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I am submitting herewith a thesis written by Robert Jackson Bevins entitled "An Economic Analysis of the Activities of Agricultural Representatives in Tennessee Banks." I recommend that it be accepted for nine quarter hours of credit in partial fulfillment of the requirements for the degree of Master of Science, with a major in Agricultural Economics.

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AN ECONOMIC ANALYSIS OF THE ACTIVITIES OF AGRICULTURAL
REPRESENTATIVES IN TENNESSEE BANKS

A THESIS

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INTRODUCTION

Commercial banks are an important source of agricultural credit. Their importance varies from area to area. Some banks have made little effort to attract agricultural business and others have made definite efforts to meet the credit needs of the farmer. One way in which some banks have attempted to better serve agriculture has been through the practice of employing agricultural personnel to work with the farmers. It can be assumed that the banks having such a program feel that in addition to enabling them to better serve agricultural needs, it can and will either expand the agricultural banking business and/or decrease the losses sustained in agricultural lending more than enough to finance the program. Thus, the program to be successful for the bank would have to affect favorably any or any combination of the following in sufficient degree to at least cover the costs of the program: (1) the volume of credit extended to agriculture, (2) the volume of deposits drawn from agricultural sources, and (3) the volume of loss from credit extended to agriculture.

Relatively little has been known about the work done by agricultural personnel associated with Tennessee commercial banks and even less has been known about the effectiveness of their use as it affects the banks and the farmers in their attempts to secure adequate credit. It is known that several banks in Tennessee now use such personnel and have a specialized agricultural credit program. By studying these programs it should be possible to arrive at conclusions as to the work

done by these agricultural personnel and the effectiveness of this work.

Specifically, the objectives of this study, the first of its kind in Tennessee, are: (1) to determine the types of work done by these personnel, (2) to attempt to measure the effectiveness of this program from the banks' point of view, and (3) to explore the effectiveness of the program from the farmers' point of view, and (4) to make recommendations and suggestions as to how such a program, if effective, can be implemented by banks not now utilizing agricultural representatives.

The plan of inquiry is to briefly examine the theory of capital formation and capital budgeting, showing the place adequate credit has in the formulation of economically sound farm plans. Next, there is presented a brief examination of some of the sources of credit. With this as a background, an attempt is made to deal with the problems suggested by the four objectives of this study, as stated above.

CHAPTER I

THEORY OF CAPITAL FORMATION AND BUDGETING

Definition of Capital

What is capital? One American dictionary, Webster's, gives the following definition: "An aggregate of (economic) goods used to promote the production of other goods, instead of being valuable solely for the purposes of immediate enjoyment."¹ Adam Smith of Wealth of Nations fame stated that capital is that part of man's wealth which yields him revenue.² Others have defined it in terms of an economic equation such as follows:

$$(\text{Past Production}) - (\text{Consumption}) = (\text{Savings}).$$

$$(\text{Savings, if used for further production}) = (\text{Capital}).$$

Thus, any good produced but not used in consumption is potential capital. It becomes capital only if and when it is put into the productive stream.

For the purposes of this study, I would like to define capital in terms of the equation given above. Capital is a particular portion of the residual which occurs when consumption of production is incomplete. It is that portion which is used in the process of further

¹Webster's Collegiate Dictionary, (5th ed.; Springfield, Mass.: G. & C. Merriam Company, 1949).

²Irving Fisher, The Nature of Capital and Income (New York: The Macmillan Company, 1912), p. 54.

production. Included in this is all money or goods flowing into the productive stream.³

Often capital is considered to have a time connotation. This school of thought holds capital to be more or less disassociated with the short-run problem. It takes capital to be of such a nature that its use must necessarily extend over the long-run. For instance, a new plow might be a capital investment and a package of tobacco seed would not be. To so limit the meaning of capital is not functional to this study. A much broader definition like that already tendered is much more useful, for unless such is the case, only a segment of the problem is brought into focus.

Still a further breakdown of capital into meaningful categories is needed. Investment and operating capital would seem to be such categories.

Investment capital may be defined as that capital utilized in such a way as to have a relatively slow turn-over into cash value returned. (This is essentially what is usually termed a capital expenditure.) This then means that it will be used primarily for factors which are fixed in the short-run. It must be realized that in the long-run all factors tend to become less fixed in nature. Major

³Goods considered to be capital represent goods produced but not consumed and subsequently returned to the productive processes. These goods have monetary value and thus there is little difference in selling a good and using the proceeds as capital and using the good directly to facilitate further production. It would also be possible to think of such a good as being of the same significance as a good purchased by capital funds.

replacements of machinery, purchase of land, major repairs to buildings, initial purchase or replacement of breeding stock, etc., thus qualify as items for which investment capital would be used. It takes several years for them to return their cash outlay.

Operating capital may then be defined as that capital utilized in such a way as to have a relatively short pay out period, although the time involved may vary considerably. Those expenditures not capital investment will be expenditure of operating capital. Thus such things as feed, seed, fertilizer, labor, etc., will usually be considered to be of an operating nature. There may be times, however, when it will be meaningful to consider such things as labor, feed, fertilizer, and seed as entailing the use of funds for capital investment. The preparation and seeding of a pasture, the returns from which would be spread over several years, would be such an example.

Perhaps, it should be pointed out at this point that the expenditures referred to above are exclusively capital expenditures. Consumption expenditures are not considered.

How Capital is Formed

The clue as to how capital is formed has already been given in the preceding section. It is formed by consuming less than is produced and by using this residual in the production of more goods. Thus, in order to increase capital there must be a restriction of consumption. This is done in the belief that the increased production

resulting from the additional capital will in the long-run result in greater aggregate utility than had consumption equalled production throughout the period, thus resulting in the formation of no additional capital.

There are two basic approaches to the theory of capital formation. One is the theory as expounded by so-called "classical" writers which based the explanation of capital formation upon the activities of individuals. This theory worked itself into an inconsistency which may be stated as follows: In order to increase savings there must be a decrease in expenditures for consumption; but in order to expand capital goods profitably, there must be an increase in expenditures for consumption.⁴ Stating it another way, how can there be absorption of the increased production occasioned by capital formation if to form that capital there must be a restriction of consumption? Thus it appears that if the formation of capital is to take place, at least on an expanding scale, there must be an increasing flow of funds through both consumption and investment channels, but how can this be possible? The solution to the dilemma may at first seem difficult. In reality, it is not, but it can be had only by abandoning the individual approach and adopting a more realistic institutional approach, thus taking into account how society is actually organized.

In placing the emphasis upon the individual as the center of economic organization, the classical writers ignored the process by

⁴Harold G. Moulton, The Formation of Capital (Washington, D. C.: The Brookings Institution, 1935), p. 28.

which savings are transformed into actual capital equipment. They failed to consider the forces which determine whether it will be profitable to utilize savings in the construction of new capital. The assumption was that when an individual decided to save rather than to spend, the only change was a transfer of demand from consumption goods to capital goods. This, it would seem, depends on the further assumption that the demand for capital goods flows directly from the individuals who save. Such, it is obvious, is not the case in real life. Rather, savings are rendered available to the business enterprises through financial institutions. These savings then are utilized by the entrepreneur only if he sees the opportunity for profit.⁵

First it should be recognized that these financial institutions can render to entrepreneurs as capital the same amount they received as savings or they can provide less. What is less obvious is the fact that the financial institutions have the ability to create funds. Thus these institutions can furnish to entrepreneurs capital not actually based on the past production of goods. Assuming less than full employment of human resources, such created capital can provide fuller employment and thus increase the purchasing power of consumers. This increased purchasing power can then provide the funds necessary for the consumption of the additional production occasioned by the use of additional capital in production. This process could be repeated until there was full employment. If it went beyond this point

⁵Ibid., pp. 41-42.

inflation would be the result. If, instead, when full employment had been achieved, the financial institutions ceased to create funds which could be converted into capital not based upon past production of goods and merely transferred savings to entrepreneurs, capital formation would continue and the increases in production caused by the use of this capital could still be consumed. This would be possible because under conditions of full employment increased production would result in greater efficiency and lowered prices. Thus a given amount of purchasing power available would be able to purchase more goods, thereby absorbing the increase in production.

This discussion has been concerned with the expansion of capital, but the mechanics of a contraction of capital would work in the opposite direction. Thus Moulton said that in our industrial society the process "involves a larger utilization of our productive energy at certain periods when an expansion occurs in the output of both capital and consumption goods and then a smaller utilization of our productive energy when the construction of both capital and consumption goods is declining."⁶

We see that through a sharpening and modification of theory it is possible to explain how restriction of consumption to form savings to be converted to capital when invested and an increase in consumption to absorb the additional production occasioned by the use of this additional capital can take place. Thus we are no longer troubled by the

⁶Ibid., pp. 47-48.

dilemma into which the "classical" writers worked themselves. The second or institutional approach can carry us through capital formation in an economy as a unit, but the older "classical" approach still remains more functional when the individual is the focus of our attention. It would seem that for this study the individual approach is best, for here we concern ourselves with the problems faced by individual farmers.

Capital formation in agriculture is basically the same as in any other sector of the economy. The farmer gains equity capital by saving and utilizing these savings in further production. If his ability to save provides him with less capital than he feels he can use advantageously, he has the option of drawing debt capital from those who wish to lend or renting capital goods. This debt capital or rented capital can then be utilized in the business, thereby allowing him to increase his savings and consequently his holdings of equity capital, providing the increase in income is not devoted exclusively to increases in consumption. Up to the point of total utilization of income increases for consumption expenditures, the rate of saving or potential capital formation is decreased as the consumption increases.

The farmer as an individual finds himself in a situation closely akin to pure competition as related to the structure of the market in which he sells. Thus he maximizes his income by increasing production up to the point at which the selling price of the last unit of production just covers its cost of production. This does not mean that efficiency is of no consequence. Indeed the farmer must produce

as much as possible as efficiently as possible, for the more efficient his production is, the greater will be the amount which he can produce profitably. This often puts pressure on the farmer to expand in an attempt to increase his earnings. Equity capital is frequently not available in sufficient amounts to allow this expansion. Thus, when the farm firm is faced with limited equity capital or internal capital, it must either forego expansion or turn to the use of debt or external capital.

Classification of Sources of External Capital

The sources of this external or debt capital are several. Lending agencies may be divided roughly into two general classes--local and centralized. The local, of course, exist in the particular community in which they make loans, and the centralized are those that are outside agencies in the sense that their places of business or home offices are distant from their loaning area. The local agencies can be divided into three groups--private institutions, cooperative organizations, and public lenders. The centralized agencies, too, can be divided into three classes or groups--private, federally sponsored, and public. The following is an outline classification of lending agencies:⁷

⁷Emil Samuel Troelston, The Principles of Farm Finance (St. Louis: Educational Publishers, 1951), p. 187.

I. Local Agencies

A. Private

1. Individuals
2. Merchants
3. Commercial Banks

B. Cooperative

1. Building and Loan Associations
2. Farmers' Cooperatives

C. Public

1. County Trust Funds

II. Centralized Agencies

A. Private

1. Insurance Companies
2. Savings Banks
3. Mortgage Companies
4. Investment Companies

B. Federally Sponsored

1. Production Credit Association
2. Federal Land Bank
3. Farmer's Home Administration

C. Public

1. State Credit Institutions
2. State Trust Funds

Capital Budgeting Problem

Maximizing income for the individual farmer can be accomplished only through optimum resource allocation. Land, labor, capital, managerial ability--all must be integrated if there is to be physical and economic organization capable of making desired returns. No one resource should be allocated exclusive of consideration of all other factors of production.

Capital budgeting, then, is but a segment of the total problem and should not be considered exclusive of the other segments of the problem. Nevertheless, it is possible to look at this particular segment, realizing that it is a part of the whole and has relevance only as it is considered in that light.

What, then, is the nature of the capital budgeting problem? It "consists broadly of three questions: (1) How much money will be needed for expenditures in the coming period? (2) How much money will be available? (3) How should the available money be doled out to candidate projects?"⁸

The reason for capital usage is most likely to be for the purpose of realizing a profit. There may be certain non-monetary reasons such as expansion for personal prestige, better working conditions, etc., but these are likely to be of much less significance than the profit motive. If this be the case, and I believe reason will

⁸Joel Dean, Managerial Economics (New York: Prentice-Hall, Inc., 1951), p. 555.

support this, the "need" should be measured in relation to the expected profitability of the expenditure. This rather obviously points to the need for the consideration of opportunity cost. The various possibilities must be considered and screened. By this means a ranking according to expected profitability can be made. The farmer finds limits upon what may be included in such a listing, making a consideration of land, labor, and managerial ability essential. Then, too, limitations of the amount of capital which he can secure can effectively limit a workable listing of candidate projects.

As previously mentioned there are two sources of capital. There is the internal and the external. The farmer in making his decisions should certainly give cognizance to both sources. Failure to realize the potentialities of either source can reduce the supply which the farmer may feel is available to him. The gross supply of internal funds for any period may be defined as: (1) the cash balance plus (2) the total volume of funds that could be released by selling all the operating assets minus (3) that part of the sales of assets which will give rise to "accounts receivable" instead of cash plus (4) that part of the already existing "accounts receivable" which are falling due in the period.⁹

In connection with the internal sources of funds, the farmer must forecast how much cash will be available internally; he must

⁹Fredrick and Vera Lutz, The Theory of Investment of the Firm (Princeton: Princeton University Press, 1951), pp. 161-162.

decide how much of these funds generated internally will be allocated to repayment for his efforts and those of his family (consumption); and thirdly, he must decide how much of the remainder to utilize in capital investment. Since the farmer is always self employed (in a sense, at least), he is faced with the problem of deciding how much to allocate to his "salary" and how much to reinvest. Because of this fact, there is a tendency for the agricultural standard of living to suffer. Thus a social problem can be generated by a lack of capital funds in agriculture.

There are at least two important reasons which cause farmers to save and invest a larger proportion of their incomes in their own businesses than any other occupational group that receives a similar income.¹⁰ In the first place, agricultural land is, for the most part, owned in small units by individual farmers and all capital is generally supplied by the operator. There is the problem of recapitalization each generation, for the son who remains on the farm must buy out the other heirs, if he is to own the farm that his father or father-in-law owned. Then, too, other young families wishing to become owner operators usually have to earn and save the whole amount of capital required to buy a farm, as well as most of the funds necessary to purchase the livestock and equipment to operate it. The second reason

¹⁰The fact that farmers save more than other groups having similar incomes is borne out by many studies. See, for instance, U. S. D. A. miscellaneous publication 464, Table II, "Changes in Assets and Liabilities of Families," prepared by economists in the Bureau of Home Economics.

for the relatively large savings by farm people is the fact that large working or operating capital investments are required for a profitable farm business.¹¹

The external sources of capital are of great importance to the farmer. Because of the fact that internal financing frequently fails to yield sufficient capital, the farmer must turn to other sources if he is to achieve optimum income. While maximum income is not always the goal of the individual farmer, low income among farmers is a very real problem in agriculture and one of the ways of improving his lot is to have him better utilize capital, thereby increasing his income.

The farmer is conservative in nature and tends to dislike the idea of using borrowed or external funds; but like it or not, this he must often do if he is to improve his lot financially. Then, too, an ignorance of the sources of funds available to him can serve to limit his use of external funds, even when he is willing to do so. As a consequence, the sources of such funds become important.

So far we have looked briefly at the need for capital and the supply of capital which is or can be made available. Now we must turn to the actual allocation of capital to the candidate projects. This is really the heart of the budgeting problem, although the first two parts of the problem must have consideration if the third step, the actual allocation of funds, is to be done intelligently. Actually, all

¹¹Walter W. Wilcox, "Capital in Agriculture," The Quarterly Journal of Economics, Vol. LVIII, 1944, pp. 49-50.

farmers do budget their capital whether by omission or commission. The usual means by which it is purposefully done is by the use of the farm plan.

