. The installment plan for real estate credit has since become the standard for all real estate loans—farm and nonfarm.

The Farmers Home Administration (and predecessors) initiated the idea of supervised credit in which county FHA personnel work closely with the farm families to make financial plans for the farm business including use of credit, to keep adequate records, and to advise on farm management decisions. This, too, is an innovation which has been copied throughout the world. Supervised credit programs providing credit, financial planning and management advice are especially well suited to low and marginal income situations. This supervision, however, has not always been understood by FHA borrowers. A number of their borrowers have resented the need to consult FHA personnel for their approval on financial decisions. The close supervision has been interpreted as a lack of trust toward their borrowers.

Policymaking and Control

Another, though less tangible, innovation is the policymaking format of the Farm Credit System. The Farm Credit System was probably the first credit organization to put clientele—in this instance, farmer-borrowers—in policymaking positions. Even though these organizations were sponsored and begun by the federal government, from the beginning borrowers were given an important part in running their associations. The farmer-borrower voice in policymaking has made it possible for local opinion to get incorporated into the system, and it also provides a two-way communication from system officers back to the borrowers. The truly unique character of this involvement in policymaking becomes evident when contrasted with farm credit organizations in developing countries. Seldom do developing nation farm credit institutions provide an opportunity for clientele voice in policymaking.

73. Tolley, *supra* note 68.

With so many different policymaking boards, however, the System does have its individual internal differences. For example, some districts have combined the real estate lending of the federal land bank associations with the short-intermediate term lending of the production credit associations under one local office. This permits one person to handle the complete line of credit for a farm borrower. However, most of the districts continue to maintain two completely different credit systems serving farms so that farmers obtain their short term credit needs from one agency and their real estate, or long term, credit needs from a separate lender even though both agencies are a part of the cooperative Farm Credit System. Though the FLBA's and the PCA's are separate agencies, they work closely together and they are often housed in the same building.

The policymaking format of the Farm Credit System is perhaps best contrasted with that of the Farmers Home Administration. The latter organization, as a direct government lender, has its policy made in Washington by the Congress and by the administration. Where that system of policymaking leads is reflected in the changes in FHA programs over time. Early objectives of FHA were to provide emergency or "disaster" loans to farmers. At a later point, a major objective was to serve low income, welfare type farm situations. Later the program was broadened to an emphasis on farmers who could not obtain credit elsewhere. In recent years the organization's objectives have changed toward provision of credit to nonfarmers in rural areas, and even more recently, to rural communities for recreation, watershed, sewer and related types of purposes. Throughout its history there have been programs of a short-run nature that were designed to meet floods, hurricanes, and other natural disasters on an *ad hoc* basis. Also, FHA loans have often required compliance with other government programs for eligibility. In the FHA program there is little, if any, opportunity for clientele voice to be funneled directly to administrators or policymakers in the agency. These voices can be heard only by going through Congress.

Effects on Agricultural Structure

The effect of federal credit efforts on agricultural structure varies with the type of federal involvement. This is a difficult aspect to analyze because one is essentially comparing what happened to what might have happened. Yet, it is possible to suggest some of the probable structural effects.

The cooperative Farm Credit System probably had more effect on competition, terms of credit and credit costs than on agricultural structure per se. This is because, in general, their clientele has been more uniformly in the middle to upper sector of commercial agriculture. The variation in characteristics of clientele has been less in the production credit associations and the federal land bank associations than in commercial banks.[74] Hence, the conclusion is that the cooperative Farm Credit System has probably done little to move the low income, low technology farmer up the ladder. Neither is there reason to believe that benefits have gone primarily to large commercial operators at the expense of the average commercial operator. In fact, if anything, cooperative Farm Credit System policies favor the medium sized operator since there are generally no interest rate reductions for larger farmers who require very large amounts of credit. This latter point has often been an issue for debate in cooperative farm credit circles, but to this point it has generally been resolved in the direction of all farmers paying essentially the same interest rates regardless of the size of their lines of credit.

Undoubtedly, the Farmers Home Administration has had an effect on the structure of agriculture. Studies of their lending policies have agreed that they provide credit only to those farmers on the low end of the viability scale. Their efforts attempt to move those farmers toward a more effective type of farm operation. Their clientele, then, consists of the small, low income farmers or farmers in financial difficulty who are unable to obtain credit from traditional institutions.

The FHA has been responsible for keeping some farmers in agriculture who would not otherwise have been able to stay. In some cases, this was good; in others, it may have been a mistake. They have moved some of these farmers from the welfare-poverty level into self-sufficient farm operators. Since FHA lending stems directly from policies set by the Congress, it can be argued that FHA policies should be in tune with national goals relative to the structure of agriculture.

The other two federal involvements mentioned earlier in the paper can be described as positive contributions to agricultural structure. The Rural Electrification Administration brought electrification to sparsely settled rural areas earlier than would otherwise have been the case. Many of the benefits available to urban people became available to rural areas sooner because of the REA. This meant that sparsely settled rural areas had access to electricity for the facilities, improvements and electrical equipment which put them more on a par with large commercial farm operations which probably would have had access to electricity even without REA.

