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Credit Experience

Reliable data concerning the credit experience on farm equipment loans of commercial banks, production credit associations, and finance companies are not available, because of the impossibility of separating losses on equipment loans from those incurred on other agricultural or industrial credits. We do have data from farm equipment manufacturers concerning delinquencies on purchaser notes during 1935–48, to which can be added the reports of a few companies on losses over the same period and some indications of earlier experience.

Loan Delinquencies

The percentage ratio of past due or delinquent purchaser notes held by reporting equipment manufacturers to the total of purchaser notes which they held varied inversely, in general, with net farm income over the period 1935–48 (Table 28). During that fourteen-year period the amount past due averaged 22.1 percent of the total, ranging from a high of 36.6 percent in 1935 to a low of 0.2 percent in 1948. The relatively high percentage in arrears in 1935 was due, in part at least, to the carry-over of a large number of purchaser obligations originating in the worst depression years.

The percentage past due declined steadily from 1939 through 1942. Beginning in 1942, the volume of purchaser obligations outstanding also declined rapidly, as has been shown in Table 6. Because delinquencies did not fall off as rapidly, the proportion past due rose to 24.5 percent of the total holdings in 1943, but thereafter notes were rapidly repaid and by 1948 the reporting companies had virtually cleared their holdings.

TABLE 28

NOTES PAST DUE AS A PERCENTAGE OF ALL PURCHASER NOTES HELD BY REPORTING FARM EQUIPMENT MANUFACTURERS, AND NET FARM INCOME, 1935–48

Year	*Percentage of Total Amount Past Due* [a]	*Net Farm Income* [b] *(in millions)*
1935	36.6%	$ 4,500
1936	28.2	5,064
1937	19.6	5,095
1938	22.9	4,232
1939	21.6	4,261
1940	17.4	4,298
1941	11.1	6,052
1942	10.4	8,849
1943	24.5	11,540
1944	15.3	11,970
1945	5.5	12,286
1946	4.0	14,193
1947	7.0	16,774
1948	0.2	15,604

[a] Based on the National Bureau of Economic Research survey of farm equipment manufacturers; the four companies reporting accounted for over half the sales volume of the industry in the period covered. Past due notes for one company include all notes more than 120 days past due at year end; for other companies past due notes are all those past due to any extent at year end, including renewals and extensions.

[b] Farm operators' realized net income from agriculture, from *Agricultural Outlook Charts—1953* (Bureau of Agricultural Economics, October 1952), p. 10.

Loss Experience

Only one manufacturer was able to provide data on losses incurred on purchaser notes alone, but three other manufacturers were able to give net charge-offs for dealer and purchaser notes combined. These losses are given in Table 29 in the form of percentages of the total equipment sales of the several companies. It would have been preferable, of course, to express losses as a percentage of credit sales, but a breakdown of total sales into the two categories of cash and credit sales was available for only one company. Charge-offs net of recoveries on purchaser notes of Company A were negligible

TABLE 29

NET CHARGE-OFFS ON DEALER AND PURCHASER NOTES HELD BY FOUR MANUFACTURERS OF FARM EQUIPMENT, AS A PERCENTAGE OF THEIR SALES, 1935–48

YEAR	PURCHASER NOTES	DEALER AND PURCHASER NOTES COMBINED		
	Company A	*Company B*	*Company C*	*Company D*
1935	a	a	4.96	14.04
1936	a	a	2.16	3.16
1937	a	a	1.88	1.33
1938	0.35	0.63	2.10	1.38
1939	0.14	0.68	1.30	1.38
1940	0.06	0.33	0.84	1.26
1941	0.01	0.19	1.12	0.61
1942	b	0.11	0.41	0.63
1943	b	b	c	0.30
1944	0	0	c	0.03
1945	0	0	c	b
1946	0	0	c	b
1947	0	0	c	b
1948	0	0	0.05	b

Based on the National Bureau of Economic Research survey of farm equipment manufacturers. The reporting companies accounted for over half the sales volume of the industry in the period covered.

a Data not available.
b Less than 0.005 percent.
c Recoveries exceeded charge-offs.

or actually nonexistent in 1941 and in the following years. In 1938, a year of relatively low farm income (the lowest since 1922, except for the years 1931–34), these charges against income had amounted to but 0.35 percent of total equipment sales for the year. Since equipment sales in 1938 were approximately 2.2 times the amount of purchaser notes held by manufacturers at the end of that year, it may be estimated that the net charge-offs on purchaser notes were about 0.77 percent of outstandings in that year. As has been indicated above, net charge-offs on purchaser notes fell off rapidly thereafter.