Farm Planning

Farm planning is a process whereby the capabilities of the farmer and the land are given consideration in arriving at a plan of action and organization which is designed to fit the needs of the farmer and aid him in increasing his income by proper allocation of resources to various candidate projects. It includes an inventory of resources, an examination of the present farm organization including an enterprise and financial summary, outlook on prices, recognition of family preferences, the setting up of alternative plans, and the provision of flexibility.

Usually the plan is made by expert farm planners who work with the farmer in making the plan. Thus, it ultimately becomes a joint endeavor.

The plan is comprehensive, touching almost every area of the farming activity. It sets up land usage, crop rotations, livestock enterprises, capital structure, and schedules for borrowing and repaying any necessary external funds. Opportunity costs are taken into account and competing lines of production are given consideration before the more advantageous is chosen.

More often than not the execution of the farm plan requires the use of external or borrowed funds. Securing these necessary funds from existing credit agencies is frequently difficult.

To illustrate this point, let us look at Table I, a farm repayment schedule which was part of a farm plan given consideration by the 1953 Bankers' Credit Clinics.

Let us assume that the farmer faced with the execution of this plan finds it necessary to borrow the entire amount, \$15,100. Quite obviously, he does not need the entire amount at one time, for it would serve him ill to pay interest on money, some of which would not be used until nearly one year later. What he needs is \$2,300 in August 1953, \$9,450 more in March 1954, and an additional \$3,350 in July 1954.

Finding a lender to give him such credit is complicated by the fact that there are likely to be repayment difficulties because of the time lag before the investments begin to yield a return. A further complicating factor is the necessary term of the loan, in this case nearly seven years. (See Table II).

Now let us look at Table II, a schedule of loans and repayment necessitated by the improvements shown in Table I.

This schedule is geared to the needs of the farmer for funds and his ability to repay them from the returns made possible by their investment. Yet, finding a source of such funds willing to accept both the loan schedule and repayment schedule as proposed is difficult. Private individuals might be found who will be willing to do this, but this is a very limited source of capital. Such can supply the needs of a limited number of farmers engaged in similar revision, but it is simply not adequate as a source for large numbers of farmers. What about the banks, then? If there is sufficient collateral a

TABLE I

SCHEDULE OF FARM IMPROVEMENTS^a

Date	Improvement	Cost
August 1953	Establish 39 acres permanent pasture	\$ 780
August 1953	Establish 15 acres alfalfa	470
August 1953	Construct pond	250
August 1953	Construct fences	300
August 1953	Dig well	500
March 1954	Purchase 28 bred Jersey heifers	5,600
March 1954	Build loafing barn and hay shed	1,500
March 1954	Purchase hay rake and baler	2,350
July 1954	Purchase feed crusher	350
July 1954	Build milk parlor	2,000
July 1954	Purchase milking machine and cooler	1,000
Total		\$15,100

^aSource: Financing Needed Farm Adjustments in Tennessee, "Planning the Reorganization and Financing of a Medium Size, Owner Operated Highland Rim Farm," prepared for use at the 1953 Bankers' Credit Clinics and sponsored by the Agricultural Committee, Tennessee Bankers Association; Federal Reserve Banks of Atlanta and St. Louis and Tennessee Branches; and the Agricultural Experiment Station and Extension Service of the Tennessee College of Agriculture, p. 7.

TABLE II

SCHEDULE OF LOANS AND REPAYMENTS^a

Date	Amount Borrowed	Repayment Schedule			Balance Due
		Interest 6 Per Cent	Principal	Total	
August 1953	\$ 2,300	\$	\$	\$	\$
March 1954	9,450				
July 1954	3,350	373		373	15,100
December 1954		453		453	15,100
December 1955		906	2,500	3,406	12,600
December 1956		756	2,500	3,256	10,100
December 1957		606	2,700	3,306	7,400
December 1958		444	3,000	3,456	4,400
December 1959		264	3,000	3,264	1,400
July 1960		42	1,400		
Total	\$15,100		\$15,100		

^aSource: Financing Needed Farm Adjustments in Tennessee, "Planning the Reorganization and Financing of a Medium Size, Owner Operated Highland Rim Farm," prepared for use at the 1953 Bankers' Credit Clinics and sponsored by the Agricultural Committee, Tennessee Bankers Association; Federal Reserve Banks of Atlanta and St. Louis and Tennessee Branches; and the Agricultural Experiment Station and Extension Service of the Tennessee College of Agriculture, p. 7.

commercial bank operating under the most prevalent practice might be willing to lend the \$15,100 to the farmer on a yearly renewal basis at the option of the bank. This, however, is not satisfactory from the farmer's point of view, for he must be assured of the use of the loaned funds over a longer period of time. He must have this assurance before he can afford to make the investments, for having to refinance would prove difficult and having to liquidate to pay the loan could prove disastrous. It is a long-term problem to the farmer and short-term credit does not fit his needs. Thus the Productive Credit Association is ruled out as a source of credit. The Federal Land Bank is a possible source, but the collateral restrictions imposed upon the Federal Land Bank limit it as a source. Under rare instances the Farmers Home Administration could furnish the funds, but in this case it would be ruled out because of a \$12,000 loan limit.¹²

Where does this leave us? It seems that it points toward a need for commercial bank credit which can be geared to the farmer's needs. He needs to borrow money as it is needed and he must have a repayment schedule which will allow him to make payment when the invested funds become productive. Such does not conform to conventional bank practice.

That the repayment schedule should be geared to the revenue yielding capacity of the funds invested is of deep significance. It tends to imply that the productive use of the funds is of more

¹²Farm Ownership Loans, U. S. Department of Agriculture Farmers Home Administration, p. 5.

importance than collateral of the usual nature. Often the person who really needs credit has difficulty obtaining it because of the inability to furnish sufficient collateral in the form of land, livestock, etc., and the person who gets the credit is the person who can more easily offer collateral. This is especially true if we consider the social aspects of the problem of low income farmers, for it is these who have real need for credit to improve their standard of living through greater productivity and better organization. The realization is needed that good money or capital usage is within itself a sound type of collateral. There are evidences that the commercial banking system is beginning to become cognizant of this fact, for a few banks are liberalizing their policy toward agricultural credit. "Credit needs of small farmers can be met through present credit agencies with commercial lenders playing the leading role. Major adjustments in credit policies, however, will have to be made, with emphasis upon the hopes and prospects of the future rather than upon the dead hand of the past."¹³

If the farmer cannot secure credit suited to his needs, he must revise his farm plan accordingly. This is likely to limit him to a series of short-term investments which are not nearly so likely to produce the reorganization needed to improve his income and his standard

¹³W. E. Hendrix, "Financing the South's Changing Agriculture," paper presented to Agricultural Economics and Rural Sociology Section, Association of Southern Agricultural Workers, at Biloxi, Mississippi, February 10, 1950, p. 6.

of living. Thus the farmer is constantly faced with a necessity of considering the existing credit inadequacies when he makes an attempt to budget capital. This, of course, means that the opportunity of the farmer would be considerably less limited if he could secure credit adequate for his peculiar needs.

Special Credit Problems

Since obtaining external sources of capital is a part of the problem of capital budgeting, let us look at some special problems faced by agriculture.

Financing Forest Enterprises

The problems which are involved in the financing of forest enterprise developments may be divided into two groups.¹⁴ They are the following: (1) those arising due to the length of time between harvest cycles or, in the case of cutover land, length of time between initial reforestation costs and timber cutting, and (2) those of production risks. The first set of problems are different from those of traditional farm real estate financing in that forest lands beginning with cutover timber or newly set trees yield no income for a period of fifteen to thirty years, whereas the farm will presumably

¹⁴Enclosure to letter from Clifton B. Luttrell, Agricultural Economist, Memphis Branch, Federal Reserve Bank of St. Louis, to R. G. F. Spitze, Department of Agricultural Economics, University of Tennessee, dated November 17, 1953.

yield sufficient income annually to make all interest payments plus a payment on the principal. Thus capital and credit for this purpose must not be of the type which depends upon earning a regular return. Such returns can be had only after a long period of timber growth. Few credit agencies have funds which can be loaned over such a long period without either interest or principal repayment. "A large proportion of potentially productive forest land in the South is on small subsistence farm units where savings and re-investment cash income is practically non-existent."¹⁵ In relation to the second set of problems, the risks are of two types: those of fire, diseases, insects, etc., and those of long-run price changes. Insurance coverage for reducing the risks is not generally available. Because of the amounts of timber available a sharp price decline does not seem at all probable, but, even so, the long-term nature of investments in immature tracts is not without its speculative aspects due to the fixed annual costs and the absence of annual income.

Financing Problems of Livestock Enterprises in the South

In the South the single crop variety of agriculture has been traditional. This has necessitated two kinds of credit--crop production or short-term credit and long-term real estate or farm purchase credit. The relative decline of the cotton and tobacco type of farming in the South and the rapid advent of livestock has made the farm credit

¹⁵Loc. cit.

picture more dynamic for both the farmers and the credit institutions. Credit for livestock financing calls for a relatively long period before it can be repaid out of earnings made possible by the investment. Therefore loans for this purpose would need to have longer maturities than conventional crop production loans. The greater degree of managerial skill required for livestock production, coupled with the lack of experience on the part of the farmers, complicates the establishment of maximum loan limits.¹⁶ "The low productivity per agricultural worker has permitted little capital accumulation."¹⁷ As a consequence, credit is needed for a large per cent of all livestock purchases and the development of complimentary and supplementary enterprises.

There are credit institutions set up to make either crop production loans or long-term farm real estate loans, but what is needed here is an intermediate type of credit. Traditional short-term and long-term credit concepts do not cover these types of needs. Instead, some integration of the two types is necessary if loans totaling a high per cent of assets are made with relative safety. "Such loans are necessary if credit needs for livestock purchases and the development of supplementary enterprises are met."¹⁸ Credit

¹⁶Loc. cit.

¹⁷Loc. cit.

¹⁸Loc. cit.

institutions attempting to meet the demand for this particular type of loanable funds would require more borrower information than has previously been the case. In addition, the high ratio of debts to assets and longer term of such loans necessitates increased borrower supervision. Some commercial banks have hired trained agricultural personnel to set up a specialized farm department for this purpose.

Capital Budgeting by the Banks

It should be pointed out that the bank, too, is faced with the necessity for the budgeting of capital. It must decide how much money will be needed, how much will be available, and how that available should be doled out to candidate projects. Thus since the banks deal with more than just agriculture, there is no assurance that the banks can affect optimum use of their resources and still furnish to agriculture capital in amounts most advantageous to agriculture. In fact, there is serious question as to whether the commercial banks can give what would be most advantageous to agriculture.

Allocation of Capital to Agriculture

So far our concern has been with the allocation of capital as faced by the individual farmer. It has been shown that increased credit is advantageous to the individual farmer, but the question is sure to be raised as to whether or not agriculture is in need of more credit. Credit will likely increase production and this is likely to increase

the surplus problem. What then is the rationale for giving more credit when this may but aggravate an already serious problem?

What is good for the farmer as an individual may not be good for agriculture as a whole. To illustrate the point, it is to the advantage of all tobacco farmers to reduce acreage and thus up the total income from that produced. Yet, even so, it is to the advantage of the individual farmer to produce all the tobacco possible. We may draw the generalization that rational behavior for the individual and the group, even though it be an aggregate of the individuals, is not necessarily the same. Thus additional credit to the farmer as an individual may be justified from the standpoint that it can help him increase his income. If for agriculture as a whole it is felt that additional credit should not be allowed or that credit should be decreased, then this is an area for public policy and action whereby the credit restriction can be spread out evenly to all farmers. Within such a framework of restricted credit, however, it can still be justified for the individual farmer to try to increase his credit if this will prove a boon to him in his efforts to increase his income and his standard of living.

Despite the fact that the aggregate problem is not the primary consideration of this study, it can not be totally ignored, for the actions of individuals do have an aggregate effect. Let us, then, look very briefly at the problem.

If there is increased capital to be allocated, it does make a difference what economic segment gets this capital. Huge increases in

capital for agriculture with no increases to other segments would not aid agriculture in overcoming its low income problem. Increased capital would result in increased mechanization thus reducing the necessary agricultural labor force. Without increased capital, industry would not have the ability to absorb those no longer needed in agriculture. Likely, increased production would be so great as to further depress earnings, the elasticity of demand for agricultural products being what it is. Better it would be to allocate more capital to industry, thus enabling industry to attract more workers from agriculture, leaving those who remain in agriculture in a better competitive position. As the movement of workers from agriculture became great enough, agriculture would find the need for more mechanization and farm enlargement and enough capital would have to be allocated to agriculture to achieve this. Much of this capital would, however, find its way back to industry in the form of purchasing power for more machinery, fertilizer, etc.¹⁹ Thus it seems that agriculture can best be aided by first aiding industry. With increased productivity and employment in industry, there would be a somewhat increased demand for agricultural products. This would absorb some of the surplus occasioned by agricultural mechanization and if enough resources were moved to industry the surplus might indeed disappear. It then seems

¹⁹The movement of capital from one segment of the economy to another is not a unique characteristic of funds invested in agriculture. Capital placed in any segment of the economy tends to flow throughout the entire economy.

that the way to higher income for agriculture is not to fight the trend from agriculture but to accelerate it.

Even with a given amount of capital the same sort of reasoning is sound. Agriculture must reduce its labor force to achieve comparable profitability and industry must be able to absorb the excess.

How a given amount of available capital is allocated within agriculture affects the aggregate condition of agriculture. Capital can be allocated in such a fashion as to either impede or speed off-farm migration. As a generalization, capital allocated to the lower income groups within agriculture will tend to impede migration, for it will improve their position relative to other segments of the economy. Capital allocated to the middle and higher income groups will increase profitability without so impeding the migration necessary for higher income. This is not to imply that all low income farmers fit this generalization or that the marginal productivity of capital for low income farms is always lower than for middle and higher farm income groups.

Even so, as has already been stated, even within a framework of restricted credit it can still be justified for the individual farmer to try to increase his credit or capital supply if this will prove a boon to him in his quest for higher income and a better standard of living. An approach to the problem via capital budgeting as previously developed will insure that this private interest does not conflict with the aggregate interest of society.

Summary

Capital has been defined as a portion of the residual which occurs when consumption of past production is incomplete. It is that portion which is reinvested and used in the process of further production.

We have seen how the process of capital formation works, both from the old "classical" individual approach and from the newer institutional approach.

Brief consideration has been given to the sources of capital and the budgeting of that capital. We have seen that the problems which present themselves seem to point toward the need for certain specialized types of credit if the individual farmer is to be in a position to form more capital and/or increase his standard of living.

CHAPTER II

A BRIEF EXAMINATION OF SOME CREDIT SOURCES

Introduction

There are several credit sources of considerable importance to farmers. Those which are perhaps most commonly utilized are the Production Credit Association, the Federal Land Bank, the Farmers Home Administration, commercial banks, merchants, and individuals. The characteristics of the types and terms of credit offered by individuals and merchants vary so widely that attempts to generalize are likely to result in a situation in which the averages really hide rather than reveal. Therefore, despite their great importance, no attempt is made to give the generalizations other than to point out the wide variability of this type of credit.

The Production Credit Association

The Production Credit Association (P. C. A.) is a local cooperative association of farmers organized to provide a permanent source of dependable short-term credit for farmers at reasonable rates.¹ Those obtaining credit from this source become members of the organization. Five to seven farmers of the organization are elected to serve as a board of directors. This board employs the necessary personnel and determines the local policy of the association. However, not all policy

¹What You Want to Know About Your Production Credit Association,
(Pamphlet published by P. C. A.).

is determined at the local level. For instance governmental regulation sets the maximum interest rate which may be charged. Two of the members of the board of directors and the secretary-treasurer of the organization serve as a loan committee to pass on loan applications. Most loans are made for a year or less. Farmers often borrow to help produce their crops and repay after they have harvested and sold their crops. Thus it is essentially a source of operating capital. Sometimes, however, farmers may borrow to purchase machinery, livestock, etc., and be unable to pay the entire amount in one year.² Until recently if this were the case, the loan was written for one year with the understanding that the balance would be renewed if the credit factors remained satisfactory.³ Now an intermediate type of credit which does initially take into account the fact that one year credit is not always adequate is being offered by the P. C. A.

