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The Use of Agricultural Credit Facilities by 50 Negro Farm Families in Austin County, Texas

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THE USE OF AGRICULTURAL CREDIT FACILITIES BY 50 NEGRO FARM
FAMILIES IN AUSTIN COUNTY, TEXAS

APPROVAL SHEET

by

Submitted to the Advisory Committee:

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A Thesis

Submitted to the Graduate School of the
Prairie View Agricultural and Mechanical College, Prairie View,
Texas, in partial fulfillment of the requirements for the degree
of
MASTER OF SCIENCE IN AGRICULTURAL ECONOMICS

Mr. H. R. Powell

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PRAIRIE VIEW AGRICULTURAL AND MECHANICAL COLLEGE

PRAIRIE VIEW, TEXAS

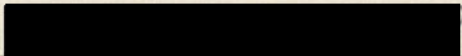
May, 1960

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THE USE OF AGRICULTURAL CREDIT FACILITIES BY 50 NEGRO FARM
FAMILIES IN AUSTIN COUNTY, TEXAS

APPROVAL SHEET

Submitted to the Advisory Committee:


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ACKNOWLEDGEMENT

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He also expresses appreciation to the farmers surveyed that provided the necessary information to make this study possible.

MGW

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2. Scope
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DEDICATION

Dedicated to my beloved wife,

Joyce

MGW

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THE USE OF AGRICULTURAL CREDIT FACILITIES BY FIFTY NEGRO FARMERS
IN AUSTIN COUNTY, TEXAS

INTRODUCTION

Statement of the problem: The survey made of the fifty Negro farmers of Austin County in the preparation of this paper revealed that the farmers of the county are failing to make wise use of the available credit facilities available to them from the lending agencies that offer the lowest interest rates and the longer time for the repayment of their loans. In an interview with the Government Lending Agencies, it was revealed that only six operating loans had been made during the 1959 crop year. The total amount loaned by the Farmers Home Administration was \$2,000.00 for operation, or an average of \$666.00 per farm of loans made. The reasons for this low number was not due to the fact that the applicants for loans had been turned down but was due to failure of farmers to make applications to the office of the Farmers Home Administration.

Varied reasons were stated by farmers for not making applications to the Government lending agencies. Among the reasons most commonly stated was the amount of "red tape" involved in securing loans from these agencies, the time involved before the loans are processed and paper work involved in keeping records once a loan is granted. Then, too, the farming operations of the majority of the farmers are so small that the amount of

credit needed by most farmers is of such small amounts that they prefer going to the local banks to obtain their credit needs.

The farmers are failing to realize that the extensive use of credit by American farmers is a recent development. It is explained largely by the phenomenal increase in the value of the investment and operating capital used today in farm production, and in the commercialization of agriculture.

The increase in investment capital is due, in the first place, to the increase in the price of farm lands, building materials, machinery, livestock; and secondly to the improved quality and increased quantity of machinery, livestock and improvements which are necessary in the more intensive stage of agricultural developing which we are now in. Likewise, the commercialization of agricultural production has had a great influence upon the use of credit, particularly operating credit. The necessity of buying the goods he needs during the year rather than operating on his own stored up products of the previous years, has led to his dependence upon others, in a greater or less degree, for operating capital. This is, instead of storing up the "cash" which he receives for goods, he spends it and shifts the financing of his next crop to the merchant and banks. This practice is most prevalent in the sections of the country where the one-crop farming system is being carried out and in as much as the farmers of the county fall in this category, they too are affected by this practice.

The crop is usually sold in the late summer or fall and the receipts are largely absorbed in the payment of debts incurred during the growing season. It is a common practice, as revealed by the study made, for farmers to begin borrowing again sometime during the first quarter of the following year.

In recent years the farmers have experienced a dreadful setback in their farming operations, due to the Government Control Programs which limits the number of acres a farmer can plant. In many instances, the acreage allotted is not sufficient for farmers to provide adequate family living. The increased cost of production has also played an important role in the setback of today's agriculture.

In the light of the fore-mentioned situations; the farmers are faced with these problems: (1) Farmers are resorting to part-time farming; (2) migrating to cities to seek employment; (3) Ninety-five percent of the farm youths are leaving the farm to seek employment in cities, thus leaving older people on the farms; and (4) Those farmers remaining on the farm are not expanding their operations due to limited capital and adequate labor force that is needed for an expanded operation.

Scope: This study is limited to Negro farmers living and operating farms in Austin County. In this report, a brief description of the natural and human resources of the county are given in order to establish a background of the area covered.

A description is also given of the established credit facilities in the county, both Government sponsored and private sources and their policies regarding credit to farm families.

Purpose of the study: The purpose for which the study was made was to determine the reasons why the farm population is on a steady decline, the cause for sub-standard housing, to determine where farmers obtain their capital for their farm operations and the rate of interest charged by the various lending agencies. This study was also necessary in order that the writer can get a better knowledge of the farmers problems in relation to capital and will aid in the planning of a program where some of the problems stated can be worked on.

Hypothesis: Negro farm families in Austin County generally fail to use adequate amounts of credit in carrying out their farming operations. This lack of wise and full use of available credit facilities keep farm income at a low level and definitely hampers many farm operations that would otherwise prove profitable if properly and adequately financed.

Low income among Negro farm families in Austin County is traceable in a large part due to improper use of the credit resources. In many instances sufficient credit properly used would provide for greater efficiency in farm operations.

In most cases capital is needed in the form of credit to expand or intensify the farm business.

