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Quality of Agricultural Credit*

GEORGE K. BRINEGAR

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UNIVERSITY OF ILLINOIS

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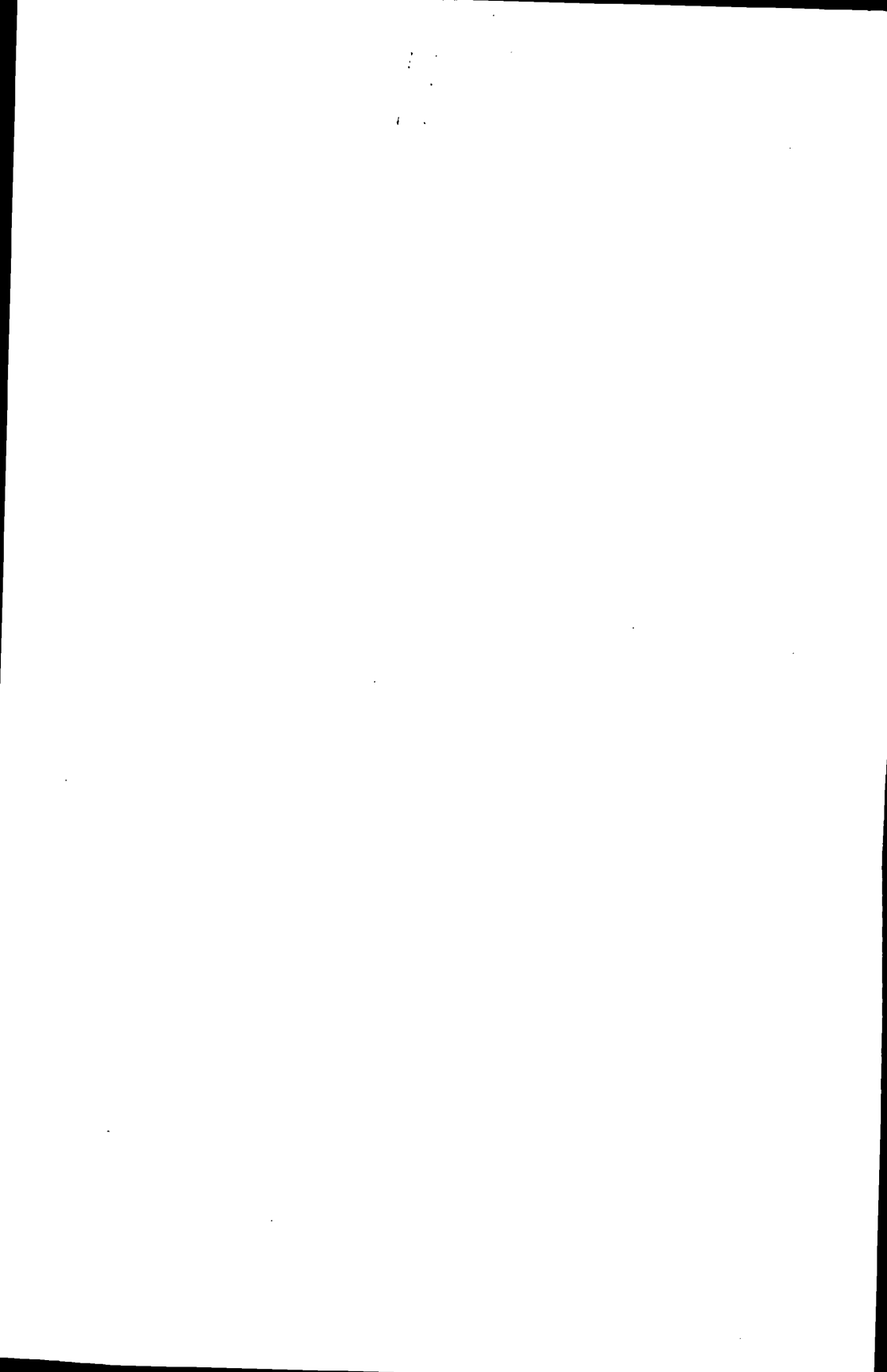
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Foreword

THIS STUDY of the quality grading systems of the Production Credit Associations and the Federal Land Banks is the fifth publication in the National Bureau's program of research on the quality of credit in various sectors of the economy.¹ The checkered performance of farm credit through American history, and the truly disastrous record of the Great Depression, make agriculture potentially a sector of unusual interest from the credit quality standpoint. In agriculture, too, the public or quasi-public character of much lending has created a large volume of official statistics extending over many years, which present unusual opportunities for securing credit quality data.

The examination of these data was begun in 1959 by George Brinegar on an experimental basis, in order to include the ratings made by federal farm credit officials in the general study then being undertaken of credit ratings made by federal bank examiners and by Dun and Bradstreet, Moody's, and other private rating agencies. Later it was decided to encompass agriculture in the Quality of Credit program along with all other sectors in which the potential risk of delinquency and default was appreciable. At that time, further analysis of the official farm credit records was undertaken by the authors. The

¹ The four studies already published are: *The Quality of Bank Loans: A Study of Bank Examination Records* by Albert M. Wojnilower, Occasional Paper 82, New York, NBER, 1962; *The Quality of Trade Credit* by Martin H. Seiden, Occasional Paper 87, New York, NBER, 1964; *Trends in Corporate Bond Quality* by Thomas R. Atkinson, assisted by Elizabeth T. Simpson, New York, NBER, 1967; and *The Quality of Consumer Instalment Credit* by Geoffrey H. Moore and Philip A. Klein, New York, NBER, 1967. In press is *Home Mortgage Delinquency and Foreclosure* by John Herzog and myself. Edgar Fiedler and Maude Pech are revising their preliminary manuscript, *Measures of Credit Quality*, a compendium of time-series statistics on credit quality. George H. Hempel is in the process of completing his study of postwar municipal bond quality. I am in the late stages of final revision of my volume summarizing the credit quality program as a whole, *The Quality of Credit in the U.S.: A Summary Volume*.

Production Credit Association study could be enlarged to include the entire country and carried down through 1965. Lack of resources prevented the analysis of the Federal Land Bank data from going beyond the initial sample data of the Springfield (Massachusetts) Bank for the period ending in 1958.

The Brinegar-Fettig study does not of course purport to evaluate a cross section of U.S. agricultural credit. It is primarily a methodological study. It and other studies do in fact demonstrate that all types of farm credit, short- and long-term and in virtually all parts of the nation, have had remarkably strong performance records since World War II. Hence less interest has developed in postwar credit quality problems in agriculture than in some other sectors, e.g., small business firms and nonfarm households. But the Brinegar-Fettig study does indicate that the grading and examination procedures used by the farm credit agencies generate data which are generally valid discriminators of *differential* credit quality. The spectacular rise from depression lows in farm incomes and land values during World War II and thereafter make it difficult, if not impossible, to evaluate the time series behavior of the data, but the authors do show that the records of the federal farm lending agencies provide potentially valuable information for analyzing temporal trends in farm credit quality as well.

JAMES S. EARLEY, Director
Quality of Credit Program