The security for P. C. A. loans is usually a first lien on crops, livestock, or equipment, but loans are not made solely on the strength of the security offered. Consideration is given to the ability of the farmer to repay from his farm earnings.⁴ The amount loaned varies from \$50 up. The amount that may be borrowed is determined by the amount of credit that can be used profitably and the ability to make repayment

²Loans for Farmers, (P. C. A. Pamphlet).

³Loc. Cit.

⁴Loc. Cit.

from dependable farm income.⁵

The funds loaned are obtained from the investment market through the Federal Intermediate Credit Bank which in turn obtains its funds by selling debentures to the investing public.⁶

Production credit from the P. C. A. has been a valuable source of credit for the individual farmer, but the short term limitations in force until recently did limit its usefulness. Now that P. C. A. does extend an intermediate type of credit, it should be better able to meet the needs of farmers because no longer will the type of credit offered be such as to make difficult the use of this credit in longer range planning.

The emphasis placed upon the productive use of credit by the P. C. A. program and the recognition of the fact that satisfactory security in terms of conventional collateral concepts is not reasonable loan criteria are of major importance and may be ideas which can be advantageously adapted to other programs.

The Federal Land Bank

The Federal Land Bank (F. L. B.) is a source of long-term credit to farmers. It serves through the local National Farm Loan Association and makes loans directly only when there is no such local organization. Loans are made only when first mortgages on farms are given as security.

⁵What You Want to Know About Your Production Credit Association,
op. cit.

⁶Loans for Farmers, op. cit.

When additional funds for taxes, interest, etc., are advanced, the bank does sometimes take a second mortgage, but the bank can support its bonds only with first mortgages.⁷

Loans are based on a normal land appraisal and loans may not exceed 65 per cent of the normal agricultural value of lands and buildings. All loans are amortized unless the bank is selling a farm acquired through foreclosure and in this case it may take a straight-term mortgage covering a part of the purchase price. The term of the loan may vary from five to forty years, but the bank policy is to make long-term loans. Interests and principal payments are required to be made annually or semiannually. Loans cannot be paid off earlier than called for by the amortization plan unless agreed to by the bank. Even so the borrower is prevented from securing funds from other credit sources to liquidate loans from the F. L. B.⁸

The purpose for which the loan is obtained is of interest to the bank, but the provision of loans for the purchase of land, equipment, fertilizer, livestock; for the repair and construction of buildings; and for the payment of other debt seems to cover most needs for which a farmer uses this type of credit.

The farm on which a loan is given must be of adequate size to be an economic unit. Thus loans are not made on farms which are likely to produce little income.⁹

⁷ Emil Samuel Troelston, The Principles of Farm Finance (St. Louis: Educational Publishers, Inc., 1951), pp. 81-82.

⁸ Ibid., pp. 82-83.

⁹ Ibid., p. 83.

First glance at the F. L. B. program may not reveal its weaknesses. Nevertheless, they do exist. Normal land appraisal is built in conservatism and while it may preclude many foreclosures, it can so limit the amount of credit available in times of prosperity that the amounts extended may prove woefully inadequate. Then, too, by the time a farmer has the equity demanded by the F. L. B. he may very well be able to obtain more liberal credit from other sources. Of course, in times of recession the credit which can be had from this source may well exceed that available from other sources. The bank's emphasis upon long-term credit may discourage the use of intermediate-term credit when the need is for that type of credit. Another weakness which is not inherent in the system, per se, is the fact that many farmers are not aware of the availability of F. L. B. credit as an alternative.

The Federal Land Bank's greatest contributions lie in its offering of long-term credit not generally available, its amortization of loans, and its low interest rates.

Commercial Banks

Surprisingly little is known about the agricultural credit offered by commercial banks. Generally, however, it is of a short to intermediate term. Much is offered on a yearly basis and can be renewed if the banker wishes to allow it. This uncertainty of renewal can impose a serious hardship upon the farmer who tries to use short-term credit for long-term investment, for the element of uncertainty about renewal possibilities may make him hesitant to engage in long-term

planning. Yet, to budget capital in the most rational way the farmer must concern himself with more than just short-run decisions. The banking system has made attempts to adjust and offer credit better suited to farmer needs. One of these attempts is the concern of this study.

Farmers Home Administration

The Farmers Home Administration (F. H. A.) is a federal agency under the supervision of the United States Department of Agriculture. This agency's purpose is to aid low income farmers, both by helping tenants become owner operators and planning better farming operations for low income owners and tenants.

Many think of F. H. A. primarily as a lending agency, but it does have a broader function. True, it does lend money, but its primary function is one of supervision and planning. The loan is really but a means of facilitating implementation of the plans which will enable low income farmers to better their position and become self supporting at a reasonable level of living.

To be eligible for F. H. A. aid, the farmer must be a United States citizen, must have had satisfactory farm experience or training, must not be able to obtain needed credit from other sources at reasonable rates and terms, must earn the major portion of income from farming, must spend a major part of time in carrying on farming operations, and must be able to carry on a profitable farming operation if credit is available. It should be pointed out that when F. H. A. gives a loan

for farm purchase, farm development, farm enlargement, building and improvement or soil and water conservation, it deals only with efficient family size farms. Either the farm is initially so or the loan is designed to make it so. This represents a change in policy from the time F. H. A. gave a subsistence type of loan. Today F. H. A. is designed to aid the low income farmer by improving his economic position, not merely perpetuating his old position.

The personnel used locally in this program are the F. H. A. supervisor, clerical help, and a county committee of three local persons, at least two of whom must be farmers who know farming conditions and can evaluate the criteria for successful farming.

Thus, if a farmer is in need of credit assistance and cannot secure it from other sources, he may make application to the local F. H. A. office. Upon the basis of information given by the prospective borrower and other information given by the supervisor and the members of the committee, the prospective borrower may be certified as eligible. If this certification is given, the next step is for the farmer and the F. H. A. supervisor to work out a farm and home plan. This plan is comprehensive and gives consideration to all areas of farm and home planning. Others such as the county agent, the Soil Conservation Service farm planner, the extension forester, etc., may be called in to help in the formation of this plan. The farmer's wife is included in the planning. Hers is a strategic position and the F. H. A. recognizes the fact that her cooperation and interest is necessary for success of the plans made. On the basis of this plan,

estimates of cost and revenue are made, thereby giving indication as whether or not it seems probable that enough income can be had from the planned operations to meet farm operating and family living expenses and to allow for repayment of the F. H. A. loans and other debts. If the indication is favorable, the loan may be made in amounts up to \$18,000.

Land purchased with F. H. A. funds is appraised on a long-time value basis. This makes it difficult to purchase much land in times of inflated land values, but it does tend to insure a sound investment if the purchase can be made on the basis of this long-time value.

Once the loan has been put into effect the F. H. A. supervisor continues to help in the planning and supervision of the farm and home operations. Rather complete records are kept and the supervisor must concur in all major expenditures. This serves to both insure repayment of the loan and wise use of funds.

Repayment is set up over a forty year period, but provision is made to allow variation in the payments so that in good years more than the normal amount may be repaid to build up a surplus for years when it may become necessary to reduce payments below the originally anticipated level.

The interest charged by the F. H. A. is 5 per cent. Thus, this is not the unique feature of the program. The Federal Land Bank offers forty year loans, so neither is this principle unique. The unique features in the program are the variable repayment provisions, the farm and home planning, and the issuance of credit to farmers who are considered to be too risky for other investors or governmental agencies,

thus putting the F. H. A. in competition with no other source of credit.

The F. H. A. program has been remarkably successful. Estimates have been made that not over one half of one per cent loss has been sustained from either tenant purchase or operating loans extended by the F. H. A.¹⁰ It is true that the wartime years may have made repayment much easier, but estimates made in a study by Burkett and Parsons indicate that the program would probably have been successful had there not been high wartime income.¹¹ If this be true of low income, poor risk farmers, is it not possible that more liberal credit from other sources might be feasible for farmers who are less of a risk?

The experience and success of the F. H. A. may have deep significance to those interested in the extension of commercial bank credit to agriculture through the use of agricultural representatives. There are many similarities to at least one type of program which may be envisioned for commercial banks. The F. H. A. supervisor has a function similar to what an agricultural representative in a commercial bank might have. He gathers credit information and helps to plan for this credit use. Recognition is made of the fact that wise credit use is within itself a sound type of collateral.

It must be admitted that the F. H. A. program probably would not be suitable if adopted per se by the commercial banks, but the program

¹⁰ James A. Adams, Farmers Home Administration Supervisor, Knoxville, Tennessee, personal interview, June 17, 1955.

¹¹ W. Keith Burkett and Kenneth H. Parsons, "Buying Farms with Hundred Percent Loans; An Analysis of the Farm Security Administration Loan Experience in Wisconsin," Land Economics, Vol. XXVII, February 1951, p. 167.

may very well contain a philosophy and some techniques, a modification of which commercial banks might find useful in setting up a program to extend more agricultural credit. In particular, the earnings of the bank must finance the service because the bank would receive no subsidization from government revenues.

Let us then briefly outline the type of bank program utilizing agricultural representatives which is suggested by the experiences of the Farmers Home Administration. Here a bank, not the federal government, would be the source of credit, but the philosophy and techniques of the two programs would have much in common.

First, let us consider the philosophy of the bank program. It would have as its emphasis productive credit usage instead of previously acquired assets. It would embody the realization that wise or productive credit use is within itself a sound type of collateral. In implementing this emphasis upon wise or productive credit use as a prerequisite to lending, the bank would be forced to extend credit of terms and duration tailored to the farmer's needs. This would necessitate such techniques as deferred payment, amortization, variable repayment, long terms, etc., for often only by so doing could the bank extend credit which could prove productive to the farmer. The bank would be aware of the fact that too much credit can be as harmful as too little and would guard against either extreme in the realization that such is really to their advantage as well as that of the farmer.

The duties of the agricultural representative would be so constituted as to be compatible with the bank philosophy or policy. He would interview loan applicants, visit farms, appraise real estate and

chattel, and investigate the farmer's method of operation, all to determine the probability of the profitable use of credit. This information he would use either as the basis for extending or refusing credit, or else he would pass this on to the bank loan committee which would then made the decision as to whether to make the loan.

If the credit to be extended covered a wide range of activity or if it were in large amounts, the agricultural representative along with the county agent, the Soil Conservation Service farm planner, and other interested persons would help the farmer to develop a comprehensive farm plan. Among other things this would include credit needs and plans for repayment. It would take into account the productivity of the resource for which credit is to be extended.

If the credit under consideration were of such a nature that a complete farm plan was not necessary, plans of a less comprehensive nature would be made. The aim here would again be to insure the wise use of the credit both from the farmer's and the banker's points of view.

In either case, the agricultural representative would do follow-up work after the loan had been made. He would offer supervision in the implementation of the farm plan or if one has not been made, he would be available to help the farmer plan and get necessary assistance from other sources. This supervision would serve to protect the bank's interests by increasing the probability of profitable credit use by the farmer. Thus the bank would protect its interest by protecting those of the farmer.

The F. H. A. supervisor does not solicit business, but the agricultural representative would have such duties. The agricultural representative would not, however, extend or recommend the extending of credit which would not be advantageous to the farmer. Some of this solicitation would be by the direct means of "credit salesmanship" and other would be by more indirect means such as working with farmer organizations, youth groups, livestock shows and sales, community groups, etc.

To state it briefly, the agricultural representative in the bank would be a sort of combination county agricultural agent, Soil Conservation Service farm planner, F. H. A. supervisor, and bank public relations man. He would be employed by the bank to aid the bank in extending profitable agricultural credit. Central in the program would be the realization that over the long-run the bank's interest can best be protected by guarding those of the farmer customer.

CHAPTER III

TENNESSEE BANK PROGRAMS WITH AGRICULTURAL REPRESENTATIVES

Brief History of Program

As early as 1925 at least one banker had an agricultural representative of sorts. This banker had a country school teacher traveling the county gathering information for the bank. However, it was not until 1938 that the first full time agricultural representative joined a Tennessee bank. Since that time other Tennessee banks have followed this lead until at the time of this study there were twenty (20) Tennessee banks with agricultural representatives. The median age of these bank programs was four (4) years and the average was four and eight tenths (4.8) years. Five (5) banks had programs four (4) years old and five (5) more had programs a year or less old. This meant that half of the banks with agricultural representatives have acquired them since 1950.

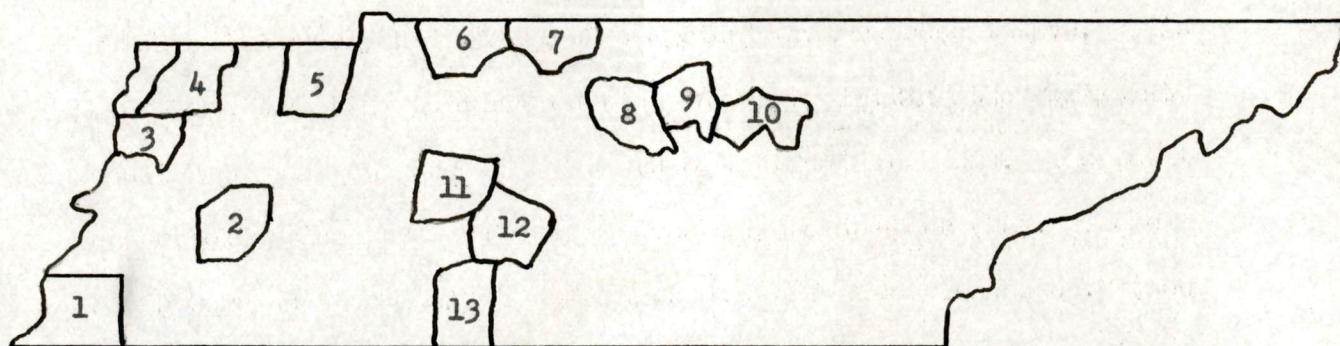
Number of Tennessee Banks Having Agricultural Representatives

There were nineteen (19) banks in Tennessee which had full time agricultural representatives.¹ In addition, there was one (1) bank

¹This includes branch banks.

which had formerly had a full time agricultural representative. This bank was attempting to carry on the program by letting the assistant cashier do contact work with farmers on a part time basis. The total number of agricultural representatives was twenty-four (24). These banks were scattered in Middle Tennessee and in West Tennessee. (See Figure 1 and Appendix A.) Their distribution was such that no discernible correlation between the types of agriculture and the incidence of banking programs including the use of a bank agricultural representative could be found.

It should be noted, however, that these banks were found only in areas in which agriculture was relatively important in terms of per cent of total income derived from agriculture (See Table III), in terms of the value of all farm products sold (See Table IV), and in terms of livestock and livestock products sold (See Table V). Calculations made from Table IV showed that 87 per cent of the agricultural representatives were found in the first one third ($1/3$) of the counties as ranked in terms of value of farm products sold. All showed up in the upper two thirds ($2/3$) of the counties. Further calculations made from Table V showed that 83 per cent of the agricultural representatives in Tennessee were found in the top 28 per cent of the counties as ranked according to the value of livestock and livestock products sold. All were found in the first 44 per cent. That there were no such agricultural banking programs in more highly industrialized East Tennessee was interesting to note.



<u>County Number</u>	<u>County</u>	<u>City</u>	<u>Number of Banks Having Agricultural Representatives</u>	<u>Number of Agricultural Representatives in County</u>
1	Shelby	Memphis	4	6
2	Madison	Jackson	1	1
3	Dyer	Dyersburg Newbern	1 1	3
4	Obion	Union City	1	1
5	Henry	Paris	2	2
6	Montgomery	Clarksville	2	3
7	Robertson	Springfield	1	1
8	Wilson	Lebanon	1	1
9	Smith	Carthage	1	1
10	Putnam	Cookeville	1	1
11	Hickman	Centerville	1	1
12	Maury	Columbia	2	2
13	Lawrence	Lawrenceburg	1	1

Figure 1. Location of Tennessee banks with agricultural representatives, 1955.