Method of procedure: Because of the homogeneity of the group sampled, the random sample was deemed appropriate to use. Croxton and Cowden state that "a random sample is an appropriate type of sample for a homogenous population".¹ The survey method was employed in the gathering of the information in the composition of this paper. Goode and Scates in their book entitled "Methods of Research" state: "The interview is a major tool for gathering evidence in the field, including censuses and similiar enumerations, social and economic status of families, standards of living, and family purchases and buying preferences."²

From an enumeration of 105 farmers, 50 farm families were selected for the survey by the use of the random sample as already stated. "A sample is said to be random if each item is drawn indepently of each other and if each item has the same probability of being selected."³ The 50 farmers surveyed were drawn from a box containing the entire farm population with no bias on the part of the writer.

¹Cowden, Dudley J., and Croxton, Frederick E., Practical Business Statistics, Prentice-Hall, Inc., New York, p. 26.

²Goode, Carter V., and Scates, Douglas E., Methods of Research, Appleton-Century-Craft, Inc., 1954, New York, p. 638.

³Cowden, Dudley J., and Croxton, Frederick E., op. cit., p. 349.

PART II

NATURE OF RESOURCE FACTORS IN AUSTIN COUNTY, TEXAS

Opportunities for improving the economic status of farm families in any area depends largely upon the nature of the resource factors of that area.

The effectiveness of any social phenomenon depends upon the effectiveness of analysis of the given situation. Understanding of the facts concerning the background information and status of a group of people is essential to sound interpretive methodology. As a background for the study of credit use by Negro farm families in Austin County, Texas, the following brief historical and geographical setting of the human and natural resource factors of the county are given.

Location: Austin County, one of the original counties was created in 1836 and organized in 1837. It was named for Stephen F. Austin, Father of Texas. It is located in South Central Texas, approximately 50 miles west of Houston, Texas. It has an altitude of 150-400 feet and a mean annual rainfall of 42.81 inches. The temperature average for January is 53°, July 84° with a mean annual temperature of 69°.

The population as revealed in the 1955 estimate of census according to the Texas Almanac was 16,500.⁴ Of this total population, the rural population was 14,663, number of farms 2,368

⁴Texas Almanac, Dallas Morning News, 1956-57, p. 601.

with an average farm acreage of 161.0 acres. The number of farm owners was 1,296 and 619 tenants. The county includes an area of 622 square miles with a population of 22.1 per square mile. The population is further broken down to include 47.0 percent non-farm rural and 53.0 percent farm rural. The breakdown according to race is 78.5 percent Anglo-American, 1.5 percent Latin American and 20.0 percent Negro.

The terrain of the county consists of partly level surface of Bernard Prairie, hilly in west and northwest sections of the county. It has rich alluvials along the Brazos River and tributaries, ranging to sandy land in some parts.

The chief supporting industries of the county are: oil, livestock, agriculture and small industries. The county has presently two oil fields; the Raccoon Bend oil field and the Oak Hill oil field. There are approximately 235 wells in the Raccoon Bend oil field, with sixty employees and an annual payroll in excess of \$350,000.00. According to a report prepared by the Bellville Chamber of Commerce, the production of oil from this field in 1955 was 2,000,000 barrels.

Austin County ranks first in the state in the number of head of cattle per acre and ninth in the state in the overall number of cattle. During 1955, the Sealy Livestock Auction, the largest of its kind in South Texas marketed \$7,000,000.00 worth of livestock.

The total farm acreage in 1954 produced crops worth \$5,326,340.00, divided as follows: field crops \$2,543,259.00, vegetables \$22,229.00, fruits \$3,786.00, dairy \$301,325.00, poultry and poultry products \$822,655.00, livestock \$1,624,622.00 and forest products \$8,464.00.

The Texas Southeastern Gas Company distributes natural gas for domestic, commercial purposes and industrial uses in Austin County and four adjacent counties. Locally they employ about 30 people with an annual payroll in excess of \$100,000.00. The San-Bernard Electric Company distributes electric power to domestic, commercial and industrial users in Austin County and three adjacent counties. They too, employ some 30 people with an annual payroll in excess of \$100,000.00. The Santa-Fe Railroad with its terminal located in Bellville presently employs 138 local people, with an annual payroll of some \$500,000.00. There are a number of smaller industries located throughout the county.

THE RECOMMENDATIONS OF AUTHORITIES CONCERNING CREDIT

Definition of credit: Credit can be defined as the use in advance of capital that is expected to be accumulated from future income. When a farmer borrows a part of the money needed to purchase or operate a farm, he is using capital that has been saved by someone else. For this capital, he agrees to pay the lender a specified rate of interest. He agrees to use it for specific purposes and to pay it back at specified dates in the future.

The word credit comes from the Latin American word "credo" meaning "I believe", and this idea of belief or confidence is the foundation for the ability to buy now and pay later.

William G. Murray, in his book, "Agricultural Finance", has this to say:

Credit makes it possible for the hired man to become tenant and the tenant to become owner. Moreover, credit makes it possible for farmers to take advantage of new machines, good seed, fertilizer, livestock and labor; all of which aids or enables farmers to organize and operate their farms on a more profitable basis.⁵

If credit were available to farmers on a more flexible basis, it would aid in reducing the percentage of sharecroppers and tenants. In order to be able to use credit wisely, a successful farmer should be a good businessman as well as an expert in raising crops and livestock. To be used profitably, credit should be

⁵Murray, William G., Agricultural Finance, The Collegiate Press, Inc.-Ames, 1946, Iowa, p. 7.

obtained for purposes and amounts that will accomplish specific objectives. The farmer should plan and see clearly in advance, how an additional investment will increase his income or improve his level of family living. Nothing is accomplished by financing unprofitable enterprises, because both the borrower and the lender probably would lose money.

From the leaflet, "Source of Farm Credit in Texas", we learn that:

Farm credit is a necessary tool in modern agriculture, and its importance is certain to be increased as agriculture becomes more commercialized.

Farm credit can be divided into two groups according to the length and purpose of the loan. Loans secured by real-estate mortgages are referred to as long-term loans, and loans secured by other collateral are known as short-term loans.

