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B. YOUNGBLOOD, DIRECTOR

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DIVISION OF FARM AND RANCH ECONOMICS

SHORT-TERM FARM CREDIT IN TEXAS

AGRICULTURAL AND MECHANICAL COLLEGE OF TEXAS

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†As of March 1, 1927.
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SYNOPSIS

This Bulletin contains analysis of information on short-term farm credit received from 455 farmers, 52 bankers, and 279 merchants.

The study indicates that about 69 per cent of the farmers in Texas received short-term credit in 1925. Banks are the most important source. Approximately 83 per cent of those receiving credit obtained all or a part of it from banks, 52 per cent received credit from merchants, and 17 per cent received credit from individuals.

Approximately 53 per cent of the bank loans were secured by mortgages on live stock, machinery, and crops. About 50 per cent of the merchant credit was obtained on open accounts, while 31 per cent was secured by mortgages on live stock, machinery, and crops. Individual credit was secured almost entirely by personal notes.

About 40 per cent of the bank loans was used for consumption purposes and 60 per cent for production purposes.

The average term of bank loans and merchant credit is approximately 6 months, while the average term of individual loans is about 11 months.

The average interest rate on bank loans is approximately 10 per cent. About 38 per cent of the farmers did not pay interest on merchant accounts, while the remaining 62 per cent paid an average of about 20 per cent. There were a few cases in which the merchant charged a higher price on credit sales in addition to interest. The total interest in these cases amounted to 25 per cent. The average rate on individual loans is 9 per cent.

According to the reports, the banks lost 0.6 per cent of their total loans to farmers from 1921 to 1925. Merchants lost 3.1 per cent of their 1924 farmer accounts, while about 28 per cent of the 1924 accounts were carried over to 1925.

CONTENTS

SHORT-TERM FARM CREDIT IN TEXAS

V. P. LEE

A large percentage of Texas farmers obtain a part of the equipment, supplies, and labor needed during the year with borrowed money or on charge accounts. Whether this extensive practice of borrowing is due to the type of farming and the lack of thrift among farmers, or whether it is simply a normal process of acquiring the needed capital with which to operate on an economic basis is uncertain. The cause for the necessity of credit must be sought by the analysis of individual cases. Regardless of the cause, the fact is that the farmers of Texas do use a great amount of short-term credit. The purpose here is to analyze the short-term credit situation as it is.

Extent of the Use of Short-Term Credit

Of a total of 661 farmers over the State who sent in replies to a questionnaire, 455, or about 69 per cent, obtained short-term credit from some source during 1925. The average amount of credit received by these 455 farmers from all sources combined was $751.

Where Credit Is Obtained

Of the farmers who used credit in 1925, 41 per cent used bank credit only; 12 per cent used merchant credit only; and 2 per cent obtained all their credit from landlords or other individuals. In the remaining 45 per cent, 30 per cent obtained some bank credit and some merchant credit (57 per cent from banks and 43 per cent from merchants), 5 per cent from banks and individuals, 3 per cent from merchants and individuals, and 7 per cent from a combination of the three sources—banks, merchants, and individuals.

Thus 52 per cent of these farmers obtained all or a part of their credit from merchants, 83 per cent received all or part of their credit from banks, and 17 per cent received all or a part of their credit from landlords and other individuals.

Sources of Information

The information on which this study is based was received from 52 banks, 279 merchants, and 431 farmers[1] distributed over the State[2].

[1]The remainder of the 455 farmers who had received credit indicated only the amount they received.

[2]Whether the information presented in this Bulletin is fully representative of the facts may be questioned. For instance, only three or four per cent of

Of the reports from banks, 24 were from state banks and and 28 from national banks. Of the 279 merchants, 57 sold general merchandise, 49 were hardware stores, 42 grocery stores, 37 dry goods stores, 19 furniture stores, while 16 sold both hardware and furniture, 6 sold hardware and groceries, and 53 were unclassified. A large percentage of the farmers who supplied information are cotton farmers. Seventy per cent of these were farm owners, 7 per cent were part owners, and the remaining 23 per cent were tenants, most of whom were renting on one-third and one-fourth shares.

Data were collected on short-term or operating credit received by farmers in 1925, and in some cases also on such credit received in 1924. Credit was received from three general sources, e. g., from banks, merchants, and individuals. Information on bank credit was received from bankers and farmers, on merchant credit from merchants and farmers, and on individual credit from farmers.

The analysis of the information on these three sources of short-term farm credit is divided into five main divisions as follows: (1) the amount of credit received; (2) the types of security offered for loans; (3) purposes for which loans are used; (4) length of term of loans; and (5) interest rates and other charges.

BANK CREDIT

The average amount of loans per bank made to farmers during 1925, up to September 1, was approximately $133,000, while the average amount per bank loaned to others was $121,000. The fact that over 52 per cent of the total loans were made directly to farmers indicates something of the importance of bank credit to the farmers of the State. Computations from estimates made by the bankers indicate that about 51 per cent of the demand deposits were made by farmers. Only about two-thirds of the banks had time deposits made by farmers, and about 54 per cent of the time deposits of these banks were those of farmers. An average of 23 per cent of loans to farmers was left on deposit with the banks during the eight months from January 1 to September 1, while during the same period other borrowers left an average of 30 per cent on deposit. Only two banks made any restrictions on checking out demand deposits. Of 47 banks answering the question, 19 borrowed money from other banks, while 28 relied on the deposits of customers and on their own resources. Seven rediscounted notes with the Federal Reserve Bank, while 12 borrowed from correspondent banks.

