A STUDY OF THE HISTORY AND EFFICACY OF THE FEDERAL AGRICULTURAL CREDITS ACT OF 1923, WITH ESPECIAL APPLICATION TO OREGON.

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FOREWARD

The aim of this thesis is to discover the efficacy of the Federal legislation on agricultural credits, particularly of the Agricultural Credits Act of 1923. A short history of the Act is given to show the size of the problem that was given for Congress to solve. This history will also explain why such an incongruous law as the Act of 1923 was passed.

The writer is deeply interested in the Pacific North West and in Oregon. That is why the work on future of the Spokane Intermediate Credit Bank, of the Twelfth District is so fully discussed.

Greater space is not accorded the National Agricultural Credit Corporations because it is doubtful if any will ever be organized. They cannot compete with the privileged Intermediate Credit Banks.

INTRODUCTION

Definition of Terms.

"Credit", said Louis XIV, supports the borrower as the rope supports the hanged". How different today is our view of the use of credit. To the general public credit is a panacea that will remedy all the ills of a languishing industrial enterprise.

The differences between these two views lies in the fact that the credit of the seventeenth century was for consumptive purposes, while today credit is for productive purposes.

For our own purpose the definition given by Myron T. Herrick is probably best.[1]

"In a financial sense credit is that confidence reposed in a person, which enables him to obtain from another the temporary use of a thing of value. It may be accorded on the security of real estate, personal property or mere character; and so is classified in three general forms deriving their names from the kind of security taken.

Credit in any of these three forms may be either consumptive or productive according to the purpose of its use".

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1. Rural Credits, page 3.

Credit extensions for agricultural purposes are known as rural credits. There are two general types of rural credits: land mortgage or long term credit and agricultural or short-term credit. Since about 1920 agricultural credit has been resubdivided into short term and intermediate credit. The former are extensions not exceeding nine months. The latter from six months to three years. Both rest on personal or collateral security. In this thesis intermediate credit is the central theme.

In terms of economics capital and land are two separate factors of production. However, neither the farmer nor the average business man makes any such distinction. What is generally called farm capital is the total investment in the farm. Thus "farm capital" includes real estate, equipment, supplies and necessary funds to run the farm in an efficient manner.

Principles of Credit Extension.

A farm held for productive purposes is capitalized on its net returns. Held for other reasons it may be worth more, but as security for a loan its value must be based on net income.[1] Net income is controlled by the entrepreneur in his management of risk.

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1. Adapted from "Rural Credits, Ibid Chap. III.

The ability to handle risks, good character and security are the basic elements in granting credit.

Assuming the latter two factors what are the risks faced by the farmer?

He faces the same risks as every other business man but in different degree. The average farmer has not demonstrated great managerial capacity. Production is hard to control due to weather; books are rarely kept; budgets are almost unknown; and forecasts rarely heard of. Seldom can a farmer give financial statements. Business ability must be judged by personal contact rather than impersonal reports.

During the past thirty years the tenancy problems has come to the fore. Tenancy has greatly increased the credit problem. The average American tenant is a rolling stone, operating on short leases, under varying conditions of tenure, and with varying proportions of working capital and income.

After gaging the character, ability and resources of the borrowing farmer there are certain principles that should be followed in granting loans.

The cardinal principle in money lending is that the loan should be for productive purposes.

"Productive credit is that which is employed to stop a loss, effect an economy, or create something naturally valuable. The savings or gains of which result ought eventually to equal the debt: hence no one need be afraid of this form, provided the amount and the extent be judicially limited to ability for prompt repayment. As is popularly said, productive credit makes its own security and liquidates itself"[1]

A principle frequently violated in the past is that of selecting improper time of maturity. Usually that date has been selected to suit the wishes of the lender. The time of repayment should come when the borrower is most apt to have the funds. Such date is after the crops have been orderly marketed, in most instances. Too often creditors have rushed the sale of crops that interest and principal might be paid. Often the markets were glutted after harvest.

The term of the loan should correspond to the productive life of the good purchased with the loan. No loan should outlast the improvement for which the loan was created. Neither should the term be so short as to require several renewals. The debtor should remember that the date of maturity is coming. Remembering, he should prepare for it. Too many farmers think of loans as permanent additions to their capital.

Lastly two obvious rules. The loan should bear the lowest rate possible. Over-expansion must be avoided.

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1. Ibid Page #3.

CREDIT NEEDS OF AGRICULTURE AND DEFICIENCIES OF THE OLD SYSTEM.

Credit Needs of American Agriculture.

It is cheaper to borrow working capital than to own it when such capital is used but a few months of the year, that is to carry the peak load. In theory, if borrowed working capital is used the major portion of the year it had best be done on mortgage credit. Such credit carries 2 to 3 per cent lower rate.

In practice this would be a harmful doctrine to preach. Most farmers do not understand the difference between permanent capital and fixed capital. If at any time there is a surplus he is apt to think it profit. He is apt to use such funds for consumptive goods. He keeps no books, little understands the science of finance and judges profits by his bank balance.

For such a farmer it is better to borrow much of his working capital. It costs more but the results are not so disastrous. Thus, a need for loans for periods of more than six months is created in part. Other loans for equipment with life less than the term of land credits are supplied by this kind of credit.

Many farmers must borrow to plant the crop; to cultivate it; to harvest and market it. This will consume six months to a year. In case of live-stock men it takes three years to make a turnover of capital.

> "Whenever there is a marked progress in agriculture we find enlarged use of credit ... .
>
> The apparent reason for this movement is the enlarged use of capital in agriculture. Before the age of mechanics capital, that is tools machinery and equipment, played a minor part in agricultural development. Now it plays a very important part -so important that no farmer can hope to succeed unless he is provided with an adequate supply of capital, that is farm equipment. This is expensive and stated quantitively in terms of money makes a relatively large fund of capital". [1]

The census of 1920 shows the average farm has an investment of $12,084. In 1910 it was $6,444, an increase of 87.5 per cent. Western states have a larger investment per farm than the above average. An Oregon farm represented an investment of $12,155 in 1910, and of $19,633 in 1920. Much of the increase was due to war times inflantion. However, some increase in capitalization is due to increase in the size of the farm. The 1910 farm (average for the nation) contained 138.1 acres; the 1920 farm, 148.2 acres. The Oregon farm increased from 256.8 acres to 269.7 acres.

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1. T. N. Carver, "Essays in Social Justice" p.203

Such an outlay is beyond the means of most men. That means borrowed capital must be used. American farmers have borrowed from commercial banks something like $3,869,000,000 on short term notes[1]. Add to this the estimation of from one to three billion of mercantile credit,[2] and we have a grand total of five to seven billion dollars. E.B. Brossaid of the Utah Agricultural College, states that money borrowed from private individuals will equal bank loans.[3]

Deficiencies in the Credit System.

The above sums amount to tremendous totals. While the farmer received his loans the mechanism has been assailed. Complaint was made that system was not properly serving agriculture. The system needed revamping.

> "Agriculture when considered from year to year and over extended areas is in its returns the surest of all operations. Nevertheless, there are elements of risk in each individual case until the product is ready for the market; and because of this risk agricultural credit lacks to a marked degree the safety ordinarily required in banking. A commercial bank's special business is to facilitate exchange of things of definitely ascertained value already in existance. Hence, practically all the service that banks of this character can render agriculture is to effect the transfer of raw material after it has been created. They cannot

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1. Bulletin 1048, U.S. Dept. of Agriculture.
2. V.N. Valgren, American Ewn Review 13:442-
3. Rural Credits in Utah, Page 5.

grant credit on the potentiality of next season's crop any more than they can in security the uncaught fish of the sea or the ore yet to be extracted from the mine.

"Furthermore, the shortest period needed for agriculture is too long for the banks, and so the 90-day paper of the merchant gets the preference over the six-months or one-year paper of the farmer"[1]

Mr. V. N. Valgren arrives at the same conclusion. He writes: [2]

"One of the first very definite and fundamental observations which must be accepted as a result of an examination into the characteristics of financial institutions in this country, which serves farmers, so far as credit is concerned, is that they were not constructed to serve the special needs of the farmers. Because the financial institutions have not been constructed to serve the needs of the farmers, other institutions such as stores of all kinds, and persons who are purchasers of and dealers in farm products have often been forced to furnish the financial aid necessary.