A farmer just starting in farming, or one who is increasing his operations substantially probably will need both long and short term loans. He will need long-term credit to purchase land and may need short-term credit to buy equipment, feed, seed, fertilizer and livestock.⁶

Farm finance or farm credit has to do with: (1) the investment or use of all of the capital needed to the end that a high rate of return may be obtained in the management of capital goods; (2) the assembling of borrowed capital and the management of the credit problems involved; (3) the protection of all of the capital to as great an extent as practical against physical loss due

⁶Wooten, Alvin B., Sources of Farm Credit in Texas, Texas Agricultural Experiment Station, College Station, Texas, A & M College, L-24.

to natural causes or legal mistakes; and (4) the protection of all of the capitol against value loss due to violent price level movements.

If any one of the four major phases of farm finance listed above is over-looked in the operation of the farm, or if any are over emphasized in practice, the highest possible net return cannot be realized.

The use of credit: The wise use of agricultural credit is extremely useful in the financing of a farm business. The tragedy of excessive debt and foreclosure has plagued so many farmers during depression periods in this and other countries that farmers may question whether they should use credit at all.

Steps to follow in the wise use of credit as outlined in a circular published by the Farm Credit Administration entitled "ABC's of Credit For Farm Families" are:

1. Plan your credit needs some time before the actual loan is required.
2. Use credit for profit only.
3. The length of term of the loan should not exceed the life of the productive purpose for which the money was borrowed.
4. Try to have the note drawn so that the installments fall due at the time you expect to have the money on hand to make the payment.
5. Finance long-term loans when rates are low.
6. Amortize the debt.⁷

⁷Farm Credit Administration, ABC's of Credit for Farm Families, Washington, D. C., Circular 15.

If you are sure you will be better off if you borrow, Shop For Your Credit just as you would shop for any other purchase. Each lending agency offers terms and other services that are adapted to the special needs of one or more types of borrowers. The borrower should want to ask himself such questions as these: What kind of lending agency will best suit our family needs? Is it reputable? What are the costs of obtaining a loan from it? What are the interest rates? Will we be forced to refinance before we have the opportunity of paying the debt in full? What are the features of each of the agencies under consideration? And what features are best adapted to the needs of our family?

Types of credit: On the basis of the American farmers need for credit for almost any conceivable need to carry on his farm and farming operations, agricultural credit has been classified according to the time factor involved into three periods. These periods of credit classification or time payment schedule are so designed that they meet the needs of the farmer from the operation of his farm during the year to the purchasing of a farm over a period up to 40 years.

The terms or types of credit available to farmers are: long-term credit, intermediate-term credit and short-term credit.

Long term credit: This includes loans made to farmers for terms of 5 - 40 years. These loans are made to provide for the purchase of farms, homes and fixed improvements on the farm.

These loans are usually referred to as real-estate loans and the mortgage of the farm is usually given as collateral as a promissory note.

Long term credit used primarily for buying land and fixed improvements in many instances find farmers faced with the following problems: (1) When to buy the farm; (2) What kind of farm to buy; (3) What price to pay for the farm; (4) What source of credit to use to finance the farm.

As a means of protection, William G. Murray, in his book, "Agricultural Finance" has this to say concerning the purchase of a farm: "The purchase of a farm is a transaction involving many individual items that deserve the time and attention of the buyer. The buyer should enter the transaction with a full knowledge of the risks involved, provide as much reserve and insurance as can be afforded and if possible, have an agreement with the mortgage holder or seller in contract for, to extend the payments in years of low income."

Having the farm intended for purchase, appraised by an appraiser before purchasing the farm.

Intermediate-term credit: This type of loan is usually made for a period of one to three years. As a rule, these loans are made for the improvement of land, purchasing farm machinery, and the marketing of farm products. Many loans of this nature

⁸Murray, William G., op. cit., p. 104.

run for periods longer than 3 years and are made on the basis of real-estate loans, secured by real estate mortgages. The type of security given by farmers is promissory notes and chattel mortgages on livestock and stored crops.

"Real estate mortgages are usually given when the amount of the loan is of such size that it will require several years to repay the loan, or when the lender feels that the loan will not be adequately secured by a mortgage or personal property."⁹

Loans of the intermediate type must be more closely analyzed than loans of shorter terms. Instead of being paid out of the returns from a single years' operation, they will normally be repaid over a period of several years. A prime factor in this analysis is the answer to the question, what will be the net income of this applicant after his operating and living expenses are paid? If no surplus money is left after the expenses are paid, there is no sound basis for making the loan.

Short-term credit: Short-term credit covers loans up to one year. The loans are usually made for operational purposes. Food, clothing, household appliance, feed, seed, fertilizer and other supplies are usually purchased with funds obtained from short-term loans. These loans are usually made by local dealers and merchants. The loan is usually paid when the crops are harvested and sold.

⁹Duggan, I. W., and Battles, Ralph U., Financing the Farm Business, John Wiley and Sons, 1950, London, p. 174.

According to Sparks, "It is impossible to make rigid classifications of agriculture credit needs on a time basis. The three classifications of loans invariably tend to shade into one another, and are to be taken only in a general way for the purpose of analysis."¹⁰

Case for borrowing: The use of credit has definite advantages. If farmers were denied credit altogether and forced to rely on their savings, two undesirable results would occur immediately. "Tenant farmers who have been using borrowed capital would be forced to give up farming and hire out as laborers, or go into some other line of work. Owner-operators on mortgaged farms would have to give up the ownership of their homes and farm lands. They would then be tenants again with all the insecurity that goes with this arrangement."¹¹

Furthermore, those contemplating the step from hired hand to tenant, or from tenant to owner would have to postpone their action either indefinitely or until they had accumulated through savings the amount they otherwise would have borrowed.

The trouble does not lie with the credit itself, but with the way it has been used in areas of high risk, and in times of high prices, and its abuse in the individual cases.