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the banks made reports. It is quite evident that none of these reports were made by insolvent banks, and it is entirely probable that the banks which reported are above the average in efficiency. Bankers who charge excessive interest rates could scarcely be expected to report. Also, it is quite probable that the merchants and farmers who answered the questionnaire are somewhat above the average merchants and farmers of the State. Certainly the poorest farmers and merchants are not represented here. The reader should simply remember that the data presented in this Bulletin are probably somewhat conservative.

Amount of Loans from Banks

The total amount of bank loans received in 1925 by the farmers who answered this question was $194,026, or approximately $583 each. A few farmers borrowed as much as three or four thousand dollars, but the great majority were under $800 and over $100. In fact 156, or almost half of the total number, borrowed $100 to $400. Table 1 shows the number of farmers who borrowed the various amounts.

Table 1.—Number and per cent of farmers borrowing various amounts from banks.

Amount	Number of Farmers	Per Cent of Farmers
Less than $100	29	8.7
100— 199	53	15.9
200— 299	53	15.9
300— 399	50	14.9
400— 499	20	6.0
500— 599	26	7.8
600— 699	14	4.2
700— 799	21	6.3
800— 899	6	1.8
900— 999	5	1.5
1000—1099	15	4.5
1100—1199	2	0.6
1200—1299	10	3.0
1300—1399	3	0.9
1400—1499	0	0.0
1500 and over	27	8.0
Total	334	100.0

The figures in this table show that a considerable number of farmers borrow over $1,000. The indications are that many of these borrowers are either ranchmen or operators of large cotton farms.

Security Offered

Farmers offer quite a variety of types of security for loans. Many borrowers have sufficiently good reputations for ability and willingness to meet their obligations to get loans on their plain personal notes. Others are required to secure the indorsement of a neighbor, to give a mortgage on livestock and machinery, a lien on the crop, or a combination of these. Table 2 shows the percentage of the total loans which was secured by the various forms of security, as reported by bankers.

Table 2.—Per cent of loans based on the various forms of security.

Security	Per Cent of Total Loans
Personal note	25.8
One or more indorsements	16.5
Mortgage on livestock and machinery	24.0
Lien on crop	10.1
Mortgage on livestock, machinery, and crops	18.9
Warehouse receipts	0.8
Other security	3.9

It will be observed that bankers require the specific security of some kind of property for about 58 per cent of their loans to farmers. Only about one-fourth of the total amount of loans was obtained on the single-name paper of the borrower. About 53 per cent of the amount loaned was secured by a chattel mortgage on livestock and machinery, a lien on the crop, or a combination of these.

Purposes of Loans

Broadly speaking, farmers obtain loans for purposes of production and consumption. The production loan is obtained with a view to increasing the farmer's net income by an amount sufficient at least to pay off the obligation with interest, while the consumption loan is obtained for the personal satisfaction of the borrower. In the latter case there is no direct connection between the application of the loan and the ability of the borrower to pay it off. The distinction between these two types of loans is very significant in credit transactions, both from the point of view of the borrower and of the banker. Borrowing for consumption or spending purposes is equivalent to using up future income in advance, while borrowing for production purposes is expected to increase future income.

Loans obtained for production purposes are used chiefly to buy livestock, machinery, and feed, and to pay labor. Consumption loans are used chiefly for buying family supplies, such as food, clothing, house furnishings, and to pay various other incidental expenses. The expense for the upkeep and operation of automobiles is becoming so important that it should be considered as distinct from the ordinary family expenses.

Table 3 shows the estimated percentage of the total loans to farmers which is spent for the various purposes outlined above.

Table 3.—Use of bank loans to farmers in 1925.

Purpose	Per Cent of Total Loans
Production:	60.6
For machinery	7.4
For feed	16.5
For labor	18.5
For teams and stock	12.2
For other purposes	6.0
Consumption:	39.4
For family expenses	27.1
For automobiles	7.8
For other purposes	4.5

A noticeable feature of this table is the relatively high percentage of loans to farmers which is used to buy family supplies and other consumption goods. These figures are computed from the replies from bankers. Estimates made from reports from farmers indicate a smaller percentage of loans going to buy consumption goods. They report only about 15 per cent for family supplies and 5 per cent for auto supplies. These combined are only about two-thirds as great as the percentage reported by bankers. Figures from bankers were used in Table 3 because of their completeness and not because of their superior accuracy. Estimates from farmers' reports place the percentage spent for labor at 18.5, which is exactly the same as that reported by bankers. Farmers' reports show that 15.6 per cent of the total loans was spent for feed and seed, while bankers' reports show that 16.5 per cent was spent for feed alone. These estimates are very close, since seed is a relatively unimportant item in the farmer's expenses.

Length of Term of Loans

The cost of a loan of a given amount of money depends upon the length of time the loan runs and the rate of interest charged. Since a loan for six months costs just twice as much as the same loan for three months at the same rate of interest, the length of term farm loans run is very significant from the standpoint of the total cost of credit.

It takes the farmer a full year to produce and harvest one crop, and if he were to obtain all his loans the first of the year he would pay interest until the crop is sold in the fall or early winter. But as a matter of fact operating loans are usually obtained from time to time during the year as they are needed. Bankers were asked to estimate the percentage of their total loans to farmers which were made for periods ranging from thirty days to more than one year. Computations from these reports are found in Table 4.

Table 4.—Per cent of total loans for the various terms.