"The banks may safely assist one type of agriculture endeavor, namely cooperative marketing associations. These institutions grade, process, store and sell things of definitely ascertained value"

Prior to the cooperatives' organization private firms did the same work. These firms received credit from the banks so, why not the cooperatives? Often these associations are fiscal agencies for its members. When such is the case the associations' notes are little better than the aggregate of the members' notes.

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1. Myron T. Herrick, "Rural Credits" pg. 8.
2. Am. Econ. R. 13:442-464.

> "Consequently when they (the farmers) wish to realize upon their credit to the fullest extent the farmers must pay a premium for the risk incurred, besides the highest interest charged in their immediate vicinity. A new system to be added to the old is necessary to rectify this trouble..."[1]

Thus it is seen that commercial banks are not fitted to accept the risks of agricultural production, First; due to length of maturities and secondly, due to type of security back of such loans.

Despite such inability to loan funds to farmers the banks furnish about four billion dollars at certain periods of the year to agriculture. But to get this four billion dollars the farmers must pay high interest and other charges. The rates for the country seem to vary in almost direct proportion to distance from money markets. It runs from near six per cent in New England to ten and twelve per cent in some Western and Southern States.[2] In 1921 the average rate for the country was 7.96 per cent. In addition to interest there are certain other charges made by some banks. Two of these charges are collection of interest in advance and the requirement of minimum balances. These charges are made in districts where rates are lowest. These charges repre-

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1. Myron T. Herrick, "Rural Credits" p. 8
2. See Bulletins 409 and 1048 U.S. Dept of Agriculture.

sent the premiums for risk assumptions. Some bankers prefer these charges to higher interest rates. Thus pure interest is separated from the risk charges in the usual rates charged on loans.

Cattle paper needs especially long loans - often as high as three years. The cattle loan company has partly solved the situation. Cattle loans are of four types.

First, there are the ranch loans. These are secured by range cattle. Formerly great risk attached to such loans, though through fencing of the ranges much risk has been eradicated. These loans are mostly "summer loans". The advance is made in the early summer and repaid in the fall after sales are made to stockers and feeders.

Secondly, there are the feeder loans. Loans on cattle being fattened just prior to sales to packers. Feeder loans run from three to six months. They are desirable investments due to slight risk of injury to the security. The cattle are protected from weather, and are shortly turned into cash.

Thirdly, there are the stocker loans. These are loans on breeding cattle. Such loans have face maturities of four to six months but are renewed three or four times. Breeders' loans are a fixed capital investment. Hence they are less desirable to banks.

Lastly, there are dairy loans. These too, are fixed capital loans. They run for twenty months and are repaid by monthly installments. Thus the cream checks liquidate the loans. Prof. Harold Moulton says that these loans are usually made by commercial banks.[1]

Cattle loan companies loan on chattel mortgage. The paper is sold in large financial centers. Rates are higher than even most farm paper. The loans range from $5000 to $50,000. The notes are endorsed by the loan company and sold by it as the owner.

Resale facilities are needed, especially to finance stocker and dairy loans. Any "new system" must be so constructed as to finance the livestock industry properly.

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1. "Financial Organization of Society." Page 662

REMEDIES

If the commercial banks should not handle agricultural paper what is the mechanism of the "new system" advocated by Mr. Herrick?

The new institutions should be large enough to allow diversification in numbers and area to take advantage of the law of averages, and the national stability of agriculture. At the same time, there must be an intimate relationship with each borrower. Only in this way may character and ability be gauged.

The "new syatem" must be nation wide, with abundant resources and yet, with intimate local relations. Only a central rediscount institution can fill these requirements.

The situation was partly sensed in 1913 when the Federal Reserve Act was passed. The Act provided for the rediscounting of six-month agricultural paper. Commercial paper had a term of 90 days. The Reserve Act aided some lines of agriculture; some it did not. The livestock industry is one of the latter. It still suffered from poor credit facilities. The "new system" had not been found in the Federal Reserve System.

There were two general types of remedies suggested. First, was purely cooperative endeavor. The second was varying degrees of government aid.

Cooperative Action

Many authorities maintained the only "best" method of financing agriculture is through farmers cooperating. They point to the popular banks, and, especially, the rural credit societies of Europe. In the main, this is probably true. Private capital does not seem anxious to embark upon such a dangerous sea.

Agricultural credit received less attention by the American and the United States Commissions than did land credits. At the time land credit abuses were much the greater. The Commissions however, gathered masses of material on agricultural credit.

The investigators realized the impossibility or transplanting European systems as such, to America. They pointed out certain basic principles that must be considered in the advent of cooperative credit.

There were two general types of cooperative work in Europe. One was purely private; the other was state aided activity.

There were two kinds of cooperative banks in Germany - the urban Schulze - Delitzch system, and the rural Raiffusen credit societies. Neither system has had state aid. Their early life was carefully fostered by the men whose names they bear. This is an important fact to remember. There never was a system created in Europe by the initiative of the poorer classes.

The basic principle of the Raiffeisenism is the cohesiveness of the rural community in Europe. The European peasant lives in villages, not in isolated units as do the new world farmers. They know each other intimately. Their social and economic conditions are alike. They possess some land but little liquid capital. It is to the cooperatove banks that they look for current funds.

> "But from--small beginnings the Raiffeisen cooperative rural credit movement has spread all over Europe. In Germany alone there were nearly 17,000.....The farmers in other European countries have united to form similar societies and the movement is rapidly growing."1

The principles on which the Rural Credit Societies do business are:-

> "Limitation of membership to one community or village, to secure mutual personal knowledge of the standing of members.
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> "Loans only for productive purposes.
> "Loans only to members.
> "Unlimited liability of members.
> "Permanent indivisible reserve fund.
> "Short-term credit on personal guarantee(two or three name paper).

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1. J.B. Morman "Principles of Rural Credits" p.9

"Credit for long periods with facilities for repayment by installments.

"Absence of profit-seeking, dividends, if paid being limited.

"Office-holders, except secretary, not paid for their services.

"Promotion of moral as well as material advancement of members.

"The main idea of the Raiffeisen plan is the using of character as an asset;--1

The societies belong to central organizations. The central organizations are reservoirs of credit as relations are maintained with the centralized commercial banking system. The societies operate buying and selling agencies. They buy supplies and handle the marketing function for their members.

The Raiffiesen system has raised the peasant from groveling dependence on the money-lender to a self-respecting economic independence. All legitimate needs may be met by borrowings. The rates never seem to rise above five per cent. Thrift has been fostered, temperance demanded, and community spirit engendered. In fact the whole social and economic life of the rural districts have been transformed.

The other German system is the Schulze-Delitzche banks or popular banks. These were organized to meet the needs of the lower middle class townsmen. They exert tremendous influence on agriculture.

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1. Marion Sherwood Latham, N. Amer. Review 199:796-800, May 1913.

One-quarter of their members are farmers and much of the credit extensions go to peasants.

Schulze-Detilzsche, like Raiffiesen, was a philanthropist. His banks "got off to a faster start". By 1911 there were nearly 1000 of them. Most of these banks belonged to a central organization. The principles of operation were a little different from those of the rural credit societies. First these banks accumulate considerable capital, distribute high dividends; and operate over extended territory. Their management is well paid. Operations are strictly of a business nature. The limited liability of membership plan was adopted. Anyone has the right to borrow from these banks. Rates have been ranging between four and five per cent.

These banks taught business methods to their mambers. They have greatly stimulated thrift. In fact they have freed the lower middle class from the dread of the usurer. They do not attempt to exert the moral influence that the rural credit societies do. However, they have been a force for good.

In France, the principle of government aid for cooperatives has been adopted. The system is centered around the agricultural syndicates (cooperative societies of various kinds). These local societies deal directly with subsidized regional banks. These regional banks have connections with the Bank of France and the open market. The locals act as guaranteeing intermediaries.

A special committee nominated by the Minister of Agriculture oversees the operation of the system. Both sets of institutions have many privileges.

> "The general results achieved in the first decade in which the system of state aid has been in force are most satisfactory. The local banks are constantly increasing and respond even better to the new needs of agriculture."[1]

The systems in use in both France and Germany have solved the agricultural credit needs of their respective countries. The French system of Government aid has become effective in ten years. It took several times that period for the German banks and societies to reach the same stage. In addition, the lives of two great men were given in Germany. Unquestionably in the long run the German idea is the better. If quick results are desired, government aid seems to be more effective.