¹⁰Sparks, Earl S., Agricultural Credit, Thomas Y. Crowell Corp., 1932, New York, p. 3.

¹¹Ibid., p. 4.

Over-extension of credit: Much of the misuse of credit occurs when farm prices are high. Lenders and borrowers still find it difficult in too many cases to keep individual loans from increasing in size during prosperous high price years; even though they realize that debt distress usually originate with large loans made under these conditions.

When credit is restricted during prosperous periods and extended liberally during depression years, the danger of credit misuse will be largely eliminated. It is not always easy to recognize prosperity or depression until it is too late. It was revealed that the total number of operating loans made to Negro farmers during the 1968 crop year was only six, for a total of \$4,000.00. He further stated that the reason for the number of loans made was not due to the fact that the applicants were disapproved, but to failure of farmers to apply for loans. The payment on the loans had been very satisfactory.

Two loans for farm housing had been made and no further applications had been made for loans of this type.

From the survey made of the Negro farmers, it was revealed that they would rather go to the local banks to secure their loans, even though the interest rate was higher. The reason stated for this was that there was a minimum amount of "red tape" they had to go through in securing loans from the banks, whereas with the Farmers Home Administration considerable amounts of red tape were encountered. They also stated that by

PART IV

CREDIT INSTITUTIONS IN AUSTIN COUNTY, TEXAS

A. GOVERNMENT SPONSORED:

Farmers Home Administration: The local office of the Farmers Home Administration, located above the Austin County State Bank in Bellville, Texas has available money to lend Negro farm families for buying farms, construction of homes and operating purposes. In an interview with Mr. Tom Wiley, local F. H. A. Supervisor, it was revealed that the total number of operating loans made to Negro farmers during the 1959 crop year was only six, for a total of \$4,000.00. He further stated that the reasons for the number of loans made was not due to the fact that the applicants were disapproved, but to failure of farmers to apply for loans. The payment on the loans had been very satisfactory.

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going to the local banks to borrow the money that the money was readily available, whereas through the Farmers Home Administration they would have to wait for a period of time before the loan was approved.

The Farmers Home Administration was created by an act of Congress in 1946. Under this legislation, the Farm Security Administration and the Emergency Crop and Feed Loan were consolidated under one agency within the Department of Agriculture. The Farmers Home Administration obtains its money for lending money to farmers directly from appropriated funds made by Congress. Money is borrowed under terms prevailing in the area with an interest rate not to exceed five percent.¹²

The main objective of the Farmers Home Administration is to enable farm families to become soundly established in successful well balanced farming.

"Family-type farms are those farms large enough to produce enough income to pay (1) farm operating expenses, (2) family living expenses, (3) annual installments on debts and (4) establish a reserve."¹³

The county committee of the Farmers Home Administration, which either approves or disapproves a loan to a farmer, consist of three members, appointed by the State Director. Two of these members must be farmers and the third may be a local businessman who is familiar with local farmers and their needs.

¹²Public Law 731, 79th Congress, Second Session, Approved August 14, 1946.

¹³Farmers Home Administration, Loan Program of the Farmers Home Administration, Washington, D. C., PA-360.

The types of loans made by the Farmers Home Administration are: operating loans, farm ownership loans, soil and water conservation loans, farm housing loans and emergency loans.

Operating loans: These loans are made to farmers or stockmen who operate farms or ranches no larger than the family type, devote most of their time to and earn most of their income from farming or stockraising and are United States citizens. The total amount that a farmer can borrow under a loan of this type is \$20,000.00, for a period not to exceed 7 years, paid in annual installments at an interest rate of five percent on the unpaid principal.

Farm ownership loans: These loans are made to assist farm families to become successfully established on good family type farms. These loans are amortized over a period of up to 40 years, with an interest rate of five percent on the unpaid balance.

Soil and Water Conservation loans: This type of loan is made especially to carry out soil conservation measures and to develop irrigation and farmstead water supply systems. The maximum amount that a farmer or rancher can borrow on a loan of this type is \$25,000.00, repayable in 1-20 years at an interest rate of five percent on the unpaid balance.

Farm Housing Loans: These loans are made for purposes of building and repairing farm houses and other essential farm buildings. The payments can be amortized over periods up to 33

years at interest rates of 4 percent on the unpaid balance. The security requirements are adequate real-estate security on the farm being improved and other real-estate if necessary to secure the loan.

Emergency Loans: Emergency loans are made to assist farmers in emergency areas to continue farming. In areas designated as emergency areas, loans can be secured to purchase feed, seed, fertilizer, farm and home supplies, replace livestock lost and etc. Loan terms and repayment plans are: (1) interest rates of 3 percent on the unpaid balance, (2) for production of crops that are to repay when crops are sold, (3) loans for feed are to be paid when livestock or livestock products are sold and (4) loans for replacement of equipment, building repairs, or similar purposes may be scheduled over longer periods.

Federal Land Banks: The Federal Land Banks, created in 1916 by an act of Congress, are the principal units in what may be called the Federal Farm Loan System. The Federal Land Bank is a cooperative organization which lends money to farmers and ranchers. The capital stock of the associations is owned by the member borrowers of the associations.

The federal land bank is composed of the supervisory office located in Washington, D. C.; the twelve district federal land banks; the local national farm loan associations; and the member farmers and ranchers who borrow from the banks through the national farm loan associations. Federal land banks make long-term amortized

loans on farm real estate. Loans are made through the recommendations of the national farm loan associations, which, in turn, endorse and service the loans. The banks secure funds for lending purposes through the sale of consolidated farm loan bonds to the public. The banks may lend up to 65 percent of the appraised normal agricultural value of the farm. The term of loan cannot be less than 5 years nor more than 40 years.