Length of Term in Days	Per Cent of Total
1— 30	5.5
31— 90	19.5
91—180	36.4
181—270	28.1
271—360	10.4
Over 360	0.1

The figures in Table 4 show that approximately two-thirds of bank loans to farmers run for periods over three months up to and including nine months. The period above three months and including six months is the most common term for loans. More than ten per cent of the loans run more than nine months and five per cent run for one month or less.

In order to ascertain just what time farmers do their bank borrowing and when they pay off loans, the farmers addressed were asked to indicate the time at which their different loans were obtained and the time each particular loan was paid off. The reports on these questions are analyzed in Table 5 to show the per cent of the total loans which was obtained in each month of the year and the per cent paid off during each month of the year.

Table 5.—Dates farmers begin borrowing, per cent borrowed each month, and per cent paid off each month.

Month	Per Cent of farmers beginning to Borrow	Per Cent of Total Borrowed by All Farmers	Per Cent Paid Off by All Farmers
January	21.2	18.9	4.6
February	16.2	10.8	0.2
March	18.7	14.0	0.1
April	10.1	12.3	0.1
May	8.3	12.1	2.4
June	5.0	10.3	0.5
July	4.3	8.0	4.1
August	6.1	7.1	6.7
September	3.2	3.0	13.0
October	1.8	1.4	38.5
November	3.3	1.5	23.7
December	1.8	0.6	6.1

It will be noticed that 58 per cent of the total amount of all loans was obtained during the first four months of the year, and that 81 per cent is paid off during the last four months. The heavy borrowing during the first part of the year is accounted for by the fact that this is the season for planting and cultivating the crop. Moreover, in June and July some of the farmers in the northern part of the State are receiving income from the wheat crop and need no further loans. The heavy payments beginning in September are exactly concurrent with the gathering the cotton crop.

It will be observed also in Table 5 that the percentage of farmers who begin borrowing during the first three months in the year is considerably greater than the percentage of total loans which are obtained during these months. This is probably due to the fact that many of the smaller borrowers—the poorer farmers—must begin borrowing soon after the old crop is marketed.

More than 40 per cent of the farmers reported that loans were renewed. This indicates that it is a common practice to make loans which mature before the harvesting season.

Term Most Desirable to Bankers:

The bankers were asked whether it is more desirable to make loans for 1 to 4 months or for the longer terms of 5 to 9 months. Of the 50 bankers answering this question 36, or 72 per cent, replied that the shorter terms were more desirable. One-third, or 12, of these banks stated that the shorter terms were more desirable because it supplies greater liquidity for the bank's funds, while six bankers stated that they prefer the shorter term loans because it gives an opportunity to check up on the security. The remaining 18 bankers prefer the shorter term loans for both reasons.

Cost of Loans from Banks

The cost of bank loans to farmers consists of (1) nominal interest, (2) additional interest due to discounting notes rather than adding the interest, and (3) bonuses, commissions, etc.

Nominal Interest Rates:

According to the reports from farmers the average nominal interest rate charged by banks on loans for less than $100 was 10.02 per cent and for loans of $100 or more, 9.76 per cent. According to reports from the banks, the average interest rate on loans for less than $100 was 10.10 per cent and on those for $100 or more 9.45 per cent.

In order to ascertain the range of rates the bankers were asked to report their highest, lowest, and prevailing rates on loans of $100 or more for the different terms. The results are found in Table 6.

Table 6.—Interest rates charged by banks on loans of over $100.

Terms in Months	Average Rate		
	High	Low	Prevailing
1—3	9.82	8.75	9.50
4—6	9.68	8.54	9.46
Over 6	9.63	8.70	9.36

This table indicates that there is little difference in the rate charged for the shorter and longer term loans. The highest rates average about 9.7 per cent while the lowest rates average about 8.7. The average prevailing rate is about 9.5 per cent, which is decidedly nearer to the average of highest rates than it is to the average of lowest rates.

Some bankers make a flat charge of so much per month for petty loans of less than $100. Thus two banks reported that they charge $.50 per month for such loans and two others made a flat charge of $1.00 per month.

Interest Cost Due to Discounting:

The practice of discounting the note rather than adding the interest simply means that the borrower is charged interest on more money than he receives. Suppose, for instance, that the rate is ten per cent, the term is one year, and the amount of the loan is $100. In case the note is discounted the borrower pays $10 in interest for the use of $90 for one year, which amounts to approximately eleven per cent interest. In case the loan is for a shorter period the additional interest rate due to discounting is less than one per cent.

Two-thirds of the banks reported that they often discounted notes. Slightly more than 62 per cent of the loans of these banks to farmers were discounted.

Of a total of 356 farmers who reported on this point, 154, or over 43 per cent, indicated that their notes were discounted.

Bonuses and Commissions:

Occasionally the farmer is charged a commission or bonus when his note is renewed or extended. This charge is ordinarily so much per $100, and is made presumably to cover the clerical and recording expenses involved in the renewal of the note. That the practice of charging a bonus for renewals is becoming less common is indicated by the fact that only five farmers, or about one per cent of the total, reported such charges. The charge in these cases ranged from $.50 to $6.00 per $100 of the loan. None of the reporting banks charge commissions for renewals.

Losses on Loans to Farmers:

It is sometimes held that the risk of loss on agricultural loans forces the banks to charge higher interest rates than would otherwise be necessary. The bankers were asked to report losses on farm loans which had actually been written off from 1921 to July 1, 1925. The replies are summarized in Table 7.

Table 7.—Losses on farm loans written off by banks, 1921—1925.

