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# SHORT-TERM PRODUCTION CREDIT IN THREE TYPE-OF-FARMING AREAS OF MISSOURI IN 1950

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COLUMBIA, MISSOURI

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## ABSTRACT

The data presented in this study clearly indicate that short-term credit plays an important part in the operation of farm businesses during periods of increasing business activity.

The institutions that provide livestock farmers in Northwest Missouri with short-term production credit appear to be adequate. Interest rates are relatively low and farmers who have reasonably good equities in their businesses are able to obtain credit whenever it is needed.

Production credit appears to be available to all but the poorest cash-crop farmers in the southeast lowlands area of Missouri. Operators on small units and those who have low equities in their businesses have difficulty in obtaining credit. An increased use of the restricted type of loan, under the supervision of men trained in scientific agriculture, might do much to increase the financial resources and the earnings of this group of borrowers.

Due to the dependence of the economy of Southeast Missouri on cash crops, bank credit is not fully utilized during the summer months. This problem is discussed in Appendix A. Because of this fact and because of the extra expense involved in supervising restricted loans, interest rates will probably remain relatively high until some practical outlets for excess loanable funds during the fall and winter months can be found. Farm diversification and community development might help to solve this problem.

The credit situation in the Ozark area presents some special problems. Since this region is very poor in natural resources, it is difficult for a farmer to provide himself and his family with a good living with many of the farm businesses organized as they are at the present time. If a farmer is to improve his income, he must either intensify production on his present farm, increase the acreage he operates or resort to a combination of these two procedures. Increased capital is needed to apply any one or a combination of these alternatives. Capital in the amounts that would be required is not available at local banks in the area since most of them have small deposits. Other lenders supply less than one-fourth of the short-term production credit that is used.

Chattel mortgages are the rule. There are comparatively few unsecured loans. Many of the Ozark farmers do not have sufficient security for enough credit to correct the inadequacy of their present farm businesses. The solution of this problem will require further research in farm management and community organization.

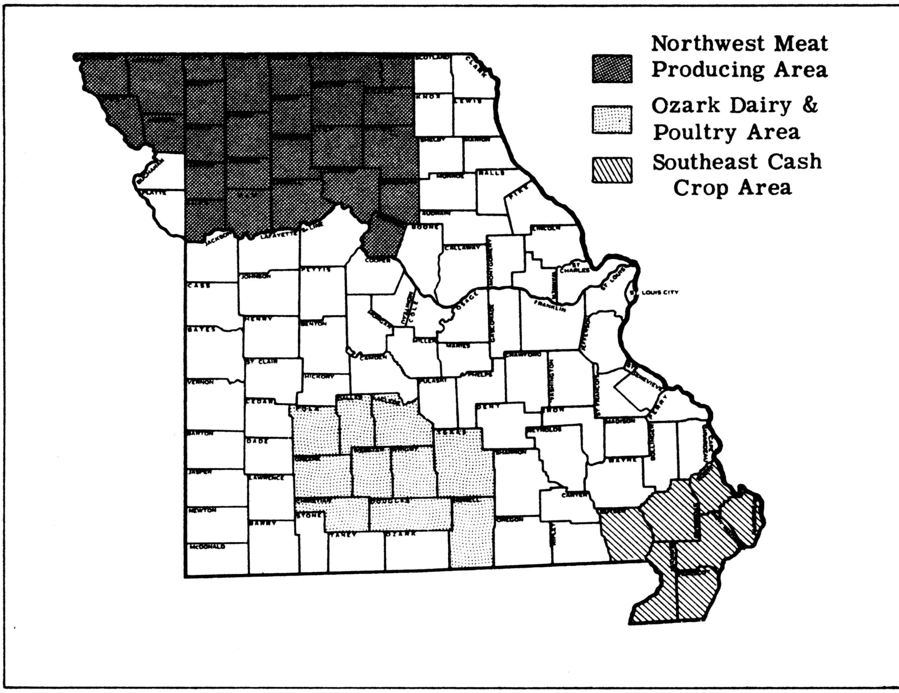


Figure 1. — Areas studied in the survey of short-term credit used by operators of livestock, dairy and cash-crop farms in Missouri in 1950.

# Short-Term Production Credit in Three Type-of-Farming Areas of Missouri

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## INTRODUCTION

The trend toward larger farms with specialized crop or livestock enterprises and high prices for land, livestock and equipment has increased investments in farm businesses. Naturally, these conditions make large amounts of money necessary to carry on ordinary operations. On a great many farms, these additional funds are obtained through the use of credit. Under such conditions the procedures followed by lending agencies, the volume of loan funds available as compared to needs, the costs that must be met both by borrowers and lenders, and the period for which funds can be made available in relation to the farm income flow all become important factors influencing the welfare of farm people.

### Purpose of the Study

This study deals with the short-term funds that farmers borrow for production purposes. It was undertaken for the following purposes:

1. To determine the extent of this type of borrowing by operators of three types of farms in Missouri during 1950, a period of rising business activity;

2. To compare the characteristics of farmers who borrowed with those who did not;

3. To ascertain the use that was made of the borrowed money;

4. To determine which agencies made available the greatest number and largest volume of production loans;

5. To analyze in detail some of the loans extended by the principal lending agency, with emphasis on the amount of credit extended, seasonality of credit requirements, type of security or collateral used, terms, and lending procedure.

### Importance of the Study

On January 1, 1951 the Bureau of Agricultural Economics estimated that the short-term debt of American farmers amounted to nearly six billion dollars. At that time it was relatively more important than the farm mortgage debt, which stood at 5.8 billion dollars. The American

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Bankers Association reported that 57.7% of all farmers in Missouri during 1950 found non-real estate credit from commercial banks and Production Credit Associations useful in operating their businesses. These two institutions alone extended short-term credit in the amount of $248,000,000 to 120,000 farmers in the state. Since investments in machinery, equipment and livestock are expected to continue to make up an increasingly larger proportion of the farmer's total capital outlay, this short-term borrowing will become even more important to him in the future.

Other than the very general data mentioned above, little is known about the Missouri farmer's use of short-term production credit. No information is currently available which shows the amount used by operators of the various types of farms or the purposes for which the funds are obtained. Aside from their own observations, lenders have very little information about the time when borrowers are most likely to need funds. The data presented here should begin to correct this situation.

Throughout this report the term "short-term production credit" is interpreted to mean loans to farmers for terms of one year or less for the purpose of (1) buying livestock of any type, (2) buying farm machinery, and (3) paying operating expenses, such as the purchase of feed, seed, fertilizer, electric power, and other current operating expenses. Loans made to refinance old notes or secured by commodities in storage under government price support programs are not included as production loans.

Short-term production loans are subdivided according to the purpose for which the funds were used under the headings of livestock, machinery, and "barnyard loans." If the money was used for the purchase of farm animals, it is called a livestock loan. If used to buy a tractor, a cultivator or some other piece of equipment, it is classed as a machinery loan. Obligations classified as "barnyard loans" are those assumed for any short-term production needs other than the purchase of livestock or machinery.

### Type of Farm

An effort was made to get credit information from operators of three types of farms. The operating units were divided into cash-crop, livestock, and dairy farms according to the principal source of income. The cash-crop farm was considered to be a unit on which income from the sale of field crops amounted to 50% or more of the value of all farm products marketed. For a farm to be classified as a livestock unit, 50% of the total income derived from the farm must have come from the sale of animals, other than poultry or dairy cows. To be classified as a dairy unit the value of the dairy products sold off the farm had to be equal to at least 50% of all products marketed.

## ORGANIZATION OF THE STUDY

The following steps were taken in assembling the data for the study. Information from type of farming studies was used in selecting areas in the state where cash-crop, livestock, and dairy farming predominated. Within each of these areas a county was selected which was typical of the area as a whole. A mailing list of farm operators was obtained from the State Production and Marketing Administration records. A questionnaire was sent to these farmers to determine the extent of their short-term borrowing, and to ascertain the differences in size of business and level of income, if any, between those who borrowed and those who did not. In addition, a survey of three commercial banks in each typical area was made to obtain specific data concerning loans to farmers of each dominant type classification.

In previous studies, Missouri has been divided into ten type-of-farming areas. Information contained in Research Bulletin 284, "Types of Farming in Missouri," and refinements that have been made since this publication was written were used in selecting three areas in which cash-crop, livestock, and dairy farming predominate. Previous research dealing with the relative gross productivity of land was used in selecting a county which was typical of each of these three type-of-farming areas. By this procedure Dunklin county was chosen to represent the Delta Cotton, Corn and Soybean producing area; Gentry county was selected for the Northwest Meat Producing section; and Webster county for the Ozark Plateau Dairy region. The location of these type-of-farming areas is shown in Figure 1.

In order to obtain general information concerning the use of short-term production credit in each of the counties chosen, a mail questionnaire was sent out to a representative group of operators. The names and addresses were obtained from the Missouri State Office of the Production and Marketing Administration where there is a complete list of farm operators, tenants, and owners in each county of the state. It was estimated that between 15 and 20% of the farmers receiving the questionnaire would reply. Census data indicated that approximately 85% of the farmers in Dunklin county were classified as cash-crop operators. In Gentry county 60% of the farmers were primarily livestock men, and 69% of the farmers in Webster county were operating dairy units. About fifty replies from farmers of each type of classification were desired, so the number of questionnaires sent to each county varied. Altogether, 1200 names were chosen at random from the Production and Marketing Administration's county list. Of these 300 were in Dunklin county, 400 in Gentry county, and 500 in Webster county.

The questionnaire that was used is illustrated in Appendix A. It contains space for the farmer to fill in data concerning (1) his tenure status, (2) the size and type of farm business operated, (3) his net farm income during 1950, (4) his use of credit in the past and during 1950, (5) sources from which he borrowed, the terms, the cost, the use made of the funds, and (6) his need for credit and its availability to him. The data used in the analysis of credit needs and sources of funds were obtained primarily through responses to this questionnaire.

The respondents indicated that commercial banks were the most important source of short-term credit in all three type of farming areas. Because of this fact, a survey of three banks in each area was conducted in order to obtain more detailed information regarding the procedures the principal lending agency used in placing, supervising, and collecting loans. The banks from which this information was obtained were selected after consultation with Robert E. Lee Hill, secretary of the Missouri Bankers Association. All of them were either in or very near the county which was chosen as typical of the type of farming area.

Each of the nine banks so selected was visited and the officers in charge of their farm loan departments were interviewed. The information obtained included a summary of the monthly activities of the bank during 1950 and an outline of the procedures used in making loans to farmers. Detailed information was also obtained from a sample of each bank's farm borrowers. It included (1) the borrower's farming type, tenure status, and financial condition, (2) the number of acres he operated, (3) the amount of each loan he obtained during 1950, (4) the month during which each loan was made and repaid, (5) the purpose for which the money was used, (6) the security required, the interest rate and terms of each note, (7) the loan's success, (8) the inclusion of a gentlemen's agreement for extension, and (9) supervision of the borrower by the bank. Most of this information was taken from the loan and discount ledger of each bank and the customer's files of those banks that kept such files. In assembling the data, farm borrowers were selected at random and only loans made during 1950 were tabulated. Renewals of old notes were not included. An effort was made to gather information on at least 40 borrowers of the dominant farming type at each bank, but this objective was not reached in all cases because of the limited time the bankers had available to work with the fieldman who was collecting the data.

