Guest editorial

Commemorating 100 years of farm credit

This special issue of *Agricultural Finance Review* (*AFR*) commemorates 100 years of farm credit. Sponsored by the NC-1177 (Agricultural and Rural Finance Markets in Transition) research group, the authors of the 14 met on October 13 and 14, 2015 in Chicago, Illinois[1]. After a year of review and revisions the papers in this issue represent a broad swath of agricultural finance research in the USA.

Much has changed in both the delivery and study of agricultural finance over the past century, but the fundamental necessities of credit delivery to production agriculture have not changed; farmers continually acquire land and machinery, purchase inputs and hire labor to plant crops in one period to produce output in a subsequent period. The agricultural credit system facilitates financial decisions making by farmers by providing long-term mortgages for investment and short-term operating loans for working capital and credit reserves.

The farm financial stresses of the early 1900s impacted and destabilized not only farmers but also lenders, agriculturally related businesses and rural areas. Money was scarce in most rural areas where the majority of the population lived, and farming was the main occupation of rural households. Financing of production agriculture, especially long-term loans, was a difficult to obtain from commercial banks. The Land Banks and their affiliates came into being by Congressional Law (Federal Farm Loan Act[2]) in 1916. Because farmers had an urgent need for more and better long-term mortgage financing and lenders could be found, costs usually were high. The Congressional Law led to the establishment of Federal Land Bank (FLB) in each of the 12 districts across the country. The Act also established hundreds of National Farm Loan Associations.

The Farm Credit System was authorized by Congress over a 17-year-period (1916-1933) to meet the extremely pressing needs of farmers, ranchers and their cooperatives. Farmers needed a source of credit with terms suited to their particular needs (operating loans, long-term mortgages, etc.) from lenders who understood their problems. The 1920s and the Great Depression era were significantly detrimental to farmers. With falling commodity prices farmers were unable to pay expenses or meet loan payments, leaving many FLBs with numerous defaults. In 1933, President Roosevelt created the Farm Credit Administration (FCA). Over the next seven decades Congress passed several acts (e.g. Farm Credits Act of 1953; Farm Credits Act of 1971) to streamline the focus and services of the FCA. The Farm Credit System has been highly successful dollarwise and peoplewise. It has been instrumental in helping farmers increase the food and fiber supply for more and more consumers across the USA and around the world. More importantly, the Farm Credit System operating side to side with a robust commercial banking system remains a vital economic force for American agriculture.

For over 100 years, the university land grant system has pushed research in agricultural finance. New frontiers in the delivery and execution of credit policies and the understanding of credit on agricultural has had a significant impact not only farmers and consumers but also on policymakers. Outreach and engagement has been accomplished through published thesis and dissertations at various universities and through peer reviewed research in professional journal such as *AFR*. Since its first issue in May 1938, *AFR* has provided an outlet for policy debate and a forum for rigorous theoretical and empirical work related solely to issues in agricultural and agribusiness finance including farm credit, agricultural lending and credit issues, banking, financial efficiency, agricultural policy, agricultural finance, risk management, agricultural insurance and reinsurance; business and financial risk affecting agriculture and agribusinesses; and agricultural policies affecting

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agribusinesses risk and profitability (Turvey, 2009). The papers in this special issue commemorate not only 100 years of agricultural credit, but also 100 years of active research by a small club of agricultural economists whose research has continually pushed the frontiers in agricultural finance and the delivery of credit to agriculture.

The issue opens with a paper by Calum Turvey on historical developments in farm credit leading up to the American experiment in government sponsored farm credit. This is followed by four papers that discuss dynamics and change across specific aspects of agricultural finance including beginning farmers (James Williamson), public intervention (Todd Hubbs and Todd Kuethe), farm exit and entry (Ani Katchova and Mary Ahearn) and US dairy farms (Joleen Hadrich, Christopher Wolf and Kamina Johnson).

Three papers explore some of the macro forces at work in the US credit system including structural change across farms and lenders (Bruce Ahrendson and Charles Dodson), asset values and optimal debt choice (Maria Bampasidou, Ashok Mishra and Charles Moss), and the agency cost of debt by Brady Brewer and Allen Featherstone.

The next two papers by Valentina Hartarska, Denis Nadolnyak and Xuan Shen and Allen Featherstone, Mykel Taylor and Heather Gibson deal with farm-level issues. The first examines the relationship between agricultural productivity, income and farm credit, while the second examines the relationship between farm incomes and farmland values in Kansas.

The final four papers relate more closely to issues of credit delivery including credit migration at the Farm Services Agency (Brady Brewer, Hofner Rusiana and Cesar Escalante), factors affecting risk-rating migration (Christine Wilson, Allen Featherstone and Lance Zollinger) and the relationship between risk perceptions, loss aversion and credit by Thomas Sproul and Clayton Michaud).

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Notes

1. A part of the meeting was held jointly with the National Agricultural Credit Committee (NACC). We thank Nathan Kaufman, Assistant Vice President and Branch Executive at Federal Reserve Bank of Kansas City, Omaha Office. Nathan has been a proponent of sound agricultural finance research, and his support for Agricultural Finance and Management (AFM) Section and NC-1177 is very much appreciated.
2. The origins of this Act have been traced to Germany's *Landschaft* systems.

Reference

Turvey, C.G. (2009), "Biography: Agricultural Finance Review", *Agricultural Finance Review*, Vol. 69 No. 1, pp. 5-14.