Year	Per Cent of Banks Reporting Losses	Average Loss for Banks Having Losses	Average Loss for All Banks	Average Per Cent of Loans of All Banks Lost
1921	32.6	$ 1,415	$ 474	0.3
1922	42.3	1,940	783	0.6
1923	51.9	2,410	1,205	0.9
1924	59.6	3,439	1,995	1.5
Up to July 1, 1925	42.3	2,116	855	0.6

The increased losses during 1923 and 1924 are probably due to the depression which was particularly severe in the Cotton Belt in 1921 and 1922. The average of the losses for this whole period was undoubtedly higher than usual. Even during this period they amounted to considerably less than one per cent of the total loans. The indications are that under ordinary conditions the losses on loans to farmers are negligible. Over 85 per cent of the bankers reported that loans to farmers are as safe as loans made to merchants.

Promptness of Farmers:

It is sometimes suggested that loans to merchants are more satisfactory than loans to farmers because of the lack of promptness in the latter case. Slightly more than 56 per cent of the bankers reported that farmer borrowers were equally as prompt as merchants, and the remaining 44 per cent reported that farmers were not as prompt.

MERCHANT CREDIT

Approximately 52 per cent of the reporting farmers received some credit from merchants in 1925. Of the 612 merchants who replied to the questionnaire, 281, or about 46 per cent, extended credit to farmers. Of these 281 merchants, 209 were located in towns under 5,000 in population.

Amount of Credit from Merchants

Farmers were asked to indicate the amount of merchant credit received by them in 1924 and in 1925 up to September 1. For those who received any merchant credit during 1924 the average amount per farmer was $472. Up to September 1, 1925, they had received an average of $381 each.

In order to ascertain something of the extent of the farm credit business of merchants selling on credit, they were asked to indicate their total sales and their total credit sales to farmers in 1924 and 1925. Table 8 gives the averages which were calculated from the replies.

Table 8.—Ratio of farmer accounts in 1924 and 1925 to total sales for 1924.

Kind of Store	Number of Stores	Average Sales Per Store 1924	Total Credit to Farmers Per Store 1924	Per Cent of 1924 Sales	Total Credits to Farmers Per Store 1925*	Per Cent of 1924 Sales
General merchandise....	57	$ 100,069	$ 18,641	18.6	$ 17,911	17.9
Hardware.............	49	85,687	16,234	18.9	16,729	19.5
Grocery..............	42	77,327	7,238	9.4	9,488	12.4
Dry goods............	37	91,662	6,294	6.9	6,583	7.2
Furniture.............	19	135,632	3,914	2.9	4,969	3.7
Hardware and furniture.	16	87,966	35,667	40.5	31,900	36.3
Hardware and grocery..	6	90,641	37,000	40.8	44,000	48.5
Unclassified...........	53	153,256	18,921	12.3	15,856	10.3

*These figures represent the accounts outstanding at the beginning of the crop marketing season when the accounts are the largest.

The figures in this Table seem to show that general stores make a larger per cent of their sales to farmers on credit than do the special stores, except possibly the hardware stores. On the other hand the furniture stores and the dry goods stores extend comparatively little credit to farmers.

Merchants operating the different types of stores were asked to indicate the average size of farmer accounts. The stores selling hardware and groceries were found to have the largest individual accounts, while the dry goods stores had the smallest individual accounts. Table 9 shows the average size of farmer accounts with the different kinds of stores for 1924 and 1925.

Table 9.—Average size of individual farm accounts by types of stores for 1924 and 1925

Kind of Store	Average Farmer Account	
	1924	1925
General merchandise	$185	$187
Hardware	86	106
Grocery	125	151
Dry Goods	71	66
Furniture	78	87
Hardware and Furniture	138	139
Hardware and grocery	210	280
Unclassified	107	119

Security Offered for Merchant Credit

A considerable part of merchant credit is secured only by a plain open account. Dry goods stores take notes on mortgages in only about 10 per cent of the cases, 90 per cent of their credit to farmers being represented by open accounts. Furniture stores on the other hand take notes or mortgages in 83 per cent of the cases. Slightly more than 50 per cent of the credit sales to farmers by the reporting merchants were on open accounts. Table 10 shows the different types of security offered and the percentage of the total credit granted in each type. These figures are computed from the replies received from merchants.

Table 10.—Percentage of merchant credit to farmers based on the various types of security.

Kind of Store	Per Cent on Open Account	Per Cent on Personal Note	Per Cent on Note Signed by Landlord	Per Cent on Note Signed by Others	Lien on Crop	Mortgage on Livestock and Equipment
General merchandise	48	15	7	1	18	11
Hardware	32	15	1	1	12	39
Grocery	63	15	7	1	13	1
Dry goods	90	8	0	0	1	1
Furniture	17	14	1	0	2	66
Hardware and Furniture	47	16	1	0	11	25
Hardware and Grocery	60	4	6	6	16	8
Unclassified	48	20	4	1	16	11

The replies from farmers indicate that approximately 68 per cent of their merchant credit is obtained on open accounts, 15 per cent on their individual notes, one per cent on notes signed by other individuals, and the remainder on crop liens and chattel mortgages.

Length of Term of Merchant Loans

The majority of the farmers who trade on credit with merchants begin their accounts before the end of March. More than 25 per cent of them begin in January. Payments on these accounts are made during the marketing season, which in the cotton section is from September to December.

Data from Farmers:

Information received from farmers shows that over 85 per cent of the credit accounts are paid in September, October, and November. Table 11 shows the percentage of farmers who began their merchant credit accounts in each month of the year and the percentage who paid off their accounts in each month of the year.