TABLE III

IMPORTANCE OF AGRICULTURE AS PER CENT OF TOTAL COUNTY INCOME
IN TENNESSEE AREAS HAVING AGRICULTURAL REPRESENTATIVES, 1947^a

County	Importance of Agriculture in County	Importance of Agriculture in Bordering Tennessee Counties
Shelby	1	6, 5
Madison	2	6, 6, 6, 4, 4, 5, 5
Dyer	4	6, 6, 4, 4, 5
Obion	4	5, 4, 4, 5
Henry	3	5, 5, 4, 4
Montgomery	3	5, 4, 4, 6, 5
Robertson	5	3, 6, 1, 4
Wilson	4	1, 4, 6, 6, 5, 6, 3
Smith	6	6, 6, 6, 2, 5, 4
Putnam	2	6, 6, 4, 3, 4, 5
Hickman	4	5, 4, 4, 4, 3, 2
Maury	3	4, 5, 5, 2, 4, 4
Lawrence	5	5, 4, 2, 3

Legend: 1 - 0 to 9.9 per cent
 2 - 10 to 19.9 " "
 3 - 20 to 29.9 " "
 4 - 30 to 39.9 " "
 5 - 40 to 49.9 " "
 6 - 50 and over " "

^aJohn Littlepage Lancaster, County Income Estimates for Seven Southeastern States (Charlottesville, Virginia: Bureau of Population and Economic Research, University of Virginia, 1952), p. 55.

TABLE IV

TENNESSEE COUNTIES CLASSIFIED BY VALUE OF ALL FARM PRODUCTS SOLD - 1949^a

County	Dollars	County	Dollars	County	Dollars
1. Gibson	12,646,412	32. Hardeman	4,124,978	64. Hancock	1,752,258
*2. Shelby	11,852,055	*33. Lawrence	4,101,195	65. Trousdale	1,720,508
*3. Obion	11,148,564	34. Sullivan	3,907,504	66. Stewart	1,508,220
*4. Dyer	10,732,969	35. Hawkins	3,878,066	67. Overton	1,367,663
5. Tipton	9,214,120	36. Jefferson	3,712,888	68. Clay	1,304,271
6. Lauderdale	9,062,612	37. Claiborne	3,326,557	69. Wayne	1,304,036
*7. Robertson	9,029,699	38. McNairy	3,256,774	70. Decatur	1,272,872
8. Greene	8,242,344	39. Henderson	3,256,115	71. Benton	1,270,781
9. Haywood	7,945,578	40. Monroe	3,144,967	72. Bledsoe	1,249,720
10. Crockett	7,807,792	41. Blount	2,965,829	73. Carter	1,221,325
11. Sumner	7,713,010	42. McMinn	2,888,654	74. Humphreys	1,179,873
12. Lincoln	7,657,841	43. Coffee	2,880,720	75. Moore	1,156,562
*13. Madison	7,444,541	44. Sevier	2,877,150	76. Cumberland	1,118,074
14. Weakley	7,045,849	45. Macon	2,835,695	77. Union	1,115,206
15. Giles	6,995,490	46. Cocke	2,694,081	78. Campbell	1,036,103
*16. Maury	6,899,464	47. Hamilton	2,588,144	79. Roane	1,003,164
17. Rutherford	6,880,052	48. Warren	2,580,980	80. Meigs	971,616
18. Fayette	6,632,510	49. Hemblen	2,502,626	81. Perry	903,161
19. Williamson	6,580,207	50. Hardin	2,400,884	82. Marion	834,176
20. Lake	6,331,221	51. Grainger	2,400,654	83. Rhea	816,184
*21. Wilson	6,207,613	52. Jackson	2,385,066	84. Anderson	789,799
22. Davidson	5,498,327	53. Dickson	2,309,836	85. Polk	745,694
*23. Montgomery	5,364,208	*54. Putnam	2,236,588	86. Fentress	720,892
24. Knox	4,975,351	55. Loudon	2,212,071	87. Pickett	627,676
25. Carroll	4,836,264	56. White	2,139,054	88. Grundy	623,908
26. Washington	4,833,341	57. Bradley	2,127,448	89. Morgan	533,996
*27. Smith	4,703,274	58. Johnson	2,085,319	90. Houston	497,510
28. Bedford	4,644,649	59. Chester	2,062,789	91. Unicoi	457,504
29. Franklin	4,564,078	60. DeKalb	2,027,172	92. Sequatchie	448,485
30. Marshall	4,506,928	61. Cheatham	1,986,173	93. Lewis	324,639
*31. Henry	4,322,801	62. Cannon	1,961,699	94. Van Buren	311,391
		*63. Hickman	1,888,403	95. Scott	289,447

*Indicates counties with agricultural representatives.

^aAgricultural Ranking of Tennessee Counties (Compiled by Department of Agricultural Economics and Rural Sociology, University of Tennessee, from Census Sources), p. 7.

TABLE V

TENNESSEE COUNTIES CLASSIFIED BY VALUE OF LIVESTOCK AND LIVESTOCK PRODUCTS SOLD - 1949^a

County	Dollars	County	Dollars	County	Dollars
*1. Obion	7,382,234	*32. Hickman	1,575,625	64. Wayne	791,814
2. Rutherford	5,234,951	33. Sevier	1,569,616	65. Clay	781,869
*3. Wilson	5,051,957	34. Bradley	1,498,825	66. Johnson	781,156
4. Giles	4,759,651	35. Jackson	1,487,691	67. Decatur	759,701
5. Lincoln	4,618,691	36. Warren	1,482,990	68. Hancock	758,456
6. Williamson	4,479,113	37. Hamblen	1,478,804	69. Perry	714,523
*7. Maury	4,461,732	38. Hamilton	1,454,976	70. Stewart	689,022
8. Sumner	4,451,828	*39. Madison	1,421,226	71. Cumberland	654,684
9. Weakley	4,395,755	*40. Putnam	1,403,121	72. Benton	637,249
10. Greene	4,096,338	41. Carroll	1,330,321	73. Cheatham	619,471
11. Davidson	3,845,160	*42. Lawrence	1,319,422	74. Carter	611,880
12. Marshall	3,760,615	43. Fayette	1,314,803	75. Roane	610,363
13. Bedford	3,719,300	44. White	1,312,777	76. McNairy	591,575
14. Knox	3,466,356	45. Loudon	1,286,729	77. Anderson	536,088
*15. Shelby	3,453,617	46. Macon	1,233,533	78. Marion	529,042
16. Gibson	3,216,868	47. Lauderdale	1,218,969	79. Meigs	514,388
17. Washington	2,934,573	48. DeKalb	1,211,761	80. Campbell	496,642
*18. Smith	2,839,861	49. Cocke	1,209,288	81. Fentress	459,034
*19. Dyer	2,510,101	50. Dickson	1,133,334	82. Rhea	437,785
20. Sullivan	2,440,184	51. Tipton	1,095,951	83. Polk	423,650
*21. Robertson	2,414,453	52. Claiborne	1,086,815	84. Union	420,946
*22. Henry	2,369,682	53. Crockett	1,025,709	85. Chester	411,209
23. Jefferson	2,231,888	54. Overton	1,010,058	86. Sequatchie	371,511
24. Hawkins	2,110,358	55. Bledsoe	1,004,996	87. Grundy	352,698
25. Blount	2,079,376	56. Grainger	997,132	88. Morgan	335,974
26. Franklin	2,009,569	57. Hardeman	986,451	89. Pickett	328,516
*27. Montgomery	1,901,866	58. Haywood	943,290	90. Houston	291,502
28. McMinn	1,860,624	59. Henderson	910,733	91. Van Buren	223,007
29. Monroe	1,839,943	60. Trousdale	908,865	92. Scott	202,562
30. Coffee	1,814,834	61. Humphreys	854,334	93. Lake	200,075
31. Cannon	1,580,399	62. Hardin	825,453	94. Lewis	198,388
		63. Moore	809,411	95. Unicoi	138,771

*Indicates counties with agricultural representatives.

^aAgricultural Ranking of Tennessee Counties (Compiled by Department of Agricultural Economics and Rural Sociology, University of Tennessee, from Census Sources), p. 40.

The banks having agricultural representatives were not necessarily in the counties in which agriculture accounted for a major portion of the income, but, as shown in Table III, they did occur in areas in which generally agriculture was important.² For instance, agriculture in Shelby County accounted for less than 1 per cent of the county income in 1947.³ Yet, the areas surrounding Shelby County were important agriculturally in terms of per cent of county income derived from agriculture. Again, in Jackson in Madison County, agriculture accounted for a relatively small portion of the county income, but in the areas surrounding Madison County agriculture accounted for a much larger percentage of the income. Jackson, as the large city in this area, was a logical location for such a banking program.

There was no one explanation for banks' installing agricultural representatives. Indeed, it is more likely that there were a combination of reasons. One possible reason other than the actual importance of agriculture in an area was that changing systems of agriculture necessitated different types of agricultural credit. Take Henry County as an example. As it began shifting from a cash crop type of agriculture toward a more diversified type of agriculture involving more

²Per cent of county income derived from agriculture is not within itself an accurate measure of the importance of agriculture in a county. A large urban income would lower the per cent of income derived from agriculture without necessarily making agriculture less important within the rural areas of the county.

³John Littlepage Lancaster, County Income Estimates for Seven Southeastern States (Charlottesville, Virginia: Bureau of Population and Economic Research, University of Virginia, 1952), p. 210.

livestock,⁴ there was a need for new and more agricultural credit to finance these changes. Thus the changes taking place in agriculture may have been an important motivation for the banks. Since much of the shift in Tennessee agriculture has been toward more livestock thus calling for more and longer term investments, it was not surprising that animal and animal products were so important in the counties having agricultural representatives.

The fact that the banking programs including agricultural representatives were found only in areas of considerable agricultural importance should not be taken as an indication that the saturation point has been reached in Tennessee. There were other areas of the State in which changes in agriculture were important and in which changes in agriculture may at some time motivate bankers to secure agricultural representatives. Since the use of agricultural representatives was a relatively new approach to Tennessee agricultural banking, it was not to be expected that agricultural representatives would be found in all areas in which agriculture was very important. It should be noted, however, that none were found in areas in which agriculture was not of considerable importance.

Types of Programs

Perhaps the best way in which to classify the various programs would be to do so in terms of the jobs done by the agricultural

⁴B. H. Luebke, Henry County Agriculture (Knoxville, Tennessee: Agricultural Experiment Station, University of Tennessee, 1955), pp. 40-43.

representatives. Haynes, in his study, found four types of activity and he classified them as being performed by the following men: farm credit men, farm service men, farm specialists, and good will men.⁵

In this classification, the farm credit man was one who was authorized to accept applications and handle loans in the bank. Following an interview, this man visited the farm, appraised property, checked credit references, and finally was authorized to take positive action on the conclusions reached in his investigation.

The farm service man was one assigned the task of appraising either real estate or chattels, inspecting farm or pasture lands, and investigating the farmers' method of operation. On the basis of this he made reports to the bank's credit department or lending officers and conferred with them relative to loan applications. Once loans had been granted, he made follow-up visits, acted as supervisor where necessary, and assisted in the collection of debts.

The farm specialist was one trained in agriculture who devoted his entire time to working with the bank's farm customers or potential customers, either directly or in cooperation with other agricultural agencies. This type of man was not charged with the responsibility of making voluminous reports, nor was he assigned work inside the bank. He did not make credit decisions for the bank, but instead gave to the bank's credit committee information gathered during his visits to farms.

⁵F. Boykin Haynes, "Agriculture, Banking and the Use of Trained Farm Field Men" (Unpublished thesis, Graduate School of Banking, Rutgers University, 1952), pp. 51-52.

The fourth category was the good will man. This man devoted himself exclusively to public relations of various types. Benefit to the bank was purely via good will.

This classification system per se did not prove adaptable to the conditions found in the Tennessee banks which were the subject of this study. The banking programs studied did not fall neatly into any one of these categories exclusive of the remainder. Indeed, all were a combination of all four types. The emphasis varied, but all the programs contained elements of all four job classifications. This, however, was not at great variance with the situation that Haynes found in Alabama, for he said that, "There are instances where field men devote a portion of their time to all of these activities (referring to the four categories given above); others where some particular phase is not entered into, and still others where the entire time is devoted to only one phase."⁶

To illustrate this situation, let us look at the way agricultural loans were handled in the Tennessee banks having agricultural representatives. To qualify as having performed the duties of a farm credit man, the agricultural representative would have to have been able to make the decision on whether or not to extend the loan. In Tennessee, two-thirds (2/3) of the agricultural representatives did make such decisions. All of the men, however, either initially made the decision or supplied the loan officers or the credit committee with information pertinent to making a decision on the loan.

⁶Ibid., p. 51.

It should be noted that there was a definite difference of opinion as to whether the agricultural representative should have the power to make loans or whether he should merely give information to others who then make the final decision. There were twelve (12) agricultural representatives who usually made the decision on loans. Four (4) more made the decision infrequently and eight (8) did not make such a decision at all. Two of the agricultural representatives who normally made the decisions regarding loans had a maximum size loan (\$500) which they could make without consulting others in the bank. During the course of the study, it was interesting to note that there seemed to be a correlation between the amount of the time the bank had had an agricultural representative and the percentage of actual agricultural lending being done by the representative. The longer the man stayed in the bank, the more he tended to become involved in the actual extending of agricultural loans.

Without exception, the banks having agricultural representatives utilized their men as public relations or good will men. The techniques for doing this varied, but the intent was the same. Outstanding among the ways in which the primary effort along this line was made were working with farmers as individuals, working with and through the 4-H Clubs and the Future Farmers of America (F. F. A.), working with and through community clubs, and engaging in the activity more directly by just calling on farmers and being present when they gathered. The real difference here was one that revolved around how much emphasis was placed upon the giving of technical information as

the technique for getting good will.

To get a better idea of what agricultural representatives in Tennessee were doing, let us look at the results of the study of Tennessee's twenty-four (24) agricultural representatives, first by looking at some of the results in tabular form (See Table VI) and then through a discussion of some of the data.

Interviewing agricultural loan applicants was a task performed by better than 90 per cent of the agricultural representatives. There was variability even within this, for in all of the banks it was customary for old established customers to be given the option of being allowed to continue to do business with the bank officers with whom they had dealt prior to the coming of the agricultural representative. In one bank the agricultural representative commonly interviewed only those sent him by other bank officers. In the banks in which the agricultural representative did not actually make the loan commitment, the frequency of interviewing was much less.

All of the agricultural representatives sometimes visited farms in connection with loans. None did it as a matter of regular routine. Rather, they did it only when there was a new customer with whom the bank was unfamiliar, when other special circumstances were involved, or when the bank loan officer specifically requested certain information.

With but two exceptions, the agricultural representatives were appraising farm real estate and chattels. About half of the men had branched out into urban real estate appraisal for the bank.

TABLE VI

A LIST OF THE MORE COMMON ACTIVITIES PERFORMED BY TENNESSEE
BANK AGRICULTURAL REPRESENTATIVES AND THE FREQUENCY OF
OCCURRENCE IN THE TENNESSEE AGRICULTURAL PROGRAMS

Activity	Number Reporting	Number Performing Activity	Per Cent Performing Activity
Make decision to loan	24	16	66
Do public relations work	24	24	100
Interview loan applicants	21	19	90
Visit farms in connection with loans to new customers	22	22	100
Appraise real estate and chattels	22	20	91
Investigate method of operation of new customers as a preliminary to loaning	22	20	91
Do comprehensive farm planning	22	0	0
Act as farm advisor after loaning	22	16	73
Collect debts	22	21	95
Work inside bank*	22	4	18
Attend farm organizations	22	22	100
Attend civic clubs	22	22	100
Attend community clubs in area at least once a year	22	22	100
Help to secure large lots of livestock for farmers	21	9	43

*Work other than normal desk work occasioned by the agricultural banking program, for example, working as a teller.