The investigators recommended state encouragement but not state aid.

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1. The International Institute of Agriculture. Outlines of European Cooperative Credit Systems, Ch.III.

"The establishment of agricultural cooperative credit association is largely a matter for state legislation and encouragement. The making and management of these little societies are so simple and their success so inevitable, where the environment is congenial to their growth, that without doubt they would spring up in multitudes as soon as proper laws were passed, and in the course of time develop systems as large and effective as those in Germany."[1]

Such seemed to be the consensus of opinion. For ten years after this report the Federal Government took no action, except in the provisions of the Federal Reserve Act and in the rejuvinated War Finance Corporation. Many states passed laws. The only results appear in North Carolina where credit unions function in a few towns. In most states no availing effort was made to establish rural credit unions, why?

Marion Sherwood Latham gives a reasonable answer to that question. Mr. Latham was a member of the American Commission, he remained in Europe to make further studies of the short-term loan and social question. He writes:

"Our rural population lives in solitary houses usually set apart on account of the relatively large areas of the farms. The farmers do not see one another often enough to become intimately acquainted.* As a rule the individuals

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1. See U.S. State Dept. Information Division. Preliminary Report on Land and Agricultural Credit in Europe.

* This is being overcome to some extent by automobiles and the development of rural community centers.

of any one district differ in ancestry, religion, ideas and habits. There is no tie that binds one farmer to another any more than there is between farmer and townsman.

"The average American farmer is intelligent, independent, ambitious, eager for new experiences, ready to sell and move on, sending his children to town to be educated, leaving the farm himself if speculation offers. He has not a co-operative spirit; he does not wish his individual actions hampered, and is averse to endorsing another's liability. He takes orders from no one, resents supervision, and is suspicious of altruistic services.[1] If, say a banker, should try to advise and supervise the affairs of a farming district, he would very probably be told to mind his own business, or else asked what he expected to get out of it.

"With a mass of people of these characteristics, only classed together because of their occupation, the situation is diametrically opposite to that in Europe, that the fact of success of the rural credit movement in the latter region can have little bearing on how it would work in this country."[2]

Europes systems are not adaptable to America. If we try cooperative credit, the plan must be "made in America". It must fit the American conditions. No one has, as yet, produced a plan that has been successful.

Governmental Aid.

Some states passed laws as suggested by the Commissions reports. Nothing astounding happened.

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1. The underscore is mine.
2. N. Am. R. 199:796-800.

A few successful credit unions were established in North Carolina after much "petting". Usury laws were passed, but were of little practical aid. A kindly state attitude did not seem to help much. More active aid was sought to help in the solution of the problem.

Some wanted direct loans from the state or national governments. The idea was to borrow on the goverment's credit and reloan at cost to the farmer. This action was justified on the grounds that what aid agriculture, aided all as cost of food would be cheaper.

Most of the plans were incoherent. But aid was wanted. Government subsidies had aided in France, why not in America? There were all shades of government "aidists" from mere supervision to bounties and guaranteed prices.

The United States Commission had recommended that the National Bank Act be amended. "National Rural Banks" with a capitalization of less than $25,000 were to be organized. The banks with more than $10,000 capital were to run very much as the older ~~national~~ national banks. These with a capital of $2,000 were to be practically rural credit unions. At that time only four states had rural credit union laws.

No action was taken on any of the schemes presented above. It remained for a crisis to bring about a really serious attitude on the subject.

HISTORY OF THE ACT OF 1923.

In 1915 a Joint Committee from Congress was appointed to draw up a rural credits bill. The Committee divided itself into two sub-committees - one on land and one on agricultural credits. The Federal Farm loan Act of 1916 was the result. The sub-committee on Agricultural credits had little to say. True, war prices were booming farm products. Farmers were operating on a cash basis. Congress gave no serious attention to agricultural credits after the passage of the Federal Reserve Act until the crisis of 1920. With that event agricultural credits were again to the fore. The Act of 1923 was the result of this agitation.

During the crisis immediate relief was demanded. In 1921 the War Finance Corporation was revived. The duty of the Corporation was to aid in the financing of the export of farm products. It was hoped a higher price for such would result. Later, the Corporation was authorized to advance funds to banks, other financial institutions, and cooperative associations which made loans to agricultural producers.

The Corporation's activities were successful. During the ~~fours~~ four years of its activities some $539,000,000 in loans were approved. "By no means were all these approved loans actually advanced - that is, they were not found necessary."[1] The opening of lines of credit with the Corporation created confidence. Banks, especially in the West, were relieved of much of their frozen credits.

The Corporation was a temporary expedient. Congress kept trying for something permanent. In 1920 a Commission was appointed to arrive at something permanent. Nothing directly can be traced to its efforts. A "Joint Committee of Agricultural Inquiry" was created in the first extra session of the 67th Congress. It was to investigate, among other things, "the banking and financial resources and credits of the country, especially as effecting agricultural credits".

The Commission's report was submitted in Oct. 1921. It contained the following statement of agricultural credit conditions.

1. There is need of a more unified banking system. Thirty-five to forty per cent of the banking resources of the country are not in the Federal Reserve System. Limited branch banking was suggested.

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1. Saturday Evening Post, Editorial Mar. 7-1925.

2. The outstanding defect is the need of an institution granting intermediate credit. Such was especially needed in the livestock industry, and in districts where fertilizers were used. It was needed at times, to carry crops until they could be profitably marketed.

3. It is not advisable to change the Federal Reserve System. That system was created to care for commercial needs. It was, therefore, necessary to create a new system.

> "It is not enough that the producer of the crop might possibly be able to renew his original productive credit; he must have assurance when he first seeks the credit to produce his crop that if he so desires the credit will be of sufficient length to carry him thru the period of orderly distribution as well as production."

Specifically it recommended that a law be enacted embodying what later developed into the Intermediate Credit Bank system. The Bill was known as the Lenroot-Anderson Bill.

The report of the Joint Committee received much opposition. Other bills were introduced. Of prime importance was the Copper-McFadden Bill. This Bill proposed the organization of National Agricultural Credit Corporations with private capital. These corporations were to be heirs to the better features of the War Finance Corporation. They were to be of especial aid to the live stock industry.

Both bills carried Amendments to the Federal Reserve Act, enlarging the scope of the Reserve Banks with regard to agricultural paper.

All bills introduced led an extremely precarious life. Most of them went through two sessions of Congress. Congress was split; even the Farm Bloc was divided over the Lenroot-Anderson and Copper-McFadden Bills.

The advocates of the Lenroot-Anderson Bill followed the line of reason of the "Joint Committee". The advocates of the Copper-McFadden Bill believed that with few changes and the addition of the National agricultural credit Corporations the present system of finance was sufficient for agriculture. They did not wish the paternalistic interference of the Government.

> "The various farm leaders both within and without Congress could not agree as to which of these two rural credit bills they wanted. The spokesman for the cooperative marketing associations said the present system could be made to meet all the credit need if only a few changes were made in our banking laws--
>
> The majority of farmers organizations were in favor of the Lenroot-Anderson Bill. These organizations felt that in as much as the intermediate credit banks were to be owned and operated by the government and would have the privilege of issuing tax free debentures it was only reasonable to expect that they could furnish cheaper credit to the farmers than they could get thru the regular banking channels. Moreover, at this time the Federal Reserve sys-

tem was distrusted by a considerable part of our agricultural population."[1]

After a hectic career both bills, along with several others, arrived in the hands of a conference committee. The committee made an omnibus measure out of five bills. It really appended bill to bill. This omnibus bill was hastily drawn so that it could pass Congress by Mar. 4, 1923. Besides the two bills already mentioned the new measure contained the McNarry Bill extending the life of the War Finance Corporation until the new institutions could function; the McLean Concurrent Resolution appointing a commission to study the Federal Reserve system; and the Strong Bill amending the Federal Farm Loan Act of 1923. One would expect such an amalgamation of bills to possess elements of weakness. Such was the Agricultural Credits Act of 1923.

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1. Journal of Farm Economics Jan. 1923, Page 91.

SUMMARY OF THE ACT.