Through the federal land banks, loans are available to; refinance liens on farm land, purchase and improve farm real estate, purchase livestock, equipment and supplies, pay farm operating expenses, provide a home and family living expenses and to provide funds for general agricultural purposes and other requirements of the owners of the land.

The loans are made only on farm and ranch property and must be secured by a first lien of the security. Loans are also made on "Part-time" farms in areas where dependable outside income is available.

In a conference with Mr. L. Elick, supervisor of the local federal land bank in Bellville, it was revealed that at the present time, his office has not made any loans to Negro farmers within the county, nor had they received any application for loans from Negro farmers.

B. Private Lending Agencies.

Commercial banks: The local banks provide the majority of the short-term and intermediate-term credit to Negro farm families throughout the county. There are six banks geographically located in five towns within the county. They serve the communities that surround the towns. They lend money to farmers for operational purposes at a rate of 6 percent interest. These loans are repaid in the fall of the year when the crops are harvested and sold.

The local banks also make loans for periods up to three years for the purchasing of equipment at an interest of 8 percent. From the surveys made of farmers and conferences with the bankers, it is safe to say that approximately 90 percent of the credit extended to farmers is done through the local banks. The most common reasons for the operation of their farms from the local banks was, that they did not have to wait on the money. The money needed is readily available, which is not true of some of the other sources of farm credit.

The first law in the United States providing for nationwide regulation of banks was the National Banking Act of 1863. It has been amended a few times since then. The act underwent a general revision in 1913, when the Federal Reserve System was established.¹⁴

¹⁴Duggan, I. W., and Battles, Ralph U., Financing the Farm Business, John Wiley and Sons, 1950, London, p. 207.

Under the Federal Reserve System, all state banks in the United States are eligible for membership in the Federal Reserve System if they meet certain requirements.

The requirements for state banks to be eligible for membership in the Federal Reserve System as defined by Battles and Duggan are:

1. Capital must be at least that of national banks of similiar size and location.
2. All banks must agree to buy Federal Reserve bank stock in an amount equal to 6 percent of its paid-up capital and surplus, and must pay half of such stock immediately.
3. All member banks must keep a legal reserve deposit with Federal Reserve banks.
4. They must arrange for deposit insurance with the Federal Deposit Insurance Corporation.

The Federal Deposit Insurance Corporation was chartered by the federal government in 1934. Its purpose is to gurantee the the payment of deposits of \$10,000 for any one depositor in insured banks. To pay the cost of this insurance, banks pay to the Federal Deposit Insurance Corporation yearly $1/12$ of 1 percent of their total deposits.¹⁵

Merchants and dealers: Merchants and dealers are not generally a satisfactorily source of agricultural credit, however, the survey revealed that a small percentage of the Negro farmers

¹⁵ Ibid., pp. 208-209.

Life Insurance Companies: The study revealed that no

farmers surveyed used this source of credit in the financing of any of its operations.

In an analysis of the data secured from this survey, the writer attempts to determine the source of credit most prevalently used by the families surveyed, the most common use of credit and the reasons for the source most prevalently used. The information contained in this report was taken from the survey form included in back of this report.

This study covers a cross-section of the county. The items that were attempted to bring out in this report by the writer are: age levels and occupational status, educational status, type and size of farm operations, tenure status, family economic status, and other general information pertinent to uses of agricultural credit.

The information presented in this chapter will be presented in tabular form to simplify the interpretation of the data and to furnish a description of the findings.

Table I has to do with age of operators and the tenure status of the operators. As brought out in this table, farmers between the ages of 41-60 comprise 64% of the total number of farmers surveyed. Another interesting item revealed is that of farmers ranging in the age groups that comprise 64% of the farmers, 78 1/8 percent are owner-operators. Another interesting

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ANALYSIS OF DATA CONCERNING CREDIT FACILITIES USED BY
50 NEGRO FARM FAMILIES IN AUSTIN COUNTY, TEXAS

This study deals primarily with credit resources used by Negro farmers in Austin County. In an analysis of the data secured from this survey, the writer attempts to determine the source of credit most prevelantly used by the families surveyed, the most common use of credit and the reasons for the source most prevelantly used. The information contained in this report was taken from the survey form included in back of this report.

This study covers a cross-section of the county. The items that were attempted to bring out in this report by the writer are: age levels and occupational status, educational status, type and size of farm operations, tenure status, family economic status, and other general information pertinent to uses of agricultural credit.

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fact brought out in this study, as revealed in the table is that 100% of the farmers age 61 and over are owner operators and that the farmers between the ages of 21-40 are part-owner operators.

TABLE 1. AVERAGE AGE OF OPERATOR AND TENURE STATUS OF 50 NEGRO FARMERS
COUNTY, TEXAS

Age Group	Tenure Status			
	Owner operator	Part Owner Operator	Landlord	Landless
21-30		2		
31-40		6		
41-50	15	3		
51-60	12	4		
61 and over	10			
Total	35	15		

Source: Information Data

TABLE I. AVERAGE AGE OF OPERATOR AND TENURE STATUS OF 50 NEGRO FARMERS IN AUSTIN COUNTY, TEXAS

Age Group	Tenure Status				Per- cent
	Owner operator	Part Owner Operator	Owner-Operator Landlord	Landlord	
21-30		2			4%
31-40		6			12%
41-50	13	3			32%
51-60	12	4			32%
61 and over	10				20%
Total	35	15			100%

Source: Information Data:

Table II has to do with the educational and occupational status of the 50 farmers surveyed. As revealed by the study and shown in the table, 66% of the farmers surveyed received education through elementary school, 32% received high school training and only 2% received college training. Sixty-four percent of the farmers surveyed were full time farmers and the remaining 36% were part-time farmers.