Again, with but two exceptions, the agricultural representatives were sometimes investigating the farmers' method of operation as a preliminary to loaning. Here again, this was not done as a matter of course. It was done when there was a new customer about whom little was known or when the bank needed specific information upon which to base a decision. As would be expected, if the farmers' method of operation was already sufficiently well known, no new investigation was made. The use made of the information gained by this means varied with the agricultural representative's authority to make loans. One of the banks not engaged in this activity had a recently organized program and was planning to make this a part of their program. In the other bank, the bank officers expressed confidence in their agricultural knowledge of the community. Their agricultural representative was engaged primarily with work in the bank and with outside work with farm youth groups.

Farm planning, if defined as comprehensive farm planning of the type done by the Farmers Home Administration, was an activity foreign to Tennessee bank agricultural representatives. Without exception, however, these men did aid the farmer in planning his farming operations, but the planning was of a piecemeal type. In other words, the agricultural representative was willing and did help on specific problems, but he did not attempt to engage in more comprehensive planning activity.

A little more than three-fourths ($3/4$) of the agricultural representatives did appreciable follow-up work on a loan, acting as a

farm advisor to help see that the loan was put to the use intended and that the farmer effected this use in the best possible way. Even so, the frequency of any one agricultural representative's doing this was not great.

The collection of debts was a very definite duty of all but one man. Some of the banks were considerably more reluctant than others to use this collection alternative. All saved it as a last resort. There was considerable variation among the bankers in their view of how debt collection affected the good will potential of the agricultural representative. Most felt, however, that it was necessary for him to collect debts and that this did not appreciably affect his good will potential.

Only four of the agricultural representatives were assigned specific duties within the bank beyond the scope of normal desk work entailed by their outside activities. Those who did remain in the banks handled certain regular banking functions at rush times. For instance, one agricultural representative spent every Saturday as a teller. Such, he felt, aided him in his public relations efforts, for from the cage he saw many persons whom he would not otherwise have seen. Three representatives helped to get out the monthly statements. One man made it his practice to help each morning with the clearing of checks which had to be sent to banks other than those with whom the bank maintained correspondent relations.

Another activity quite common was the practice of the banks sending agricultural letters or Doane outlook sheets to farm customers

and potential farm customers in the community.

One of the banks furnished record books to the farmer. This bank had a standing offer to make monthly financial statements for farm customers if the farmer would pay by check, specify the use made of the funds, and give his deposits in such a way that the bank could know the source of the funds.

The agricultural representatives of all the banks took an interest in such things as the Farm Bureau, the local cooperatives, livestock sales and shows, F. F. A. functions and activities and 4-H functions and activities. There was variation as to how deeply involved in these various activities these representatives became. A few were very active in the Farm Bureau; most attended only occasionally. The banks were quasi-friendly to the local cooperatives, particularly the local purchasing cooperative. They felt that they could not afford to push the cooperative very much without running the risk of losing customers in town who felt that the cooperative was unfair competition. In one instance, however, the agricultural representative helped to get membership for the local purchasing cooperative. The interest in livestock sales and shows was considerable. As a minimum, the bank representatives tried to be seen at such functions. Several of the men actually helped plan and run such. Frequently, the banks were one of the sponsors of these events. In several instances the agricultural representative was very active in the local fair association and spent considerable time working on this. Work with F. F. A. and 4-H groups was common to all banking programs, but the

emphasis placed upon this varied considerably. With one bank this was the point of major emphasis. The agricultural representative devoted a major part of his time to working with the local F. F. A. and 4-H groups. It was more common, however, for the bank to give a few prizes, etc. to the boys and girls without devoting any major portion of the agricultural representative's time to these youth groups. All the banks were liberal in their financing of the youths' individual projects such as feeder calves, sheep, dairy cows, etc.

Work with civic clubs was an activity common to all agricultural representatives. Usually they served on the agricultural committees of these organizations. This, they felt, was a means of educating the city folks about the county problems. In addition, it afforded an excellent opportunity for the agricultural representatives to meet more people and expand their public relations activities.

In areas where there were community clubs, the agricultural representatives were in touch with these programs. The degree of participation varied. It was common for the agricultural representative occasionally to have the responsibility for putting on a program. As a minimum the agricultural representatives tried to visit each community club at least once a year. In communities where there were few clubs the visits were more frequent. One bank made particular use of the community club as a way of getting certain things done. In this case it was utilized as a sounding board and a promotional device. The bank was trying to push a certain type of crop that it felt could help to increase the income to the community. The major portion of its

efforts in this direction was focused through the community clubs. This use of community clubs was unique, however, for the other bank's interest in such was more casual, or at least more oriented toward general public relations.

Almost one half (1/2) of the Tennessee banks having agricultural representatives had at one time or another helped to secure large lots of livestock for local farmers. Either the banks bought the livestock and brought them in on consignment or they bought the animals and brought them in in the hope that they would be purchased when the farmer was able to see the animals. Both systems have proven successful, for the banks were careful to buy the kind of livestock that was needed in the bank's area and they have offered to finance the farmers' purchase of these animals. In either case, the animals were sold to the farmer on a cost basis. In addition, the agricultural representatives have helped individual farmers select livestock for purchase. The individual purchase and the purchase on consignment was done both alone and in cooperation with other agencies.

One bank employing agricultural representatives had a farm management service. Farms were managed for a share of the income. (See Appendix B for a sample contract.) No other bank visited offered such a service. A few of the banks did have trust departments, but the only connection that the agricultural representative had with them was to give consultation when requested.

None of the banks were in possession of farms acquired through foreclosure sale, but it was the opinion of all the agricultural

representatives that should such a situation arise it would become their duty to manage such a farm until it could be sold. Selling such a farm would certainly become a concern of the agricultural representative, too, and he would assist in this.

Without exception, the bank agricultural representatives had cooperative relations with the other professional agricultural workers. Both the agricultural representatives and the other agricultural workers agreed that they had common interests. Specifically, they frequently cooperated in bringing better animals into the community, in community club organizations, in referring farmers to each other so as to take advantage of the special abilities of each, and in many other ways too numerous to enumerate. There was little, if any, evidence of any destructive rivalry existing between the agricultural representatives and the other professional agricultural workers.

Is There A Typical Program?

Brief mention has already been made of the general types of activity entered into by the agricultural representatives of Tennessee banks. It was seen that all the agricultural representatives tended to engage in much the same kinds of activity. Yet each program was unique and there was no really typical program. There were gradations of emphasis placed on several aspects of the program. These gradations of emphasis were important and are worthy of consideration.

All the banks expected to receive good will from their use of an agricultural representative. Some attempted to solicit this good will

by working with farmers on their specific farm problems. Others tried to do their public relations work more through just "glad-hand" tactics without the actual giving of technical information.

The emphasis placed upon the giving of technical information to farmers varied. There were situations almost like having another county agricultural agent on the bank payroll and at the other extreme there were situations in which the agricultural representative was very definitely a banker first and an agriculturist second. There was a marked difference in the attitude of bank officers and agricultural representatives toward what should be the function of the agricultural representatives in giving technical information to farmers. Some felt that the agricultural representative should be prepared to offer any assistance requested. Others felt that there were established agricultural agencies in the county and that the function of the agricultural representative should be to help the bank appraise loans. The feeling here was that the representative should help as best he could, but he should not set himself up as an expert or duplicate the services offered by the established agencies. Instead he should serve to keep the farmers aware of the programs available. If asked for technical information, he should serve more as a clearinghouse, to direct the farmer to the place the information could be had than as a source of that information. The majority of the thinking was directed toward the latter type of program for a bank having an agricultural representative. That is to say that in most of the banks the agricultural representative's first duty was to supply information to the bank so that the

bank could make intelligent decisions regarding agricultural financing. His duty then was to appraise the plans of others and not to tell others what they should do. The banks were fearful of the consequences, should the advice prove to have been in error.

There was a difference of opinion as to which groups the agricultural representative should devote his time. In all but one bank the work was primarily with adults with only supplementary work with young people. Yet, in one bank there was a much greater emphasis upon working with young people. In this bank, this represented the major emphasis and the work with the young people was thought of as a long-time investment. The bank expected to make customers of many of the youngsters and some of their parents, too, for they felt that they could best reach the adult by working with the child. Whether such was or was not the case, the remainder of the banks did not adhere to the idea and worked more with adults.

Then there was a difference of opinion as to how deeply involved in lending the agricultural representative should become. Some banks felt that if he became a loan officer he would have to cease to function as an outside man and would have to stay in the bank. Other banks felt that becoming a loan officer need not have any effect upon the duties he performed outside of the bank. In other words becoming an officer of the bank was looked upon as being incompatible with performing the duties of an agricultural representative; in other banks this was not the feeling at all.

All this may make it seem that the differences in the various programs were the significant things. These differences were important, but there remained a basic similarity. All the banks had men there to perform a service for the banks. They chose different ways to do it. Some ways may have been better than others, but all were attempting to fulfill a need as they saw it. All the banks hoped to increase deposits from agricultural sources. All hoped to make safer agricultural commitments in the first place and to aid the farmer in increasing the likelihood of his success, thereby making more likely the repayment of any debts. Few of the banks initially employed an agricultural representative primarily to increase agricultural loans because the banks have felt that it was necessary to first increase deposits, thereby giving them a base for new agricultural loans. Thus it has been the duty of these men to make as many friends and customers for the bank as possible. The means chosen to do this varied but the intent remained constant. In addition, the function of the agricultural representative has been to supply the bank with pertinent information so that it could act "intelligently" in its dealings with farmers.

Summary

This chapter gave some brief idea of the work performed by agricultural representatives in Tennessee banks. There were many differences and there were many similarities. The job of agricultural representative varied from bank to bank primarily in the following ways:

(1) the extent to which the agricultural representative was expected to be a source of technical information, (2) the means used by the agricultural representative in his attempts to solicit good will, (3) how deeply the agricultural representative became involved in the actual loaning, and (4) the emphasis placed upon work with various age groups such as adult versus youth. Thus each bank had a unique program, yet one with marked similarities to those of sister banks. Each agricultural representative attempted to perform those services which it was felt would prove most advantageous to the bank over the long-run.

CHAPTER IV

EFFECTIVENESS OF THE PROGRAM FROM THE BANKS' POINT OF VIEW

What is Effectiveness?

A discussion of the effectiveness of anything can be made intelligently only after the meaning of or criteria for effectiveness has been decided upon.

What then are the reasons for the banks' adopting any sort of policy or action? At first glance it would appear that profit maximization is the only real motive; yet, there may be non-monetary considerations which are important. In addition, there are some considerations which may at first seem to be non-monetary but which if exposed to careful scrutiny will prove to have a very definite monetary importance. Then, too, the bank may not attempt to achieve short-run profit maximization in the interests of preserving or creating the conditions necessary for long-run profit maximization.

Maintaining customer good will can be one of these conditions. The bank may be willing to forego short-run opportunity if it is felt that by so doing it will avert ill effects which might accrue and damage its customer relations over the long-run. This may be an explanation for a bank's reluctance to foreclose a mortgage. The bank may feel that over the long-run it would be better to be more lenient and hold more customer good will. Even if such is done, the profit

motive remains central, for it is probably done in the belief that more profit can be realized over the long-run by such a policy. In the belief that a lower level of profit over a longer period of time would be more advantageous to the bank, the banker might not follow a short-run profit maximization policy and run the risk of exploiting customers or causing them to feel so, thereby losing them and precluding the possibility of doing business with them over the long-run.

Another reason for not striving for profit maximization in the short-run may be the desire of the bank management to maintain control of the firm by selecting low return but safe investment opportunities. Such a limitation is manifested by a strong preference for liquidity and a conservative attitude toward expansion.¹

The maintenance of pleasant working conditions may be still another consideration. The banker may consider restraint "imposed for the sake of mutual respect, friendship, and good living within the firm."² This then is a willingness to accept a smaller profit for the sake of social relations.

If the assumption is made that profit maximization is the sole rationale for bank action, the further assumption must be made that the bank management is in a position to know when such has been reached. It is doubtful that the banker or any other business man has such insight, for he has no infallible criteria by which to judge whether

¹Joel Dean, Managerial Economics (New York: Prentice-Hall, Inc., 1951), p. 32.

²Loc. cit.

or not he has reached profit maximization. The banker, too, is faced with limited knowledge of alternatives, but within the bounds of the restrictions imposed by this he can attempt to achieve profit maximization. He can judge with reasonable accuracy when he has achieved this.

While it must be admitted that there may be considerations other than absolute profit maximization, there does exist a tendency in that direction. In other words, it can be assumed that the bankers preferred more profit to less profit. Consequently, any consideration of a bank program or policy should ultimately be couched in terms of profit potential or realization.

Measuring the Profitability of Agricultural Loans

To measure the profitability of the agricultural loan business it is necessary to consider opportunity cost. Certainly, the banker is not likely to divert funds from other sources to farm loans unless he can realize an increased profit by so doing. This being the case, only funds offering less return than those in agricultural loans are candidate for diversion to agricultural uses. Yet, in reality, not all of these funds may be available for diversion.

Rates for agricultural loans are usually near the maximum allowed by law. Few investments demand a higher rate of interest. Why then are not all lower interest investments diverted to agricultural uses, assuming the demand exists? The reasons are three in number. The costs involved in making many agricultural loans are higher than for many

alternative investments. Funds in agriculture do not have the liquidity of certain other lower income investments, particularly government bonds. Agriculture is a high risk area.

All this must be given consideration before funds are diverted to agriculture. The increased interest rate must be sufficient to compensate for the cost of farm appraisal, legal fees for mortgage contracts, etc.; the necessity for and safeness of liquidity; and the increased risk incurred by diverting funds to agriculture. Only when this can be done can the banker as an intelligent business man be expected to extend more credit to agriculture. It is clear then that a comparison of interest rates and that alone is not sufficient information upon which the banker can make rational decisions.

The ways in which a bank can increase the profitability of the agricultural credit business through the initiation of a program involving the use of an agricultural representative are several. An actual increase in the volume of agricultural loans will prove profitable, assuming, of course, that funds can be rationally diverted to this use. However, even if additional funds are not available, the bank is likely to find that a given amount of resources can be used more productively, this being made possible by the more careful planning for the use of the credit before it is ever extended. This, needless to say, should result in safer investments for both the farmer and the banker. The decreased risk reflected in lower losses can then lower the cost to the bank and increase its margin of profit.

This increased planning and supervision, whether it be for an increased or unchanged amount of credit, is likely to result in the bank's realizing that there is a need to offer terms more satisfactory to the farmer, terms which are compatible with the productive capacity of the project for which the credit is extended. Out of this may well come such things as amortization, variable repayment, deferred repayment, longer term loans, etc. At first glance this may seem to be to the advantage of the farmer only, but such is not the case. These innovations can help the bank secure new customers by bringing the conditions under which loans are granted within their reach. These innovations can also serve to gear loans in such a way as to increase the likelihood that the farmer can make repayment. Thus a loan geared to the farmers' needs and capabilities is likely to be a safer loan for the bank.

There are other benefits which might accrue from such a program, but they are less direct and more difficult to trace. Increased deposits from agricultural sources would be significant. Generally a loan extended immediately becomes a demand deposit, but the duration of such a deposit is likely to be very short. Farmers who get loans have other income and if, because of their dealings with the bank, they acquire the banking habit, the bank gets demand deposits and the potential for a greater credit business. Then there is the public relations aspect of the program. If through this program people become interested in the bank or feel indebted to the agricultural representative for some service he has performed, they are likely to increase their business with the bank. This particular phase of the discussion

of the program really involves more than just pure public relations work. Some of it is educational in nature. By merely letting the farmer know the capabilities of the bank and the services which it can perform, the agricultural representative makes the farmer aware of new alternatives which if utilized serve to increase the bank's business.

Briefly stated then, if a bank is to benefit from having an agricultural representative it is most likely to be evidenced by one of the following or any combination thereof: (1) an increase in the volume of agricultural loans, (2) an increase in the volume of deposits drawn from agricultural sources, and (3) a decrease in the losses sustained in agricultural lending or, put another way, an increase in the safety of the agricultural commitments made.