## USES OF SHORT-TERM CREDIT

Responses to the mail questionnaire revealed some marked differences and some similarities in the use of credit in the various type-of-farming areas. As shown in Table 1, 62.7% of all respondents in Dunklin county borrowed, as compared with 67.4% of the cash-crop farmers in that county. In Gentry county 61.4% of the livestock farmers and 61.6% of all farmers borrowed. In Webster county 33.8% of all farmers and 39.5% of the dairy farmers borrowed. Apparently cash-crop and dairy farmers borrow more extensively than do all farmers in the areas where these specialized types are dominant, while about the same proportion of livestock farmers borrow as do all farmers in the northwest meat producing area.

Table 1 -- Number and percentage of all farmers using short-term production credit in 1950 as shown by replies to a questionnaire sent to farm operators in typical counties of three type-of-farming areas in Missouri.

| | Dunklin County (Delta Cotton, Corn and Soybean area) Number | | Gentry County (Northwest Meat Producing Area) Number | | Webster County (Ozark Plateau Dairy area) Number | |
|---|---|---|---|---|---|---|
| | Who Borrowed | Who did Not Borrow | Who Borrowed | Who did Not Borrow | Who Borrowed | Who did Not Borrow |
| Cash-crop | 29 | 14 | 3 | 2 | -- | 2 |
| Livestock | 2 | 1 | 27 | 17 | 6 | 6 |
| Dairy | -- | -- | 5 | 1 | 17 | 26 |
| Poultry | -- | -- | -- | 2 | -- | -- |
| General | -- | 2 | 5 | -- | -- | 5 |
| Unknown | 1 | 2 | -- | 3 | 1 | 8 |
| Total | 31 | 19 | 40 | 25 | 24 | 47 |
| Percent | 62.7 | 37.3 | 61.6 | 38.4 | 33.8 | 66.2 |

The responses obtained also brought to light appreciable differences in the extent to which cash-crop, livestock, and dairy farmers within the areas where each of these types was dominant used short-term credit during 1950. As shown in Table 2, 67.4% of the cash-crop farmers in Dunklin county borrowed to carry on their farming operations; 61.4% of the livestock farmers in Gentry county found it convenient to use borrowed funds, while only 39.5% of the dairy farmers in Webster county indicated that they used funds other than their own. The American Bankers Association estimated that during the same period 57.7% of all Missouri farmers borrowed short-term money from banks and Production Credit Associations. It appears that southeast cash-crop and northwest livestock farmers used credit somewhat more exten-

Table 2 -- Number and percentage of Missouri cash-crop, livestock and dairy farmers who used short term production credit in 1950 as indicated by replies to questionnaires sent to farm operators in three type-of-farming areas.

| | Southeast cash-crop farmers (Dunklin County) | Northwest livestock farmers (Gentry County) | Ozark dairy farmers (Webster County) |
|---|---|---|---|
| Number | | | |
| Who borrowed | 29 | 27 | 17 |
| Who did not borrow | 14 | 17 | 26 |
| Total | 43 | 44 | 43 |
| Percentage | | | |
| Who borrowed | 67.4 | 61.4 | 39.5 |
| Who did not borrow | 32.6 | 38.6 | 60.5 |
| Total | 100.0 | 100.0 | 100.0 |

sively than the average of all farmers, while Ozark dairy farmers borrowed less money for production uses than the all farmer average. These differences grow out of the nature of farm businesses, in part at least. The dairyman has a regular income for the payment of operating and living expenses. Incomes on cash crop and livestock farms are seasonal.

## Comparison of Borrowers and Non-Borrowers

Responses to the questionnaire revealed several pronounced differences between the farmers who borrowed and those who did not borrow in all three type-of-farming classifications. These differences were associated with tenure status, size of farm, returns per acre, and source of income.

**Tenure Status.**— Generally, as shown in Table 3A, tenants and owners who operated mortgaged farms used more short-term credit than did other groups. Owners who were free of mortgage debt comprised a relatively large proportion of those not borrowing. In the southeast cash-crop classification 10.3% of the borrowers were owners free of real estate debt while 48.2% were tenants. In the same area 42.9% of those not borrowing owned their farms unencumbered while only 14.2% of the non-borrowers were tenants. The same trend was evident in the other two type-of-farming classifications. Debt-free owners made up 22.2% of the northwest livestock farmers who borrowed and 64.7% of those not borrowing, while renters accounted for 29.6% and 5.9% respectively. Among the Ozark dairy farmers 47.1% of the short-term loans were made to owners who were free of real estate debt and 41.2% to owners whose farms were mortgaged. Of the large majority of owners who did not borrow, 79.2% were free of real estate debt. Only 20.8% were operating mortgaged farms.

Table 3A -- Tenure status of users and non-users of short-term production credit in three type-of-farming areas of Missouri, 1950.

| Tenure Status | Dunklin County (Delta Cotton, Corn and Soybean area) Percentage | | Gentry County (Northwest Meat Producing Area) Percentage | | Webster County (Ozark Plateau Dairy Area) Percentage | |
|---|---|---|---|---|---|---|
| | Who Borrowed | Who Did Not Borrow | Who Borrowed | Who Did Not Borrow | Who Borrowed | Who Did Not Borrow |
| Owner operator farm clear | 10.3 | 42.9 | 22.2 | 64.7 | 47.1 | 79.2 |
| Owner operator farm mortgaged | 20.8 | 28.6 | 29.6 | 11.8 | 41.2 | 20.8 |
| Part owner land clear | 6.9 | 14.3 | 14.8 | 17.6 | 11.7 | ---- |
| Part owner land mortgaged | 13.8 | ---- | 3.8 | ---- | ---- | ---- |
| Tenant | 48.2 | 14.2 | 29.6 | 5.9 | ---- | ---- |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Table 3B -- Percentage of Missouri farmers of each tenure status who used short-term production credit in 1950.

| Tenure Status | Dunklin County (Delta Cotton, Corn and Soybean area) Percentage | | Gentry County (Northwest Meat Producing Area) Percentage | | Webster County (Ozark Plateau Dairy Area) Percentage | |
|---|---|---|---|---|---|---|
| | Who Borrowed | Who Did Not Borrow | Who Borrowed | Who Did Not Borrow | Who Borrowed | Who Did Not Borrow |
| Owner Operator farm clear | 33.3 | 66.7 | 35.3 | 64.7 | 27.6 | 72.4 |
| Owner Operator farm mortgaged | 60.0 | 40.0 | 80.0 | 20.0 | 58.4 | 41.6 |
| Part Owner land clear | 50.0 | 50.0 | 57.1 | 42.9 | 100.0 | ---- |
| Part Owner land mortgaged | 100.0 | ---- | 100.0 | ---- | ---- | ---- |
| Tenant | 87.5 | 12.5 | 88.9 | 11.1 | ---- | ---- |

Many farmers who had accumulated enough capital to own their land free of debt did not use short term credit to the extent that their neighbors, who were on rented or mortgaged farms, did. As shown in Table 3B, only about one-third of the debt-free owners in all three type-of-farming classifications used short-term credit during 1950. However, more than one-half of the owners whose farms were mortgaged in each type classification obtained credit in that period. The same trend was evident among part owners. Most of the tenants used short-term credit for some purpose during the year.

**Size of Farm.**— Obtaining an efficient balance between land and working capital is one of the major problems faced by farmers. The operator of a small farm finds it necessary to use intensive enterprises such as dairying or the production of high income field crops in order to get returns large enough to meet operating expenses and care for his family. The operator of a large farm usually has considerable money invested in machinery and equipment and may also carry extensive livestock enterprises in order to convert hay and pasture crops into readily salable products. In either case, short-term credit may be used to help meet the increased financial requirements. In the southeast cash-crop type of farming classification, the users of short-term credit operated smaller farms than non-borrowers. As shown in Table 4, borrowers operated an average of 84.3 acres while non-borrowers

Table 4 -- Average number of acres in farms operated by borrowers of short-term production funds and non-borrowers of each tenure group in three type-of-farming areas of Missouri, 1950.

| Tenure Status | Dunklin County (Delta Cotton, Corn & Soybean Area) Acres Operated by | | Gentry County (Northwest Meat Producing Area) Acres Operated by | | Webster County (Ozark Plateau Dairy Area) Acres Operated by | |
|---|---|---|---|---|---|---|
| | Borrowers | Non-Borrowers | Borrowers | Non-Borrowers | Borrowers | Non-Borrowers |
| Owner Operator farm clear | 80.0 | 133.5 | 275.5 | 181.6 | 126.1 | 126.0 |
| Owner Operator farm mortgaged | 88.0 | 76.0 | 267.5 | 115.0 | 117.6 | 97.2 |
| Part owner land clear | 44.0 | 212.5 | 423.6 | 268.3 | 400.0 | ----- |
| Part owner land mortgaged | 84.6 | ----- | 200.0 | ----- | ----- | ----- |
| Tenant | 89.3 | 29.5 | 261.1 | 85.0 | ----- | ----- |
| Average | 84.3 | 113.5 | 288.0 | 183.4 | 154.8 | 120.4 |

operated farms averaging 113.5 acres. In the other two type-of-farming classifications, the borrowers were on larger farms than non-borrowers. Ozark dairy borrowers operated units averaging 154.8 acres while those not borrowing operated farms having an average size of 120.4 acres. For the northwest livestock classification the figures were 288 acres and 183.4 acres respectively.

Thus it appeared that Ozark dairy and northwest livestock farmers operating larger than average units borrowed to a greater extent than those farming smaller than average acreages. These men used credit to get a better combination of economic factors on a larger acreage than was operated by non-borrowers. The opposite was the case in the southeast delta cotton, corn and soybean area where cash-crop farmers used borrowed funds to increase the size of their businesses by growing an intensive crop such as cotton.

**Income per Acre.**— Marked differences were found to exist between average incomes per acre received by borrowers and non-borrowers in all three type-of-farming classifications. In both the northwest livestock and Ozark dairy groups, borrowers had somewhat higher incomes per acre than did non-borrowers. In the northwest meat producing area borrowers received an average of $12.09 per acre and non-borrowers $8.49. In the dairy section, the return to borrowers was $9.26 per acre and to non-borrowers $8.28. On the other hand, southeast cash-crop farmers who borrowed had an average income of only $13.40 per acre while those who did not borrow averaged $26.86 per acre (Table 5).

Table 5 -- Average income per acre of users and non-users of short-term production credit in three type-of-farming areas of Missouri in 1950.

| | Dunklin County (Delta Cotton, Corn and Soybean Area) Income per acre | | Gentry County (Northwest Meat Producing Area) Income per acre | | Webster County (Ozark Plateau Dairy Area) Income per acre | |
|---|---|---|---|---|---|---|
| Tenure Status | Borrowers | Non-Borrowers | Borrowers | Non-Borrowers | Borrowers | Non-Borrowers |
| Owner Operator farm clear | $ 4.04 | $37.69 | $10.64 | $ 9.19 | $ 9.19 | $ 8.39 |
| Owner Operator farm mortgaged | 12.14 | 27.23 | 15.10 | 6.85 | 11.58 | 7.90 |
| Part Owner land clear | 22.94 | 8.97 | 8.51 | 6.97 | 1.39 | ----- |
| Part Owner land mortgaged | 28.68 | ----- | 8.75 | ----- | ----- | ----- |
| Tenant | 10.76 | 17.14 | 12.19 | 7.06 | ----- | ----- |
| Average | $13.40 | $26.86 | $12.09 | $ 8.49 | $ 9.26 | $ 8.28 |

**Source of Income.**— A higher proportion of full-time farmers were non-borrowers than were part-time farmers. As shown in Table 6, farmers in all three type-of-farming classifications who had outside sources of income made up a larger proportion of borrowers than of non-borrowers. This situation was probably due to the fact that many of the men who supplemented their farm incomes through outside work were in a relatively poor capital position and therefore had to borrow money to finance their farming operations.

