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The Use of Consumer Credit by Missouri Farm Families

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The rapid growth in the United States in the amount of consumer credit used and in the number of agencies granting this type of credit has increased the need for families to recognize and to understand the problems involved in its selection and use. Casual observations have indicated for years that farm families have used credit for family living, in spite of the fact that it has generally been held in disrepute whereas credit for the farm business has been regarded as an important and respected means for increasing farm income.

Some change has been noted in the opinion of farm credit authorities but even as late as 1938 the use of consumer credit was deprecated unless associated with production. Such an opinion was expressed in a widely distributed bulletin, as follows, "It is quite generally agreed that credit for family expenses should be used on a very conservative basis and only when there is reasonable certainty that the income from the productive enterprises on the farm will be adequate to pay the bills when due. . . . The use of credit to purchase a washing machine may be justified if it will release the housewife's time and energy for income producing activities such as the care of poultry."²

The recent widespread interest in consumer credit for urban families naturally resulted in a similar interest for farm families. In spite of the fact that the leaders in farm finance and, in general, the farm families themselves frown upon the use of consumer credit, farm families do use credit for family living. It is well known that they purchase goods and services and pay for them through the facilities of the charge account and the installment plan and that frequently loans are made that are used to finance family needs. The present study is an effort to investigate the use of credit by farm families with particular emphasis upon credit used for family living.

METHOD

The data used in this study were gathered through personal interviews with 188 farm families in Ralls county, Missouri, during June, 1940 and with 154 farm families in Lawrence county, Missouri, during August, 1941. Ralls county was chosen because it represented the general livestock farming areas in the State; Lawrence county because it represented the dairy farming areas. Both of these types of farming are important in Missouri. In Ralls county a stratified

¹The studies on which this bulletin is based were collected by Louise A. Young and Sidney Korando, Research Assistants in Home Economics. Dr. Jessie V. Coles, former Associate Professor of Home Economics, organized the plan and supervised the work and the collection of the data for Ralls County. The organization of the data and the preparation of the manuscript was the work of Mildred Spicer, Assistant Professor of Home Economics.

²Farm Credit Administration, *Short-term Credit—A Good Farm Tool*, Circular No. 21, Washington, D. C., 1938, p. 2.

random sample was made of the entire county. In Lawrence county a section considered typical of dairy farming was chosen by mapping out an area falling within a seven-mile radius of Mount Vernon, but excluding a section within a one-mile radius of the town in order to eliminate urban influences.

The use of credit by the families studied has been analyzed according to the length of time for which the loan was granted, the purpose of the loan, and the source. In the present study short-term credit was defined as credit extended for one year or less; intermediate-term credit, as that extended for more than one year and including three years; long-term credit, as that extended for more than three years. Upon the advice of a specialist in farm finance, short-term loans were classified according to the intention stated on the promissory note. Since there were relatively few installments all have been analyzed as short term merchant credit.

A realistic approach to the use of credit by farm families emphasizes credit as it is used. For this reason, the purposes for which credit was used have been investigated according to that used (1) for the farm business, (2) for the farm family, and (3) for combined farm business and farm family purposes. It is the latter use that makes it unreal to study farm credit as either consumption or production credit.

Confusion arises when an attempt is made to distinguish between credit used for production and that used for consumption. There are areas of farm credit which can be clearly distinguished as family living credit and as farm production credit. A problem develops, however, when credit is granted for goods which pertain both to the family and to the farm business. Two common examples of this are the practices of financing a single commodity that serves both production and consumption needs and of buying on open account a variety of purchases which may be used on the farm or in the home. The purchase of an automobile for instance, may provide transportation for family recreation and for the marketing of farm products and thus involve credit that is used for both family and business needs. General stores frequently extend open account credit to farmers to finance merchandise which may be used either for the family, or for the farm business, or for both purposes.

In some cases the obvious purpose for which credit is granted may not indicate the actual way in which the money is spent. A farmer for example, may arrange for a loan in order to purchase cattle, but he may use a portion of the loan to buy a washing machine and in this way include credit for family living within a loan apparently contracted for production. The purchase of a farm through the use of credit and the refinancing of debts are other examples of credit generally considered production credit which involve credit for family living.

THE FARM FAMILIES

The farmers in Ralls county dealt principally in general livestock farming; in Lawrence county they were concerned chiefly with dairying. In each county in addition to livestock farming or dairying, about 20 per cent of the farmers carried on enterprises such as cash crops, poultry, dairying, or livestock.