Table 11.—Percentage of farmers opening and closing credit accounts in each month of the year.

Month	Per Cent Opening Accounts	Per Cent Closing Accounts
January	26	1
February	12	0
March	22	0
April	9	0
May	8	1
June	10	1
July	4	1
August	2	4
September	4	28
October	1	43
November	1	16
December	1	5

The arithmetic average length of time from the opening to the closing of these accounts is 6.34 months. There is, however, no way of determining from the figures in Table 11 the average length of term of these credit accounts, since they indicate only the dates of the opening and closing of the accounts. As a matter of fact, the actual credit is received throughout the period from the opening to the closing of the account. Now if the farmers secured an equal amount each month during this 6.34 months period, the average actual length of time for which credit was extended would be 3.17 months. But this is evidently not the case, since many of the larger purchases are made during the first few months of the credit period. A large part of the purchases of hardware, implements, livestock, feed, seed, etc., are normally made early in the year. Purchases of groceries and other family supplies are probably about evenly distributed through the period. Therefore, any statement of the average length of time which credit is extended by merchants would be purely an estimate. So far as actual data are concerned, the figures for the opening and closing dates for credit accounts must suffice here. In order to ascertain the average length of time which credit is extended it would be necessary to have access to the individual accounts and calculate from the dates and amounts of all the purchases through the year.

Data from Merchants:

In order to ascertain the difference in length of terms of credit supplied by the various types of merchants, they were asked to name the month, or months, in which most of their accounts were opened and closed. Table 12 gives a summary of the replies on the most usual date of opening accounts by the different types of merchants.

Table 12.—Percentage of stores indicating various months as the most usual time for opening credit accounts.

Kind of Store	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
General Merchandise	46	12	21	5	2	2	2	0	2	0	4	4
Hardware	59	16	14	0	2	0	0	0	0	0	7	2
Grocery	32	10	24	13	0	2	5	5	3	3	0	3
Dry Goods	22	17	26	22	0	4	0	4	0	0	0	5
Furniture	10	20	50	10	0	0	10	0	0	0	0	0
Hardware and Furniture	73	7	0	0	0	0	0	0	7	7	6	0
Hardware and Grocery	33	17	33	0	17	0	0	0	0	0	0	0
Unclassified	44	11	24	3	3	2	2	0	0	0	0	11

It should be remembered that the figures in Table 12 are based on estimates of the merchants as to what month most of the accounts are opened, whereas the figures in Table 11 are based on statements by individual farmers as to the specific month their accounts were opened. The data in Table 12 are valuable primarily in showing the difference in the dates for opening accounts by the different types of stores.

It will be noticed, for instance, that 73 per cent of the hardware and furniture (combined) stores stated that most of their accounts were opened in January. A large percentage also of the hardware stores and general merchandise stores stated that most of their accounts were opened in January. Grocery, dry goods, and furniture merchants on the other hand report the first four months of the year as being about equally common dates for opening accounts.

Merchants were likewise asked to report the month in which they receive the heaviest payments on accounts. October was reported by all types of stores as being the month in which heaviest payments are received. Table 13 gives a summary of the answers to the question of date of heaviest payment on accounts.

Table 13.—Percentage of stores indicating various months in which heaviest payments are made on accounts.

Kind of Store	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
General Merchandise	2	2	0	11	30	44	9	2
Hardware	0	0	0	9	23	45	23	0
Grocery	0	0	0	18	23	46	13	0
Dry Goods	0	0	0	4	11	46	31	8
Furniture	0	0	0	0	9	55	27	9
Hardware and Furniture	0	0	7	7	27	40	13	6
Hardware and Grocery	0	0	0	0	0	100	0	0
Unclassified	0	0	0	11	31	40	18	0

The figures in Table 13 do not reveal any very great difference in the most usual time of payment to the different types of stores. October is the leading month for payments, while September and November rank second and third respectively.

In order to find the prevailing or average length of time between the month in which most accounts are opened and the month in which the heaviest payments on accounts are made, the lengths of this period for all of the reporting merchants were averaged. It was found that hardware and furniture (combined) stores have the longest average period of credit. Grocery stores reported the shortest period. Table 14 shows the average period for the different types of stores and also the percentage of stores which report the various periods.

Table 14.—Average length of time between most usual month for opening accounts and the month of heaviest payment on accounts

Kind of Store	Average Time in Months	Per Cent of Stores Reporting Average Period Accounts Run in Months											
		1	2	3	4	5	6	7	8	9	10	11	12
General Merchandise	7.6	0	0	0	2	6	13	17	31	31	0	0	0
Hardware	8.4	0	0	0	0	2	7	9	30	34	14	4	0
Grocery	6.7	2	3	8	3	3	13	31	21	13	3	0	0
Dry Goods	7.4	0	0	4	0	13	9	26	17	18	13	0	0
Furniture	7.3	0	0	0	0	10	10	30	40	10	0	0	0
Hardware and Furniture	9.5	0	0	0	0	0	7	7	13	33	20	13	7
Hardware and Grocery	7.5	0	0	0	0	17	0	33	17	33	0	0	0
Unclassified	7.7	0	0	2	2	2	12	16	33	28	3	2	0

This Table shows that the period from the time most accounts are opened to the time most of them are paid ranges from 1 to 12 months, but that the most common periods are from 5 to 10 months. Periods designated by general merchandise stores are typical—2 per cent of these stores reported 4 months as the average term of credit, 6 per cent reported 5 months, 13 per cent 6 months, 17 per cent 7 months, 31 per cent 8 months, and 31 per cent 9 months.