Table 6 -- Sources of income of farmers in three type-of-farming areas of Missouri, who used short-term production credit and those who did not, 1950.

| | Dunklin County (Southeast cash-crop farmers) Percentage | | Gentry County (Northwest livestock farmers) Percentage | | Webster County (Ozark Dairy farmers) Percentage | |
|---|---|---|---|---|---|---|
| | Borrowers | Non-Borrowers | Borrowers | Non-Borrowers | Borrowers | Non-Borrowers |
| Farming only source of income | 84.6 | 100.0 | 73.1 | 87.5 | 62.5 | 72.0 |
| Farm income supplemented with other returns | 15.4 | ----- | 26.9 | 12.5 | 37.5 | 28.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

## Non-Borrowers

Some farmers do not like to borrow money. This aversion to the use of credit is particularly pronounced among Ozark dairy farmers. This situation probably is closely related to the flow of income. Farmers who get low returns in most years are reluctant to go into debt. In many cases they must reduce living expenses in order to pay off the obligation. Only 15.4% of the cash-crop farmers and 20% of the livestock farmers who did not borrow in 1950 indicated that they had made use of short-term credit during the past several years. A somewhat higher proportion of the dairy farmers (40.9%) stated that they borrowed from time to time.

## Characteristics of Credit Used by Borrowers

**Availability of Credit.**— Most of the farmers who did not borrow during 1950 felt that they could obtain short-term credit at any time they needed it. All operators of livestock and dairy farms and 83.3% of the cash-crop farmers not borrowing felt that credit would be available if it were desired.

Borrowers were less optimistic about obtaining credit when they needed it than were non-borrowers. Cash-crop farmers were the most doubtful. In this group only 64% of the borrowers indicated that they could obtain funds at any time desired. Among the other groups, 88% of the livestock farmers and 93.3% of the dairy farmers felt that it would always be available to them from at least one lending agency. Without doubt the attitude of the people in these groups was influenced by their credit ratings. Those who owned their farms clear of debt or who had a high per cent of equity in the farm business had a good basis for credit and were reasonably sure that they could get a loan anytime it was needed, while those with thin equities in the business were not so sure that funds would be available.

**Frequency of Borrowing.**— The data indicated that the majority of operators of all three types of farm businesses (the cash-crop group to a lesser degree) who borrowed during 1950 made use of short-term credit every year. The replies to the questionnaires showed that 54.2% of the cash-crop farmers, 81.8% of the livestock farmers, and 73.3% of the dairy farmers had borrowed one or more times each year for at least the previous five years.

**Amount Borrowed per Acre.**— As indicated in Table 7, the average amount of short-term credit used per acre varied considerably with the type-of-farm operated. The amount borrowed per acre was largest among the cash-crop and livestock farmers (about $20); while it was relatively moderate in the dairy classification, averaging only about $7 per acre. The amount borrowed per acre on livestock and dairy

Table 7 -- Average amount of short-term production credit per acre used by farmers in the various tenure groups in three type-of-farming areas of Missouri, 1950.

| Tenure Status | Dunklin County (Southeast cash-crop farmers) Amount per acre | Gentry County (Northwest live-stock farmers) Amount per acre | Webster County (Ozark dairy farmers) Amount per acre |
|---|---|---|---|
| Owner operator farm clear | $12.78 | $45.58 | $ 9.11 |
| Owner operator farm mortgaged | 28.56 | 17.02 | 5.49 |
| Part owner land clear | 38.69 | 3.64 | 2.64 |
| Part owner land mortgaged | 19.05 | 7.50 | ----- |
| Tenant | 17.88 | 8.95 | ----- |
| Average | $21.16 | $19.09 | $ 6.86 |

farms was higher for men who owned their land clear of debt than for farmers who were operating mortgaged or rented units. No such general tendency was evident among cash-crop farmers in the southeast part of the state. However, borrowing per acre was heaviest for part-owners with real estate mortgages and lowest for debt-free owner operators in this group.

**Use Made of Credit.**— Most of the short-term loans made to farmers of all three type classifications were used for production purposes. As shown in Table 8, only 11.9% of the loans to cash-crop farmers, 8.6% of those to livestock farmers, and 15.4% to dairy farmers were used for home consumption purposes. Most of the proceeds of production loans were used for such "barnyard purposes" as the purchase of feed and supplies. Loans classified as "barnyard loans" were used to finance any short-term production needs other than the purchase of livestock or machinery. These loans amounted to 81%, 87.1%, and 34.6% of all short-term loans made to cash-crop, livestock, and dairy farmers respectively. Livestock loans were of importance only to farmers in the northwest livestock and Ozark dairy classifications. Of the loans made to livestock and dairy farmers, 20% and 15.4% respectively were used

Table 8 -- Uses made of short-term production credit in three type-of-farming areas of Missouri in 1950.

| Purpose of loan | Dunklin County (Southeast cash-crop farmers) Percentage | Gentry County (Northwest live-stock farmers) Percentage | Webster County (Ozark dairy farmers) Percentage |
|---|---|---|---|
| Barnyard | 81.0 | 57.1 | 34.6 |
| Livestock | ---- | 20.0 | 15.4 |
| Machinery | 7.1 | 14.3 | 34.6 |
| Home consumption | 11.9 | 8.6 | 15.4 |
| Total | 100.0 | 100.0 | 100.0 |

to finance farm animals of one type or another. Since most equipment loans were made for terms in excess of one year, they did not amount to a large part of the short-term credit used on cash-crop or livestock farms. However, they were relatively more important on dairy farms comprising 34.6% of all short-term loans made to farmers of that group.

**Principal Lenders.**— Commercial banks were the most important lenders to operators of all three types of farms. The data presented in Table 9 show that banks loaned 48% of the short-term money borrowed by cash-crop farmers, 66.8% of the money borrowed by livestock farmers, and 79.5% of the funds borrowed by dairy farmers. Most of these loans were made by banks in the farmers' home communities. In

Table 9 -- Percentage of number of short-term production loans and of the amount of money extended by the various lending agencies in three type-of-farming areas of Missouri in 1950.

| Lender | Dunklin County (Southeast cash-crop farmers) Percentage of | | Gentry County (Northwest livestock farmers) Percentage of | | Webster County (Ozark dairy farmers) Percentage of | |
|---|---|---|---|---|---|---|
| | Loans | Amount | Loans | Amount | Loans | Amount |
| Commercial bank | 40.0 | 48.0 | 62.1 | 66.8 | 60.9 | 79.5 |
| Production Credit Association | 7.5 | 11.5 | 27.6 | 32.3 | 8.7 | 6.9 |
| Individual | 17.5 | 18.6 | ---- | ---- | 8.7 | 8.5 |
| Finance Company | 5.0 | 10.6 | 3.4 | 0.1 | ---- | ---- |
| Implement Company | ---- | ---- | 3.4 | 0.7 | 8.7 | 3.1 |
| Cotton gin | 17.5 | 12.0 | ---- | ---- | ---- | ---- |
| Retail Store | 10.0 | 2.4 | 3.5 | 0.1 | 13.0 | 2.0 |
| Farmers Home Administration | 2.5 | 2.9 | ---- | ---- | ---- | ---- |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

the cash-crop classification 40% of all loans were made by banks and 32.1% of the farm borrowers indicated that they borrowed exclusively from their local bank. An even greater proportion of bank borrowers in the livestock and dairy groups indicated that they dealt solely with their local banks. Banks supplied 62.1% of the loans obtained by livestock farmers, and 53.8% of the farmers in this group dealt with local banks exclusively. Dairy farmers obtained 60.9% of their loans from banks and 58.8% of them used no other source.

Although Production Credit Associations loaned only 11.5% and 6.9% of the money borrowed by cash-crop and dairy farmers respectively, they were of considerable importance as sources of credit used by livestock farmers, making available 32.3% of the money borrowed. Individuals, finance companies, and cotton gins were of importance only as credit sources for cash-crop farmers. Other lenders were relatively unimportant. Mosts of the loans made by banks and Production

Credit Associations were for larger amounts than were loans made by other lending agencies.

**Loan Supervision.**— Very few lenders gave advice concerning managerial problems to their farm borrowers. Only 12.5% of the cash-crop borrowers, 11.5% of the livestock borrowers, and 7.1% of the dairy borrowers indicated that they sought or were given advice from the lending agencies from which the money was obtained regarding the best use of the funds.

**Lending Activities of Commercial Banks.**— The data presented above show that a rather high percentage of farmers who borrowed money for production purposes during 1950 obtained all of their credit from the local banks in their communities. The procedures used in making loans varied some in different parts of the state. For this reason a separate analysis of bank credit was made in each of the three type-of-farming areas.

## CASH-CROP FARMERS IN THE SOUTHEAST MISSOURI DELTA COTTON, CORN AND SOYBEAN AREA

**Borrower Characteristics.**— Bank loans to 122 cash-crop farmers in Southeast Missouri were examined to obtain data regarding the short-term production credit used by them during 1950. These borrowers were chosen at random from the active loan and discount ledgers of three banks in or very near Dunklin county. Information on the amounts borrowed and the purposes for which the funds were to be used was available for all 122 borrowers, but data on tenure status, acreage, and percent of equity in total assets were limited to 76 of the borrowers. Cotton acreages were obtained for 46 of the men using borrowed funds.

**Tenure Status.**— Of the borrowers for whom tenure data were available, 32.9% were owner operators, 19.8% were part owners, and 47.3% were farming rented land. As shown in Table 10, owners used

Table 10 -- Relative importance of the various tenure groups in the use of short-term production credit from banks in the delta cotton, corn and soybean area of southeastern Missouri, 1950.

| Tenure Status | Number of Farms | Average Size of Farm (Acres) | Percentage of Borrowers | Percentage of Amount Loaned |
|---|---|---|---|---|
| Owner Operator | 25 | 111.0 | 32.9 | 26.1 |
| Part Owner | 15 | 302.1 | 19.8 | 32.9 |
| Tenant | 36 | 150.0 | 47.3 | 41.0 |
| Total | 76 | ----- | 100.0 | 100.0 |
| Average | -- | 167.2 | ---- | ---- |

the smallest percentage of the total amount of credit extended, namely 26.1%. Part owners used 32.9% of the funds loaned, and tenants 41%.

**Size of Farm.**— The banks tended to make short-term loans to farmers who operated units that were larger than average in size. When the farmers whose tenure status was not known are added, the cash-crop farmers who borrowed from banks operated units averaging 194 acres. Borrowers from all kinds of lenders in this type of farming classification had farms averaging only 84.3 acres.

**Financial Situation and Per Acre Indebtedness.**— According to the financial statements on file with bankers, the cash-crop farm borrowers were in a strong financial position in 1950. Farmers for whom such data were available had net worths amounting to an average of 90.6% of the value of all assets. As shown in Table 11, average per acre indebtedness varied from $28.97 for full owners to $2.59 for tenants.

Table 11 -- Average net worth and per acre indebtedness of cash-crop farmers in the delta cotton, corn and soybean area who obtained short-term production credit from banks in 1950.

| Tenure Status | Net worth (Percentage of Total Assets) | Average Indebtedness per acre* |
|---|---|---|
| Owner operator | 86.9 | $28.97 |
| Part owner | 90.8 | 15.52 |
| Tenant | 93.3 | 2.59 |
| Average | 90.6 | $14.02 |

*Production loans made during 1950 were not included in indebtedness

Approximately one-third of the farmers indicated that they had no debts other than their short-term obligations for the current year.