For the three companies providing loss experience data on purchaser and dealer notes combined, net charge-offs were likewise practically nonexistent after 1944; one company had recoveries in excess of charge-offs during the period 1943–47. During the period 1938 to 1941, for which yearly data are given for all three companies in Table 29, Company B had average net charge-offs of 0.44 percent of total sales, compared with 1.31 percent for Company C and 1.11 percent for Company D. Executives of each of these companies stated that charge-offs on dealer loans were much greater than on purchaser notes, accounting for as much as two-thirds to three-fourths of the combined net charge-offs.

Data indicating losses by geographic areas were available from only one company and its experience in the prewar period varied considerably from one area to another. Lowest loss rates were in the New England and Middle Atlantic regions, and the highest losses per dollar loaned were in the South Atlantic and the East and West South Central regions. Losses per dollar loaned in the South and Southwest were approximately double those on loans to farmers in the eastern regions first mentioned.

We lack direct information on credit experience before the mid-thirties, and the indirect evidence, consisting of reports from several of the leading equipment manufacturers on provision made for bad debts over the years 1927–36, is slight. Three firms apparently made provision on a stable basis from year to year, amounting to 2.4 percent of total net sales in one case and 5.1 and 5.6 percent in the other two. The amounts allocated by two other companies, which varied their loss provision from year to year, averaged 2.3 percent of total net sales in one case and 4.3 percent in the other.[1] These loss provision rates refer to purchaser and dealer obligations combined. If the provision made over a ten-year period may be supposed representative in a rough way of losses actually sustained, then a comparison of these 1927–36 percentages with actual charge-offs for companies B, C, and D in Table 29 gives some indication that manufacturers' credit experience may have been better in the years after 1935 than before.

Information for earlier periods is even slighter, consisting mainly

[1] *Report on the Agricultural Implement and Machinery Industry* (Federal Trade Commission, 1938), pp. 417–559.

of general observations by leaders in the industry. Writing in 1931 about the credit arrangements and experience of the McCormick Company in the middle and late nineteenth century, Cyrus McCormick stated:

> Of course (the) credit system entailed some losses. . . . In days when the West was being settled, men were often cruelly tested in their battle with the soil and many failed. Credit losses were therefore higher than now, and varied from three to five percent. The cost of collections is given as seven and one-half percent. . . . Such extended credit demanded a huge provision of capital and could have been justified only by what would now be considered colossal profits.[2]

Presumably, the reference to credit losses in the above quotation is to a percentage of total equipment sales, as in the data presented above and in Table 29. If this is so, then the losses, while considerable in the earlier years, were not higher than in the early and middle thirties. Another statement, made in 1902, again presumably relating credit losses to total net sales, suggests approximately the same range of losses on credits extended to farmers. It was stated by the McCormick Company that the "loss on bad paper is four percent or less . . . [averaged] over a term of years. It is felt that the interest account accruing on these notes fairly equalizes this loss." [3]

The most widely based part of our evidence on credit experience is the picture (in Table 28) of decreasing percentages of past due purchaser notes held by manufacturers from 1935 through 1942, the last year in which equipment companies supplied a considerable amount of retail equipment credit. Further decreases characterized the later forties, when farm income and liquid assets were high and equipment sales needed no stimulus via manufacturers' credit extensions. Slenderer information about charge-offs and loss provisions points, too, in the direction of better credit experience in the period since 1935. Should the demand for retail farm equipment financing continue to be met largely by outside credit sup-

[2] Cyrus McCormick, *The Century of the Reaper* (1931), p. 51.
[3] *The International Harvester Co.* (Department of Commerce and Labor, Bureau of Corporations, 1913), p. 342.

pliers, as in the postwar years, the improvement may prove lasting. Independent financial agencies, interested exclusively in the quality of the loan asset acquired when a farmer's equipment purchase note is taken up, would presumably avoid altogether the losses which appear when credit is used to stimulate sales and should, therefore, enjoy a relatively more favorable credit experience.