It will be observed that the terms reported by merchants are longer than those reported by farmers. The average term as calculated from the reports of farmers is 6.34 months while that reported by merchants is approximately 7.8 months. The average terms indicated by the different types of merchants are about the same. Hardware and furniture (combined) stores and hardware stores report terms longer than the average and grocery stores report an average term of less than 7 months.

Cost of Merchant Credit

The total cost of merchant credit to farmers may consist of three elements, e. g., (1) the interest rate, (2) a higher price for goods bought on credit, and (3) the disadvantage in bargaining in the sale of products to the merchant extending credit.

Interest Rates:

According to the reports from the 232 farmers who received merchant credit, 143, or 62 per cent, paid interest on their accounts. The average flat rate was 10.23 per cent. This amounts to a rate of 19.37 per cent per annum if 6.34 months is accepted as the average length of term of merchant credit to farmers. But the rate is considerably higher than 19.37 per cent when it is considered that 6.34 months is the average length of time from the opening to the closing of credit accounts. If, for instance, it is assumed that two-thirds of this credit was obtained regularly during the first one-third of the time, the actual average period of credit would be about 4 months and the annual rate of interest charged would be approximately 30 per cent. If it is assumed that an equal amount of credit was obtained each month during the 6.34 months period the actual average period of credit would be about 3 months, and the annual rate of interest would be about 40 per cent. But table 17 shows that about 28 per cent of the amount of farmer accounts was carried over from 1924 to 1925. It will, therefore, be assumed that the delay in payment of accounts extends the average length of term enough to counteract the effect of gradual trading throughout the term. That is, 6.34 months will be accepted as the actual average length of loans. The estimated rate then is between 19 and 20 per cent.

According to the report of different types of merchants who extended credit to farmers an average of about 73 per cent charged interest on farmer accounts. This explains in part at least the report of farmers which indicated that only 62 per cent paid interest on accounts.

Table 15 shows the percentage of the different types of stores which charge interest and the calculated rate per annum. The length of term of the credit accounts is taken from the average time from the most usual opening month to the month of heaviest payments as indicated in Table 14.

Table 15.—Per cent of various types of stores charging interest and the average rates per annum

Kind of Store	Per Cent of Stores Charging Interest	Average Interest Rate Per Annum
General Merchandise	73	12.0
Hardware	94	11.1
Grocery	87	11.1
Dry Goods	30	7.7
Furniture	71	11.7
Hardware and Furniture	69	15.0
Hardware and Grocery	100	13.4
Unclassified	61	12.9

It will be noticed that the rates reported by merchants are considerably lower than those reported by farmers. Thus the average of the rates reported by the different types of stores is approximately 12 per cent, while the average reported by farmers is 19.37 per cent. The variance is accounted for in part by the fact that merchants reported an average length of term of these accounts about one and one-half months longer than that reported by farmers, i. e., 7.8 months as compared to 6.34 months.

If it is assumed again that two-thirds of the credit sales were made regularly during the first one-third of the credit period and the remainder were made regularly during the last two-thirds of the period, the actual annual rate of interest would be about 18 per cent.

Higher Prices on Credit Sales:

Another item of cost of merchant credit which is very important in some cases is the higher price which is paid for goods bought on credit. Replies received indicate that about 10 per cent of the merchants charge higher prices on credit sales than on cash sales. The increase in price ranges from 20 to 30 per cent. Table 16 shows the number of merchants reporting on this question, the number of merchants who charge higher prices on credit sales than on cash sales, the number who charge both interest and a higher price, and the total rate per annum for interest and the higher credit price.

Table 16.—Number of stores charging higher prices for goods sold on credit; number charging interest and higher price; and rate per annum of interest and higher price.

Kind of Store	Number of Stores Answering Question	Number Charging Higher Price	Number Charging Both Interest and Higher Price	Rate Per Annum Equivalent to Higher Credit Price	Annual Interest Rate	Annual Rate in Interest Plus Higher Price
General Merchandise..	56	16	9	14.0	12.8	26.8
Hardware...........	44	20	13	10.4	9.6	20.0
Grocery.............	41	10	6	16.1	11.6	27.7
Dry Goods..........	31	0	0	0.0	0.0	0.0
Furniture............	16	13	4	20.9	11.5	32.4
Hardware and Furniture........	16	6	3	9.5	10.5	20.0
Hardware and Grocery.........	6	3	3	13.3	14.8	28.1
Unclassified..........	52	16	8	11.5	10.3	21.8

Very often the credit merchant makes his interest charges in the form of a higher price for goods sold on account, but it is evident from the data in Table 16 that about one-half of those who charge higher prices also charge interest. The figures in the third column from the last were computed by taking the per cent which the price was increased for credit sales and reducing it to an annual charge. That is, if the average length of term of accounts for a particular type of stores was 6 months and the price increase was 10 per cent, the annual rate or charge is 20 per cent. The figures in the second column from the last were computed by taking the actual interest charge and reducing it to the annual basis.

Intangible Costs of Merchant Credit:

There are certain intangible costs which are sometimes involved in merchant credit. These costs are seldom measurable in terms of dollars and cents or in annual per cent. They may be called disadvantages in bargaining. The first of these costs or disadvantages is the requirement made by some merchants that the farmer receiving credit must sell a part or all of his products to the merchant extending credit. Of 296 farmers answering questions on this point, only 10, or 3.37 per cent, were specifically required to sell their products to the merchant creditors. There were a great many more cases in which the farmers actually sold to the merchant creditor. Of the 296 farmers, 81, or 27.4 per cent, sold to the merchants who extended credit. They sold 73.6 per cent of their 1924 crop to their merchant creditors. Whether the farmer sells to his merchant creditor because it is required or because of policy or convenience, it may not be to his disadvantage. Possibly there are cases in which the practice is an actual advantage to him. More likely, however, it is a disadvantage in that his bargaining power is restricted.