The majority of the farms in both counties were owned or partly owned; 68 per cent in Ralls county, 74 per cent in Lawrence county. In both counties more farms were rented and more farms were mortgaged than for the State as a whole.

The average acreage per farm visited in the counties studied was larger than the average for Missouri; 219 acres for Ralls county, 164 acres for Lawrence county, 136 acres for the State. The size of the farms in Ralls county ranged from 10 to 1100 acres; in Lawrence county from 25 to 920 acres. There was no appreciable difference in the size of the farms managed by renters or by owners.

In both counties the families were smaller than for the State of Missouri or for the United States. The number of persons per family in Ralls county averaged 3.29; in Lawrence county 3.38.³ The range was from two to nine persons in each county. Almost half of the families in both places were comprised of a husband and a wife.

The owners usually had smaller families, had lived longer on the present farm, and were older than the renters.

The majority of farmers in each county derived their gross cash income from farm production, but some increased their money incomes either by outside employment or by cooperation with the Agricultural Adjustment Administration. Most of the farmers in Ralls county who received income from other sources than farming received it by complying with the government program just mentioned; the majority in Lawrence county who added to their farm income worked in the nearby Mount Vernon condensery.

The major share of the farm incomes in Lawrence county were received regularly twice a month while the incomes in Ralls county were the result of livestock sales occurring usually three or four times a year.

Gross incomes, including cash receipts from farm produce and from other sources, were higher in Lawrence county in 1941 than in Ralls county in 1940. The average for Lawrence county was \$1133, the majority receiving from \$500 to \$2000; for Ralls county, the average was \$1005, the majority receiving from \$250 to \$1500 (table 1). Some of the difference in income may have been due to differences in the type of farming and to increased production, but undoubtedly a large part was due to the advance in farm prices during 1940-1941.

³Average throughout the study refers to the median calculated according to formula: Median = $Lme + \frac{f}{i}$ C. Harbert Arkin, and Raymond R. Colton, *An Outline of Statistical*

TABLE 1. FAMILIES STUDIED ACCORDING TO GROSS CASH INCOME AND TENURE

Section 1. (167 families, Ralls county, Missouri, 1939-1940)

Gross cash income (dollars)	Number of families			Per cent		
	Total	Owners	Renters	Total	Owners	Renters
250-499	25	16	9	15	14	18
500-749	31	21	10	18	18	20
750-999	27	21	6	16	18	12
1000-1249	23	15	8	14	13	16
1250-1499	20	15	5	12	13	10
1500-1749	10	7	3	6	6	6
1750-1999	6	3	3	4	2	6
2000-2249	8	7	1	5	6	2
2250 and more	17	12	5	10	10	10
Total	167	117	50	100	100	100

Section 2. (154 families, Lawrence county, Missouri, 1940-1941)

250-499	12	9	3	8	8	8
500-749	27	15	12	18	13	30
750-999	30	21	9	19	18	23
1000-1249	15	11	4	10	10	10
1250-1499	21	15	6	14	13	15
1500-1749	13	11	2	8	10	5
1750-1999	15	13	2	10	11	5
2000-2249	10	9	1	6	8	2
2250 and more	11	10	1	7	9	2
Total	154	114	40	100	100	100

In Ralls county the owners and renters made approximately the same gross cash income. In Lawrence county the owners averaged about one-third more income than the renters. The average in Ralls county was \$1008 for owners and \$1016 for renters, while in Lawrence county, owners averaged \$1267 and renters \$889.

In both counties the bulk of the income was from the sale of farm products. The average for Lawrence county was \$968; for Ralls county, \$734. These amounts ranged from \$250 to \$1500 in Ralls county and from \$500 to \$1750 in Lawrence county. Income from other sources was limited; the average in Ralls county, \$219, and in Lawrence county, \$152.

THE GENERAL USE OF CREDIT

Approximately 80 per cent of the families in Ralls county and Lawrence county used some form of credit during the year studied. Slightly more than 40 per cent of the families in each county had financed long term loans during the year. Forty-eight per cent of the families in Ralls county had used short-term cash loans; 58 per cent in Lawrence county. Practically the same per cent, 29 per

cent in Ralls county and 27 per cent in Lawrence county, had used installment credit, whereas almost twice as many families had used open account credit in Lawrence county as had used it in Ralls county; 59 per cent in Lawrence county, 31 per cent in Ralls county. Of the total accounts, more than two-thirds were short-term accounts; less than one-third were long-term loans (table 2). Intermediate loans were relatively insignificant since only three per cent of the accounts in each county were of that type.