The Act has five Titles which deal with the following subjects:

Title I. Federal Intermediate Credit Banks (This was appended to the Federal Farm Loan Act of 1916 as Title II)

Title II. National Agricultural Credit Corporations.

Title III. Amend~~s~~ments to ~~to~~ the Federal Farm Loan Act of 1916.

Title IV. Amendments to the Federal Reserve Act.

Title V. Miscellaneous Provisions.

The Act deals exclusively with agricultural credits except Titles III and V, Title III deals with amendments to the Federal Farm Loan Act. Title V contains odds and ends. These latter two Titles will not be discussed in this thesis.

Federal Intermediate Credit Bank Districts

Fig. I.

Title I. Intermediate Credit Banks.

O r g a n i z a t i o n,- The new government banks are to be known as Intermediate Credit Banks. These are to be twelve in number. They are located in the same cities with corresponding districts as the Federal Farm Land Banks. Fig. 1, shows graphical this data.

The officers and directors of the Land Banks are made ex-officio officers and directors of the new banks. These institutions have the usual power of corporations. Each bank is authorized to act as fiscal agent of the United States when so directed by the Secretary of the Treasury.

Each bank has an authorized capital stock of five million dollars. This is "to be subscribed, held and paid by the Government of the United States".

The law gives the supervision of the new system to the Federal Farm Loan Board. The Board has the authority to make necessary rules and regulations.

The Board has set forth purposes and policies of the new system.

> "The intermediate credit banks were not created as emergency agencies. They cannot therefore, be expected to take directly or indirectly inadequately secured paper. They were intended by the law which brought them to existance to represent a permanent system of intermediate banking, to handle farm credits for a longer period than ordinarily may be extended by banks of de-

> posit and falling short of long-term farm loans with maturities of not less than six months nor more than three years. Their permanence and usefulness are dependent upon making sound loans, because, to procure their funds, they must rely upon the marketability of debentures supported by these securities".[1]

Collateral is emphasized because a rediscount corporation can not be expected to investigate the character and ability of the borrower. It must accept the endorsement of the sending agency as to the factors. <u>The Banks do not deal directly with the</u> farmers but thru intermediates.

L o a n s & D i s c o u n t s,- These are governed by Sec. 202 of Title I, Intermediate Credit Banks may accept paper from commercial and savings banks, agricultural credit corporations, livestock loan companies, and cooperative credit, or cooperative marketing associations and other Banks of the Intermediate Credit System. By an amendment of last March, National Agricultural Credit Corporations may rediscount with the Credit Banks.

The paper must have "originated in the first instance for an agricultural purpose". In case of cooperative marketing associations the paper must be secured by warehouse receipts, negotiable shipping documents or chattel mortgages. Loans on livestock are not to exceed seventy-five per cent of the market value of such goods.

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1. Fed. Farm Loan Board Circular 15.

Rediscounts for banks are limited to twice the paid up capital and surplus. Other intermediaries may borrow not to exceed ten times the unimpaired capital and surplus. No individual may borrow to exceed twenty per cent of the unimpaired capital and surplus of the sending agency, except where the loans are secured by livestock mortgages or warehouse receipts. Such loans may not exceed fifty per cent of the unimpaired capital and surplus. Maturities run from a minimum of six months to a maximum of three years.

Every institution making use of the Intermediate Credit Bank must be willing to submit to rigid examination. Agricultural Credit Corporations must have a paid up and unimpaired capital of at least $10,000. Cooperative marketing associations with capital stock may rediscount their members notes. They must have the capital qualifications as the agricultural credit corporations.

The value of collateral must be maintained at all times. The Banks have a right to demand more collateral when necessary to keep up the security. The Board may even direct that part of the capital of a sending agency be invested in designated securities.

Much of the business of the System will

be done on warehouse receipts. Receipts of Federal bonded or acceptable State bonded warehouse are alone accepted. Receipts on the following goods will be acceptable:

> "Grain, cotton, wool, tobacco, peanuts, broom corn, beans (including soy beans), rice, alfalfa, and red-top seeds, hay, nuts, canned fruits and vegetables, maple syrup, and dried fruits.
>
> Several of the above commodities suggest special warehousing problems, in addition to the ordinary warehousing questions, which must be solved before loans or advances may be made" 1

D i s c o u n t R a t e s,- It was one of the aims of the Act to secure reasonable discount rates. Sec. 204 of the law carries this aim into effect.

> "Any Federal Intermediate Credit Bank which has made an issue of debentures under the provision of this title may thereafter establish, with the approval of the Federal Farm Loan Board, a rate of discount not exceeding by more than 1 per centum per annum the rate borne by its last preceding issue of debentures.
>
> "(b) No organization entitled to the privileges of this title, shall, without the approval of the Federal Farm Loan Board, be allowed to discount with any Federal Intermediate Credit Bank any note or other obligation, upon which the original borrower has been charged a rate of interest exceeding by more than 1½ per centum per annum the discount rate of the Federal Intermediate Credit Bank at the time such loan was made"

Under the regulatory clause of the Act the Board has made one exception. In case of livestock loans the spread may be 2½ per cent. This action was

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1. Regulations of the Federal Farm Loan Board.

taken upon advice from both the sending agencies and their customers. Due to greater risks cattle paper must bear higher rates, so they said.

D e b e n t u r e s & O t h e r S o u r c e s o f C a p i t a l,- It was planned that most of the Capital used by the Banks should come from the sale of debentures. Issue of debentures is supervised by the Federal Loan Board. The rate borne by the bonds may not exceed six per cent. The government assumes no liability though the debentures have been made "instrumentalities" of the Federal Government. This was done to exempt them from taxation by the States. All Banks of the System are liable on all obligations issued by any Bank of the system. That is there is interlocking liability. This applies to interest as well as principle of debentures.

Debentures have a maximum term of five years. The security is the rediscounted paper. It is hypothecated under rules established by the Loan Board. The security must equal the face of the debentures, and must be maintained at that figure at all times. The debentures, may run for a longer period than the hypothecated collateral. Through a process of substitution the value of the collateral is maintained.

The Banks are given the privilege in dealing in the open market in their securities. Use, to advantage of the Banks, has been made of this privilege. A joint fiscal agency is maintained to bring out, market, and trade in debentures; consolidated bond issues are now made by the Banks. This is permissible because of the interlocking liability of the System. The agency is supported in conjunction with the Federal Farm Land Banks. This agency has saved considerable sums of money and has improved the market for the bonds of both systems of Banks.

The Intermediate Credit Banks may rediscount paper with the Federal Reserve Banks. The paper must mature in nine months or less. The paper must originate with institutions not a member of the Reserve System and ineligible for membership with that System.

T a x E x e m p t i o n,- The Intermediate Credit Banks are granted the same exemption as are the Federal Farm Land Banks. The exemption includes capital, reserves, surplus and the income derived therefrom, but not exemption from real estate tax. Debentures are classed as instrumentalities of the Federal Government. Hence exempt from State and local taxation. These exemptions give the System tremendous advantage in meeting competition.

A p p l i c a t i o n O f E a r n i n g s,- The Intermediate Credit Banks must bear their share of the expense incurred by the fiscal agency, the Loan Board and the Loan Bureau. One-half the net earnings are to go to the Federal Government. The other half builds a general reserve until it equals the capital stock. After that ten per cent continues to this reserve while the remainder is paid to the Unites States as a franchise tax.

Title II. National Agricultural Credit Corporations and the Rediscount Corporations.

This Title contains the main features of the Copper-McFadden Bill. It was based on the philosophy that only government encouragement was needed to solve the farm credits problem. It was to aid the livestock industry particularly, Government supervision was instituted.

N a t i o n a l A g r i c u l t u r a l C r e d i t C o r p o r a t i o n s,- Any five natural persons may form such a corporation. Supervision was given to the comptroller of currency. The capital was to be not less than $250,000. These corporations were to deal in paper very similar to that dealt in by the Intermediate Credit Banks.

Maturities were in general the same. The interest rates were not to exceed the legal rates of the State in which the loan originated. Land mortgages may be taken as security in some cases. Loans may be made equal to the face of the collateral. Amounts of loans to individuals are limited in the same manner as in the Intermediate Credit System.

These Credit Corporations may issue debentures under the supervision of the Comptroller. They may not exceed ten times the unimpaired capital and surplus. They may, also, rediscount with Intermediate Credit Banks and the Rediscount Corporations (to be described later).