**Use Made of Credit.**— No machinery loans were examined in the survey of commercial bank production credit. The majority of these loans were made for terms in excess of one year and were therefore excluded from the short-term credit classification. All other short-term production loans made to southeast cash-crop farmers were used to finance production of the season's crop and, therefore, fell under the classification of barnyard loans. However, some part of the crop production loans made to tenants and owners with meagre resources (restricted loans) was used to help meet a portion of the farm family's living expenses during the growing and harvesting season. What proportion was so used could not be determined accurately, but an estimate is given in the final paragraphs of this section which deals in some detail with restricted loans.

**Amount Borrowed.**— The 122 farm borrowers whose records were studied obtained 187 production loans, or an average of 1.53 loans each during 1950. The average amount borrowed during the year was $3,014.11. As shown in Table 12, full owners, part owners, and tenants borrowed an average of $2,095.12, $4,401.47 and $2.282.17 respectively. Per acre borrowing for all tenure groups averaged $16.98. Cotton growers borrowed $33.39 for each acre in this crop and an average of $15.01 per acre on the basis of the total area in the operating unit. They operated farms averaging 241 acres in size and planted an average of 109.6 acres of cotton. The amount of credit obtained by southeast cash-crop farmers was closely related to the acreage of cotton they planted.

Table 12 -- Average total and per acre amounts borrowed from commercial banks by cash-crop farmers in the delta cotton, corn and soybean area for short-term production purposes in 1950.

| Tenure Status | Average Total Amount Borrowed | Average Amount Borrowed Per Acre |
|---|---|---|
| Owner operator | $2,095.12 | $22.36 |
| Part owner | 4,401.47 | 16.61 |
| Tenant | 2,282.17 | 15.90 |
| Unknown | 3,634.00 | 15.01 |
| Average | $3,014.11 | $16.98 |

**Bank Lending Procedure.**— Lending procedures for the crop production type of loan in the Southeast Missouri cash-crop region are highly standardized. Almost no difference was found to exist between the procedures followed by the three banks where data were obtained.

**Application for Loan.**— The banks required a detailed loan application which had to be filled out by all farmers who wished to borrow money to finance cotton cropping operations, even if they had borrowed from the same bank during previous years for the same purpose. A typical form is illustrated in Figure 2. It provides space for the borrower to record the following information: (1) amount of loan desired, (2) purpose for which the money is needed, (3) approximate times of withdrawal, (4) security offered (usually including all of the unencumbered livestock, machinery, trucks, and other implements along with the borrower's share of all crops grown during the year), (5) amount of labor available, and (6) description of all assets and liabilities. Space is also provided for the lender to fill in information on the borrower's estimated production and income, such waivers as are applicable, and the physical condition of his farm.

**Investigation and Credit Check.**— After the application has been filed with the bank, an officer conducts a thorough investigation into the personal reputation, farming ability, and credit rating of all new borrowers. This is accomplished by both personal contact with the appli-

## APPLICATION FOR CROP PRODUCTION LOAN USED BY A BANK IN THE DELTA COTTON, CORN AND SOYBEAN AREA OF SOUTHEASTERN MISSOURI, 1950

APPLICATION FOR CROP PRODUCTION LOAN--BANK OF______________________, MISSOURI

Date______________________________19______

Name__________________________________________________________________

Address________________________Lives_______Miles_________From__________For past_____years

| Amount | Due | Interest | PURPOSE | | To Be Withdrawn | |
|---|---|---|---|---|---|---|
| $________ | __________ | Date?______<br>Mat?______ | $________ | For________ | $________ | ________ |
| $________ | | Ded?______<br>Add?______ | $________ | For________ | $________ | ________ |
| $________ | | | $________ | For________ | $________ | ________ |

The undersigned hereby makes application for the above described loan and certifies that the statements are true and correct.

Security offered: (all unencumbered) (workstock, cattle, hogs, tractors and equipment, combine, trucks, autos, other implements and machinery, etc.)____________________________

______________________________________________________________________

And all crops grown during 19____, as follows, and on the following described lands:__________

| Farm Known As | Now Owned by | Description and Location | Acres in Farm | Acres Cotton | Cotton Rent | Acres Soybeans | Acres Corn |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |

and which above described crops are owned by applicant, except there is or will be an interest of sharecroppers of laborers as follows:

Name of Sharecropper or Laborer Farm

______________________________interest in________

__________acres of________and_____interest in________

____________acres of__________________________________

| Corn Rent | Acres Other Crops | Other Rent |
|---|---|---|
| | | |
| | | |
| | | |

There are no judgments or suits against me except_______________________________

Borrowed $____________from________________(address)______________________last year

References:___________________________________________________________

Number in Family?______________Number to Work?____________Other Labor Available?______

All rent and advance be waived?______________

Cash rent waived?______________________

Landlord agrees not to furnish?______________

Tenant agrees not to accept furnish from landlord?______________________

Applicant Farmed____________acres in 19____ belonging to________________________

and____________acres in 19____belonging to______________________________

Applicant carried $____________Life Insurance payable to____________________________

------------------------------------------------

Remarks:______________________________________

______________________________________________

______________________________________________

(Bank Use Only)

### ESTIMATED PRODUCTION AND ANTICIPATED INCOME

No. Bales of Cotton Expected______________

Less Picking (No. Bales)__________________

Less Rent (No. Bales)____________________

Less Sharecroppers (No. Bales)____________

Net No. Bales after Picking, Rent, etc.__________

__________X $____________per b/c $________

No. Bu. Soybeans Expected________________

Less Harvesting (Bu.)____________________

Less Rent (Bu.)_________________________

Less Sharecroppers (Bu.)__________________

Net No. Bu. Soybeans after harvest, rent, etc.____

______bu. X $_________per Bu. $__________

TOTAL CROP INCOME (after picking, sharecroppers and rent)______________$__________

Less Cash Rent______________$__________

Net after all rent, sharecropper and harvesting ______________$__________

Other income: (Explain)____________________

Signature of Applicant_______________Age____

## FINANCIAL STATEMENT

### ASSETS

| ITEM | DESCRIPTION | VALUE | |
|---|---|---|---|
| Cash on Hand and in Bank | | | |
| Government Securities | | | |
| Accounts and Notes Receivable | | | |
| Horses and Mules | | | |
| Cattle | | | |
| Hogs | | | |
| Tractors & Tractor Equip. | | | |
| Combines | | | |
| Trailers | | | |
| Other Machinery & Implements | | | |
| Trucks | | | |
| Autos | | | |
| Tons Fertilizer | | | |
| Tons Hay | | | |
| Bushels Corn | | | |
| Bushels Soybeans | | | |
| Pounds Cotton Seed | | | |
| Real Estate | Title in | | |
| | | $ | |

### LIABILITIES

| Owing to | Address | Secured by | Due | Amount | |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |
| Total Debts | | | | $ | |

(Bank Use Only)

Past Borrowing Record at this Bank________________ Depositor?________

Refused Elsewhere for this loan Give details________________

| Name of Farm | Drainage | | | Fertility of Soil | | | Ability of Operator | | |
|---|---|---|---|---|---|---|---|---|---|
| | Good__ | Fair__ | Poor__ | Good__ | Fair__ | Poor__ | Good__ | Fair__ | Poor__ |
| | Good__ | Fair__ | Poor__ | Good__ | Fair__ | Poor__ | Good__ | Fair__ | Poor__ |

Remarks of Inspector:________________

cant himself and by letters to other people with whom he has done business.

**Inspection.**— If the new applicant's reputation has no blemishes, inspection is made of his farm by one of the bank's officers, the agricultural agent if one is employed, to check on the chattels offered as security and to obtain a working knowledge of the business itself.

**Rental Situation and Waivers.**— If the applicant is a renter, the land owner usually is asked to sign one of three types of waivers which makes the bank prior claimant to the crop offered as security. In one type of waiver the land owner agrees not to "furnish" his tenant with anything that will become a lien against the tenant's crop and, if he does make advances that become a lien, such lien is waived in favor of the bank. This agreement applies only to advances, not to rent of any kind. In another type of waiver the land owner agrees to forego cash rent or advances against the tenant's crop for the year under consideration. He does not waive any share rent to which he is entitled. In the final type of waiver the land owner agrees to set aside all liens against his tenant for both rent and advances made against his crop during the year. In all three types the owner of the farm merely waives his liens in favor of the bank, but in no way releases the tenant from his obligations.

**Chattel Mortgage Record Check.**— If, as is the general case, the loan is to be secured by a chattel mortgage, a check is made at the County Recorder's office to make sure all property offered as security is unencumbered. Following this check, a chattel mortgage which pledges the property as security and gives the lender power to sell, if the terms of the contract are not met, is drawn up and signed by the borrower.

**Disbursement of Funds.**— Crop production loans made by banks to cash-crop farmers in southeastern Missouri are either open or restricted. The borrower may withdraw any part or all of an open loan whenever he so desires. On the other hand, restricted loans are parceled out to borrowers at certain previously designated times during the crop year as the funds are needed for specific purposes.

## Loan Characteristics

**Variations in Time Funds Are Borrowed.**— Crop production loans made to cash-crop farmers by commercial banks were highly seasonal. Most of the money was loaned in the spring months when the borrowers were putting in their primary cash crops — cotton and soybeans, or in the early summer months when extra labor was hired to chop the cotton. As shown in Figure 2 and in Table 13, 60.8% of the credit was extended in February, March and April, and 19.6% was loaned during June and July. As would be expected in a cash-crop area, most of the loans were repaid when the crops were sold in the fall. During October and November 96.6% of the dollar volume of crop production loans was repaid.

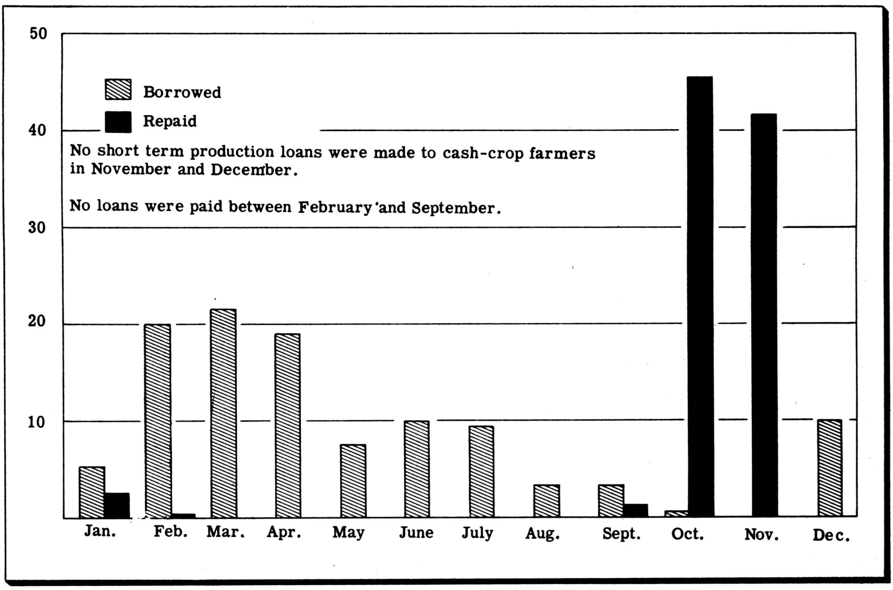


Figure 2.—Percentage of crop production money borrowed and repaid by months, Southeast Missouri cash-crop farmers, 1950. Restricted loans are shown as if they were made in the month the funds were made available to farmers.