Another cost or disadvantage which is occasionally involved in merchant credit is the restriction from buying from other merchants. Of 271 farmers who answered the question on this point, only 5, or 1.8 per cent, indicated that such restriction was placed on them.

Losses on Merchant Credit

The high percentage of losses suffered by merchants in extending credit to farmers is often given as an explanation of the high rates charged. Table 17 indicates the percentage of farmers' accounts carried over by the different types of stores from 1924 to 1925, the percentage of these which is lost, and the percentage of total credit accounts which is lost.

Table 17.—Per cent of 1924 accounts carried over and per cent lost.

Kind of Store	Per Cent of 1924 Accounts Carried Over	Per Cent of These Accounts Lost	Per Cent of Total Accounts Lost
General Merchandise	21	17	4
Hardware	46	7	4
Grocery	21	14	3
Dry Goods	32	17	6
Furniture	26	9	3
Hardware and Furniture	34	7	3
Hardware and Grocery	21	6	1
Unclassified	25	11	3

The figures in Table 17 are significant in that (1) they indicate that a considerable percentage of the farmer accounts run for longer period than the general averages shown in Table 14, (2) they show that about 3 per cent of the total credit extended to farmers is entirely lost, and (3) they show something of the merchant's problem of collecting.

Where the Merchant Gets His Credit

It was found that an average of about 65 per cent of merchants' purchases from wholesalers are made with their own funds, about 25 per cent on credit with wholesalers, and about 10 per cent with loans from banks. Table 18 shows the sources of finance for the different types of stores.

Table 18.—Sources of credit for the different types of stores.

Kind of Store	Per Cent of Purchases With Own Funds	Per Cent Bought on Credit With Wholesalers	Per Cent of Wholesale Purchases Made on Funds Borrowed From Banks
General Merchandise	73	17	10
Hardware	60	33	7
Grocery	74	18	8
Dry Goods	45	48	7
Furniture	55	40	5
Hardware and Furniture	76	17	7
Hardware and Grocery	71	7	22
Unclassified	60	23	17

It is sometimes stated that interest rates on farmer accounts are necessarily higher than interest rates on farmer loans from banks because of the fact that the merchant who grants credit must in turn borrow from the banker or from the wholesale merchant. The figures in Table 18 show that a relatively high percentage of the merchant's purchases are made with his own funds.

INDIVIDUAL CREDIT

The third source of short-term credit for farmers is that of individual lenders. These may be landlords or other neighbors and friends. Approximately 17 per cent of the farmers who replied that they received any credit obtained a part or all of it from their landlords and other individuals. About 4 per cent received credit from landlords and 13 per cent received credit from other individuals.

The 18 farmers who reported that they obtained credit from their landlords received a total of $2,022 in 1925, or an average of $112.33 each. The 57 farmers who obtained credit from individuals other than landlords received a total of $35,809, or an average of $628.23. The average per borrower which was obtained from individuals, both landlords and other, was $504.41.

Security Offered

Approximately 90 per cent of the farmers who reported that they received individual credit gave plain personal notes as security. This is high as compared to the percentage of merchant credit and bank credit which was received on plain personal notes. However, only 63 per cent of the total amount of the individual loans was secured by personal notes. This indicates that there were several relatively large loans made by individuals on which other security was required. Thus in the case of several of the larger loans one or more indorsements were required. Over 18 per cent of the total amount of individual credit was secured by personal notes indorsed by others. Also a few of the larger individual loans were secured by a mortgage on livestock and equipment or a lien on the crop.

Purposes of Loans

It seems that a relatively large portion of the individual loans received was used to buy livestock, equipment, and to make improvements. Table 19 shows the percentage of the total amount of individual loans which was used for the different purposes.

Table 19.—Use made of landlord and other individual loans.

Use	Per Cent of Total
To buy feed and seed	16.7
To buy fertilizer	1.1
To pay labor	13.6
To buy family supplies	14.9
To pay automobile expenses	3.9
For other purposes	49.8

It is evident from the figures in this Table that the schedules sent to farmers on this question did not specify some of the more important uses of individual credit. It is presumed that the 49.8 per cent of this credit which is designated as used for "Other Purposes" was used to buy livestock, equipment, and to make farm improvements. Several of the individual loans were rather large, some of them amounting to $2,000 or $3,000. Also several of these loans were made for periods of one, two, and three years. These facts seem to indicate that they were applied in purchasing the more permanent capital required for the farm.

Length of Term of Loans

It was indicated above that several of the individual loans are made for longer periods of time than are bank and merchant loans. The average length of term for individual loans other than those of landlords was 14.4 months. On the other hand, it seems that landlord loans were used primarily for operating credit, since the average term is 7.4 months.

Cost of Individual Credit

The reports show that the interest rate charged by individuals was somewhat lower than that charged by banks and considerably lower than that charged by merchants. The rate charged by landlords was slightly higher than that charged by other individuals.

Of the 18 farmers who reported that they received credit from their landlords, 14 paid interest on the loans. The average rate was 9.1 per cent. Of the 57 farmers who reported that they received credit from individuals other than landlords, 49 paid interest on the loans. The average nominal rate was 8.9 per cent.