The National Agricultural Corporations are subject to the same taxation as are national banks. Neither are their debentures tax free. Here, they are at a great disadvantage with the Intermediate Credit Banks.

Like the Intermediate Credit Banks the Secretary of the Treasury may appoint fiscal agents of the Federal Government.

R e d i s c o u n t C o r p o r a t i o n s,- National Agricultural Credit Corporations with a capital of $1,000,000 may enter the rediscount field. It may take paper from any National Agriculture Credit

Corporation or from members of the Federal Reserve System. Eligible paper must have the same qualifications as described for National Agricultural Credits Corporations.

Such rediscount corporations have the privilege of issuing debentures under similar restrictions. They too, may rediscount with the Intermediate Credit Banks.

In fact they are really little more than enlarged National Agricultural Credits Corporations.

<u>Title IV</u>. <u>Amendments to the Federal Reserve Act</u>.

There are several provisions of importance. The first permits the rediscounts of agricultural and livestock paper for a period of nine months. The second provides for the rediscounting of paper held, by the Intermediate Credit Banks, provided such paper does not bear the endorsement of a State bank or Trust Company which is eligible to the Reserve System. The Reserve Banks may traffic in debentures of the Intermediate Credit Banks and the National Agricultural Credit Corporations, on the same basis as they trade in Federal Farm Land Bank Bonds. The third provision allows the rediscounting of sight or demand bills of exchange drawn against shipping documents. These are "to finance the domestic shipment of non-perishable, readily marketable, staple, agricultural products". The bills are not to be outstanding more than ninety days.

It was hoped by these various amendments that agricultural credits of short terms would be greatly facilitated. Previously sight and demand bills had not been accepted by the Reserve Banks due to uncertainty of maturity. The other measures speak for themselves.

The other important change was the letting down of the bars to State banks.. It was hoped many State banks then ineligible would join the System. This would assure plenty of funds in rural communities. A State bank with sixty per cent of the capital required of a national bank operating in its city can now join the System. Each year twenty per cent of profits must be set aside until the capital of the State bank equals the capital required of national banks operating in the same city.

Constitutionality

Neither sets of institutions provided for by the Act of 1923 have been attacked in the courts on constitutional grounds. They possess the same feature that made the Farm Loan Act of 1916 constitutional. That feature is of being potential fiscal agents of the government.[1]

Justification of Federal Action.

In America things of national scope are rapidly becoming proper subjects of national legislation. Agricultural credits were held by many to be such a problem. Congress had legislated on commercial credit and land credit problems. It was easy to turn its hand to short term farm credits.

The crisis brought the question to the front. The "Farm Bloc" was strong. It demanded action. Farmers were massed politically. Farm organization backed the "Bloc" Politics demanded action. The political exigencies of the moment ruled. Congress passed another measure.

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1. See Smith v. Kansas City Title and Trust Co. (1920) 255 U.S. 180; 65 L Ed. 577; 41 S.Ct 243. The Court said that the Osborne, and McCulloough v. Maryland cases decided that Congress may establish banks for national purposes. It further said Congress alone had power to decide the need of fiscal agencies. The court is not concerned with the motives of Congress.

SOURCE OF FUNDS FOR AND CHANNELS OF DISTRIBUTION OF THE INSTITUTIONS SET UP UNDER THE AGRICULTURAL ACT OF 1923

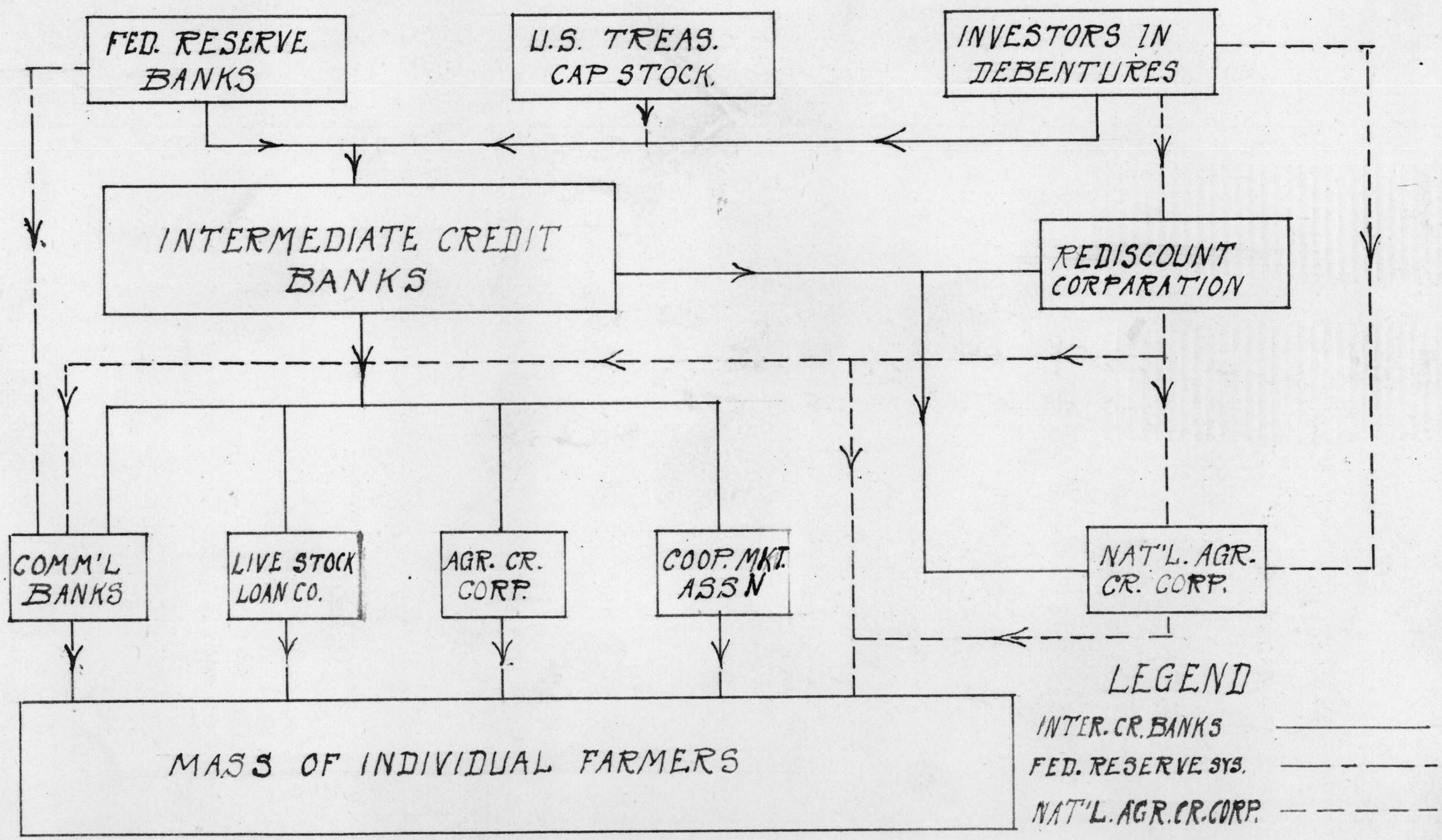

FIG II

THE EFFICACY OF THE ACT

Results of the Act Nationally

Fig. 2 shows in diagram form the institutions set up under the Act of 1923, their sources of funds and channels of distribution to the farmers. The Intermediate Credit Bank System is shown by solid black lines. The source of capital stock subscriptions is given because the other institutions are privately owned. The three principal sources of funds for the Credit Banks are shown. These are the Treasury, investors and the Federal Reserve Banks.

The institutions provided for by Title II are shown by broken lines. They too, may resort to debentures. Paper may be rediscounted with the Intermediate Credit Banks. The corporations deal directly with the producer.

The Federal Reserve System is shown by the dot and dash lines.

Both sets of broken lines extending from the commercial banks are misleading. Only members banks of the Reserve System are eligible to use the facilities indicated.

The cooperative marketing associations are not accurately pictured. They may borrow on their own notes and by rediscounting members' notes if they are incorporated.

With these explanations the chart gives a fairly accurate picture of the mechanics of the Agricultural Credits Act of 1923.