TABLE 2. CREDIT ACCOUNTS ACCORDING TO TYPE AND PURPOSE

Section 1. (317 accounts, Ralls county, Missouri, 1939-1940)

Type	Number of Accounts				Per cent			
	Total	Farm Business	Family living	Family living-farm business	Total	Farm Business	Family living	Family living-farm business
Short-term	212				67			
Cash		79	7	8		38	9	32
Merchant								
Open account		13	37	8		6	44	32
Installment		13	38	9		6	45	36
Intermediate-term	11				3			
Cash		11	-	-		13	-	-
Merchant		-	-	-		-	-	-
Long-term	94	92	2	-	30	37	2	-
Total	317	208	84	25	100	100	100	100

Section 2. (306 accounts, Lawrence county, Missouri, 1940-1941)

Short-term	225				73			
Cash		63	8	14		35	18	17
Merchant								
Open account		30	13	50		17	28	62
Installment		7	23	17		4	50	21
Intermediate-term	8				3			
Cash		7	-	-		4	-	-
Merchant		1	-	-		-	-	-
Long-term	73	71	2	-	24	40	4	-
Total	306	179	46	81	100	100	100	100

The majority of the accounts in both counties were for farm business purposes; 66 per cent in Ralls county, 58 per cent in Lawrence county (table 2). When short-term credit, which was by far the most important single type of credit, was considered, however, the percentage of the accounts used for family living or for family living-farm business purposes equalled, or as in Lawrence county, surpassed the percentage of accounts used for production.

A regular bimonthly income would appear to create a situation demanding a different selection of credit than an income received at intervals of three or four times a year. As a matter of fact, this was not the case, for the distribution of credit according to the

various types of credit used was approximately the same in the two counties. The only marked difference was the fact that the Lawrence county families tended to finance family living in combination with farm business needs, while the Ralls county families generally separated family living from farm business needs. The size of the loans used in Ralls county, in general, were larger than those in Lawrence county principally because larger cash loans were granted for production.

THE USE OF SHORT-TERM CREDIT

As stated previously the majority of the accounts used by the families studied in both counties were short-term accounts. Of these approximately 60 per cent were merchant accounts, the rest were cash loans (table 2). The importance of consumer credit to farm families was shown by the fact that one-half of the short-term credit used in Ralls county and slightly more in Lawrence county involved credit for family living. Merchant credit was used ordinarily for family living needs. Cash loans were generally contracted for farm business purposes.

Merchant Credit

Merchant credit is granted either as open account credit or as installment credit. Installment credit as defined in this study refers to credit paid in two or more scheduled payments. The use of merchant credit in the two counties studied was approximately the same (table 2). The use of the two types of merchant credit, varied, however, for Lawrence county families used almost twice as many open accounts as installment accounts, while Ralls county families used practically the same amount of open account credit as installment credit. Merchant credit in Ralls county was used principally to finance family living needs. In Lawrence county it was most frequently used to finance farm business and farm family needs.

Open Account Credit.—Open account credit was used almost twice as often in Lawrence county as in Ralls county (table 2). It was relatively unimportant as a source of credit in Ralls county, but amounted to almost one-third of the total accounts in Lawrence county. Sixty-six per cent of the merchant accounts in Lawrence county were charge accounts; 49 per cent in Ralls county. While the majority of the open accounts were for family living or family living-farm business purposes, 22 per cent of the Ralls county open accounts were for farm production; 36 per cent of the Lawrence county open accounts were for farm production.

Purpose and source.—Open account credit used for family living or for family living-farm business needs was used principally to purchase groceries or a combination of groceries and production goods (table 3). The Ralls county families who used open account usually financed purely consumption needs; the Lawrence county

families purchased goods used in the home and on the farm, such as groceries and production goods or automobile supplies. Feed and seed were commonly used production goods purchased on open account although some farm equipment was also bought on open account.

TABLE 3. OPEN ACCOUNT CREDIT USED FOR FAMILY LIVING AND FAMILY LIVING-FARM BUSINESS ACCORDING TO GOODS PURCHASED

Goods purchased	Number of accounts		Per cent	
	Ralls	Lawrence	Ralls	Lawrence
Groceries and production goods	-	23	-	36
Gasoline, oil, or tires	4	17	9	27
Groceries, clothing, furniture	37	15	82	24
Groceries and hardware, gasoline and oil, or lumber	4	5	9	8
Automobile	-	3	-	5
Total	45	63	100	100

The majority of the open accounts used for family living or family living-farm business in Ralls county were granted by grocery stores or general stores. Goods used for production were usually charged at feed and seed stores. The bulk of the open accounts in Lawrence county whether for the farm or for the family were carried by cooperative stores.