Table 13 -- Percentage of crop production money borrowed and repaid by months,* southeast Missouri cash-crop farmers, 1950.

| Month | Percentage Borrowed | Repaid |
|---|---|---|
| January | 5.16 | 2.18 |
| February | 20.00 | .06 |
| March | 21.70 | ---- |
| April | 19.10 | ---- |
| May | 7.60 | ---- |
| June | 10.20 | ---- |
| July | 9.40 | ---- |
| August | 3.20 | ---- |
| September | 3.40 | 1.19 |
| October | .24 | 45.23 |
| November | ----- | 41.41 |
| December | ----- | 9.93 |
| Total | 100.00 | 100.00 |

*Restricted loans were shown as if they were made in the month the funds were made available to borrowers.

**Terms.**— Almost all crop production loans were made to mature on October 15, about the middle of the season in which the crops were sold. The average contract period was 5.15 months or 157 days. None of the loans studied carried a "gentlemen's agreement" for extension if repayment could not be made on or about the date when due. Credit was not extended unless the banker was very sure the borrower would be in a position to repay the obligation within the calendar year. Only 14 of the 187 loans studied were repaid after December 31, 1950.

**Security.**— The majority of the crop production loans were secured by a chattel mortgage on the borrower's share of the crop and his livestock, machinery, and other equipment. As shown in Table 14, 73.0%

Table 14 -- Type of security banks required of the various tenure groups of cash-crop farmers in the delta cotton, corn and soybean area of southeastern Missouri, 1950.

| Tenure Status | Security | | | |
|---|---|---|---|---|
| | Unsecured | Chattel Mortgage | Co-Signer | Co-signer & Chattel Mortgage |
| Owner operator (Number) | 11 | 25 | 1 | 6 |
| Part owner (Number) | -- | 17 | --- | 5 |
| Tenant (Number) | -- | 39 | 2 | 5 |
| Total (Number) | 11 | 81 | 3 | 16 |
| Percentage | 9.9 | 73.0 | 2.7 | 14.4 |

were backed by such security, 14.4% were secured by both a co-signer and a chattel mortgage, 9.9% without security and 2.7% by a co-signer only. Only owner operators were in good enough financial condition to qualify for unsecured loans.

**Interest Charges.**— All restricted loans carried an 8% charge. Interest rates on other loans varied somewhat beween the three banks from which data were obtained. Bank A charged 6% for all crop production loans except for several very small amounts for which 8% was charged. Bank B charged 8% for all loans in its crop production portfolio. Bank C varied its interest rates depending on the borrower's financial situation, the security offered, and the size of the loan. With the exception of several very large loans which carried a 6% rate, all loans made to tenants were for 8%. The owners and part-owners of small farms usually were charged 8%, while those who owned large acreages and borrowed large amounts were charged 6 or 7%.

Besides contract interest, the banks charged small fees for filing chattel mortgages and, in the case of new borrowers, an inspection fee which amounted to about three dollars. All loans were discounted, so the effective rates were somewhat higher than the contract rates.

No bank indicated that it charged a minimum loan fee on any of its crop production loans. The users of restricted credit paid higher interest charges than the contract rate since, while they had use of the funds for only a part of the contract period, they were required to pay interest on the full amount for the entire time the debt was outstanding.

If the loan was not repaid by the maturity date, generally October 15, interest for the additional time was charged at the contract rate. However, if about half of the loan was repaid before the maturity date and the other half about the same number of days afterward, most bankers charged no additional interest.

**Restricted Loans.**—A special type of loan has been devised by bankers in the delta cotton, corn and soybean area of southeast Missouri. It is used in extending credit to borrowers whose farming ability and financial position are not well established. It is called a restricted

Table 15 -- Some characteristics of restricted loans and restricted borrowers in the delta cotton, corn and soybean area of southeastern Missouri, 1950.

| Tenure Status | Borrowers Number | Borrowers Percentage | Average Size of Farm (Acres) | Average Indebtedness per acre* | Average Amount Borrowed per Operator | Average Amount Borrowed per Acre |
|---|---|---|---|---|---|---|
| Owner Operator | 3 | 14.3 | 31.0 | $36.23 | $1,165.00 | $35.47 |
| Part Owner | 3 | 14.3 | 155.7 | 52.08 | 2,084.00 | 12.81 |
| Tenant | 15 | 71.4 | 125.9 | .96 | 1,809.00 | 16.62 |
| Total | 21 | 100.0 | ----- | ----- | -------- | ----- |
| Average | -- | ---- | 116.6 | $13.30 | $1,756.28 | $18.77 |

*Production loans made during 1950 were not included in this indebtedness.

loan. The money is made available to the borrower as he needs it for specific farming operations during the crop season. Following this procedure the lender protects himself by making sure that the farmer has money available when it is needed and that it is used for the purpose for which it is intended. Of the 76 borrowers whose contracts showed "type of loan," 21 or 27.6% received restricted credit. On the basis of dollar volume, however, only 18.4% of the crop production credit was restricted.

Most of the restricted loans were made to tenants. Farmers in this group received 71.4% of all such loans, while owners and part owners each received 14.3%. Borrowers who used restricted credit operated farms considerably smaller than other bank borrowers. They had farms averaging 116.6 acres in size, while the operating units of all borrowers averaged 194 acres (Table 15). In the case of owner operators, only those on the smallest farms were required to use restricted credit. Their farms averaged only 31 acres, while all borrowing owners farmed an average of 111 acres. Owner operators and part owners who used restricted credit had more outstanding debt when the 1950 production loans were made than their neighbors who obtained open credit. Restricted owners had an average debt per acre of $36.23 while all owners who borrowed from banks averaged only $28.97 of debt per acre. For part owners the figures were $52.08 and $15.52 respectively. On the other hand, tenants who were using restricted credit had a lower per acre indebtedness than the tenants who used open credit. The credit standings of these people were such that they borrowed and repaid the obligations each year. Because of this fact they did not have an accumulation of outstanding debt.

Users of restricted credit borrowed somewhat more heavily per acre for crop production purposes during 1950 than other bank borrowers. These people obtained an average of $18.77 per acre compared to $16.98 for all bank borrowers (Tables 12 and 15). However, the size of restricted loans was smaller than the average of all loans. Users of restricted credit borrowed an average of $1,756.28 while the average of all borrowers was $3,014.11.

In summary, restricted loans were made primarily to tenants and a few small owner operators. These farmers operated smaller than average units and had a higher than average per acre indebtedness. They borrowed more heavily per acre for crop production purposes, but the average size of restricted loans was smaller than the amount of credit extended to all borrowers at banks.

The restricted loans of the 21 borrowers in this classification were disbursed in 94 or an average of 4.5 separate installments. As shown in Figure 3 and Table 16, these disbursements were spread over the crop season so that the money would be available when the borrowers needed it to pay production expenses. The money made available during the first three months of the year was used primarily to cover the living costs of the farm family and the purchase of such items as the seed and fuel needed to get the crop planted. Crop cultivation and living expenses were usually financed by withdrawals in April and May. Disbursements in June and July covered the cost of hiring additional workers to chop the cotton crop and provide the family with money to buy necessary items. Any payments in later months were usually used to meet the living expenses of the borrower's family.

In most cases, restricted borrowers were in such poor financial circumstances that the loans were made to cover all cash expenses that would be encountered during the crop season. The data presented in Table 17 illustrate how the amount of such a loan might have been computed by an officer of a bank who extended credit to a farmer in such circumstances. The procedure illustrated here is not to be construed as typical, but is included merely to show the procedure that might be followed by a lender in estimating the funds needed to meet the expenses that the farm family would have during the crop year. In this example, $1,372 would have been made available in five monthly installments beginning in March.

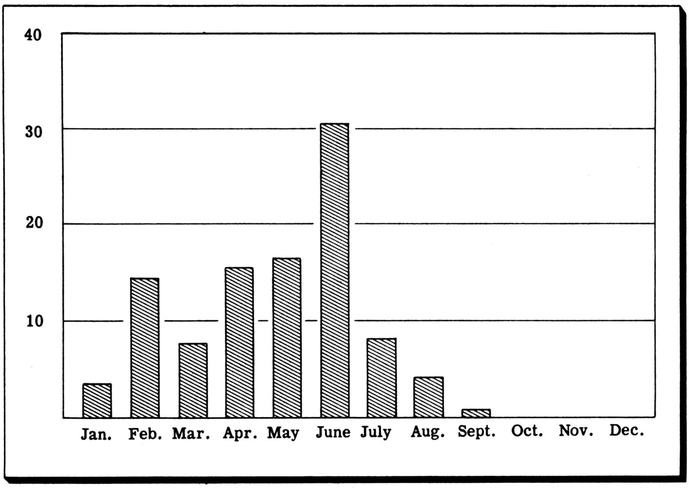


Figure 3.—Percentage of restricted crop production loans made available to cash-crop farmers in Southeast Missouri by months, 1950. No restricted loans were made available in the months between September and January.

Table 16--Months in which the funds extended to cash-crop farmers through restricted loans were made available to borrowers in southeastern Missouri, 1950.

| Month | Amount | Percentage of Money Made Available |
|---|---|---|
| January | $ 59.89 | 3.41 |
| February | 251.15 | 14.30 |
| March | 132.07 | 7.52 |
| April | 271.35 | 15.45 |
| May | 281.88 | 16.05 |
| June | 537.60 | 30.61 |
| July | 140.50 | 8.00 |
| August | 70.25 | 4.00 |
| September | 11.59 | .66 |
| October | ------ | ----- |
| November | ------ | ----- |
| December | ------ | ----- |
| Total | $1,756.28 | 100.00 |

Table 17 -- Procedure that a lender might use in determining the amount of restricted credit a cash-crop farmer in southeast Missouri would need to produce a crop on an 80-acre farm in a year like 1950.

| Purpose | Acre | Cash expenses |
|---|---|---|
| Seed for | | |
| Pasture | 2 | $ 10.00 |
| Cotton | 40 | 180.00 |
| Corn | 5 | 12.00 |
| Soybeans | 30 | 120.00 |
| Garden and Farmstead | 1 | 15.00 |
| Roads | 2 | ------ |
| Total | 80 | ------ |
| Family living expenses (5 months @ $50) | | 250.00 |
| Tractor expenses | | 250.00 |
| Machinery repairs | | 135.00 |
| Hired labor (chopping cotton) | | 400.00 |
| Total | | $1,372.00 |
| Average per acre | | $17.15 |

## LIVESTOCK FARMERS IN THE NORTHWEST MISSOURI MEAT PRODUCING AREA

### Borrower Characteristics

Loans to 104 livestock farmers in the northwest meat producing area of Missouri were examined to obtain data regarding the use of short-term production credit in that section of the state during 1950. These borrowers were chosen at random from the active loan and discount ledgers of three banks in or near Gentry county.

**Tenure Status.**—Of the 104 borrowers 62.5% were owner operators, 6.7% were part owners, and 30.8% were operating rented land. On the basis of dollar amount of credit obtained, the owners were of even greater importance than their proportion of all borrowers would indicate. As shown in Table 18, they obtained 83.2% of the money loaned, while part owners and tenants received only 2.5 and 14.3% respectively.

**Size of Farm.**— The data in Table 18 also show that the average size of farm operated by borrowers from banks was 217 acres. This is considerably smaller than the 288 acre average of all borrowers in Table 4, and would indicate that banks tend to lend more heavily to the small farmers than do other lenders in the area.