The Federal Reserve System

The consensus of opinion is that the provisions for agricultural credit in the Federal Reserve Act are sound. These provisions allow for ample extension for less than nine months. It is true that many country banks do not belong to the Reserve System, but through city correspondents they reap much of the benefits of that System. By making renewals much intermediate credit is extended. Some writers argue that with renewals commercial banks could care for all agricultural credits. The commercial banks had out on short terms at one time four billions of dollars.[1] This was roughly forty per cent of agricultural credit loans. These figures were gathered prior to the passage of the Act of 1923. The Reserve System can now offer even greater services to the farmers. No doubt the banks furnish more than forty per cent of agricultural credit loans. The above is true for the Intermediate Credit System, comparatively, has not functioned yet.

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1. See page 15.

The consolidated balance sheet of last December showed loans and discounts of only $62,000,000. The tendency is away from private and store credit to bank credit. Therefore, it seems safe to say that commercial banks are more satisfactory sources of agricultural credit than in 1923.

National Agricultural Credit Corporations,- As yet there have been no corporations formed.[1] It is doubtful if any ever will be. They have no special privilege as has the Intermediate Credit Bank. The capital requirement is large for a mere lending corporation and hardly large enough to successfully float debentures. The President's Agricultural Conference believed that granting rediscount privileges with the Intermediate Credit Bank would stimulate their formation. The above was believed, for the livestock industry sadly needs more intermediaries. The suggestion was made law last March. It remains to be seen what comes of that action.

It is impossible to operate a Rediscount Corporation until several of the first degree corporations are in operation, There is a larger capital

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1. Letter from J.W. McIntosh Deputy Controller, dated Oct. 24, 1924.

requirement for these than the first mentioned institutions. Hence, they are less likely to be organized. This is especially true since they may rediscount with the Intermediate Credit Banks. The amendment destroyed their chief function.

I n t e r m e d i a t e C r e d i t B a n k s,- If these Banks live up to expectation of their friends they will:

1. Enable banks to make loans to farmers which formerly would have been unsafe, due to the term.

2. Insure the farmer, stockman and the cooperative marketing association against credit stringency in the future.

The Act of 1923 has not increased the country banker's willingness to extend the term on loans. Banks have made practically no use of the new System. The shorter term allows the Banker to keep in closer touch with the client. If the security declines in value more may be demanded or the loan called.

The following quotation offers another explanation:

> "Careful study of the matter forces one to the conclusion that the rural banker is very often like the horse in the proverb. Uncle Sam

can lead him to water, but he can't make him drink. Congress has established Intermediate Credit Banks with practically unlimited funds, to be used in rediscounting, at a present rate of $4\frac{1}{2}$ per cent, or under, any "note, draft, bill of exchange ...or other such obligation, the proceeds of which have been advanced or used in the first instance for any agricultural purpose, or for the raising, breeding, fattening or marketing of livestock." It is provided, however, that no bank shall, without the approval of the Federal Farm Loan Board, be allowed to discount with any Intermediate Credit Bank any note or other obligation upon which the original borrower has been charged a rate of interest exceeding by more than $1\frac{1}{2}$ per cent per annum the discount rate of the Federal Intermediate Credit Bank at the time such loan was made.....

(Banks may avail).......... ....

...."themselves of this opportunity for profit; but many are not--for the simple reason that they already have, in all probability, a large volume of such notes upon which they are charging the borrowers 8 per cent. If they loan Farmer Jones or any other borrower at 6 per cent, intending to rediscount his note at an Intermediate Credit Bank and make this profit of $1\frac{1}{2}$ per cent, they know he will probably tell his neighbors that he is getting money at 6 per cent, and they will therefore have to reduce the rate on all other loans.

"The loss of 2 per cent on the considerable volumn of notes already discounted would exceed the profit of $1\frac{1}{2}$ per cent on the comparatively few notes they would rediscount with the Intermediate Credit Bank. Rather than submit to this loss, they forgo the privilege of rediscounting with the Intermediate Credit Bank, and continue to charge Farmer Jones and all their other customers 8 per cent. In other words, the Government has offered them a facility which it is not to their selfish interest to use".[1]

In the Far West rates have been 7 and 8 per cent through all the months of cheap money. The banks

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1. Editorial, Saturday Evening Post, Apr. 4- 1925.

had plenty of funds. This is proved by the smallness of discounts with Reserve Banks. Evidently they preferred to keep the rates high and make fewer loans than to increase volume at lower rates.

If the Federal Reserve System were closed to country banks there would exist a strong case for the new system. If money from the central money markets could not reach the country bank the Intermediate Credit Banks would serve a most useful purpose. The Federal Reserve System plus a network of correspondents removes the "ifs".

Perhaps in time the commercial bank's attitude will change to one of greater service. Less than $1\frac{1}{2}$ per cent of advances outstanding at the first of the year were made to banks.

The Act permits rediscounts from agricultural credit corporations. These are specialized institutions dealing in farm paper. Farmers may, thus, borrow from the Intermediate Credit Banks without the use of the local bank. Some of these have been organized in each district. The following list shows the number so organized:

Agricultural Credit Corporations by District, Augyst 1, 1924.[1]

District.	No.	District.	No.
Springfield	3.	Omaha.	48
Baltimore	1.	Wichita	38
Columbia	10	Houston	12
Louisville	2	Berkeley	1
St. Louis	21	Spokane	7
St. Paul	102	New Orleans	5

The larger number have been organized where bank failures have been most prevalent. The greater part have been organized in conjunction with country banks. Many over-extended banks have organized these subsidiary corporations in an attempt to get loans from the Intermediate Credit Banks upon security of less value than that demanded by either the Federal Reserve Banks or correspondents. Needless to say they were in most cases disappointed. In commenting on this situation the Federal Farm Loan Board writes;

> "In some of the States bankers and farmers have organized agricultural credit corporations under State laws in order that farmers may be supplied with funds through rediscounts by the intermediate credit banks for crop-production purposes. The intermediate credit banks have properly insisted that such organizations should be adequately capitalized and have efficient management. These banks cannot afford to depart from

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1. The list and discussion following is adopted from Claud L. Benner's Article in the J. of Farm Econ. Jan. 1925, "Has Rural credit Legislation gone far Enough, and in the Right Direction?"

> well-established banking practices in so far as sound management of rediscounting agencies and well-secured loans are concerned. They are in position to give longer maturities than banks of deposit, but in all essential respects their requirements can not differ from those of safely conducted commercial banking institutions." 1

These corporations are too new to deserve judgment. A little speculation is not out of place. If competition is offered the banks grave consequence may result. If the corporations get the better class of paper the banker will have to keep the poor paper or do without. The Intermediate Credit Banks will only accept the best of security. Hence, the corporation will get the best clients or go out of business. If the corporations are successful they will work a hardship on the country banks. The farmer who needs the credit the worst will at best have to pay high rates. He will have to make up for lost business. In few communities is there room for more financial institutions. Probably banks will have to be more liberal in terms if they desire to remain in the farm credit field. The development of these corporations will bear watching. Perhaps the mission of these corporations will be to liberalize terms to farmers by banks. Increase in liberality was certainly contemplated by the Act. This process may take years. It will not do

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1. Eighth Annual Report of the Federal Farm Loan Board.

to pass hasty judgment on the System. Scarcely two years have passed since the banks began to function. Banks as yet have not been more liberal, as contemplated by the Act.

Will the Intermediate Credit System insure the necessary supply of intermediate credit?

The answer to the above question will depend on two things. The first, is the condition of the nation's bank reserves; the second, is the ability to sell debentures.

When bank reserves are exhausted no more credit may be given. That is if the gold standard is maintained. In such a state, funds of Intermediate Credit Banks can come only from sale of debentures. It is questionable if debentures bearing the lawful rate of six per cent would find a ready market. The Intermediate Credit Banks would see that agriculture got its fair share of credit in such a crisis. But to assert that there will always be abundant credit is overstating the case.