Size of account and amount outstanding.—The average amount of the open account credit used for family living or family living-farm business during the year studied in Lawrence county was larger than the average in Ralls county and was undoubtedly influenced by the common practice of buying production goods with family goods. The average for Lawrence county was \$109; for Ralls county, \$65

TABLE 4. MERCHANT CREDIT USED DURING CURRENT YEAR FOR FAMILY LIVING AND FAMILY LIVING-FARM BUSINESS ACCORDING TO AMOUNT

Amount (dollars)	Number of Accounts				Per cent			
	Open Account		Installment		Open Account		Installment	
	Ralls	Lawrence	Ralls	Lawrence	Ralls	Lawrence	Ralls	Lawrence
0-24	7	6	1	6	16	9	2	16
25-49	10	8	13	8	22	13	29	22
50-74	9	10	5	4	20	16	11	11
75-99	1	4	5	2	2	6	11	5
100-124	7	10	6	5	16	16	13	14
125-149	-	5	4	2	-	8	9	5
150-174	2	1	4	3	4	1	9	8
175-199	-	3	3	-	-	5	7	-
200 and more	9	16	4	7	20	26	9	19
Total	45	63	45	37	100	100	100	100

(table 4). The average size of the open account used for farm production purposes in Lawrence county was \$91. At the time the study

was made, the majority of families in both counties owed less than \$35 on their open accounts, involving family living. In fact, in more than one-half of these accounts, less than \$10 was outstanding.

Cost of credit and repayment policy.—No charges were made for the use of open account credit except in a few instances in Lawrence county when a promissory note was used in connection with the financing of automobiles or farm equipment. The interest rates on these notes ranged from five to eight per cent.

The Lawrence county farm families made monthly payments on their charge accounts used for family living or family living-farm business more frequently than the Ralls county farmers. This no doubt was due to the fact that they received their incomes bimonthly whereas the Ralls county families received their incomes when livestock was marketed. Seventy-one per cent of the families in Lawrence county paid something on their open account at least once a month; 47 cent of the Ralls county farmers. Those not paying monthly usually paid when products were sold which was ordinarily three or four times a year.

Influence of tenure and gross cash income.—Tenure apparently did not influence the use of open account credit for family living or family living-farm business in Ralls county. In Lawrence county, the renters used more open account credit of this type than the owners. In general, in both counties the farmers with higher gross cash incomes used more open account credit than those with lower gross cash incomes.

Installment Credit.—Installment credit was used by about one-fourth of the families in both counties during the year studied (table 2). Its importance in the total use of credit was not of great significance for less than twenty per cent of the accounts in each of the counties were installment credit. Its importance, however, was significant when merchant credit for family living or family living-farm business was considered, since 51 per cent of these accounts in Ralls county were installment credit and 39 per cent of them in Lawrence county.

Approximately 45 per cent of the families studied in each county had experienced buying on the installment plan. The farmers in Lawrence county had used this method of financing earlier than those in Ralls county for 33 per cent of them had used installment buying previous to 1930, while only 16 per cent of the Ralls county families had bought on the installment plan at that time. During recent years the greatest increase took place in Ralls county, for 66 per cent of the users of installment credit reported their first purchase since 1934, while in Lawrence county this was true for 41 per cent of the users of this type of credit.

During the period of falling prices from 1929 to 1933 the number of families entering the installment field for the first time decreased

until practically no initial installments were reported in 1933. In 1935 an increase in initial users was reported, but the increase was of no great extent until 1938 when the general price outlook was decidedly improved.

Purpose and source.—Household equipment, such as washing machines, and refrigerators, and household furnishings, such as furniture, radios, floor coverings, and utensils, were the type of merchandise usually bought on the installment plan for family living. Automobiles and automobile supplies, commodities used both for the farm business and the family, also were financed according to an installment plan. In Lawrence county, 55 per cent of the installment buying was for family living purposes; 45 per cent was for the purchase of automobiles or automobile supplies. In Ralls county, fewer cars were financed by the installment plan; 80 per cent of the contracts were for household furnishings, equipment, or clothing. Some farm equipment was bought on the installment plan, but in both counties it accounted for less than one-fourth of the installment contracts.

