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Lending Experience of the Agencies

The investigators studied foreclosure and loss data from loan records and financial reports, comparing the experience of public and private agencies. They also examined the operations of the federal and sponsored credit agencies to determine if they had been self-supporting. Naturally, the variety of the programs makes it difficult to generalize about the credit experience of the government; but a few facts stand out.

First, the government had an exceptionally favorable record in refinancing debts that were in default in the darkest days of the early thirties. The home mortgage refunding operations of the Home Owners' Loan Corporation and the farm mortgages held by the Land Bank Commissioner, which represented really severe risks, showed a notable record of repayment. The explanation offered by the authors is that borrowers under these depression programs were only temporarily embarrassed, and economic recovery put them back on their feet.

Second, the federal government has had an unfavorable credit experience when it attempted to supply credit, sometimes during depression but even during periods of general economic prosperity, to business firms and farm enterprises unable – because of their newness, or owing to some weakness in financing position or management – to find financing on reasonable terms through private lenders.

Third, it became clear that the cooperative financial institutions sponsored by the government fared well as lenders, becoming more and more like private institutions as time passed and registering a credit experience broadly comparable to private lenders.

A fourth point evidenced by the study is the close relationship between the loss experience of a federal credit agency and the type of credit function it performs. For example, nearly two-thirds of RFC's business loans extinguished with loss were made to newly established firms. Also, losses were significantly higher where credit information about the borrowers was inadequate.

Finally, the investigators noticed the similarity between the lending experiences of public and private agencies when the two operate under comparable circumstances. To illustrate, HOLC foreclosed nearly 20 per cent of the more than 1 million mortgages which they refinanced. And the major life insurance companies foreclosed nearly 21 per cent of the home mortgages which they had made in the period 1925 to 1929. The same regional differences applied to both also, foreclosures being more numerous in the Northeast and Middle Atlantic states, and more frequent on properties located in highly industrialized and heavily populated areas.

Lending experience in *agriculture* varied under the different types of programs, but was generally not unfavorable, and compared well with private lenders.

The record of the Federal Land Banks has been good, and in fact somewhat better than that of private farm mortgage lending institutions. During the thirties, of course, delinquencies and losses rose sharply. By 1933, about half of the loans were delinquent or had been extended to prevent default. Foreclosures averaged nearly 10,000 a year in the decade 1930–40. Since then, there have been virtually no delinquencies or foreclosures, and losses have been negligible.

Most of the Land Bank Commissioner loans were made at the very bottom of the depression. This was an emergency program; yet experience with the loans was far more favorable than expected, apparently because of their long-term and liberal amortization characteristics, extending over a long period of recovery. By the end of 1940, losses on the Commissioner loans were 0.42 per cent of cumulative outstanding loan balances, compared to 0.51 per cent for the Land Banks.

In the case of production credit to agriculture, loss experience is about the same as that of commercial banks, though it varies widely from region to region and from time to time. Over the twenty-year history of the production credit associations, net losses and provision for losses have amounted to only 0.14 per cent of total cash advanced. Similarly favorable records were built up by the Banks for Cooperatives. Total net losses from the time of organization of these banks through 1953 were 0.07 per cent of total loans made, or 0.13 per cent of cumulative outstanding loan balances.

The heaviest losses in the agricultural field have come in those programs of the Farmers Home Administration and its predecessors in which credit was extended for general farm operating and production or emergency and disaster purposes, either on the security of farm real estate or on relatively short term. These credit programs were specifically designed to assist low-income farmers, farm tenants, or farm laborers who could not obtain financing from private sources at conventional rates of interest. It was thus expected that losses would be substantial – and so they have been. To mid-1953 the loss rate on loans for general farm operating and production purposes – covering rural rehabilitation, production and subsistence, and water facilities programs – was 4.4 per cent of the total amount advanced, and the combined loss rate for loans of the emergency type, such as the disaster loan and emergency crop and feed loan programs, was in excess of 10 per cent.

However, loss experience in the Farmers Home Administration's real

estate credit programs was not unduly severe, and in fact compared well with the Land Bank or the Land Bank Commissioner loans.

Because of improved general economic conditions since the beginning of their operations, credit experience of federal agencies lending to *business* has been much better than would otherwise have been the case, though less favorable than that of commercial lenders. It is estimated that the RFC, from 1934 through 1951, suffered a loss of about 2 cents on every dollar lent to businesses. Federal Reserve Bank loans showed a somewhat smaller loss, though high by conventional standards. Losses by the Maritime Administration and the Export-Import Bank have been negligible. Maritime, of course, extends and renews loans freely. To June 30, 1954, losses of the Export-Import Bank were 0.01 per cent of credit advanced.

In *housing,* the experience was more favorable on loans secured by small, medium-priced owner-occupied homes than on loans secured by income-producing structures such as apartment houses. Through 1953, the Federal National Mortgage Association, an agency empowered to purchase VA-guaranteed and FHA-insured loans, terminated less than 1 per cent of home loans by foreclosure; but at the same date, fully 10 per cent of FHA-insured housing project loans had been foreclosed. The low risk associated with financing small owner-occupied houses is illustrated also by the exceedingly favorable loan insurance and guarantee history of the Federal Housing Administration and the Veterans' Administration. From 1934 to 1953, FHA paid claims equal to only 2 per cent of the net proceeds of loans insured for modernization and improvement – and recoveries amounted to 40.9 per cent of claims paid. On home mortgage loans insured by FHA, foreclosures represented about 0.5 per cent of the original amount of the loans. Under the VA home mortgage guarantee program, claim payments through 1953 were made on only 0.6 per cent of the loans.

Have Federal Credit Programs Been Self-Supporting?

Difficult as analyses of costs and revenues of federal credit agencies proved to be, the investigators examined each program and arrived at approximate answers. Most of the agencies lending to agriculture have managed