**Financial Situation and Per Acre Indebtedness.**— The banks required 73 of the 104 borrowers to file detailed statements of their financial condition. These farmers were in excellent financial circumstances in 1950 (Table 19). They had net worths amounting to an average of 94.5% of the value of all assets. Their per acre indebtedness averaged $8.12, but varied from an average of $10.23 for owners to $.74 for part owners. Approximately two-thirds of the farmers in-

Table 18 -- Relative importance of livestock farmers in the various tenure groups in the use of short-term production credit from banks in the northwest meat producing area of Missouri, 1950.

| Tenure Status | Number | Average Size of Farm (Acres) | Percentage of Borrowers | Percentage of Amount loaned |
|---|---|---|---|---|
| Owner operator | 65 | 240.7 | 62.5 | 83.2 |
| Part owner | 7 | 193.9 | 6.7 | 2.5 |
| Tenant | 32 | 173.9 | 30.8 | 14.3 |
| Total | 104 | ----- | 100.0 | 100.0 |
| Average | -- | 217.0 | ---- | ---- |

Table 19 -- Average net worth and per acre indebtedness of livestock farmers in the northwest meat producing area of Missouri who obtained short-term production credit from banks in 1950.

| Tenure status | Average Net worth (percent of total assets) | Average Indebtedness per acre* |
|---|---|---|
| Owner operator | 93.4 | $10.23 |
| Part owner | 98.8 | .74 |
| Tenant | 96.8 | 3.54 |
| Average | 94.5 | $ 8.12 |

*Production loans made during 1950 were not included in these averages.

dicated that they had no other debts. It should be kept in mind, however, that the farmers who submitted financial statements were usually not required to offer any other security for their loans due to the fact that they were in better than average financial condition. The other borrowers who did not submit financial statements had less adequate bases for credit and were required to give mortgages on some of their property or offer other security to back up their loans.

**Use Made of Credit.**—The 104 farmers obtained 393 loans or an average of 3.78 loans each during 1950. Of this number 58 or 14.6% were obtained to buy livestock and 335 or 85.4% for barnyard purposes. However, on the basis of dollar amount, the livestock loans were the more important. They amounted to 56.4% of the volume of credit extended. Most of the money borrowed for general purposes was used to buy feed, seed, fertilizer, fuel for tractors and to pay general farm operating expenses.

**Amount Borrowed.**— As shown in Table 20, northwest livestock farmers borrowed an average of $2,889.90 from banks for production purposes in 1950. Owner operators obtained $3,846.56, while part owners and tenants used an average of only $1,091.29 and $1,340.16 respectively. The amount for all tenure groups averaged $14.24 per acre.

Table 20 -- Average total and per acre amount of short-term production credit obtained from banks by livestock farmers in the northwest meat producing area of Missouri, 1950.

| Tenure Status | Average Amount Borrowed | |
|---|---|---|
| | Total | Per Acre |
| Owner operator | $3,846.56 | $18.83 |
| Part owner | 1,091.29 | 5.84 |
| Tenant | 1,340.16 | 6.76 |
| Average all groups | $2,889.90 | $14.24 |

Owner operators borrowed more heavily than other tenure groups, obtaining an average of $18.83 per acre, while part owners used $5.84 per acre and tenants $6.76. Livestock loans averaged $2,914.45, while barnyard loans amounted to an average of only $763.10. Most of the barnyard loans were for sums less than $500.

## Bank Lending Procedures

With two exceptions, lending procedures in the livestock area were identical with those in the cash-crop region. These exceptions were that no waivers were required when credit was extended to tenants, and no loans of the restricted type were made. If a borrower had a good reputation, could offer adequate security, and wanted to use the credit for a legitimate purpose, the money usually was made available to him.

## Loan Characteristics

**Variation in Time Funds Are Borrowed.**— Borrowing and repayment of both livestock and barnyard loans in the northwest meat producing and dairy areas showed much less seasonality than in the delta cotton, corn and soybean area (Figures 2, 4, and 5). Most of the livestock loans were made in February, March, May, and June when grass feeder cattle were being purchased or in September and October when dry lot feeders were bought. These loans were repaid in April when dry lot animals were marketed and in the fall months when the grass feeders were sold. Although borrowing and repayment of barnyard loans remained fairly constant during the summer months, the demand for funds was greatest during the crop planting season in the spring. Repayments were heaviest when crops were harvested in the fall. Data on barnyard loans are presented in Figure 5 and Table 22.

**Terms.**— Generally banks did not make loans with a contract period longer than six months. If a farmer wished to borrow money for a shorter length of time, the terms were adjusted to meet his wishes. However, if, as was the case for many livestock loans and some barnyard loans, repayment was not contemplated within 180 days, the note was made to fall due in six months with the understanding that it would be renewed. Except for four loans out of a total of 393, both

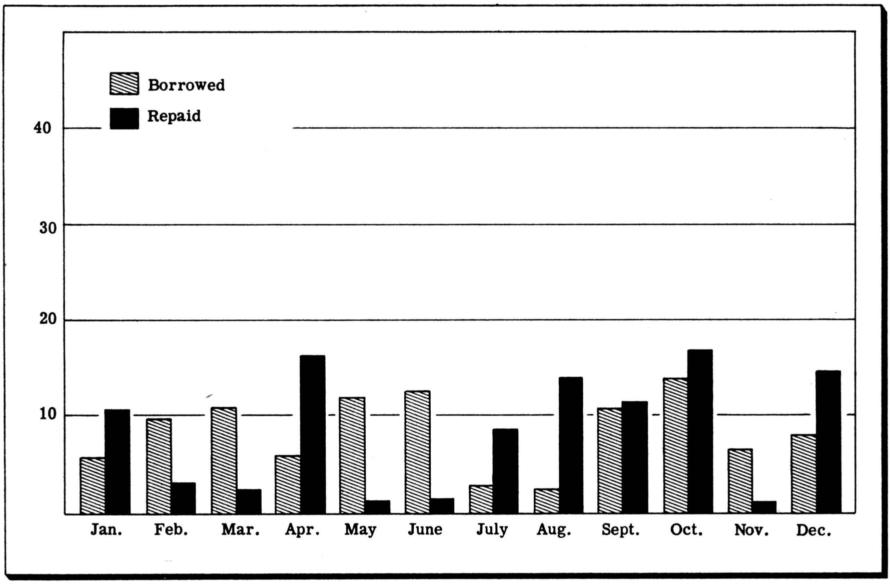


Figure 4. — Percentage of money used for the purchase of livestock borrowed and repaid by months, Northwest Missouri livestock farmers, 1950.

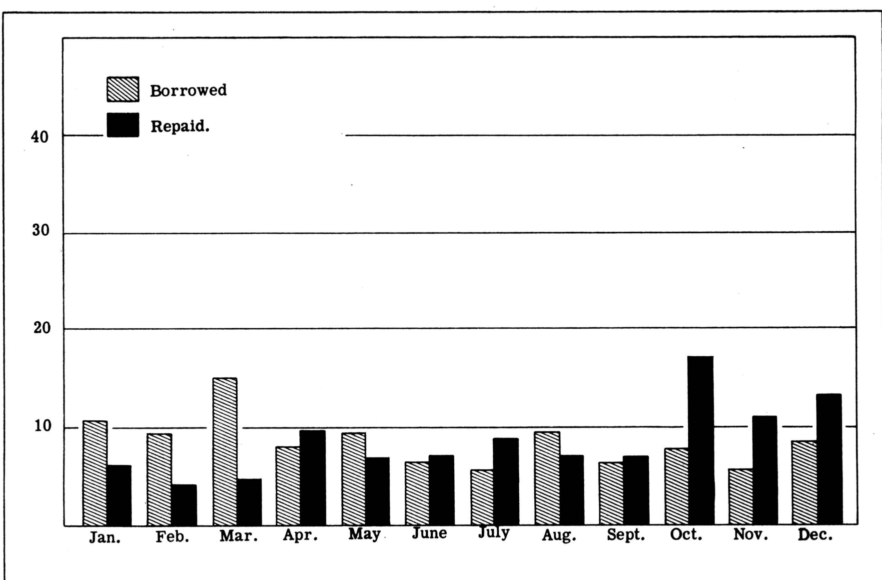


Figure 5. — Percentage of short-term production money used for general purposes (barnyard) borrowed and repaid by months, Northwest Missouri farmers, 1950.

the banker and the borrower understood that the obligation would be extended, if payment was not convenient on the due date. The average original contract period for livestock loans was 147 days. It was 120 days for the barnyard loans. Only 55.2% of the livestock loans were repaid within the contract limits, while 70.7% of the barnyard loans were repaid within contract limits.

**Security.**— Both livestock and barnyard loans were made to many farmers without security. As shown in Table 23, 58.6% of the livestock, and 58.2% of the barnyard loans were unsecured. Chattel mortgages were required for 31% of the livestock loans and 21.2% of the barnyard loans. Co-signers backed up 8.6% of the livestock loans and 17.6% of the barnyard loans. Only the owner-operators were in such financial condition as to qualify for unsecured livestock loans. About half of the tenants and part owners were able to obtain unsecured barnyard loans since these were generally for small amounts.

Most of the loans that were made without a chattel mortgage or a co-signer were based on detailed financial statements. The Federal Deposit Insurance Corporation examiners require the banks to keep these statements on file for all borrowers of sums in excess of $500. In effect, these statements are security. If not correct, they provide grounds for legal action against the maker. Should a statement show the borrower to be in poor financial condition, the lender would require other security of a more substantial nature.

**Interest Charges.**— Contract rates of interest varied somewhat between the three banks studied. Bank A charged 6% on most of the notes in its production loan portfolio. However, 5% was charged on a few large livestock loans and 8% on several very small barnyard loans which had short contract periods. Bank B charged 7% for all of its short-term farm loans except for several large livestock loans which were made at 6%. Bank C varied its interest charges with the size of the loan, the borrower's security and financial condition. With the exception of a few men with a good basis for credit who borrowed large amounts to finance the purchase of feeder animals, all tenants were charged 8%. The large owners and part owners who offered good security and who borrowed relatively large sums were charged 6 or 7%, while their neighbors, on smaller farms, who borrowed lesser amounts, were charged 8%.

All of the banks indicated that they charged no minimum loan, inspection or filing fees. All production loans were discounted, so the effective rates were somewhat higher than the contract rates. Competition from Production Credit Associations was mentioned by all of the bankers visited in this area as a primary reason for the relatively low interest rates.

Table 21 -- Proportion of funds obtained from banks for the purchase of livestock borrowed and repaid by months, northwest Missouri livestock farmers, 1950.

| Month | Percentage of Money Borrowed | Percentage of Money Repaid |
|---|---|---|
| January | 5.44 | 10.71 |
| February | 9.97 | 3.08 |
| March | 10.81 | 2.25 |
| April | 5.80 | 16.09 |
| May | 11.93 | 1.27 |
| June | 12.39 | 1.39 |
| July | 2.87 | 8.61 |
| August | 2.26 | 13.61 |
| September | 10.47 | 11.07 |
| October | 13.85 | 16.65 |
| November | 6.27 | .89 |
| December | 7.94 | 14.38 |
| Total | 100.00 | 100.00 |

Table 22 -- Proportion of funds obtained from banks for general farm expenses borrowed and repaid by months, northwest Missouri livestock farmers, 1950.

| Month | Percentage of Money Borrowed | Percentage of Money Repaid |
|---|---|---|
| January | 10.26 | 6.90 |
| February | 9.05 | 3.88 |
| March | 14.83 | 4.24 |
| April | 7.72 | 9.23 |
| May | 9.12 | 6.24 |
| June | 6.17 | 6.44 |
| July | 5.59 | 8.85 |
| August | 9.21 | 6.86 |
| September | 6.41 | 6.64 |
| October | 7.72 | 17.11 |
| November | 5.60 | 10.76 |
| December | 8.32 | 12.85 |
| Total | 100.00 | 100.00 |

Table 23 -- Security banks required for livestock and general farm expense loans in the northwest meat producing area of Missouri in 1950.

| Tenure Status | Type of Security: Unsecured | Chattel Mortgage | Co-Signer | Co-Signer and Chattel Mortgage | Total |
|---|---|---|---|---|---|
| | Livestock loans | | | | |
| Owner operator (Number) | 34 | 6 | 3 | -- | 43 |
| Part owner (Number) | -- | 1 | -- | -- | 1 |
| Tenant (Number) | -- | 11 | 2 | 1 | 14 |
| Total (Number) | 34 | 18 | 5 | 1 | 58 |
| Percent | 58.6 | 31.0 | 8.6 | 1.8 | 100.0 |
| | Barnyard loans | | | | |
| Owner operator (Number) | 134 | 34 | 31 | 10 | 209 |
| Part owner (Number) | 10 | -- | 16 | -- | 26 |
| Tenant (Number) | 51 | 37 | 12 | -- | 100 |
| Total (Number) | 195 | 71 | 59 | 10 | 335 |
| Percent | 58.2 | 21.2 | 17.6 | 3.0 | 100.0 |

## DAIRY FARMERS IN MISSOURI'S OZARK DAIRY REGION

Three banks in or near Webster county were visited to get information concerning the production loans they made to dairy farmers during 1950. The data obtained were not adequate for a complete analysis of lending procedure in this area.