TABLE II. EDUCATIONAL AND OCCUPATIONAL STATUS OF 50 FARMERS IN ALBERTA COUNTY, TEXAS CHOSEN FOR THIS STUDY

Educational Status	Occupational Status	
	Full-Time	Part-Time
Elementary 1-6	19	14
High School 9-12	18	4
College 1-4	1	
Total	38	19

Source: Information Data.

TABLE II. EDUCATIONAL AND OCCUPATIONAL STATUS OF 50 NEGRO FARM FAMILIES IN
AUSTIN COUNTY, TEXAS CHOSEN FOR THIS STUDY

Educational Status	<u>Occupational Status</u>		Total	Percentage
	Full-Time	Part-Time		
Elementary 1-8	19	14	33	66%
High School 9-12	12	4	16	32%
College 1-4	1		1	2%
Total	32	18	50	100%

Source: Information Data.

Table III reveals the credit agencies used and interest rates charged by the various agencies used in the purchasing of consumer goods and paying operating costs. Of the three lending agencies most frequently used, the commercial banks are the leading sources of agricultural credit used by 60% of the farmers. Whereas the average interest rate charged by the Farmers Home Administration is only five percent, the average interest rate charged by the commercial bankers is seven percent. Seemingly, farmers prefer paying the higher interest rate for the money borrowed. As it was stated in Part IV, the banks are the quickest source of obtaining the capital needed as stated by the farmers as their reasons for obtaining their credit needs there.

The chart also reveals that the loans were secured for operational expenses, and in the case of one farmer surveyed, money had been borrowed to construct a home. This does not indicate however, that there is no need for building or repairing farm homes, nor is there a lack of a need for more farm equipment and the repair and construction of farm buildings. It only tends to bring out, in the opinion of the writer, that there is no available money for the purchasing or the improvement of these more costlier items. This is due mainly to the size of farms and the type of farming operations being carried on by the farmers.

It may be also that no money was borrowed for the purchasing of farm land, however, this can be accounted for due to the fact that there is no available land for sale in the county.

TABLE III. DISTRIBUTION OF CREDIT AGENCIES AND INTEREST RATES USED BY 50 NEGRO FARMERS
OF AUSTIN COUNTY, TEXAS TO PAY OPERATING COSTS AND PURCHASE CONSUMER GOODS

Lending Agency	%	Average Amount	% Inst.	Season	No. Farmers Using Credit	Length of Loans	Method of Repaying Loans	Purpose of Loans
Local Banks	60	\$1,475	6 & 8%	Winter	30	3Mo.-1 yr.	Above cost of production and wages received from day labor.	Operational expenses, such as (fuel, seed, etc.) Tractors & other equipment
Merchants & Dealers	24	225	10%	All Seasons	12	3Mo.-1 yr.	Lum-sum at end of crop harvesting season.	Food, clothing, Fertilizer.
F. H. A.	12	7,000	5%	Winter	6	1-33 yrs.	Annual payments and above cost of prod.	Buying homes and farm operational expenses.
Individuals	4	200	8%	Spring	2	30-90 days	Wages received from part-time farming.	Operational expenses.
Totals	100	4,400			50			

Source: Information Data.

Table IV has to do with the distribution of credit by seasons and the items bought with the credit obtained. Here we find that seed and fertilizer constituted the greater percent of the items for which credit was used. Another item that ranks high for which credit was used is hired labor. Sixty percent of the farmers used credit for this item. The survey revealed that no credit was used for feed and taxes. This indicates that farmers are either producing enough feed to feed their livestock or paying cash for it. In the case of taxes, it is assumed that they were paid for from funds on hand.

From the survey it was also revealed that the majority of the farm credit was used during the winter months. The next season ranking highest was during the spring. This can be accounted for due to the hiring of hands to chop cotton.

TABLE IV. DISTRIBUTION OF CREDIT BY SEASON

Items Bought for Credit Fall

Feed	
Seed	
Fertilizer	
Livestock	
Machinery and Equipment	
Conservation Practices	5(18)
Taxes	
Hired Labor	
Pay off old debts	14(28)

Source: Information data

TABLE IV. DISTRIBUTION OF CREDIT BY SEASONS, USED BY 50 NEGRO FARMERS IN AUSTIN COUNTY, TEXAS

(Percentage enclosed in parentheses)

Items Bought for Credit	<u>Seasons</u>			
	Fall	Winter	Spring	Summer
Feed				
Seed		32 (64)		
Fertilizer		32 (64)		
Livestock			13 (26)	
Machinery and Equipment		17 (34)		
Conservation Practices	6 (12)			
Taxes				
Hired Labor				30 (60)
Pay off old debts	14 (28)			

Source: Information data

Table V indicates the capitol investment per farm, by tenure status of Negro farm operator. From the survey, it was revealed that the average capitol investment of full-time farmers was \$6,218.00, while that of the part-time farmers was \$5,335.00. The average investment in land and buildings for full-time farmers was \$3,246.00 and for part-time farmers it was \$2,975.00. The average investment in machinery and equipment is \$2,145.00 for full-time farmers and \$1,836.00 for part-time farmers, while that of production livestock was \$827.00 for full-time farmers and \$524.00 for part-time farmers.

The total investment in land and building ranks highest as to total investment, while that of production of livestock reflected the smallest investment. This low investment in livestock may well account for the low income, of 40% of the farmers surveyed.

TABLE V. CAPITOL INVESTMENT PER FARM, BY TENURE STATUS OF NEGRO FARM OPERATOR.

Tenure Status of Operator	Value of Capitol Investment			
	Total Dollars	Land and Buildings	Machinery and Equipment	Production Livestock
Full-time	\$6,218.00	\$3,246.00	\$2,145.00	\$827.00
Part-time	5,335.00	2,975.00	1,836.00	524.00
Totals	\$11,553.00	\$6,221.00	\$3,981.00	\$1,351.00

Source: Information Data

Table VI indicates the average income made by the farmers surveyed as to tenure status of operator. Of the 64% of the farmers surveyed that were full-time farmers, 24% of the farmers had an average income of \$250.00 - \$1,199.00, 20% of the farmers fall in the income bracket of \$1,200.00 - \$2,499.00, leaving only 10% of the farmers having an annual income of \$2,500.00 - \$4,599.00.