GENERAL DISCUSSION

Certain general conclusions regarding the short-term credit problems of Texas farmers can be drawn from the facts presented in this study. In the first place, farmers use too much credit for consumption purposes. Loans properly used in production yield the farmer a money return, while loans used for consumption purposes do not yield a return. The farmer who uses his credit year after year to buy food, clothing, and other family supplies can scarcely hope to become financially independent.

In the second place, this study shows that merchant credit is very expensive. The practice of trading on account with the merchant is unsatisfactory to both the merchant and the farmer. The merchant has the added expense of keeping records. Also he has a lot of worry in collecting accounts, and some are never collected. The merchant is compelled to charge a high interest rate to cover losses. Thus, the farmer who pays his debts bears the losses incurred by the merchant on poor accounts. On the whole, bank credit should be more satisfactory to all concerned.

In the third place, the interest rate charged by bankers seems entirely too high, considering the small losses reported by bankers. Ten per cent seems exorbitantly high as compared with the general level of interest rates over the United States. Sometimes farm borrowers are accused of being very slow in meeting their obligations, but more than fifty per cent of the bankers reported that farmers are as prompt as merchants. It is often said that the risk involved in loans to one-crop farmers is such that interest rates must necessarily be higher, but the losses of the reporting banks, even during a period of agricultural depression, were quite insignificant as compared to the interest rate charged. The interest rates paid by Texas farmers are more than double the rate member banks must pay the Federal Reserve Bank for loans or rediscounts. Thus, the national banks and all state banks who are members of the Federal Reserve System obtain funds from the Reserve Bank at four to five per cent and in turn charge the farmer nine, ten, or even more.

SUMMARY

1. According to reports received from 661 farmers over the State, 455, or about 69 per cent, obtained short-term credit from some source during 1925. The average amount received by these 455 from all sources combined was $751.

2. Of the farmers who received short-term credit, 83 per cent received all or a part of it from banks, 52 per cent received all or a part

of their credit from merchants, and 17 per cent received credit from individuals.

3. The arithmetical average amount of loans obtained from banks was $583, although the most usual amount was between $100 and $400. About 26 per cent of the total loans from banks was secured by the plain personal note of the borrower, 24 per cent by a mortgage on live stock and machinery, and 19 per cent by a combination mortgage on livestock, machinery, and crops. About 16 per cent of the total of these loans was secured by a personal note with one or more indorsements, while over 10 per cent was secured by a lien on crops. According to the reports of bankers, about 40 per cent of the amount loaned to farmers is used for consumption purposes and 60 per cent for production purposes.

4. The average term of bank loans to farmers is about 6 months. The average nominal interest rate charged on loans of less than $100 was 10 per cent, while that on loans of $100 or more was about 9.5 per cent. In addition to the nominal rate, about 62 per cent of the bank loans to farmers were discounted, according to the reports of bankers. An average of 0.6 per cent of bank loans to farmers were lost during the period from January 1, 1921, to July 1, 1925. About 56 per cent of the bankers reported that farmers are as prompt in meeting their obligations as are merchants, while the other 44 per cent answered in the negative.

5. Approximately 52 per cent of the farmers reporting indicated that they received credit from merchants, while 46 per cent of the merchants who reported stated that they extended credit to farmers. The average amount of merchant credit received by farmers was $472 in 1924 and $381 up to September 1, 1925. Hardware and grocery stores (combined) reported the largest percentage of credit sales to farmers. Furniture stores had the lowest percentages of credit sales to farmers. The average size of farmer credit accounts for all stores in 1924 was $125 and in 1925, $142.

6. About 50 per cent of the merchant credit obtained by farmers was secured on open account, about 20 per cent was secured by a mortgage on livestock and equipment, 13 per cent by personal notes, 11 per cent by liens on crops, and 6 per cent by personal notes with one or more indorsements. The average length of time between the opening of accounts and the month in which the heaviest payments were made was 6.34 months according to reports from farmers, and 7.8 months according to reports from merchants. About 62 per cent of the reporting farmers indicated that they pay interest on merchant accounts. The average annual rate as reported by farmers is estimated at about 20 per cent. According to the reports of merchants on the term of loans and the flat rate charged, the average annual rate is only about 12 per cent. About 10 per cent of the merchants reported that they charged higher prices on credit sales than on cash sales. This higher price is equivalent to an average annual rate of about 13 per cent. About one-half of those who charge higher prices also charge interest. The average

total cost per annum in these cases is about 25 per cent. Approximately 28 per cent of the total amount of the 1924 accounts was carried over to 1925. About 3.1 per cent of the total farmer accounts of 1924 was finally lost.

7. About 65 per cent of the merchant's purchases are made with his own funds, 10 per cent on funds borrowed from the bank, and 25 per cent on accounts with wholesalers.

8. Only about 3 per cent of the farmers reporting were required to sell their products to the merchant extending them credit, but 27 per cent actually sell all or part of their products to the merchant who extends them credit.

9. About 4 per cent of the farmers receiving any kind of credit, obtain a part or all of it from their landlords and 13 per cent obtain a part of all of it from other individuals. The average amount borrowed from landlords was $112, while the average amount borrowed from other individuals was $628. About 90 per cent of loans obtained from landlords and other individuals were secured by plain personal notes. Loans from landlords were made for an average term of 7.4 months, while those from other individuals were made for an average period of 14.4 months. The average interest rate on loans from landlords was 9.1 per cent, while that on loans from other individuals was only 8.9 per cent.