Now, let us look at the banks included in this study. Were their banking programs effective in terms of the criteria previously discussed?

The bankers had very definite ideas on the subject, but they were unable to furnish concrete answers which could be tied down in dollars and cents or percentages. Such was difficult for the banker, for the bank records were not kept as cumulative totals. The records merely gave the balances outstanding at any one instant of time. For business analysis these figures were very poor. They left so much unanswered. For instance, an increase in agricultural loans outstanding did not tell the complete story. Had the agricultural loan volume been increased by giving sound new loans or did this increase come about because old loans unable to be collected were carried over? Better it would have been to have cumulative totals to have told just how many

dollars had been turned over, but this information was not available. There was the further problem that the bank loan and deposit records were not broken down in such a way that it was possible to ferret out those of agricultural origin. Had the figures desired been available, there would have been the additional problem of determining how much of the changes were the result of having an agricultural representative. This is not to say that the information desired is or was impossible to obtain, but it is to state that getting the desired information in any accurate form would have required efforts beyond those feasible for a study of this scope. The banks did not keep records adequate for this purpose and to have fabricated them would have been a task which would have proved more than slightly impractical.

Despite the fact that the banks were unable to furnish a concise estimate of the benefits derived from having an agricultural representative, several estimates were made and these, though less than might be desired, are worth notice.

The great majority of the bankers, about 90 per cent of those visited, stated that having an agricultural representative had not increased the volume of agricultural loans. However, those banks which had started the program at a time the bank was interested in expanding their agricultural lending had found this an excellent way to achieve such results. Those banks that had not wished to expand their agricultural loan volume felt that their agricultural man could have contributed to this end, had this been the goal and had they had the funds to support such expansion. Some of the bankers pointed out that to hold a given volume was as difficult under some economic conditions as was

the increasing of loans under others. Some of the banks very definitely felt that they had been better able to hold ground already won because of the fact that they did have an agricultural representative.

An even greater number of the banks, about 94 per cent felt that the program had increased the volume of deposits drawn from agricultural sources. Since but two of the banks visited indicated any real interest in the expansion of agricultural loans within the framework of their present assets, it was to be expected that the banks would be especially sensitive to any increase in deposits which they felt might have been the result of their agricultural programs. To expand loans the banks felt it necessary to first get more deposits to support the additional loans. Any activity which contributed to this end was then indeed welcome. At this time, increasing deposits was much more important to the banks than increasing loans. There was the realization, however, that should times change and banks find themselves looking for loans, the agricultural representative would be able to contribute much.

One very interesting thing to know would be whether or not a bank by having an agricultural program using an agricultural representative could feasibly hope to increase deposits fast enough to support the additional loans which would be occasioned by having an agricultural representative to work with farmers. More than three-fourths ($3/4$) of the bankers felt that an agricultural representative could over time increase deposits in ratio with loans. Several of the banks felt that this already had been their experience.

The bankers were all agreed that having an agricultural representative had helped them to extend safer credit. They felt that they knew more about the business that they were doing. They knew the

farmers problems and because of this they were better able to appraise their relations with the farmer. This, they felt, was one of the more important contributions of the program. The bankers were of the opinion that in order to do an "intelligent" farm business they needed the help that their agricultural representative could give.

All stressed the value of an agricultural representative from the public relations point of view. Farmers interviewed for their reactions to the bank agricultural programs stressed the humanizing influence an agricultural representative had on the bank. They felt that there was a man in the bank who knew and understood their problems and was interested in their welfare. It made the farmers less reluctant to do business with the bank. The work done with farmer groups, individual farmers, and youth groups also created good will for the bank. Some of the banks considered this to be the most important benefit of their agricultural program. Yet, public relations activities could be meaningful to the banks only if they increased in some way the profitability of the banking venture. Good will had to be translated into increased loans, increased deposits, or lower losses. It was difficult to ascertain how quickly good will was translated into these real benefits, but the bankers felt that it was being done. They emphasized, however, that the public relations aspect of the program was a long-run project from which no large immediate effect should be expected.

As has already been stated, the banks could not readily measure the effects of their agricultural program. They felt certain that it

had proven worth while, but they could not put their fingers on precise benefits. One bank that had formerly had a full time agricultural representative was trying to carry on without a full time man and this bank was beginning to feel that it really needed another full time agricultural representative.

Time Lag

It was to be expected that there would be a time lag from the time an agricultural representative was hired to direct the agricultural program of the bank until the program became a paying venture. That this was true was stressed by the banks. Senior bank officers' estimates of the time lag that they had experienced or expected to experience ran from one (1) to five (5) years, the average being between one (1) and two (2) years. It was interesting to note that the longest estimate, the five (5) year estimate, came from a bank whose agricultural representative did little work with adult farmers and contributed relatively little information for loan appraisal by the bank. The emphasis here was working with youth groups, thus primarily public relations activities. The shorter estimates came from banks performing a more direct service to the bank and the farmer.

The agricultural representatives themselves estimated this lag at from one-half ($1/2$) year to five (5) years, the average being a little over two (2) years. One (1) and two (2) year estimates were the most common. Here again, it was interesting to note that the longest estimate came from the agricultural representative in the same

bank from which the first five (5) year estimate (See paragraph above.) had come.

Changes in Loan Policy

There were few marked changes in the banks' loan policy resulting from the use of an agricultural representative. Neither the types nor the terms of loans had been greatly modified. The big changes were not in bank policy per se but in the fact that the banks found themselves with better information upon which to base their decisions. The result was that there was a better appraisal of collateral in that it was possible to give greater consideration to the use to be made of the loans. The bank was able to consider more than just previously acquired equity. This was a boon both to the farmer and the bank, for it meant that the bank felt free to make loans which formerly would not have been candidates for serious consideration by the bank. In other words, the bank extended loans which before it would have been unwilling to make and refused some loans that it might have made before. Because of the agricultural representatives and the agricultural programs, the bankers felt that they extended credit safer both to themselves and the borrower. Through its counsel the bank trimmed a loan or increased its size to one which could be profitable. Thus the better appraisal of loans and the availability of bank counsel led to the granting of safer loans having a greater chance of being repaid.

Summary

Effectiveness of the program from the bank's point of view must ultimately be couched in terms of pecuniary benefit to the bank. The bank is most likely to be affected by having increased loans, increased deposits, and safer credit. Bankers who have agricultural representatives in their banks felt that such a program had its effects in all three areas. At this time increasing deposits from agricultural sources was a more important goal than increasing loans. The banks did realize that should they wish to increase loans the agricultural representative could be of immeasurable aid. Lastly, the bankers stressed the value of public relations activities of the agricultural representative. Such was important, but its effects could be reflected to the bank advantageously only if it resulted in more credit, more deposits, and/or safer transactions for the bank. There was a time lag between the initiation of the program and the time that it became self supporting. The estimates varied, but two (2) years was the estimate given most often. Having agricultural representatives had little effect upon bank policy per se, but it did cause the banks to consider loans which once they would have not considered and it caused them to refuse others that once they would have extended. By having better information about the production plans of the loan applicants, the banks were able to give greater consideration to the use to which the funds were to be put. Thus less emphasis was placed upon previously acquired equity and there was a shift toward granting loans based more on productivity. Because of this shift the banks extended credit in some areas formerly thought to be too high risk.

CHAPTER V

EFFECTIVENESS OF PROGRAM FROM THE FARMERS' POINT OF VIEW

What is Effectiveness?

Once again it is necessary to define or set up criteria for effectiveness. As has already been explained in Chapter I, the farmer finds himself in a situation closely akin to pure competition. When he seeks highest net income, he maximizes this by increasing production up to the point at which the selling price of the last unit of production just covers its cost of production. The greater the efficiency of production the greater will be the volume which can be produced within the limits set by cost and selling price. The larger the amount produced within these limits the larger will be the profit.

Capital is certainly not the only factor of production the increased use of which may result in increased income for the farmer, but there are many farmers who can use more capital advantageously. For instance, Whatley and Atkins in their study of the Grenada-Loring soil association area of western Tennessee found that holding land constant, it was possible to increase income on individual farms by adopting alternative systems of farming. These increases in income made possible by the use of these alternative farming systems were associated with increased outlay of capital.¹ Thus, for such farms,

¹Thomas J. Whatley and Samuel W. Atkins, "An Approach to Farm Adjustments in the Grenada-Loring Soil Association Area (continued)

increased capital use would facilitate the increased production and efficiency and result in increased income.

The question arises as to whether or not profit maximization is in reality the motivation of the farmer. It must be admitted that there are non-monetary considerations which play an important part in the farmers' decision making.

The social values held by many farmers cause them to accept less than absolute income maximization. Family farm living is held in very high esteem by many farmers, so high in fact that a lower level of income may be accepted rather than leave the farm for other more profitable pursuits.

Many farmers so value the independence of self employment that they refuse to consider more profitable alternatives, the acceptance of which would force them to work for others. Others feel that they know only farming and refuse to consider other alternatives.

Farmers, then, like any other group, tend to set limits to the areas within which alternatives may be considered. Even if the farmer does attempt to maximize profits within the area to which he limits himself, he encounters the difficulty of knowing when he has attained maximization since the farmer, as well as the banker or any other business man, is faced with limited knowledge of the alternatives

¹(continued) of Western Tennessee" (Unpublished manuscript, Agricultural Economics and Rural Sociology Department, Agricultural Experiment Station, University of Tennessee, cooperating with Production Economics Research Branch, Agricultural Research Service, United States Department of Agriculture, 1955).

within the area to which he has confined himself. However, within the bounds of the restrictions imposed by this, he can attempt to achieve maximum profit and can judge with reasonable accuracy when this has been achieved.

Thus, despite all these qualifications, there is justification for assuming that most farmers are motivated by the possibility of profit, at least to the extent that they welcome increases in income. While profit maximization in the absolute sense may not be the explanation for farmer actions, it can be realistically assumed that the profit motive is crucial.

The effectiveness of the use of agricultural representatives in banks from the farmers' point of view can then most meaningfully be measured in terms of how much the program has aided the farmer in increasing his income. Exact measurement of this may be difficult, but the importance of the program lies in its enabling farmers to extend production and increase efficiency, thereby increasing income.

A farmer will be benefited by a banking program utilizing an agricultural representative if the program results in any or a combination of several consequences. (1) An actual increase in the amount of credit available would be helpful to those farmers with a limited supply of capital. (2) Any increase in the planning and supervision offered by the bank through the agricultural representative would prove beneficial, for, even with no aggregate increase in the amount of credit, the increased attention given to the credit should result in less risky investments for both the farmer and the banker.

(3) If over the long-run this increased safety lowered the cost of agricultural credit to the farmer by lowering the cost of the bank in extending such credit, the farmer would be benefited. (4) If the program results in the extension of credit on terms which are compatible with the use to which it is put, this, too, would be beneficial to the farmer. Stated another way, if the farmer could secure credit on terms geared to the productivity of the resource for which it was used, the farmer would be benefited, for then repayment would not be called for until the resource became productive and not in amounts exceeding the productive capacity of the resource. Extending this type of credit might involve such things as amortization, deferred repayment, long-term credit, etc. If the agricultural representative helps extend credit which is better suited to the farmers' needs, then he has done the farmer a service and will have helped the farmer to profit from the use of credit.

Has the Program Helped Farmers?

On this subject there were no differences of opinion. Without exception, the approximately forty-five (45) farmers contacted felt that the program had benefited the farmer. In addition, the twenty (20) others who were contacted--county agents, cooperative managers, Soil Conservation Service farm planners, Farmers Home Administration supervisors, and men in commercial agricultural businesses--expressed their belief that the banks' use of agricultural representatives had

benefited the farmer. However, their ideas of how the farmer had benefited did vary.²

Some felt that such a program has had a humanizing effect upon the bank. The farmer knew someone in the bank whom he thought was interested in him. Therefore he felt freer to utilize the banking services. The use of bank credit became a more real alternative to the farmer. The farmers themselves were most impressed by the fact that the agricultural representative made the bank seem less "cold" to them. They felt that they had a man who knew their problems and could talk their language.

The planning or counseling done by the agricultural representative was an aid to many farmers. They found it most helpful to have the agricultural representative to appraise their plans for loan use, because they felt this gave them a competent friend to help them make a sound decision.

This counseling by the agricultural representative and the banks' interest in the farmer as evidenced by their use of an agricultural representative resulted in the banks' giving greater consideration to the plans for the use of loans under consideration. This, then, meant a shifting from consideration of collateral in the

²It should be pointed out that this sample of farmers, county agents, Soil Conservation Service farm planners, cooperative managers, Farmers Home Administration supervisors, and men in commercial agricultural businesses was not a systematic sample. The contacts were informal and made only when the interviews with the bankers and agricultural representatives were of short enough duration to allow time for these others to be contacted.

conventional sense to a greater consideration of the productivity of the resource for which the loan was to be expended. Perhaps this could be said in another way. This resulted in a better appraisal of collateral, for the productivity of the resource as well as previously acquired equity were considered. This was considered significant because it meant that farmers with less conventional collateral could secure bank financing if their plans for the use of this credit were sound. This recognition that good money usage was within itself a sound type of collateral has eased the position of many capable farmers who have not been in business long enough to acquire large assets.

This consideration of the productivity of a loan has been a safety device for both the banker and the farmer. The banks have been able to reduce their losses by initially refusing to grant loans for projects which appeared unsound. The farmer, too, has benefited, for the banks have refused many loans which would have proven unwise from both the farmers' and the bankers' point of view.

Sometimes the banks have done the farmer a favor by refusing to finance him in buying unprofitable one hundred dollar cows and offering to finance him on better cows. The banks have been able to encourage the use of soil tests. They have urged that the services of the county agent and the Soil Conservation Service be utilized. In some areas, the banks have performed a real service by keeping up on the various governmental agricultural programs and helping to keep the farmers up to date.

In some areas, the banks through their agricultural programs have pushed storage facilities for various crops. This has been a real help to the farmer, for storing has meant money to him. One bank pushed the production of strawberries and even managed to help secure and finance a processing plant for the berries. Such activities were on a community basis, but they certainly aided the farmer.

The work agricultural representatives have done with youth groups has not provided as much immediate aid to farmers as some of their other activities. Over a long period of time, however, this will prove an aid to the adult farmer, for as the youth becomes adult and enters farming better prepared to cope with the problems of adulthood, we will see the adult farmer benefiting from such bank programs.

Agricultural credit was not always easier to get just because a bank had an agricultural representative and was interested in agriculture. Had there not been this interest, be it selfish or unselfish, the banks would not have hired an agricultural representative in the first place, but this within itself has not meant easier credit for the farmer. It has meant that the banks were more willing to give consideration to agricultural needs. They have been willing to more closely scrutinize prospects and their closer contacts with agriculture enabled them to get better information upon which to base decisions. In this sense, then, perhaps agricultural credit has been eased. The benefits, though, have not accrued through deliberate changes in bank policy. Instead, they have come because the banks better understood what they were doing and the risks involved when they dealt with agriculture.

The question may well be asked whether this type of bank program has helped get credit better suited to the farmers' needs. It seemed that it did. It was not primarily because the interest rate was lowered or because the terms were longer. Rather it was because the banks had better information upon which to base their decisions. They were more aware of the farmers' problems and because of this they could and did gear farm credit more to his needs. The banks have helped the farmer figure out how and from what income source he would make repayment. The bank has been able to give counsel as to what the farmer should do and how he should handle his finances. For instance, one bank was working out a line of credit for farmers before the credit was required; plans were made for the farmer to get definite amounts at definite times; and repayment schedules were worked out in the light of probable income and timed according to when this income would become available. Other banks having agricultural representatives found themselves in similar positions, though probably to a lesser extent. While this was a long way from having repayment schedules geared to the productivity of the resource for which the loan was used, there was a shift in that direction--a small shift, perhaps, but a shift which is a beginning. This sort of shift has made it necessary for both the farmer and the bank to appraise more closely their activities. This has been good for both of them since it has made each face and make decisions needed but more easily and pleasantly ignored.