Similarly, recent efforts by the Federal Reserve Board of Governors to make the discount privilege more readily available to small commercial banks serving rural areas strengthens the credit

74. Johnson, *Agricultural Credit, supra* note 68.

service those banks can provide to small and medium borrowers. This change should serve to make the rural community less subject to the wide fluctuations in credit availability associated with normal fluctuation in deposits and loan demands in a purely agricultural area.

Dependability of Funds

Still another consideration in evaluating federal efforts in agricultural credit concerns the dependability of the funds to the farm sector. Comparing the history of the cooperative Farm Credit System with that of the Farmers Home Administration, there is little question but that funds have been less dependable through FHA. The aggregate amount of loans that can be made by the Farmers Home Administration is determined in Washington by the Congress and the Office of Management and Budget in the executive branch. These determinations do not necessarily bear a relationship to the demand for FHA funds. In fact, in many recent years, the authorized lending has been exhausted well before the end of the fiscal year. The clientele served have little to say about policy in the organization, and policy includes questions of the amount of funding.

In contrast to the FHA situation, funds are relatively dependable from the cooperative Farm Credit System. While the cost of funds may vary since costs are tied directly to the nation's money markets, the funds are, in general, available at some price. At this point in time, the System can obtain the funds it needs depending directly upon credit needs of farmers.

In part because of the dependability of funds through the Farm Credit System, there have been suggestions that rural commercial banks should be able to discount agricultural loans with the FICB's as originally intended by the Agricultural Credits Act of 1923. However, since the PCA's, competitors of rural commercial banks, now own the FICB's, the potential for such discounting seems dubious. It was probably this lack of potential that led the Federal Reserve Board of Governors to establish the seasonal borrowing privilege for commercial banks at the Federal Reserve.

CONCLUSION

Where one comes out in analyzing the federal efforts in agricultural credit depends to a great extent on his personal values concerning what are appropriate forms of federal government involvement. It is clear from the preceding discussion that there have been two modes of federal government involvement in agricultural credit. To this reviewer, both modes are acceptable and appropriate. First, the government has met the need for improved availability of credit by initiating a competitive program which eventually was handed over to the clientele group it served. The government then got out and left the system to run itself. This, of course, is the manner utilized for the cooperative Farm Credit System. However, in using this mode of government involvement, some advantages were provided to the cooperative Farm Credit System, by design or otherwise, that give these lenders an advantage over the private lenders, including commercial banks, with which they compete. One of these advantages concerns tax liabilities. Several of the agencies of the Farm Credit System are not taxed on a basis comparable to that of commercial banks and other private lenders. A second advantage Farm Credit System agencies have compared with a number of smaller rural banks is *direct* access to the nation's money markets. Hence, availability of funds to System agencies does not depend on farming conditions of the area which they serve. In contrast, many small, rural banks have no access to national money markets and are subject to fluctuation in deposits and loan demands depending upon farming conditions in their area. Recent changes in the Federal Reserve discount policies may alleviate this latter difficulty to some extent.

The second mode of federal government involvement in agricultural credit was to serve the needs of a specific group which was not being served by other lending agencies. This clientele group consists of the low income, low net worth, or otherwise disadvantaged, farmers who cannot obtain loans for farming operations from conventional lenders. The FHA program moved into direct lending to serve this clientele group, and they are not competitive with the private or cooperative Farm Credit System lenders. Perhaps the relevant question to be raised with respect to Farmers Home Administration programs is whether their efforts are anything near the magnitude needed to adequately serve the number of farmers that would qualify for this help.

Future directions of federal efforts in agricultural credit are open to speculation. With respect to the federally sponsored Farm Credit System, the direction is relatively clear. The System is established, sound, and growing. It has little present involvement of government, and established policy is to keep such involvement to a minimum and to keep the control decentralized. There will likely be efforts by competitors to eliminate all tax advantages of System banks and associations. Also, it seems likely that over time there will be consolidations within the System. One probable type of consolidation is for additional districts to merge their FLBA's and PCA's. Another form of consolidation will be for the System to market a combined security rather than the individual bonds and debentures of the three types of banks. As another aspect of future growth, it is also clear that the System intends to broaden its lending to encompass rural nonfarm loans including housing, though at present, such loans are limited to no more than fifteen percent of total loans.

Because of the direct form of involvement of the federal government in FHA activities and policies, its future directions are less clear. Recent trends in farm lending activities suggest severely decreased emphasis on low income, disadvantaged farmer situations. Other trends indicate increasing efforts toward rural community development including recreation, environment, water and sewage programs. However, public policy concerns change with time, and the FHA will likely be called upon to change in response. Perhaps future directions will be dictated by energy, environmental or transportation problems—or perhaps some other, as yet unforeseen, "crisis" of coming years.