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RATE SHEET ESSENTIAL IN
LONG AND SHORT TIME
FARM LOANS

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RATE SHEET ESSENTIAL IN LONG TIME AND SHORT TIME FARM LOANS.

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The Federal Reserve law provides for short time rural credit, and the Federal Land Loan Act provides for long time land credit. The first essential of each of these two credit systems is the degree of certainty that payment will be made when the debt is due, irrespective of the adequacy of the security protecting the loan. Rural security is not generally as quickly convertible as commercial assets, nor is it essential that it should be, if proper provision is made in the loan for a safe system of farming that will produce the funds to meet the payment. And to this phase of rural credit, it may be said that financial interests have not heretofore given sufficient study and consideration.

It has been generally asserted that the low rate of interest certain European farmers pay for credit is the primary cause of their prosperous farming. But a consideration of the working of the low rate European farm credit will show that the low rate of interest is probably of minor importance, or rather is an effect instead of a cause, and that the real factor of the success and prosperity is the system of safe farming exacted and enforced in the loan by the lending committee.

The borrowing farmer reveals his system of farming to the committee and the collective judgment of this lending committee, composed doubtless of the wisest farmers, is enjoyed by the borrower in the wise and safe use of the credit he obtains; and since he uses credit safely and productively, the rate of interest is low as a consequence.

High rates and short time land loans must follow and do follow as a consequence of unsafe farming. Therefore, if the American borrower under these new credit agencies, is to fully enjoy lower interest and longer time, the agencies lending to farmers or discounting farmers' paper must provide in the loan, or ascertain from a crop credit statement attached to the note, either of farmers or credit merchants, that safe farming is practiced or shall be practiced by the borrower.

Since a large per cent of any class of the people are not competent to wisely and safely use credit, if left alone, it is a beneficial service to them when their creditors or the managers of public credit instruct or guide them, under the terms of the contract, in the safe and productive use of credit. It is a duty the managers of credit must perform for both the farmers and creditors.

The rate of rural credit is an index of the degree in which safe farming is pursued in this country and the lowest rate is where safe farming is most complete, and the highest rural rate is in those sections practicing the most unsafe farming, that is, growing almost exclusively one crop and an indifferent amount of the food and feed supplies needed to support the family and stock on the farm. These crops, when grown, divide the annual investment and require no market or expense of marketing. Exclusive one-crop farming contravenes the primary principle of investment, namely, not investing all the capital in one thing in one locality. Safe farming is governed by this well known principle of investment, the same as any other investment; but farming is purely local, and since the annual investment cannot be divided as to place, but can be divided as to crops, the lender must see to it that the investment is divided as to crops during the period of the loan. He must do this to protect loan to the farmer. He must see that not exceeding 50 per cent of the cultivated land is planted in one crop and that there is, as far as possible, a sufficient production of food and feed crops to support the family and livestock on the farm.

All-tobacco farming, all-wheat farming, all-corn or all-cotton farming or any other one crop farming is equally unsafe to credit and destructive to the land security in a long time land credit.

All one-crop farming impoverishes the fertility of the land, lessens crop yield for meeting payments, and renders crop production uncertain because of drouth, too much moisture, or the ravages of insects and diseases. Hence, the land security may be so impaired from one-crop farming and the crop yield so reduced and uncertain that the land would not sell for enough to make the loan payments.

In any view, either from the borrower's or lender's interest, or from maintenance of the security, the question of whether safe or unsafe farming is done is the most important consideration for managers of short time or long time rural credit. In a long time land loan, 50 per cent of the appraised value of the land might be ample margin of security at the time of making the loan, but will it be ample in ten or twenty years if unsafe farming is permitted? If safe farming is required in the loan, the security increases in value instead of declining. The fertility or yield of the soil increases and the payments are increasingly easier to pay as they come due. Therefore, the farmer and lender are both benefited by the requirement in the loan that safe farming be practiced.

Safe farming has been defined above as meaning the division of the

annual crop investment to the extent that not exceeding 50 per cent of the cultivated land shall be planted in one crop, and that as far as possible the food and feed needed to support the family and stock on the farm shall be grown on the farm. The latter requirement means the production of poultry, milk and butter, pork and beef and this is the minimum amount of live stock essential to the economical management of the farm and soil maintenance and improvement.

Would the total present production of any crop now grown on more than 50 per cent of the farm land in a one-crop country, say cotton, be diminished to the consuming world if only 50 per cent of the cultivated land be grown in cotton? Half the acres now farmed, if farmed better, and manured better, which could be done in safe farming, would produce as much or more cotton and a more stable annual crop than the average crop now produced with wide annual crop variation.

The present long-continued system of all-cotton growing for instance, in the South, under the system of farm financing and insufficient food and feed production, makes the total cotton crop one of wide variation in annual yield.

The total annual yield would vary less and would equal the present maximum demand if the lands were protected from washing and if fertility were increased by rotation and animal manuring, all of which would be practiced under a system of safe farming and safe farm financing.