As has already been stated, the banks have not greatly changed the types of loans which they give. The bulk is still short-term credit.

Instead of giving long or intermediate term credit for uses which call for more than short-term planning, the banks still usually give yearly notes and renew at the end of the year if they feel so disposed.

There are dangers to the farmer, however, in the use of an agricultural representative. A poorly trained man as agricultural representative, if accepted by the farmers, could do much damage by giving faulty advice to the farmer and the banker. The most real danger lies in the fact that an agricultural representative turned high pressure credit salesman could do a great disservice to farmers. The danger of this is probably not great, though, for the bank would recognize the fact that short-run profit maximization at the farmers' expense would not be best for the bank over the long-run.

Some of the ways in which the banks' use of agricultural representatives has benefited the farmer have been shown. The question arises as to what has been the magnitude of this benefit. There are no suitable criteria for measuring such. Farmers and agricultural workers contacted in the course of this study all expressed their belief that the program had aided many farmers, but they had no way of measuring the real importance of these bank programs.

Summary

The criteria for the effectiveness from the farmers' point of view of the use of agricultural representatives in bank programs was concerned with how much such programs had helped the farmer to increase

his income. The consensus of the opinions of farmers and professional agricultural workers was that the program had aided the farmers in their attempts to increase income.

It was indicated that the banks' use of agricultural representatives had helped the farmers in the following ways: (1) The farmers were made to feel that they had a man in the bank who knew their problems and was interested in helping them. (2) The counseling and planning done by the agricultural representative aided the farmer to get a higher productivity from the credit used. (3) The program resulted in a better appraisal of collateral because the productivity of the resource for which credit was to be used as well as previously acquired equity was considered. (4) The banks' promotion of additional sources of income for the farmer (bringing livestock into community, publicizing and financing storage of commodities for government loans, helping bring vegetable processing plants into community, etc.) has made the farmer aware of profitable alternatives. (5) The banks' work with youth groups, though not providing as much immediate aid to adult farmers, should be beneficial to the youth as they become adult and enter farming better equipped to cope with the problems of adult farming. (6) The banks became more willing to closely scrutinize each loan prospect, thereby providing credit for some who would not have received it under the traditional banking practices. (7) The banks aided the farmers in working out their financial plans. (8) The banks, because of more adequate information available through the use of the agricultural representative, were able to gear repayment more toward

the ability of the farmer to pay and the productivity of the resource
for which the credit was to be used.

CHAPTER VI

SOME CONSIDERATIONS FOR BANKS INTERESTED IN AGRICULTURAL REPRESENTATIVES

Introduction

The use of agricultural representatives in banks has been looked at both from the farmers' and the bankers' points of view. Some evidence has been marshalled to support the proposition that both the banker and the farmer can and do benefit from the use of agricultural representatives. Since it is interested bankers who will initiate such agricultural programs, consideration should be given to the problems they face in deciding whether to have an agricultural representative. In addition there is the problem of selecting a man and deciding upon the type of program to have.

Evaluation of Various Types of Programs

In Chapter III, the various types of agricultural programs were discussed. That the farmers' preferences might affect the type of program offered was to be expected. It is equally clear that the bank might not be willing to furnish the farmer with the precise service he would prefer, for the banker could be expected to offer only that service from which he could hope to achieve maximum benefits in terms of increased deposits, increased loans, and/or reduced loan losses.

It was not easy to make a judgment of the specific type of program which the bank would find most profitable. It was possible, however, to observe many types of programs and make certain observations as to the range of operation within which the banks seem most likely to find the program suited to their needs.

It seemed to the author that those banks which granted considerable loaning authority to the agricultural representative should have more profitable programs than those banks which did not. The data gathered in this study were not of the type which would allow either the acceptance or rejection of this hypothesis, but there were reasons why this relationship might have been expected to exist. In banks giving this authority, the agricultural representative should be in a position to really plan with farmers because he would have control of money to lend. This should give him an advantage even in his public relations functions, for the farmer would likely realize that the agricultural representative spoke with authority and was in a position to do business with him. Admittedly, there would be some banks more in need of help in making loans than others. Yet, even within those banks in which the need was less, it would seem that opportunities would be wasted, for there would be technical know-how not being utilized. Many of the bankers did express the idea that in order to be a good agricultural representative, the representative should learn to make loans and then make them. They felt that only in this way could he learn banking and contribute his full share to the bank.

Many have felt that the agricultural representative of the bank should be a source of vast amounts of technical information for both customers and non-customers. The observations made in the course of this study would seem to take exception to this idea. There was the tendency for the man who became another county agent to make the job of giving all sorts of technical information his chief duty. He was likely then to become so involved in this that when the bank was faced with the need to make a decision related to agriculture he would not give the bank the benefit of his judgment and experience in agriculture. This sort of agricultural representative became so preoccupied with dehorning cattle, castrating pigs, advising when to top tobacco, helping to find a bull, etc. that he was unable to give the bank much direct help. There was, of course, the indirect good-will effect of such activities. Those representatives who helped farmers as they could but considered the giving of technical information to be primarily the domain of the county agent and of the established agricultural personnel, found more time to devote to working as a part of the banking team in making and appraising loans and furnishing the bank with whatever other information it deemed apropos.

The emphasis placed upon the importance of activities designed primarily for public relations was important. Such activities e. g., attending livestock sales, working with 4-H groups, and dehorning cattle, were productive for the banks, but they represented an indirect approach to increasing the profitability of the banking venture. Activities whose primary purpose was not public relations

e. g., visiting the farm in connection with a loan, assisting in farm planning, helping the farmer with his financial planning, appraising real estate and chattels, and actually making loans in the bank, achieved quicker results for the banks. As has already been discussed in Chapter IV, estimates of the time lag between the initiation of the agricultural program and its becoming self supporting ranged from one-half ($1/2$) to five (5) years. The longer estimates tended to come from those banks emphasizing public relations as the primary function of the agricultural representative.

In summarizing this evaluation of the various types of programs, it seemed that, as a general rule, the agricultural program likely to be of greatest benefit to the bank was one in which the agricultural representative was allowed to contribute to the bank both by making and aiding in loan decisions, one in which the agricultural representative gave the technical information he could but realized his limitations and served more as a clearing house to direct farmers to the proper established agricultural agencies, and one in which the agricultural representative approached his task directly and did not give primary emphasis to activities the chief value of which was to be found in their good-will benefit. This then meant a man to help the bank in its decision making generally was more important than a good-will man per se. Even the former type of man was able to contribute much in the good-will area.

Each bank has a different problem and each program has to be tailored to fit the needs of the bank and the capabilities of the

agricultural representative; nevertheless, these generalizations, though broad, can serve to give some initial orientation to a banker and his agricultural representative as they plan and execute an agricultural program.

Size of Bank Necessary

There was considerable question as to whether any really meaningful figure for the bank size, necessary to support an agricultural program of this type, could be given. The first problem was to decide in what terms it should be expressed. Should this have been in terms of total assets, total deposits, total loans and discounts, percentage of total loans and discounts in agriculture, percentage of deposits from agriculture, or what? It is believed that there is no one satisfactory measure for all situations.

Some of the bankers even rejected all such measures and argued that the only useful concept was one of how much benefit could be expected from the program. What were the potentialities of a program in a particular community? One banker suggested that \$100,000 in agricultural loans was necessary to begin a program and another suggested that getting a program would likely prove the way to build an agricultural business. Men of this thought reasoned that this was a means to attain a goal, not a thing to do just when a goal had been reached. Bankers gave estimates of necessary size varying from \$250,000 in agricultural loans to \$1,250,000. The average was a

little over one half million dollars (\$500,000) and this was also the figure occurring with greatest frequency. Estimates from agricultural representatives ranged from \$100,000 to \$3,500,000. This averaged about \$860,000, but a figure of one half million (\$500,000) was most common.

The estimates made by bankers indicated that they believed that a bank having three million dollars (\$3,000,000) in total assets was usually as small as a bank could be and still be reasonably sure of the profitability of using an agricultural representative. Nevertheless the bankers pointed out that the greater the expansion which might be expected from the use of an agricultural representative the less would be the need initially to have either large assets or large sums invested in the bank's agricultural business.

Salary of Agricultural Representative

It was not possible to obtain the salary figures for all of Tennessee's agricultural representatives, but those reported ranged from \$250 to \$500 per month. The average of these was about \$390. In addition, the banks paid travel expenses. Some paid mileage and others furnished a vehicle. The banks estimated that this cost averaged about \$50 per month except when there were long trips involved.

Bankers' estimates of what the beginning salary for an agricultural representative with minimum experience should be varied from \$250 to \$350 per month. Three hundred dollars was by far the most

common figure. There was no significant difference in the estimates made by presently employed agricultural representatives.

Total Cost of Agricultural Program

Bankers' estimates of the total cost of their programs varied from \$4,000 to \$12,000 per year. On a per agricultural representative basis, the cost varied from \$4,000 to \$8,000. These figures are some indication of the cost that any one bank would face were it to initiate an agricultural program of the type considered in this study. Bankers' estimates of beginning salaries for men of minimum experience indicated that it would not be possible to have a program with a cost of much less than \$4,000 a year.

Tenure of Agricultural Representatives

The position of bank agricultural representative proved to be relatively stable. The average tenure was four (4) years and the median was between three (3) and four (4) years. At least fifteen (15) of Tennessee's twenty-four (24) agricultural representatives had been with the banks since the initiation of the program. Only four (4) banks had changes in personnel which represented more than just an addition of a second agricultural representative.

Status of the Agricultural Representative Within the Bank

About half of the agricultural representatives were bank officers. A few of the remainder were expecting to be made bank officers in the near future. In general, both the bankers and the agricultural representatives agreed that the agricultural representative should have the opportunity to become a bank officer. The interesting thing to note, however, was the fact that to some bankers having the agricultural representative become a bank officer meant the agricultural representative's ceasing his old duties and assuming entirely new ones as a bank officer. For other bankers, being an agricultural representative and a bank officer was completely compatible.

Observations made by the author led to the formulation of the hypothesis that the more progressive and remunerative bank programs tended to have agricultural representatives occupy the position of a bank officer. It seemed that such should allow the agricultural representative to be more closely integrated into the total banking program, thus making it more than an addendum. Further study would be needed to prove or disprove this hypothesis, the author's belief that, in general, having an agricultural representative who has proved his capability to become a bank officer should be associated with the success of the program.

Qualifications of Agricultural Representatives

Education

It was interesting to note that just a little over half of the agricultural representatives in Tennessee banks were graduates of agricultural colleges. As might have been expected, those having a college education had a tendency to value such highly and list it as a prerequisite for the job. Only one man having a college education suggested that such was not a prerequisite for the job. He emphasized the value of banking experience.

The bankers were less anxious for a man to have college training in agriculture. They emphasized that it would be helpful, but they felt that actual farm background and farming experience was far more important. Most of the bankers having college trained men said that they felt that college training should be required.

It should be noted that the group emphasizing the value of college training realized such was not an absolute necessity and that there were individuals who could do the job without such preparation, but they did feel that the college training in agriculture was very important. The group that did not emphasize such training did not deny its merits. They merely considered other areas of experience such as farming and banking to be more important.

Observation led to the conclusion that college training was very important and most desirable. It was not, however, sufficient within itself. The agricultural representative needed a better

knowledge of and keener insight into farming than that afforded solely by a college education in any of the several agricultural sciences. The bankers and agricultural representatives who thought that in general the agricultural representative should be a college man still emphasized that he must have other training. Many felt that college training and being farm reared was an absolute minimum and others felt that he needed more experience than this afforded.

Without regard to whether or not they considered college training in agriculture to be necessary preparation for becoming an agricultural representative, bankers, agricultural representatives, and others who worked with farmers were asked which type of college training in agriculture they believed would be most advantageous to the agricultural representative. Many gave no opinion, but Table VII, which follows, is a tabulation of the positive responses made.

It seemed to the writer that training in agricultural economics or agricultural business should have been the most advantageous type of college agricultural training. It is common knowledge that there have been wide fluctuations in economic conditions. On the upswing these fluctuations have been tremendous forces in increasing the profitability of farming because farm prices tended to go up faster than costs. On the downswing they were just as forceful, for prices of farm products tended to fall faster than did farming costs. In addition there was a lag between the time prices of farm products began falling and the time farm costs began to fall. This meant that on the downswing margins were narrowed or perhaps eliminated. A

TABLE VII

TYPE OF COLLEGE TRAINING IN AGRICULTURE RECOMMENDED BY
BANKERS, AGRICULTURAL REPRESENTATIVES AND OTHERS

Type of Training Recommended	Groups Reporting		
	Bankers	Agricultural Representatives	Others*
General Agriculture	7	4	5
Production**	4	3	2
Agricultural Education		1	
Agricultural Economics and Agricultural Business	1	8	5

*Includes cooperative managers, Soil Conservation Service men, county agents and F. H. A. supervisor.

**Includes Animal Husbandry, Agronomy, and Dairying.

knowledge of these and other relationships which seem to exist and offer explanations of the workings of the economy are the tools of the agricultural economist. By utilizing these tools along with his knowledge of technical agriculture, the agricultural representative trained in agricultural economics and business should be better able to make sound loans for both the bank and the farmer. Since the profitability of any venture is affected by economic conditions, no estimate of profitability can be made without assuming some level of economic activity. The agricultural economist's training should aid him in making these assumptions more realistically. The data in Table VII did not furnish sufficient evidence for either rejection or acceptance of this hypothesis. It did give an indication of a considerable interest in agricultural economics and business. It was interesting to note that half of the agricultural representatives who expressed an opinion picked agricultural economics and business. Only 8 per cent of the bankers expressing an opinion selected agricultural economics and business. This may have been because they did not understand as fully the potentialities of the function which could be performed by the agricultural representative or it may have been because they were not well acquainted with the field of agricultural economics and business. Still another possibility was that the bankers, unaware that agricultural economics and business specialization offers training in technical agriculture, may have feared that training in agricultural economics would not furnish the agricultural representative with technical agricultural know how.

Experience

As has already been stated above all the bankers and the agricultural representatives felt that being farm reared was most desirable if not absolutely necessary. Actual adult farming experience was deemed to be very helpful, but it was frequently pointed out that while it can be done, the getting of a man who has already farmed and been successful was more difficult than getting a younger man with less experience.

The agricultural representatives in Tennessee had a varied background. There was experience with the Extension Service, Farm Security Administration, Veterans Administration, Soil Conservation Service, Vocational Agriculture, farming, banking, Agricultural Adjustment Administration, Agricultural Stabilization Committee, real estate, and livestock trading. They came from many types of activity. All, however, had some sort of previous experience with agriculture before becoming an agricultural representative.

The evidence gathered in this study was not sufficient to allow the determination of the particular type of experience which would best fit a man for the position of agricultural representative.

Age

The ages of the agricultural representatives in the state ranged from the late twenties to the sixties. Only five (5) were less than thirty-five (35) years old. Without exception these were men who had been engaged in other pursuits before becoming bank agricultural representatives.

It was found that both the bankers and the agricultural representatives felt that a man should be at least twenty-five (25) years old before becoming an agricultural representative. There were six (6) estimates below this. The two lowest were twenty-one (21) and one of these estimates was made under the condition that the young man be apprenticed to a senior bank representative.

This age preference, coupled with the desire for education and experience, meant that there was little opportunity for a young man without other experience being graduated from college to find employment as an agricultural representative.

General Considerations

Those thinking about embarking upon or urging the use of an agricultural representative might do well to consider the experience of some of the bankers who have dealt with this type of program.

Without exception, the bankers contacted in the course of this study were very much in favor of and well pleased by their agricultural programs. They cautioned, however, that it was of extreme importance that the man selected to be the agricultural representative be a man of ability. That the selection of the right man was crucial to the success of the program was emphasized over and over. It was further pointed out that unless the bank was willing to really support an agricultural program of this type, there was likely to be difficulty, for the bankers felt that the program was too long range and paid off

in ways frequently not obvious or directly traceable, thus making it very difficult to offer convincing proof of the value of the program during its early stages. They felt that the bank should be really convinced that such a program would help before they initiated such. Were this not the case, there existed the danger that the program would not be given a fair trial and would thus have little real chance for success as a paying part of the banking program.