> "The Agricultural credits Act of 1923.... underestimates the ability of the country banks and the Federal Reserve System to grant this kind of credit (Intermediate) It was framed upon the mistaken idea that country banks would extend loans to farmers from nine months to three years if a rediscount service was furnished them. In an attempt to make the farmers somewhat free from their local banks, a method is

> provided in the Act whereby the farmers can secure credit without being forced to rely upon the existing banks. However, as we have pointed out, if this method is resorted to on any large scale, it will work a radical change in our banking structure, the results of which we can only surmise at this time. This is the opinion not only of bankers, but also of some of the leaders of farm organizations."[1]

Livestockmen and cooperative marketing associations have made the greatest use of the Intermediate Credit Banks. These Banks are taking over the livestock paper held by the War Finance Corporation. The Banks are definitely trying to assist that industry back to financial stability. The cooperatives, as yet, receive but a small portion of their credit from the Intermediate Credit Banks.

The Banks have been severely criticized from many angles. It has been laughed at because of the smallness of its business. But it has and will prove useful. What is more, it is growing. The consolidated balance sheet of Dec. 31, 1924 shows assets of 120 million. This is an increase of more than $20,000,000 over the previous year. It is an increase of 20 per cent. The balance sheet was inflated by the inclusion of the $36,000,000 of subscribed but uncalled capital stock.

Loans and discounts totaled about $62,000,000 on Dec. 31, 1924. The total advances for the year were

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1. Journal Farm Economics, Jan. 1925. p. 99

some 90 million dollars. In the face of easy money last fall this is truly a remarkable record for the two year old System.

The following table shows borrowing institutions and the amounts outstanding on Dec. 31, 1924. The table includes the consolidated report and that of the Spokane Bank:

Table II.[1]

Showing types of institutions using the Intermediate Credit Bank System, and the amount of Credit each type had outstanding on Dec. 31, 1924, for the System as a whole and the Spokane Bank especially.

Type of Intermediary.	Consolidated Loans & discounts of the 12.	Loans and discounts of the Spokane Bank.
Total Loans and Discounts.	62,267,076.95	1,713,892.32
National Banks	26,580.07	- - - -
State Banks	812,188.78	3,000.00
Savings and Trust Companies	169,364.50	- - - -
Agricultural Credit Corporations.	9,787,005.30	62,692.85
Livestock Loan Cos.	7,964,515.54	1,495,727.27
Cooperative Marketing Assns. Total---	43,507,440.76	152,472.20
Cotton	13,613,500.00	* - - - -
Tobacco	20,274,280.27	- - - - -
Wheat	2,644,672.73	126,972.20
Raisins	4,000,000.00	~~25,500.00~~
Prunes	1,500,000.00	- - - - -
Wool	33,652.65	25,500.00
Canned fruit & Vegetables-	569,824.19	- - -- -
Rice	310,619.91	- - - - -
Red Top seed,	23,000.00	- - - - -
Peanuts,	324,387.01	- - - - -
Broom Corn	107,477.00	- - - - -
Olive Oil	25,000.00	- - - - -

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1. After Tables from 8th Report of Fed. Farm Loan Board

Dividing the amount of advances outstanding into the total advances made gives a term of about nine months. This is the term which the Federal Reserve may rediscount. However, many of the sending agencies are not eligible to the Reserve System. That means the institutions for which the new Banks were created are using them. Two-thirds of the advances were to cooperative marketing associations and livestock loan companies. Banks had less than a million dollars.

Leaving out the advances to cooperatives 62.6% of the remainder were based on cattle and other livestock.

> "The intermediate credit banks have always been in a position to handle well secured cattle paper. The difficulty has been the lack of rediscounting agencies.---
>
> "The banks are sympathetic and anxious to make their resources available to every eligible applicant who can offer proper security. They are also prepared to render any assistance in setting up local organizations to make the service available." [1]
>
> "Money is loaned", says an officer of the Spokane Intermediate Credit Bank[2] , "not only on aattle (dairy, feeder, breeding and range) but also on sheep. It is loaned on the sheep on the range, and wool on the sheep or in the sheared fleece"

This gives ample credit to sheepmen. The orthodox type loans are made on dairy cattle. On other types, the loan fits the needs of the borrower.

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1. Eighth Annual Report of Fed. Farm Loan Board.
2. Geo. C. Jewett in an Address in Eugene Ore, Jan. 21, 1925.

An effort was exerted to get the business of cooperative marketing associations. Very little business was done in the Pacific North West. In the south tobacco and cotton associations furnished considerable business. There is a future in such activities.

"The Federal intermediate credit banks have assured the financial stability and permanence of these associations by providing them with long-term advances, at reasonable cost, and regardless of temporary fluctuations in the money markets.

"Commercial banks have cooperated by furnishing short-term credits. One system has proved complementary to the other, and helpful results to the associations naturally followed.

"It is believed that no cooperative marketing organization in the entire country has failed in the slightest degree to obtain from the intermediate credit banks not only everything it was entitled to receive but also substantially everything it asked for. The board and banks have been tireless in aiding in the organization of agencies handling types of commodities which may be satisfactorily warehoused and upon which loans may be made safely for six months or longer.

"During 1924 interest rates were low and money was plentiful. Cooperatives were tempted, therefore, to obtain a disproportionate share of their requirements from commercial banks regardless of the length of time the credits would be required, whereas in 1923 an opposite condition prevailed, and because the intermediate credit bank rate was lower they inclined to come to us for most of their funds. The policy of the board has been to encourage these associations to disregard minor differences in costs and to differentiate the natural maturities of their borrowings,placing short-time paper with commercial banks, at the market, and their long-time paper with the intermediate credit banks. Year in and year out, then, they would be adequately financed. They would be assured of an opportunity to conduct an all-the-year-round orderly marketing program.

"To this end the service of the intermediate credit banks has been unexampled.[1]

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1. From 8th Annual Report of Federal Farm Loan Bd.

So successful is this service that Mr. Jewett asserted, "The present generation of businessmen have solved the finance problem of cooperative marketing associations through the Intermediate Credit Banks, but it is up to the coming generation to solve the marketing problem."

Prior to the present many cooperatives had been killed by lack of credit. The "displaced" agencies had sufficient power to shut off credit, said Mr. Jewett in substance. If the Credit Banks do nothing else but foster the cooperative movement they will be well worth while. The six months minimum is a great disadvantage in financing cooperatives. This necessitates the maintenance of lines of credit in two separate systems..

The Banks did not call for payment of but $2,000,000 of the subscribed capital stock. The remainder will be called only in case of emergency.[1] Most of their funds come from debentures. There were nearly $50,000,000 outstanding at the first of the year. This is over twice the paid in capital.

> "The intermediate credit banks have experienced no difficulty in procuring adequate funds to meet legitimate demands made upon them.

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1. Mr. Jewett's Address, as above1

"During the year we were able, by reason of the favorable debenture market, to reduce the interest rate on direct loans to $4\frac{1}{2}$ per cent and on rediscounts to 5 per cent. The difference in rate is due to the fact that most of the rediscounts are for a longer term than the direct loans to cooperative marketing associations. It is deemed advisable, when commitments or rediscounts are made, that debentures be sold covering the period of the commitment. When advances are made to cooperative marking associations they are as a rule for a period of six months. On rediscounts commitments are made for one and sometimes for two and three years. The debenture sold against the shorter term maturity is marketed at a less rate than the debenture sold against the longer term maturity. The difference in rate, therefore, appeared fair to all concerned." [1]

Dividends were small last year. They were less than a half million dollars on a capitalization of $24,000,000. No doubt earnings will increase with age. Thus far the Banks have been well-managed. Sound policies have been followed. If such continue to be followed there can be little doubt as to a successful future.

Intermediate Credit in Oregon.

What was said about the Federal Reserve System and the National Agricultural credit system in the discussion on the national situation, applies equally to Oregon.

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1. Eighth Report of the Federal Farm Loan Board.

Oregon institutions borrowed about $645,000 during 1924 from the Spokane Bank. The livestock and wool interests seem to be the chief borrowers.

An analysis of the balance sheet of the Spokane Intermediate Credit Bank shows Assets of 6-2/3 million dollars; $3,000,000 of which is the uncalled capital stock. Loans and discounts amount to about $3,500,000. Half of this represented tobacco paper from the Louisville Bank.[1] Such investment kept funds working. It renders unnecessary the floating of debentures by the Louisville Bank. In turn the Spokane Bank had borrowed, on thirty to sixty day paper, $500,000 from local Spokane Banks. This tided the interim between debenture issues. Earnings were slightly above the average. Most of the business of the Spokane Bank was done in Montana on livestock loans.