The largest yield of cotton per acre and the largest increase in total production is made where safe farming is practiced. The least yield per acre and the widest fluctuation in annual production occur in the sections where farmers do unsafe farming and grow cotton almost exclusively. These conditions apply to any one-crop country, regardless of the crop or of the country.

SAFE FARMING DETERMINED IN LOANS AND DISCOUNT BY A RATE SHEET.

Safe farming has been defined above and when an applicant for a loan makes a statement on a crop credit sheet of his farm operations, the statement shows whether he is doing safe farming or unsafe farming.

A farm credit sheet has been adopted by the Federal Reserve Bank, of Dallas, Texas, and in addition to blank spaces for assets and liabilities, it has blanks for a detailed statement of crops and acres grown of each and also other crop data. This crop data is employed to determine the safety of the farming system by the rule for such determination which is printed on the Statement sheet and is as follows:

“Safe farming for liquidating a loan, is had when not exceeding 50

per cent of the cultivated land of the farm is planted in one crop, or, when sufficient acres of the farm, as shown by a crop rate sheet, are planted in food and feed crops, including the necessary poultry, milk, cows and hogs, to supply the family and stock on the farm with food

FARMER	
Name	To the Bank*
Address	
For the purpose of obtaining a line of credit with you not to exceed \$....., I tender the following statement of my farming business as of.....191....., and agree to notify you promptly of any change affecting my ability to pay.	
PROPERTY OWNED BY UNDERSIGNED.	DEBTS DUE BY UNDERSIGNED.
Cash (on hand and in banks)	Notes and Accounts due by me other than those listed below
Notes and Accounts due me (realizable value)	Mortgages on Commodities or Live Stock: (List below)
Agricultural Commodities: grain, cotton, etc., at market value (list on reverse side)	To this bank Due.....
Live Stock—market value (list on reverse side)	Secured by
Machinery and Tools (list on reverse side)	To..... Due.....
Real Estate and Improvements (list on reverse side)	Secured by
Other Assets: (Itemize)	Mortgages or Liens on Real Estate (List on reverse side)
	Other Liabilities: (Itemize)
Total	Net Worth
	Total
Amount of the assets listed above which are exempt from execution - - - - - \$.....	
Amount on which I am liable for partnership obligations - - - - - \$.....	
Amount of the assets listed above pledged to secure my liabilities - - - - - \$.....	
Amount for which I am liable on notes or accounts discounted or sold - - - - - \$.....	
Amount of liability incurred by endorsement or guarantee for others - - - - - \$.....	
Amount of liability on bonds or unfinished contracts - - - - - \$.....	
Amount of unsatisfied judgments against me - - - - - \$.....	
Amount of insurance carried on commodities \$....., on machinery, etc., \$....., on improvements \$....., on other assets \$....., and on my life \$....., in favor of.....	
Number of years in present business..... Number of years at present location.....	
I solemnly declare and certify that the above statement and schedules on opposite side are a true and correct account of the condition of my business on the day above stated.	
Witness my hand and seal, this.....day of.....191.....	
Witness: (Seal)
NOTE: If you have ever failed in business, attached a complete explanation and state basis of settlement with creditors.	
(Fill Blanks on Reverse Side)	

Rate Sheet used by Dallas Federal Reserve Bank.

LIST OF REAL ESTATE AND IMPROVEMENTS OWNED, WITH INCUMBRANCES THEREON
(LISTED IN TOTALS ON REVERSE SIDE)

Location and Acreage or Dimensions	Improvements	Valuation		Mortgages or Liens		Title in Whose Name
		Assessed	Cash	Due	Amount	

LIVE STOCK.

(Listed in total on reverse side)

	HORSES	MULES	CATTLE	HOGS	POULTRY	SHEEP	GOATS	Total Value
Number								
Value	\$	\$	\$	\$	\$	\$	\$	\$

MACHINERY AND TOOLS.

(Listed in total on reverse side)

	WAGONS	CULTIVATORS	MOWERS	THRESHERS	ENGINES	HINDERS	OTHER TOOLS	TOTAL
Number								
Cost	\$	\$	\$	\$	\$	\$	\$	\$

Less Depreciation \$ _____

Actual Value \$ _____

AGRICULTURAL COMMODITIES.

(Listed in total on reverse side)

Corn \$ _____	Oats \$ _____	Wheat \$ _____	Hay or Forage \$ _____	Fruit, dried or canned \$ _____
Cotton \$ _____	Wool \$ _____	Potatoes \$ _____	Other Products \$ _____	Meat \$ _____
				Total \$ _____

STATEMENT OF FARMING OPERATIONS, OR CROPPING SYSTEM.

CROPS AND STOCK TO BE PRODUCED.