Summary

The agricultural program likely to be of greatest benefit to the bank was one in which the agricultural representative was allowed to contribute to the bank both by loaning and aiding in loan decisions, one in which the agricultural representative gave what technical information he could but recognized his limitations and served more as a clearing house to direct farmers to the proper established agricultural agencies, and one in which the agricultural representative did not approach his task so indirectly as to give primary emphasis to activities the chief value of which was to be found in their goodwill benefits.

Estimates of the bank size necessary for this type of agricultural program ranged from \$100,000 in agricultural loans to \$3,500,000 and averaged a little over one half million dollars. According to bankers' estimates, banks with \$3,000,000 in total assets were the minimum size for which such a program should usually be considered.

A \$4,000 yearly cost was about as low as a bank could hope to have if it were to have an agricultural program utilizing an agricultural representative. The average cost of the banks which gave estimates was \$7,100.

Bankers and others were divided on the absolute necessity for college training in agriculture as a prerequisite for being an agricultural representative but even those not feeling it a necessity recognized that it would be at least desirable. Experience of any sort was valued highly. In fact, it was almost a necessity, for bankers did not generally wish to consider a man whose age would not insure other employment experience. Few men under twenty-five (25) were given consideration.

The salaries of agricultural representatives averaged about \$390. In addition to this, the banks covered travel expenses. Bankers generally felt that about \$300 per month should be the starting salary for a young man of minimum experience.

The importance of getting the right man for the job was emphasized. It was also pointed out that a beginning agricultural program needed the full backing of the bank in order to be given time to prove its worth.

CHAPTER VII

SUMMARY AND CONCLUSIONS

Every farmer is faced with the budgeting of capital. How well he does this is often the difference between profit and loss. The amount of capital he controls and can budget is also important, for limited capital can prevent his taking advantage of alternatives which could increase his income. For many farmers the supply of internal capital is so limited that it become advantageous for him to secure borrowed capital. One important source of such capital is the commercial bank.

In an attempt to improve their dealings with farmers in supplying them with some of this borrowed capital, twenty (20) Tennessee banks have initiated agricultural programs utilizing the services of agricultural representatives. The first of these programs was begun in 1938. Since that time there has been a continued increase in the number of agricultural representatives. Half of the banks now having agricultural representatives have added them in the last five (5) years.

The content of these agricultural banking programs has been comparatively uniform, but there has been wide variation in the emphasis placed upon the various component parts. Some of the more common activities performed by Tennessee bank agricultural representatives were the following:

1. Make decision whether or not to extend loans to farmers
2. Do public relations work
3. Interview farmers seeking loans

4. Visit farms in connections with loans
5. Appraise real estate and chattels
6. Investigate farmers' methods of operation (managerial ability)
7. Do piecemeal farm planning
8. Act as advisor after the extending of loan to help farmer effect best use of funds
9. Collect debts
10. Work inside bank at other than normal desk work occasioned by the agricultural banking program, for example, working as a teller
11. Attend farm organizations
12. Attend civic clubs
13. Attend community clubs

The effectiveness of these programs from the banks' point of view must be couched in terms of its pecuniary benefit to the bank. Bankers who have agricultural programs utilizing agricultural representatives stated their belief that the program had or would in time make a profit for the bank. The ways in which this benefit was felt were through increased loans to farmers, increased deposits from farmers, and/or fewer losses on loans extended to farmers.

The type of agricultural program likely to be best for the bank seemed to be one in which the agricultural representative was allowed to loan or aid in making loan decisions, to serve as a clearinghouse to direct farmers to those who could better give technical information, and to give public relations secondary emphasis. Bankers' estimates of the time lag between the initiation of a program and its becoming self

supporting showed that those banks not giving primary emphasis to public relations per se felt that they were achieving results more quickly.

The farm producer, too, according to the estimates made by farmers and professional agricultural workers, benefited from these programs. The programs did not result in easier bank credit per se or greatly modified bank policy, but they did cause the banks to give more careful attention to each candidate loan. The information which the agricultural representative was able to supply enabled the banks to consider more than conventional collateral in the form of land, livestock, etc. Probable productivity was given more consideration and as a result the banks were able to give credit, more realistically geared to the ability of the farmer to use it productively. In addition, it was possible to move toward setting up the repayment schedule to correspond more closely with the productivity of the resource for which the credit was used. Even if this were not done, it was possible to work out with the farmer a repayment schedule that would make payments become due at times when the farmer would have income available.

The fact that the banks were giving increasing emphasis to the productivity of the resource for which the credit was to be utilized did mean that the lack of conventional collateral became less of a barrier to loans than formerly when, for all practical purposes, the ability to furnish liberal collateral was a requisite to obtaining a bank loan. Thus, it was possible for farmers, without liberal collateral but with plans for profitable use of credit, to more easily obtain the backing of the banks.

The banks' interest in trying to increase agricultural income was important. Their offers to finance storage facilities for various crops so that the farmers could take advantage of government crop loans, their promotion of new crops as an additional source of income for the area, their work in bringing better animals into the area and then offering to finance their purchase—all this has been beneficial to the farmers.

Estimates of the bank size necessary for this type of agricultural program varied from \$100,000 in agricultural loans to \$3,500,000 and averaged a little over one-half million dollars. According to other estimates, banks with \$3,000,000 in total assets were the minimum size for which such a program should usually be considered. A yearly cost of \$4,000 was as low as banks could hope for if they were to have an agricultural representative. The average cost of programs for which estimates were obtained was \$7,100.

There were differences of opinion as to the importance of the agricultural representative's having college training in agriculture, but while not always considered a requisite, it was generally thought to be at least desirable. Because of the bankers' preference for a man of maturity with some sort of previous agricultural experience, men under twenty-five (25) years of age had relatively little opportunity to become agricultural representatives. Salaries for representatives in Tennessee averaged about \$390 per month.

The position of agricultural representative was a relatively stable one. The average tenure was four (4) years. At least fifteen (15) of Tennessee's twenty-four (24) representatives had been with the

banks since the initiation of the program. Only four (4) banks had changes in personnel which represented more than just an addition of second agricultural representative.

There were little, if any, evidences of any destructive rivalry existing between agricultural representatives and other professional agricultural workers. In fact, there were many areas in which there was cooperation; for example, bringing better breeding stock into a community, working together in community organization, referring farmers to each other so as to take advantage of the special abilities and facilities of each, and in many other ways too numerous to enumerate.

No evidence was found to indicate that there were bank agricultural representatives in all areas in which the banks might find them to be profitable. The banks having agricultural representatives were located only in areas in which agriculture was relatively important in terms of per cent of total income derived from agriculture, in terms of the value of all farm products sold, and in terms of livestock and livestock products sold. Indeed, if, as it appeared might be the case, the need for agricultural representatives was associated with the degree of change taking place within agriculture¹ and the actual importance of agriculture in the area, there were other areas of Tennessee which either

¹Value of livestock and livestock products sold was considered to be a crude measure of the changes taking place within agriculture, since much of the shift in Tennessee agriculture has been from a cash crop system to a more diversified system in which livestock has played a much more important role.

were or will become ready to make the use of an agricultural representative a profitable undertaking for the banks.

Further Research Needed

Attempts have been made by many writers to record general observations about bank programs which made use of agricultural representatives. These writings furnished ideas and were useful in the formulation of this study, but they were too general in nature to specifically define the duties of the agricultural representative and relate in other than nebulous terms the impact of such programs upon either the farmer or the banker. Haynes, through his study,² was able to set up a classification of the various types of agricultural representatives. This study of Tennessee banking programs utilizing agricultural representatives has gone further in defining the duties of the agricultural representative and has made inquiry into the impact of such programs upon both farmers and banks.

Intensive case studies are needed to determine the impact of particular bank programs upon several of their farm customers. Further study is needed to more carefully define and accurately measure the profitability of a particular bank program to the bank. It should be possible to formulate studies extending over time which would give clearer insights into the value of these programs both to the farmer and the bank. This study was essentially exploratory in nature, but it

²F. Boykin Haynes, "Agriculture, Banking and the Use of Trained Farm Field Men" (Unpublished thesis, Graduate School of Banking, Rutgers University, 1952).

should be possible to make use of the insights gained and conduct other studies which would mass much information not now available.

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APPENDICES



APPENDIX A

TENNESSEE BANKS HAVING AGRICULTURAL REPRESENTATIVES, 1955

Banks	County	City
Citizens Bank and Trust Company	Smith	Carthage
First National Bank	Hickman	Centerville
The First National Bank	Montgomery	Clarksville
Northern Bank of Tennessee	Montgomery	Clarksville
Commercial Union Bank	Mauzy	Columbia
First Farmers and Merchants National Bank	Mauzy	Columbia
First National Bank	Putnam	Cookeville
First Citizens National Bank	Dyersburg	Dyer
First National Bank	Madison	Jackson
Commerce Union Bank	Lawrence	Lawrenceburg
Commerce Union Bank	Wilson	Lebanon
Federal Reserve Bank	Shelby	Memphis
First National Bank	Shelby	Memphis
National Bank of Commerce	Shelby	Memphis
Union Planters National Bank	Shelby	Memphis
Newbern State Bank	Dyer	Newbern
Commercial Bank and Trust Company	Henry	Paris
First Trust and Savings Bank	Henry	Paris
Commerce Union Bank	Robertson	Springfield
Old and Third National Bank	Obion	Union City

APPENDIX B

SAMPLE FARM MANAGEMENT AGREEMENT

THIS AGREEMENT, made and entered into this the ____ day of _____, 19__, by and between _____ of _____, Tennessee, hereinafter called Owner, and _____ Bank of _____, Tennessee, hereinafter called Manager.

WITNESSETH: Whereas, Owner is the owner and is in possession of the following described property: a plot of land of ____ acres, more or less, located in the _____ Civil District of _____ County, Tennessee, and now rented to _____, and being the same farm now under management by oral contract entered into as a result of application by Owner for Farm Management Service, dated _____, 19__; but this agreement is to supplement and replace all other agreements.

AND, Whereas, Owner desires to employ Manager to supervise and assume the management of the above described property, and Manager is willing to accept said employment upon the following terms and conditions:

1. Owner desires that ____ acres of cotton or the allotment, whichever is the greater, be cultivated on this farm with one-third of the proceeds going to the owner.

2. Owner agrees that strawberry plants will be furnished by owner, also one-half of the fertilizer; and Owner will share one-half of net proceeds.

3. Owner now owns one-half interest in the following cattle:

- Five Registered Jersey cows
- One Registered Jersey heifer
- Two Registered Jersey heifer calves
- Two grade Holstein cows
- One grade bred Holstein heifer
- One grade open Holstein heifer
- One red white-face grade heifer
- Two Jersey steers
- One bull calf

Owner agrees to furnish seed to be seeded for pastures whereby tenant will prepare seed bed and sow the seed. Owner will share one-half of cost of fertilizer and one-third of the cost of feed purchased off the farm. Owner will receive one-third of the sale of milk, one-half of the sale of cattle, and will own one-half of all increase of cattle on the farm.

4. During the term of this agreement, Manager shall have full and complete charge, control, and supervision of the above described property, and as agent for Owner and for and on his behalf, shall have authority.

a. To supervise all work on said property and plan the crop rotation which in its opinion will produce the maximum income and at the same time build and maintain the fertility and productiveness of the farm, and to that end may expend not to exceed the sum of \$200.00 (Two Hundred Dollars) per year for fertilizer, seed, and lime, without the express written authority of Owner:

b. To make leases and enter into tenancy and/or sharecrop agreements with tenants, provided that the same shall not extend for a period of more than one year, without the written consent of Owner.

c. To collect and receipt for all rents and sell all crops or produce raised on said property at such times and at such prices as Manager may determine, and deposit the proceeds thereof, as well as the proceeds from all farming operations carried on upon said property, in a special account in the _____ Bank of _____, to be designated "_____ Farm Account", and to issue and draw checks from time to time against said account;

d. To contract for and supervise repairs and improvements as may be needed from time to time, and to pay for such repairs and improvements from the aforesaid farm account or from funds which may be advanced by Owner; provided, however, that no improvements or repairs shall be made by Manager costing in excess of \$100.00 (One Hundred Dollars) without the written consent and approval of Owner;

e. To enter into contracts with the United States Department of Agriculture or Commodity Credit Corporation agreements with the Government, such as crop or commodity loans, crop insurance, Production & Marketing Administration, Agricultural Conservation Practices, or other governmental agencies for crop reductions or similar control measures and to sign such documents or written instruments as may be required for such purposes.

5. Manager shall keep full and complete records of all operations on said property, showing all receipts and disbursements, and shall submit to Owner a statement thereof each sixty days showing said income and expense.

6. Manager shall receive as compensation for its services an amount equal to ten per cent (10%) of the Owner's yearly gross income received by it from the operation of said farm, the year running from _____, 19__ to _____, 19__. Gross Income shall be defined as all receipts from the sale of farm products grown and livestock raised on the farm, less the actual cost price of feed purchased off the farm, and in the case of livestock purchased off the farm for resale, there shall be deducted from gross income, in the year in which such livestock is sold, the actual cost price of such livestock so sold. Any livestock on farm at termination of this contract shall be valued at a fair market price, or sold, and Manager shall receive ten per cent (10%) of Owner's share less cost of livestock purchased off the farm. However, in no event shall Manager receive for its services less than an annual compensation of \$100.00 (One Hundred Dollars). Payment thereof shall be made annually, and in the event the percentage from gross receipts is less than the minimum compensation herein specified, then the balance of compensation due Manager shall be payable upon the final accounting in each year submitted by Manager to Owner.

7. This agreement shall become effective today replacing an oral agreement already in effect, and shall remain in full force and effect until _____, 19__, and shall be automatically renewed from year to year, that is, from January 1 to December 31 of the same year, unless written notice is given by either party to the other on or before July 1 of the current operating year of the intention to terminate the contract on the following January 1. Such written notice shall be delivered in person or sent by registered mail to Manager at

_____, Bank, _____, Tennessee, or to Owner,
_____, Tennessee.

8. Manager shall at all times exercise reasonable care and attention in the management, custody and control of the property. Manager shall not be held accountable for errors of judgment; but only for its own gross negligence or wilful default in the care of the property.

9. Owner agrees that he will not mortgage, pledge, or otherwise assign any of the growing crops, livestock, or other produce on said farm during the term of this agreement without the written consent of Manager, and any sale of the property made by Owner during this agreement shall be made subject to the provisions thereof and of any leases, tenancies, or share-crop agreement made pursuant hereto by Manager on behalf of Owner.

10. Manager shall pay from the funds of the Owner all taxes, building and livestock insurance, if carried, together with any other insurance deemed necessary by Owner or Manager.

11. It is the Owner's intention that no timber or trees shall be cut on this land except by Owner's written consent and except where in Manager's opinion some trees should be removed for the proper cultivation of crops, which the Manager shall have the right to do.

12. Manager shall have the right to make adjustments of all kinds of insurance claims and file proofs or loss, agree to settlements, execute releases and drafts and checks and to do all things necessary to adjust and settle claims and losses on behalf of the Owner.

13. The Manager shall have the right and authority to do all things necessary for the operation and management, to remove tenants

and take all necessary steps to do so when decided necessary by it.

14. This agreement shall be binding upon the parties hereto, their heirs, successors, personal representatives, executors, and assigns.

WITNESS the hands of the parties this the day and year first above written.

_____, BANK
_____, Tennessee

Owner

By _____
Assistant Vice President and Farm Representative

STATE OF TENNESSEE
COUNTY OF _____

Personally appeared before me, _____, a Notary Public in and for said County, _____, and _____, as Assistant Vice President and Farm Representative of the _____ Bank, with whom I am personally acquainted, and acknowledged that they executed the within instrument for the purpose therein contained.

Witness my hand and Notarial Seal at office in _____, Tennessee, this the ____ day of _____ 19__.

My commission expires 1/15/56