But to return to Oregon. There is at least one dairy loan company that makes use of the Spokane Bank. Loans up to $35.00 to $40.00 are made per cow, depending upon the value of stock. These are of the usual twenty month loans.

Other livestock interest will unquestionably make greater use in the future than at present. Re-

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1. From letter from Bank dated Apr. 23, 1925.

cently the spread between the loan rate and rediscount rate was increased to $2\frac{1}{2}$ per cent. The only criticism made by cattle loan companies was that of too narrow a spread in rates. They had been loaning at $8\frac{1}{2}$ per cent.[1] The Intermediate Credit Bank rate would limit them to $7\frac{1}{2}$ per cent. The Oregon livestock paper is sold in Eastern money centers.

Wool growers have largely used the Spokane institution. The Pacific cooperative Wool Growers write: "We were the first cooperative Organization to borrow from the Federal Intermediate Credit Bank and will continue to do so at the rate of several hundred thousand dollars per year...

"It would be an added convenience for us if the loan with a shorter maturity than six months could be negotiated."[2]

Other cooperatives have made practically no use of the Spokane Bank. The grain growers association has indefinitely suspended operations. The fruit growers association face a warehousing problem that will take time to overcome. Neither Federal nor State warehouses may issue negotiable receipts on canned goods or dried fruits. If the cooperative marketing association is incorporated

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1. Letter Portland Cattle Loan Co. Nov. 19, 1924.
2. Letter of Nov. 24, 1924.

it may rediscount the notes of its members. At the present this would save the members at least 2 per cent per annum on borrowed funds. Otherwise the fruit growers' association can not use the new system.

The general agricultural credit situation in Oregon seems satisfactory. Nearly all money is 7 per cent. But this is what all industries pay. Any solvent farmer will be able to finance his productive needs.

Mr. C. H. Baily of the Oregon Grange, writes: "There are plenty of credit facilities available for the farmer. In fact he has been snowed under an avalanche of credit, until now he hardly has his head above water"[1]

Mr. E.E. Faville of the "Western Farmer" was asked the question "Are there plenty of credit facilities for the Oregon farmer?" He answered, "We think he has if he will avail himself of the Federal Farm Land Bank and the Intermediate Credit Bank".[2]

Mr. Ralph P. Laird, Vice President of the Oregon Farmer's Educational and Cooperative Union, expresses another viewpoint. He stressed, in an

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1. Letter of May 5th, 1924.
2. Letter of May 7, 1924.

interview, the following points.

1. Generally speaking it is too easy for farmers to get loans.

2. Many farmers who could use loans to advantage and who could liquidate the loan are turned down, while many are given less credit than needed. (He was speaking of farmers who were trying to use the Federal Farm Land Banks but thought the same applied to the newer system of Intermediate credits. He did not know the reason but supposed it was a technicality in the law.)

3. The farmers were disappointed with the Intermediate Credit system because they could not get loans directly from the government. There is too much red tape in the system. This accounts in part, for the few members of farmers' organizations using that System.

4. The Farmers want markets, not credit. If they could profitably sell what they raise there would be little complaint as to credit.

5. Cooperative marketing will aid very much in overcoming the ills of the producer. The farmer's problems will be a long way toward solved when he is able to sell directly to the consumer. Farmers must organize and must be ready to pay for the benefits derived from cooperation. He, the farmer, must not "kick" if others benefit besides those cooperating who pay nothing toward the good results obtained. Outsiders always gain from cooperative efforts.

There is much truth in what he says. But credit will always be needed to market crops orderly. Also, money is needed to produce the crop. To meet these needs the Intermediate Credit Bank System was organized.

The dairy, wool and livestock industries in Oregon will find profitable use of the Intermediate

Credit Bank of Spokane. The opportunity is here if they will but sieze it.

The Intermediate Credit Bank or any other enterprize operating not philanthropic, will not finance the insolvent farmer. Many young men just beginning for themselves will be unable to reap the benefit of the Federal Legislation. They have no security to offer. Their ability is unknown. Many complaints will be made because this class of borrowers are not cared for. They must solve their own problem. The solution may be arrived at by collective effort (Oregon has a splendid rural credits union law). No matter how solved, character, ability and security must be there.

GENERAL SUMMARY and CONCLUSIONS

The principles of credit extension are the same for any industry. Differences are of degree and not of kind. Agriculture needs longer maturities. The term should fit the turnover of the particular farmer. These loans sometimes run for three years, some types of livestock loans being a case in point. The date of maturity should be picked which is most convenient to the borrower; that is when he is most apt to have funds. Loans should be made for productive purposes only. Credit ratings are made on the basis of the character, ability and resources of the borrower.

Agriculture needs credit because the investment in the average farm is too great for one man to usually accumulate. It is often better for the farmer to borrow than to own capital. He gets it cheaper if it is used for short periods. Also, he gets the advice of his banker. To the American farmer this is no small item.

Orthodox bankers taught that commercial banks could not handle loans of more than six months maturities. Intermediate credit therefore could not be furnished by these banks. Farmers felt that banks were not sympathetic toward farm loan needs.

Remedies suggested were first, cooperative credit endeavors similar to those of Germany or to the French Syndicate systems. The other plans were government aided or supervised institutions.

During the war period the farmers were able to operate on a cash basis. The cry for relief subsided until the crisis period. The farmers organized politically and were able to bring pressure to bear on Congress to get action. After two years of fighting the Act of 1923 was passed. Because Congress could not agree on any one plan the Act was made an omnibus measure. Naturally there were elements of weakness. The greatest is the provision for two separate and competing sets of institutions. One the government owned and privileged, Intermediate Credit Banks; the other the privately owned and non-privileged National Agricultural Credit Corporations. The former rediscounted paper with matmrities of six months to three years. The farmers received their loans thru local banks, agricultural credit corporations or cooperative marketing associations. The second system being without privilege had little chance to succeed. None have been organized and are not likely to be.

Government Aid will bring quicker results than private enterprise when faced with such problems as the Act of 1923 tried to solve. Immediate results were wanted. Governmental aid was therefore sought. Federal legislation was desired as the problem was national in scope.

Besides creating the described institutions the Federal Act was greatly ~~was~~ liberalized. State banks could enter the Reserve System more easily; maturities on eligible agricultural paper were lengthened to nine months; the Reserve Banks can now rediscount sight and demand bills backed by shipping documents on staple agricultural products.

Agricultural credit facilities were enormously enlarged by the Act of 1923. Outside the Reserve System the Intermediate Credit Banks should handle most of the paper. The future of these institutions may be summarized as follows:

1. It is very unlikely that commercial banks will use the new institutions. They prefer to loan on shorter periods, renewing notes when advisable. The Federal Reserve System furnishes plenty of credit in such cases. Thru a system of correspondents the facilities of the Reserve Banks are available to all nonmember banks. The latter system does not fix rates while the former does. The commercial banks prefer to

be free to charge what they see fit.

2. The Intermediate Credit Banks will be of material assistance to the livestock industry. This industry, especially, was in need of paper with longer maturities.

3. Cooperative marketing associations will find a sympathetic fridnd in these new Banks. They will be able to get cheaper money than any other type of borrower. The minimum maturity of six months is a handicap with the cooperatives. They will have to maintain two lines of credit in two different banking systems.

The fruit growers, and canning associations will have difficult warehousing problems to work out. This is especially true in Oregon. Neither the State nor Federal bonded ware houses may issue negotiable receipts against dried fruit or canned goods. The California Warehouse Act permits such receipts. The Berkeley Bank has advanced some funds against such security.

5. The Agricultural Credits Act of 1923 together with Federal Reserve Act, will provide abundant Agricultural Credit facilities. The solvent borrower need have no trouble in getting credit as long as there are reserves to draw upon.

6. Intermediate Credit Banks are

> "valuable in that credit made available to them encourages private financial institutions to extend loans. Farmers' cooperative associations have often found commercial banks willing to give credit on very reasonable terms as soon as advances have been promised and approved by the intermediate credit banks. An association that has been deemed a safe risk by an intermediate credit bank has thereafter a better standing with private financiers." 1

They will also, inspire greater confidence in time of crisis. Loans will be less suddenly contracted. Liquidation will be less sudden and disastrous. This was the greatest benefit performed by the War Finance Corporation.

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