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Federal Credit Services

The heart of the report consists of a detailed examination of the various credit services provided by the federal government. The full results are presented, with all the basic figures and charts, as Part II of the study. In making these painstaking individual analyses, the authors could not fail to notice certain broad distinguishing features of federal credit programs as a whole, and to remark points of similarity and differences among specific programs.

Perhaps the most important point of difference lay in the directness of the intervention by government — being relatively indirect in agriculture and in urban housing, but quite direct in the case of most aids to business.

To agriculture

Whereas federal programs extend only certain of the types of credit utilized in business and housing, they offer a full line of credit services to farmers. Most of these services have been channeled through farmer-owned cooperative credit institutions, operating initially with federal funds but usually succeeding in eliminating the need for such funds. In organization and management, the agencies extending farm credit bear a close resemblance to private financial institutions.

There are three main sources of federal credit to agriculture: the Federal Land Bank System, the Federal Intermediate Credit System (financing local production credit associations), and twelve district Banks for Cooperatives, lending to farm marketing cooperatives. There are also special agencies for other purposes; and the Veterans' Administration must be mentioned in its role of lending for the purchase of farms. The Commodity Credit Corporation, in connection with its price support program, also extends credit in this field. The operations of all of these agencies (except the CCC, since credit aid is not its primary purpose) are described at length in the report; their functions are briefly summarized as follows:

"Long-term mortgage credit has been obtainable since 1917 through the farmer-owned Federal Land Banks, and short-term production credit since 1933 through local production credit associations, also farmer-owned. These two credit systems lend to farmers of good and often superior credit standing, but other programs are available to assist borrowers less well situated. The Farmers Home Administration offers short- and long-term credit to farmers unable to obtain financing from private sources and in the 1930's other agencies, notably the office of the Land Bank Commissioner, acting for the Federal Farm Mortgage Corporation, supplied large amounts of mortgage credit to farmers experiencing acute difficulties as a result of agricultural depression. Finally, specialized credit services are available to farmers' marketing, processing, and purchasing cooperatives through the banks for cooperatives, and to electric light and power cooperatives through the Rural Electrification Administration."

To business

In contrast to the quasi-public programs for agriculture, credit to business has generally been administered by direct agencies of the U.S. government. Usually, these agencies have entered into some form of collaborative arrangement with private financing institutions, in addition to making loans on their own account.

Aid to business commenced with the Shipping Act of 1916, the War Finance Corporation of World War I, and the loans to railroads by the Director General of Railroads and the Interstate Commerce Commission after the war. The principal agencies through which the government has in recent years made direct loans to business firms are the Reconstruction Finance Corporation, the Federal Reserve Banks, the Export-Import Bank of Washington, the Maritime Administration, and, after the demise in 1953 of the RFC, the Small Business Administration. The Veterans' Administration after World War II was empowered to guarantee or insure small loans to veterans wishing to set up or acquire a business.

For the most part, these programs were designed hastily to meet dire emergencies, when there was no time to create institutions of the federally sponsored type, nor — at least in the early days — any program for stimulating private investment funds to meet the emergency. Apart from interest rate policy and other questions to be brought up later, efforts to minimize competition with private financing were consistent. Federal loans have regularly been restricted to businesses unable to secure private credit; moreover, federal credit agencies have encouraged participation in business loans by commercial banks (through use of loan guarantees, for example).

Most federal loans to business have been of medium term (one to ten years), of medium amount, and have usually been made to medium-sized — rather than to truly small — business concerns. More than half have gone to manufacturing firms, where the risks appear to be greater; whereas only about 15 per cent of commercial-bank term loans have gone to manufacturers. Disproportionately large numbers of federal loans went to firms in rapidly developing, capital-deficit areas; and a large fraction of the total went to new firms and new industries.

By far the most significant program to business was that of the RFC, after broadening of its powers in 1934. A total of $15 billion in business loans was granted from 1934 through 1953.

The policy of government agencies supplying business credit has been to lend only where credit could not be obtained at conventional rates from private sources. RFC required reasonable collateral, in its view sufficient to assure repayments; but this did not necessarily mean that the loan could have been obtained from private sources. Most agencies would not lend primarily in order to enable a firm to refund other debts, or to "bail out" private credit institutions. Yet a substantial part of federal advances went in fact to pay existing business debts.

For urban housing

Government aids to homeowners, home financing institutions, and builders have also been limited as to type of credit services; but their impact has been heavy throughout the entire housing field.

In 1932 the federal government established a system of Federal Home Loan Banks financed by the government to supply capital to building and loan associations, hard-hit by the depression. The idea was that they would gradually retire the capital stock held by the government, and this actually was completed in 1951. Lending by the Home Loan Banks was negligible in the 1930's but increased after World War II. By 1953 these banks had advanced more than $5 billion to the associations.

In 1933 the government set up the Home Owners' Loan Corporation as a temporary agency to refinance defaulted home mortgages. When liquidated in 1951, the HOLC had made over a million loans, totaling $3.1 billion. It is estimated that 21 per cent of all homeowners eligible for HOLC assistance actually received it.

Since the end of HOLC, the government has been little involved in direct extension of credit to homeowners. But through the Federal Housing Administration and the Veterans' Administration, approximately one-third of the mortgages on small residential structures in the United States are protected today by government insurance or guarantee. Here federal assistance has gone mainly to middle-class homeowners. Encouragement of repair and modernization loans, and of financing for apartment houses, and the creation of a secondary market for federally protected home mortgages through the Federal National Mortgage Corporation were also important among the government programs.