**Causes of Poor Results.**— The area in and around Webster county, where the Ozark dairy phase of the study was conducted, is very poor in natural resources. For this reason it has been difficult to make profits in farming and to accumulate surplus capital. Because of this fact, many of the banks have a low level of demand deposits. Some of them have been unable to justify the acquisition of mechanical bookkeeping equipment, because of the low volume of business and the relatively plentiful supply of cheap labor. Two of the banks which were visited kept their loan ledgers by hand on a daily, rather than an individual borrower basis. For this reason it was impossible to obtain a satisfactory sample of their short-term production loans in the time that was available. The other bank had adequate borrower records, but was located in a fairly large city some distance from Webster county.

Data on loans to 20 dairy farmers chosen at random were obtained at the bank where the records were adequate for analyzing individual loans. At the other two banks some information about overdue loans was obtained. Obviously these limited data could not be used as a basis for an accurate analysis of the production loans these banks made to dairy farmers during 1950. However, if this limited information and the insights obtained through conversations with the bankers are used, some general statements regarding short-term bank credit to dairy farmers may be made. It should be kept in mind, however, that the generalizations which follow are not based upon an analysis of individual loan records.

### Borrower Characteristics

Data on tenure status, size of farm, financial condition, and amount of borrowing were obtained for only 20 typical dairy borrowers. This number is too meagre to justify detailed tabulations and generalized statements about the findings.

**Use Made of Credit.**— The bankers stated that most of their loans to dairy farmers were used for barnyard purposes. These were primarily crop production loans in the spring and feed loans in the late fall and winter months. However, the bankers felt that loans made to finance the purchase of dairy cows and heifers, while fewer in number, amounted to about one-half of the dollar volume of short-term credit extended.

## Loan Characteristics

**Variation in Time Funds Are Borrowed.**— The bankers stated that there were two periods during the year when dairy farmers borrowed most heavily for production purposes. One such period was during the spring months, April, May, and June, when money was needed to buy new cows or to add heifers to their herds. Most of the livestock loans were made during this period. The crop production loans were also made during these months. The other period of relatively intense demand for funds was during the late autumn and winter months when many farmers borrowed money to finance the purchase of feed for their animals during the winter season.

Repayments were heavy in the late spring and again in the fall months. Most of the small feed loans were repaid in the spring as soon as the cows were put on pasture and milk receipts rose. The majority of the crop production and livestock loans were repaid late in the summer or in the autumn when cash crops were marketed and animals were sold from pasture to reduce the number to be carried through the winter. However, quite a few of the larger livestock loans were not repaid until the following summer or autumn.

**Terms.**— The bankers who were interviewed stated that they made no production loans for periods in excess of six months. If the borrower desired credit for a period shorter than six months, the terms were adjusted to his wishes. If the borrower wanted credit for a longer time than six months, as was the case for many livestock and some barnyard loans, the note was made to fall due in 180 days with the understanding that it would be renewed. The bankers said almost all of their loans carried such an agreement.

**Security.**— The generally accepted security for a production loan was a chattel mortgage on the borrower's dairy animals and such machinery as he had. Very few farmers in the area were in a position to obtain credit on their signature and financial statement alone.

**Interest Charges.**— Interest charges in the Ozark region were about the same as in the southeast cash-crop area, but were somewhat higher than the prevailing rates in the northwest livestock region. All of the bankers who were interviewed varied their interest rates between 6 and 8% depending on the borrower's credit position, security, and the size and term of the loan. Since most of the loans to dairy farmers were small in amount, 8% was the most common charge. Only a few well established operators obtained credit at 6 or 7%, and the majority of these loans were used to finance livestock purchases. All loans were discounted and, in most instances, a small fee was charged to cover the cost of filing the chattel mortgage.

## SUMMARY AND CONCLUSIONS

The purpose of this study was to determine the extent and characteristics of short-term credit used by cash-crop farmers in Southeast Missouri, livestock farmers in the northwest section of the state, and dairy farmers in the Ozark region for production purposes. The data used in the analysis were for 1950, a year of good prices for farm commodities and rising business activity. The findings were based on information obtained through replies to a mail questionnaire sent to farmers in a typical county in each of three type-of-farming areas and a sampling of production loans extended by banks in or very near to each typical county. The study showed that the type of farming engaged in by the borrower and the area where the farm was located affected the amount of short-term credit used. The findings for farmers of each type and area are summarized as follows.

**Southeast Cash-Crop Farmers.**— Cash-crop farmers in this section of Missouri used more short-term production credit in 1950 than the men in other areas who operated livestock or dairy farms. In Dunklin county 67.4% of the cash-crop farmers used this type of credit and 81% of the amount borrowed was used for production purposes.

Farmers operating rented land were the most important group of borrowers comprising 48.2% of all users of credit. Borrowers operating cash-crop farms had, in the main, smaller farms than those who did not borrow. However, renters who were borrowing money farmed larger acreages than those who did not. Apparently the smaller tenants had difficulty in obtaining production credit.

Lending institutions did not appear to meet all of the production credit needs of farmers in this area. Only 64% of the farmers who borrowed in 1950 indicated that credit was always made available to them when needed. A rather strong aversion to borrowing was indicated by those farmers who did not borrow. Only 15.4% of these men indicated that they had borrowed at least once during the five previous years. More than one-half (54.2%) of the borrowers said they used funds other than their own every year. The amount borrowed per acre was relatively large in this region due to the intensive type of agriculture practiced. It averaged $21.16 per acre in 1950.

Commercial banks were the most important sources of production credit. They loaned 48% of the total funds borrowed by cash-crop farmers. Production Credit Associations, individuals, finance companies, and cotton gins each loaned about 12% of the total volume of short-term credit.

Bank loans usually were made to farmers operating larger than average acreages. The average bank borrower had 194 acres, while the average operating unit of all users of short-term production credit was only 84.3 acres.

Borrowers from banks were in good financial condition in 1950. Approximately one-third of them had no other debts, and the average net worth of all borrowers was 90.6% of the value of their assets. These farmers had an average indebtedness of $14.02 per acre.

Since all bank production loans, other than machinery loans, were made primarily to finance crop production, borrowings and repayments were very seasonal in nature. Borrowing was heaviest during the early spring months and in the late spring or early summer when additional labor was hired to chop the cotton crop. Almost all of the loans were repaid during October and November when the crops were harvested. Nearly all of the bank production loans were due on October 15. They were made for an average term of 157 days. No loans were made under an agreement for extension in case the borrower was unable to pay the obligation by the due date.

Most of the notes, 78.1%, were secured by chattel mortgages on the borrower's crop, machinery, and livestock. Although the interest rates charged by banks varied between 6 and 8%, depending upon the borrower's financial position, security, and the size of the loan, 8% was the most prevalent charge in the region.

A special type of loan has been devised by bankers in the area to accomodate borrowers whose credit position and farming ability have not become well established. The procedure is to set up a loan secured by the borrower's share of his crop and his livestock and equipment at the beginning of the crop year. The funds are made available as needed for production purposes throughout the season. Loans of this type accounted for 27.6% of all production loans extended by the banks in the area. Most of them were made to tenants.

**Northwest Livestock Farmers.**— More than three-fifths (61.4%) of the livestock farmers in Northwest Missouri used short-term credit during 1950. Of the funds extended to these men, 77.1% were used for production purposes.

Owner operators were the most important group of borrowers comprising 51.8% of all users of credit. Borrowers operated much larger farms than did non-borrowers and reported per acre net incomes averaging about one-half again as great as non-borrowers.

Lending agencies and funds appeared to be reasonably adequate for the production credit needs of farmers in the area. Only 12% of the men who borrowed in 1950 indicated that they had difficulty in obtaining funds when needed.

A rather strong aversion to borrowing was indicated by those farmers who did not use credit in 1950. Only 20% of this group said that they had used credit within the past few years. However, 81.8% of those who borrowed in 1950 reported the use of funds other than their own every year.

The average amount borrowed per acre was rather high because of the large livestock feeding enterprises of many farmers. Loans averaged $19.01 per acre.

Commercial banks were the most important sources of short-term production credit. They loaned 66.8% of the funds borrowed by livestock farmers. Production Credit Associations were also important. They loaned 32.3% of the borrowed money. Other agencies were not important sources of loan funds for production purposes in this region.

Bank loans were made to operators of smaller than average farms. The average size of unit operated by bank borrowers was only 217 acres, while the average acreage farmed by all users of short-term production credit was 288 acres.

Those borrowers who submitted financial statements to their banks were in very strong financial condition. Approximately two-thirds of them had no other debts. The average borrower had a net worth amounting to 94.5% of the value of his assets. These farmers had an average debt per acre of $8.12.

Of the bank loans, other than for machinery, made to livestock farmers, 14.6% were used to buy livestock and 85.4% for barnyard purposes. However, livestock loans were of more importance on the basis of dollar volume, amounting to 56.4% of the total volume of credit extended. The demand for funds for this purpose was heaviest in the early spring and early summer months when grass feeders were purchased and in October when dry lot feeders were obtained. Repayments reached peaks in April and October when the dry lot feeders and grass feeders respectively were sold.

Borrowings for general production expenses were fairly constant throughout the year. March, when 14.83% of the funds were obtained, was the heaviest month. The demand was lowest in July when only 5.59% of the credit from banks was obtained.

Repayments on barnyard loans were made throughout the year, but were heaviest in the last quarter when more than two-fifths of the total for the year was paid off. February was the lightest month when approximately 3.9% of the total was paid.

No contracts for short-term bank credit in this area were for periods longer than six months. However, in almost all cases it was understood that the note would be renewed in case the borrower was not ready to repay by the due date. The average original contract terms for livestock loans was 147 days. It was 120 days for barnyard loans. Only 55.2% of the livestock loans were repaid within the time stated on the original note, while 70.7% of the barnyard loans were liquidated within the contract period.

Most of the loans of both types were unsecured, but chattel mortgages were usually required of those borrowers who were not in good financial condition.

Interest charges on bank loans varied between 6 and 8% depending on the borrower's financial condition, the security he had to offer, and the size of the loan. The most prevalent rate on livestock loans was 6%, while most of the users of barnyard credit were charged 7 or 8%.

**Ozark Dairy Farmers.**— Only 39.5% of the dairy farmers from whom information was obtained used short-term credit during 1950, and only 50% of the loans were used for production purposes. Less than one-third of the production loans were used to finance the purchase of livestock, while 69.2% were used for barnyard purposes.