Number in families on Farm _____ Number work hands _____ Farm is located where _____

Acres in Farm _____ Acres to be cultivated _____

Farm is owned by _____ I am to pay as rent _____

Acres in Corn (Legumes interplanted) _____	Acres in Peas or Beans _____	Acres in Vegetable Garden _____
Acres in Oats (Legumes following) _____	Acres in Forage crop and kind _____	Acres in Other crops and kind _____
Acres in Wheat (Legumes following) _____	Acres in Hay crop and kind _____	Acres in Pasture _____
Acres in Cotton _____	Acres in Potatoes _____	Acres in Bearing Fruit _____
Acres in Grain Sorghums _____	Acres in Rye _____	Total Acres _____
Number Beef animals to be marketed _____	Quantity Fresh Fruit for marketing _____	Quantity Fruit and Vegetables to be canned _____
Number Hogs to be fattened _____	Quantity Dried Fruit for marketing _____	Loads Manure to be used on crop _____
Number Sheep or Goats to be marketed _____	Quantity Poultry and Eggs to be produced _____	Tons Commercial Fertilizer to be used _____
Pounds Wool to be produced _____	Number of Cows in milk _____	

NOTE:—The character of the Cropping System of a farm business has a credit value, or a potential liquidating value of the highest importance to both the farmer and lender; and as farming is the annual investing of capital and labor at one place, safety requires, as in other investments, that all the capital and labor be not invested in one thing, or in the production of one crop.

Therefore, in general farming, a safe basis for farming, or for repaying a loan, is laid when not exceeding 50% of the cultivated land of the farm is planted in one crop. Or, second, when sufficient acres of the farm, as shown by this sheet, are planted in food and feed crops, including the necessary poultry, milk cows and hogs, to supply the family and stock on the farm with food and feed, and to maintain the soil. And the balance of the cultivated land planted in crops for market, or for feeding stock for market.

(Obverse side.)

Rate Sheet used by Dallas Federal Reserve Bank.

Since this was put in print the Bank has made some changes in position in its rate sheet.

and feed, and to maintain the soil, and the balance of the cultivated land planted in crops for market, or for feeding stock for market."

If the farm data shows compliance with this rule, then the conclusion may be reached that the farmer is doing safe farming, which will safely liquidate a short time loan made for productive purposes. This crop credit statement supplies the same necessary data to the bank that a merchant's credit statement supplies. But it is a new procedure for safe, constructive and wise farm financing, and the Dallas Reserve Bank is the first institution to use such a statement and it marks the beginning of helpful, constructive farm financing.

Copies of two bulletins on safe farming and a rate sheet designed by the writer, published by the Extension Service of the Texas A. and M. College may be had on application. Detailed incomes of safe and unsafe farming are exhibited.

The Texas Bankers Association under its former president, Joe Hirsch, began actively urging the use of the crop credit statement shown in this bulletin in making loans to farmers. Credit based on this statement attached to farmers' notes, showing safe farming, whether offered by merchants or by banks, should be given preference in discount to any farm paper showing unsafe farming.

The United States Department of Agriculture, through the Division of Extension under Mr. Bradford Knapp, is striving to induce farmers and bankers to practice safe farming and safe farm financing by the use of a crop rate sheet.

Unsafe farm paper should pay a higher discount rate, since it is based upon a speculative type of farming and the discount rate should be used to prevent such speculation, just as it is used in commercial credit to discourage and prevent unsafe speculative business.

When the Federal Reserve Banks use the discount rate in this way, which they can do by using the crop credit statement to reveal a safe or a speculative type of farming, then credit to farmers will be highly instructive and beneficial to farmers and to farming.

The crop credit statement when judged by the above rule for safety affords the creditor, merchant or banker the opportunity to point out to the farmer borrower, as the European rural credit committees do, any unwise feature in the farming system and to suggest proper changes

which accord with the rule that would benefit the farmer in the safe use of the credit applied for.

In long time land loans, this rule for safe farming should be inserted in the loan contract, just as the crop credit statement is attached to the short time note as a part of the contract.

The effect and necessity of the rule in long time loans has been discussed above and is essential as a part of the contract to insure safe farming for promptly meeting payments as they come due, and protect the security, the land, from impairment in productiveness and value during the long period of the loan.

A natural effect in some degree of the Federal Land Loans will be an increase in the price of farm lands and this fact makes a provision for safe farming more essential to the loan contract than would be the case where high interest rates act as a deterrent to high land values and to long time loans.

A higher rate for unsafe farming would quickly reform unsafe farming and no other agency would have any effect equal to the bank. The country banks could use the crop credit statement and charge a higher rate on unsafe farming if they were fortified by action of the Federal Reserve Board and the Farm Loan Board.

It seems most desirable that these two public credit agencies take the lead in safe farming in the same manner as is done in commercial speculation, require crop credit statement with each note and charge a higher discount rate to all borrowers showing by the statement that they follow an unsafe system of farming. Country banks need the aid of the Federal Reserve and Farm Loan Boards and the Reserve Banks. The country banker often needs the information on farm credit that a ruling by higher authority would give him; also, oftentimes either or both credit merchants and landlords are directors and stockholders in the country banks and would decline to favor an action of their local bank officers using a crop credit statement in loans, and the charging of a higher rate on unsafe farming.