Part-time farmers constituted 32% of the farmers surveyed and of this 32%, 16% had an annual income of \$250.00 - \$1,199.00, 12% fall in the \$1,200.00 - \$2,499.00 bracket, leaving 8% in the \$2,500.00 - \$3,599.00 income range. There were no part-time farmers in the survey that had an annual income above \$3,600.00.

Income Class	No. of full-time Farmers
\$250-1,199	12
1,200-2,499	10
2,500-3,599	7
3,600-4,599	3
Totals	32

Source: Information Data.

Table VII indicates the distribution of land owned by Negro farm operators in Austin County. Using an interval of 50 acres, it was broken down into 5 classes ranging from 0 - 200 acres and over. Thirty-four percent of the farmers surveyed fell in the class interval of 100 - 149 acres, 14% fall in the class of 0 - 49 acres, 24% were in the 50 - 99 acre class, 18% of farmers surveyed were in the class of 150 - 199 acres, with only 10% of the farmers in the class of 200 acres and over.

Tenure Status	Total number Farmers	0-49	50-99	100-149	150-199	200 and over
Full-time	38	6	10	14	18	10
Part-time	18	2	3	4	5	4
Totals	56	8	13	18	23	14

Source: Information date

TABLE VII. ACREAGE DISTRIBUTION OF LAND OWNED BY 50 NEGRO FARM OPERATORS IN AUSTIN COUNTY, TEXAS

Tenure Status	Total number Farmers	<u>Percent by acres owned</u>			
		0-49	50-99	100-149	150-199 200 over
Full-time	32	6	10	24	14 10
Part-time	18	8	14	10	4
Totals	50	14	24	34	18 10

Source: Information data

From the section of the questionnaire containing general information the following statistics were revealed: (1) One-hundred percent of the farmers surveyed used credit of some form for farming and family living; (2) credit was obtained in most instances for operating costs and family living; (3) The average amount of credit used during the year for family living and operating costs was \$600.00; (4) The average length of loans was 9-- 12 months; (5) Chattel mortgages were the most commonly listed security as collateral for the money borrowed; (6) One-hundred percent of farmers surveyed indicated that they had their loans come due in the fall immediately after crops are harvested and sold; (7) The reason for this season as listed by the farmers is that this is when they receive the majority of their income for the year; (8) The average interest rates charged by all lending agencies was 7 1/2 per cent and (9) The season listed as when credit is needed most is during the summer months. The money borrowed in 75% of the cases was to pay laborers for chopping and picking cotton.

Whereas the rate of interest charged by the Farmers Home Administration was on an average 2% cheaper than that charged by the Commercial bankers, there was a difference of 1% with farmers resorting to the banks for their credit needs.

PART VI

SUMMARY

Problems in the field of farm credit in Austin County are largely of an individual nature. The type of soil and the kind of farming operation is of immense importance. There are, however, some problems of a general nature that will apply to anyone who intends to use credit for the expansion of farm operations. Among these problems are: (1) obtaining credit at a low rate of interest, (2) arranging payments suitable for the type of farming being practiced, (3) obtaining a safe equity in the item being bought at the time it is purchased, (4) buying the most efficient and economical unit, in the case of a farm, buy one that will meet the needs and requirements of the operator and (5) obtaining the farm or machinery at a price which can be paid out of the earnings of the farm under the terms of the contracted farm loan.

For the purpose of analysis, farm credit is available to farmers of Austin County from various sources and is divided into the following classes: (1) Federal land banks, (2) Farmers Home Administration, (3) Commercial banks, (4) Life insurance companies, (5) Merchants and dealers and (5) Individuals. Whereas the rate of interest charged by the Farmers Home Administration was on an average 2% cheaper than that charged by the Commercial bankers, there was a difference of 38% more farmers resorting to the banks for their credit needs.

Credit from merchants and dealers was used by 50% more farmers than was used from the Farmers Home Administration, with the interest rate 50% greater than that of the Farmers Home Administration.

This tends to point out the fact that farmers are not using the available credit facilities wisely and to their best advantage. Sound business management has become an important requirement in this day of high costs which the farmer has to pay for his goods, compared with the low prices received for them when sold. With the increased cost of production of farm crops and livestock, there is indeed a need for him to obtain his credit from the cheapest, most reliable source as a means of arriving at a greater margin of profit from his farming operation.

"It is important that the farmer of today know how to save and make profitable investments and how to supplement capital with borrowed money so as to increase and improve his level of living."¹⁶

Even though home ownership was 100 percent as shown by the survey, the homes were substandard in 65 percent of the cases. With the passage of the Homestead Act, an effort was made to keep the farms small; however, with new discoveries and the rise in value of land, it has become more difficult for tenants to buy land.

¹⁶Norton, L. J., Financing Agriculture, The Interstate Publishing Company, 1948, Illinois, pp. 376-377.

In 1937, Congress authorized the tenant-purchase loans on very liberal terms. This program was to be administered by the Farm Credit Administration. In 1946, it was transferred to the Farmers Home Administration.

Norton, in his book entitled Financing Agriculture has this to say:

Since farms purchased under this plan are to be appraised on the basis of the earning power of the farm rather than the market value, this method assumes that the appraiser knows what prices will be in the future, for such factors influence future earnings. Since he does not, it is doubtful whether the arbitrary prices that must be assumed in estimating income can be accurate, this method of appraisal furnishes no assurance as to future earnings.¹⁷

Sixty-six per cent of the farmers surveyed had an average annual income of less than \$2,500, and 72% were operating farms of less than 150 acres.