Owner operators were the most important group of borrowers comprising 88.3% of the users of short-term credit. Borrowers operated farms that were somewhat larger than those farmed by non-borrowers. The borrowers also received slightly larger net farm incomes in 1950.

The credit institutions in this region appeared to be adequate to meet the desires of the dairy farmers who wanted to use credit. Only 6.7% of the farmers borrowing in 1950 indicated that they could not obtain credit any time it was needed. No aversion to borrowing was evident. Of all the dairymen who did not borrow in 1950, 40.9% said that they used credit at least once during the previous five years. Of those who borrowed, 73.3% said they had used credit at least once every year. These figures, however, do not mean that credit is available in the area in amounts sufficient to assist all Ozark farmers in making adequate operating units out of their farms. It must be remembered that in the main, dairy farmers are the most prosperous people in the Ozark region. Incomes are not high enough, however, for banks to have sufficient funds on deposit for them to lend to all of the people who actually need funds for the purpose of enlarging their farm businesses.

Commercial banks were by far the most important lenders. They carried 79.5% of all short-term credit extended to dairy farmers. Production Credit Associations, individuals, and implement companies each made about 8.7% of the loans, but carried a total of only 18.5% of the amount of credit extended. Retail stores made 13% of the loans, but carried only 2% of the volume.

The amount borrowed per acre was very low in this region. Dairy farmers used an average of only $6.86 of short-term credit per acre in 1950.

Sample No.________________

Bank__________________________________

BORROWER CHARACTERISTICS

1. Type of farming:________________________________________.
2. Tenure Status:________________________________________.
3. Number of acres operated:________________________________________.
4. Was a financial statement required? ( ) Yes, ( ) No.
   If "Yes", list:
   Total assets $____________
   Debts $____________
   Net Worth $____________
5. Month during which loan was made:____________________, 1950
6. Month during which loan was repaid:____________________, (1950) (1951)

LOAN CHARACTERISTICS

1. Amount of loan $____________________.
2. Security other than balance sheet:
   ( ) Signature
   ( ) Co-signed
   ( ) Conditional sales contract
   ( ) Chattel mortgage
   ( ) Lien
   ( ) Other
3. What was the money used for:
   ( ) General farm loan
   ( ) Equipment loan
   ( ) Cattle loan
   ( ) Other loan
   ____________________
   ____________________
4. Contract rate of interest?________________________________________%
5. Minimum loan, inspection, or appraisal fees? $________________________________
6. Contract period of loan:________________________________________days
7. Was there a "gentlemen's agreement" for an extension if needed? ( ) yes, ( ) no.
8. Was the loan renewed? ( ) yes, ( ) no. If "yes", for how long?____________________days.
9. Was the repayment made in a single payment or amortized?____________________
10. Was any check-up made on the financial progress of the borrower during the period the loan was outstanding? ( ) yes, ( ) no. If "yes", indicate its nature:____________________

________________________________________________________________________

________________________________________________________________________

Results of the bank survey in this area were poor because of insufficient records for the type of detailed analysis that was desired. However, some general information concerning short-term production loans to dairy farmers was obtained by interviewing bankers. These men stated that, although the majority of the loans made to dairy farmers were used for barnyard purposes, about one-half of the dollar volume was used to finance the purchase of livestock. Most of the livestock loans were made in the spring. Barnyard loans were made either in the spring to finance crop production, or in the fall and winter to finance the purchase of feed.

No short-term money was loaned for periods in excess of six months, but, as in the livestock area, most loans carried a gentlemen's agreement for extension.

Most of the loans extended to dairy farmers in this region were secured by chattel mortgages on their livestock. Interest rates varied with the borrower's security, financial condition, and the size of the loan. Since most of the barnyard loans were for relatively small amounts, 8% was the dominant charge. Larger barnyard loans and most of the livestock loans were for 6 or 7%.

The conclusions drawn from this study are given in the Abstract on page 3 of this report.

# APPENDIX

## Seasonal Fluctuations in Statements of a Sample Bank in Each of Three Type-of-Farming Areas of Missouri and Farm Loan Department Organization of the Nine Country Banks Visited in the Survey of Short-Term Production Credit Used by Missouri Farmers in 1950

## COMPARISON OF STATEMENTS OF BANKS IN THREE TYPE OF FARMING REGIONS

In order to determine if the type of farming in the region in which a country bank was located had any effect on the seasonality of its deposit and loan volume, three banks — one in each of the type of farming areas studied — were compared. All three banks were located in towns with a population of less than 2500 inhabitants, and were in or very near the typical county of their respective type of farming regions. The banks in the Ozark dairy and northwest livestock areas each had deposits averaging about $2.2 million, while the bank in the southeast cash-crop region had deposits averaging about one-half that amount.

Graphic illustrations of the monthly percentage fluctuations of total assets, demand deposits, total loans and discounts, and non-real estate loans to farmers are presented in Figures 1, 2, and 3. These illustrations show that the type of farming practiced in a bank's business territory does influence the seasonal variation in its loans and deposits materially. Both loans and deposits were relatively constant for banks in the Ozark area, because the income and expenses of the dairy farmer are fairly stable throughout the year. Loans were somewhat heavier and deposits slightly lower during the summer months when the cash expenses of crop production were incurred.

Loans and bank deposits fluctuated to a greater extent in the livestock area, but were still fairly stable. Again deposits rose and loans declined in the fall and winter months.

In the cash-crop region, however, seasonal changes in deposits and loans were very great. Loans increased steadily throughout the summer and fell to a very low volume during the fall and winter months. Non-real estate (crop production) loans were the primary cause of this fluctuation. Deposits fell continuously during the summer and rose to a relatively high level during the fall and winter. The dependence of the economy of Southeast Missouri on the production of cotton and cash grain crops is undoubtedly the cause of this situation. Cash-crop farmers in this area use credit only during the summer months. Bankers who provide a large part of the funds justify their high interest rates by the fact that the money is in use only during the crop season, and it is during this period that deposits are on the decline due to withdrawals by the non-borrowing as well as the borrowing farmers to pay operating expenses. In this area the typical farmer has very little to sell except at harvest time.

Thus, it would appear that, due to the relatively stable nature of the agriculture practiced in their trade territories, bankers in the dairy and livestock regions are able to utilize their deposits more continuously in relatively high paying loans to farmers than are bankers in the cash-crop sections of the state. The banker in the cash-crop area has idle funds at harvest time that he must hold as cash or invest in low income securities which may be converted into cash quickly. He can solve this problem only by helping diversify the agriculture in his trade area or by encouraging new industries to locate in his community.

## FARM CREDIT SURVEY, 1951

DEPARTMENT OF AGRICULTURAL ECONOMICS, COLLEGE OF AGRICULTURE

UNIVERSITY OF MISSOURI

ALL INFORMATION WILL BE KEPT STRICTLY CONFIDENTIAL.

1. Township__________________.
2. Number of acres operated__________________.
3. Number of acres in crops__________________.
4. Is farming your only source of income? ( ) yes; ( ) no.
5. Check one: ( ) Owner-operator; ( ) Part owner; ( ) Tenant; ( ) other. If "owner-operator" is your farm mortgaged? ( ) yes; ( ) no.
6. Indicate the approximate percentage each of the following enterprises contributed to your total farm income during the year 1950:

| | |
|---|---|
| Dairy products ________ % | Grain sold for cash ________ % |
| Poultry products ________ % | Hogs ________ % |
| Cotton ________ % | Sheep ________ % |
| Soybeans ________ % | Feeder Cattle ________ % |
| Cattle from farm herd ________ % | Any other ________ % |

7. Approximately what was your net farm income in 1950 after paying all operating expenses? $________.
8. Have you borrowed money (to finance anything except land purchases) during the past several years? ( ) yes; ( ) no. If "yes", have you borrowed one or more times each year? ( ) yes, ( ) no.
9. Indicate the amount, time period (in months) of loan contract, interest rate, and the use made of money borrowed from the following lenders during the year 1950.

| LENDER | AMOUNT OF LOAN | CONTRACT PERIOD | INTEREST RATE | WHAT WAS THE MONEY USED FOR? |
|---|---|---|---|---|
| Bank | $______ | ___ months | ______ % | __________ |
| Individual | $______ | ___ months | ______ % | __________ |
| P. C. A. | $______ | ___ months | ______ % | __________ |
| Farmers Home Administration | $______ | ___ months | ______ % | __________ |
| Finance Co. | $______ | ___ months | ______ % | __________ |
| Retail Stores | $______ | ___ months | ______ % | __________ |
| Implement Co. | $______ | ___ months | ______ % | __________ |

(Loans from retail stores include an open charge account which is not settled at the end of each month.)

If money was borrowed from a source not indicated in question nine, such as the Veteran's Administration, Cotton Gins, etc. so indicate below.

| | | | | |
|---|---|---|---|---|
| ______ | $______ | ___ months | ______ % | __________ |
| ______ | $______ | ___ months | ______ % | __________ |

10. If money was obtained from an individual (question nine), was the individual a relative? ( ) yes, ( ) no.

(Continued on page 46)

11. Were you required to give the lender a statement showing your financial situation? ( ) yes, ( ) no.
12. During what month was the loan(s) made?____________, 1950 (____________, 1950).
When was the loan(s) repaid?____________, 195__). (____________, 195__).
If not yet repaid, when do you expect to repay it?____________, 195__.
13. Were you required to give collateral security? ( ) yes, ( ) no. If "yes" check the type of security given:
    - ( ) Signature of another party.
    - ( ) Mortgage on your farm.
    - ( ) Chattel mortgage on property loan was made to purchase.
    - ( ) Chattel mortgage on other property (such as livestock, machinery or crops).
    - ( ) Other____________
14. Why did you choose the lender or lenders indicated in question nine as the best place to borrow money?____________
15. During the past five years have you ever borrowed from lenders other than those indicated in question nine? ( ) yes; ( ) no. If "yes", what other agencies have you borrowed from?____________
16. In case you were unable to repay the loan in the period contracted, was an extension understood through a "gentlemen's agreement" at the time you obtained the loan? ( ) yes; ( ) no.
17. Did you have difficulty in meeting the repayment in the time limit of the contract? ( ) yes, ( ) no. If "yes," what did you do to settle the debt?____________
18. Did the lender advise you when to buy or sell your products, or help you with any other management problems? ( ) yes; ( ) no.
19. Does the local bank in your community take care of all your credit needs? ( ) yes; ( ) no.
20. Are you able to borrow money ( to finance anything except land purchase) in your community at any time it is needed? ( ) yes; ( ) no. If "no", briefly state how you feel the policies of lenders could be adjusted to fit your needs better:____________

THANK YOU

Bank____________

| 1950 | Total Assets | Demand Deposits | Total loans % Discounts | Total Non-Real Estate Farm Loans | No. N-R Farm Loans |
|---|---|---|---|---|---|
| Jan 31 | | | | | |
| Feb 28 | | | | | |
| Mar 31 | | | | | |
| Apr 30 | | | | | |
| May 31 | | | | | |
| Jun 30 | | | | | |
| July 31 | | | | | |
| Aug 31 | | | | | |
| Sep 30 | | | | | |
| Oct 31 | | | | | |
| Nov 30 | | | | | |
| Dec 31 | | | | | |

****************************************

What officer is in charge of the farm lending program?____________
If this is not his only duty, what else does he do?____________

How many years experience has he had in the field of farm lending? ____________________

What special training has he had to prepare himself for this job? ____________________

________________________________________

Briefly outline program bank has followed to contact farmers, solicit agricultural loans, and create good will among the rural people in the area: ____________________

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