Credit was used by 100% of the farmers surveyed for farm operation and family living. The average amount of credit was \$600.00 with the average length of the loans being from 3-12 months. All farmers had their loans come due in the fall, because this is the season of the year when they receive the majority of their income.

The farmers listed early and late summer as the season that the majority of their credit was needed. Seventy-five percent of the money borrowed during this season was for paying operating costs.

¹⁷Ibid., p. 380.

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THE USE OF AGRICULTURAL CREDIT FACILITIES BY NEGRO FARMERS IN
AUSTIN COUNTY, TEXAS

Questionnaire:

I. Family Economic Status

A. Family Data

1. Number in family _____ Age of operator _____.
2. Occupation (Check one) Full-time farmer _____
Part-time farmer _____, Professional worker _____,
Industrial worker _____.
3. Education received (College years _____), (High
School years _____), (Elementary school years _____),
(Farming experience _____).
4. Number in family at home _____, number in family at
home 18 and under, _____, number in family at home
18 and over _____.
5. Number away from home receiving family support _____.
6. Number away from home contributing to family support
_____.

APPENDIX

B. Farm Ownership Status

1. Total acres in farm _____, (Owned by operator _____).
2. No. of acres bought _____, Value _____.
3. No. of acres buying _____, Value _____.
4. No. of acres inherited _____, Value _____.
5. No. of acres leased _____.
6. No. of acres cash rented _____.
Total Value _____.
7. No. of acres share rented _____.

THE USE OF AGRICULTURAL CREDIT FACILITIES BY NEGRO FARMERS IN
AUSTIN COUNTY, TEXAS

Questionnaire:

I. Family Economic Status

A. Family Unit

1. Number in family _____ Age of operator _____.
2. Occupation (Check one) Full-time farmer _____,
Part-time farmer _____, Professional worker _____,
Industrial worker _____.
3. Education received (College years _____), (High
School years _____), (Elementary school years _____),
(Farming experience _____).
4. Number in family at home _____, number in family at
home 18 and under, _____, number in family at home
18 and over _____.
5. Number away from home receiving family support _____.
6. Number away from home contributing to family support
_____.

B. Farm Ownership Status

1. Total acres in farm _____, (Owned by operator _____).
2. No. of acres bought _____, Value _____.
3. No. of acres buying _____, Value _____.
4. No. of acres inherited _____, Value _____.
5. No. of acres leased _____.
6. No. of acres cash rented _____.
- Total Value _____.
7. No. of acres share rented _____.

C. Tenure Status of Operator (Check one).

1. Owner operator: (Owns and operates all land owned _____).
2. Part owner operator: (Owns all land operated and rents additional acreage to farm _____).
3. Owner-operator landlord: (Owns all land operated and rents additional acreage to farm _____).
4. Landlord: (Rents out all land owned _____).

D. Family Assets and share rent received _____.

1. Crops: _____

Sold	Value	Used at home	Value	On hand	Value
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

Totals _____

2. Livestock and Poultry: _____

Sold	Value	Used at home	Value	On hand	Value
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

Totals _____

3. Machinery and Equipment: _____

Kind	Amount	Value
_____	_____	_____
_____	_____	_____

Total: _____

4. Farm Building _____

Kind	Number	Age	Value
_____	_____	_____	_____
_____	_____	_____	_____

Total: _____

5. Household Appliances

Kind	Number	Age	Value
_____	_____	_____	_____
_____	_____	_____	_____
Total:			_____

6. Cash on hand and in bank

1. Cash on hand _____.	_____
2. Cash and share rent received _____.	_____
3. Bonds _____.	_____
4. U. S. Postal Notes _____.	_____
5. Collectable debts _____.	_____
6. Notes (Receivable) _____.	_____
Total: _____	

7. Other income outside the farm.

1. Wages received from work done outside the farm _____.	_____
2. Salaries (yearly earnings) _____.	_____
3. Commissions (Earned as cash) _____.	_____
4. Gifts and inheritance _____.	_____
5. Other income _____.	_____
Total: _____	

Grand Total (Assets) _____.

II. Family Liabilities.

- A. Money owed (for land, buildings, improvements, machinery, equipment, livestock, operational and personal expenses) _____.

1. Items bought	Total cost	Amount owed	Source of Credit
_____	_____	_____	_____
_____	_____	_____	_____
Total:			_____
Grand Total (Liabilities)			_____

III. Family Credit Status.

- A. Credit Used by Families.

Items bought	Source of Credit	Repayment Schedule	Amount of Loan	Length of Loan	Interest Rate
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

IV. Distribution of Credit by Seasons.

Items bought for credit (check).

Items	Amt. Credit used in	Amt. Credit used in	Amt. Credit used in	Amt. Credit used in
	Fall	Winter	Spring	Summer
Feed	_____	_____	_____	_____
Seed	_____	_____	_____	_____
Fertilizer	_____	_____	_____	_____
Livestock	_____	_____	_____	_____
Machinery and Equipment	_____	_____	_____	_____
Conservation Practices	_____	_____	_____	_____
Taxes	_____	_____	_____	_____
Hired Labor	_____	_____	_____	_____
Pay-Off old Debts	_____	_____	_____	_____
Other	_____	_____	_____	_____

V. General Information.

Family credit need (answer yes or no where applicable).

1. Do you use credit for farming and family living_____.
2. What lending institutions do you use for your credit need? (List institutions used)
3. What do you use credit for most? (List)
4. How much credit do you usually use during the year?
(amount in dollars)
Total amount (List)_____.
5. What is the usual length of your loans?_____.
6. What type of security is generally used to secure loans?
(List)
7. What seasons of the year do you generally have loans come due? (List)
8. Why this season? (List)
9. What interest rates are usually charged on your loans?
(List)
10. What season of the year do you need credit most? (List)