Size of account, cost of credit, and repayment policy.—Two-thirds of the installment accounts for family living or family living-farm business in both counties were for less than \$125 (table 4). While approximately the same percentage of installment contracts were used in the counties studied, the size of the accounts in Ralls county was greater than that in Lawrence county. The average for the Ralls county was \$93; for Lawrence county, \$80.

Sufficient data were obtained to calculate the annual rate of interest for 29 installment contracts for family living or family living-farm business in Ralls county and for 17 of these contracts in Lawrence county.⁴ In Ralls county the range was from 3 per cent to 58 per cent; in Lawrence county from 9 per cent to 88 per cent. The average in Ralls county was 26.7 per cent; in Lawrence county, 27.5 per cent. The lowest interest rates usually were associated with household equipment, but since few families were able to give sufficient data and since relatively few installment contracts were used it was impossible to generalize as to the type of goods purchased and the annual rate of interest charged for installment buying. It appeared that interest rates were less for farm equipment than household equipment, furnishings, or automobiles, but again too few contracts were available for a reliable comparison.

In both counties the majority of families who had installment contracts made monthly payments. A few contracts in Ralls county were adjusted to the particular needs of the families concerned and stated the length of time the contract would run but made no note of specific dates for payments.

⁴The annual rate was calculated according to the formula: $\frac{\text{carrying charge}}{\div (\text{number of payments} + 1) \times 12}$ (if on a monthly basis). United States Department of Interior, Office of Education: *Credit Problems of Farm Families*, Vocational Division Bulletin No. 206. (United States Government Printing Office, Washington, D. C., 1940), p. 55.

In Ralls county installment accounts for family living or family living-farm business were extended on the average for two months longer than those in Lawrence county. The average for Ralls county was 14 months; for Lawrence county, 12 months. The range in Lawrence county was from 5 to 60 months; in Ralls county from 5 to 30 months.

Knowledge of and attitude toward installment buying.—In general the families knew certain financial aspects of their contracts such as the installment price of the article purchased, the size of the down payment, and the frequency and size of each payment. Fewer families could state the carrying charge. The complete data for calculating the annual rate of interest, however, were available for less than one-half of the Lawrence county contracts and for less than two-thirds of the Ralls county contracts. The majority of families reported that they did not know the annual rate charged them for installment buying.

The legal portions of the contracts were less well-known than the financial aspects. In spite of the fact that practically all of the families said that they had read the contract almost none of them knew the amount of time allowed before goods could be repossessed in case of a default of payment. Likewise these families seldom knew who held the title to the goods purchased or if rebates were allowed for early payments.

About one-third of the families who used installment buying for family living had compared the article purchased with other available articles. Relatively few, ten per cent, in Lawrence county and fewer in Ralls county had compared installment credit with other forms of credit.

The majority of the families who commented upon the use of installment credit either approved of it as a means of buying or approved of it with certain reservations such as, "All right for necessities," "Convenient when used properly," "All right if income steady." Less than one-third of the families in both counties disapproved of installment buying. The majority of those who approved of installment credit were users; the majority of those disapproving were non-users.

Influence of tenure, gross cash income, and size of family.—In both counties the renters had used more installment credit for family living or family living-farm business purposes than had the owners. The effect of gross cash income on use of installment credit, however, was not alike in the two counties. In Ralls county as gross cash income increased the use of installment credit also increased; in Lawrence county, on the other hand, as gross cash income increased the use of installment credit decreased. The larger families in each county bought more goods on installment than the smaller families.

Cash Loans

About one-third of the credit accounts in both counties were short-term cash loans (table 2). In Ralls county there were as many short-term cash loans as there were long-term loans, but in Lawrence county there were slightly more short-term cash loans.

Purpose and source.—The majority of short-term cash loans in each county were used to finance the farm business. Short-term cash loans for family living or for family living-farm business purposes were relatively unimportant.

The loans used for the farm business were made principally to purchase feed, livestock, or equipment. Other loans were used to buy fertilizer, seed, twine, to pay taxes, interest, mortgage payments, to refinance loans, or to buy land. The majority of the loans used for family living or family living-farm business purposes were made to finance automobiles or medical care. Very few families borrowed cash to purchase household furnishings or equipment.

Commercial banks occupied the leading position among short-term cash lenders in both counties. In Lawrence county, banks had granted about three-fourths of the loans; in Ralls county about two-thirds. Other sources of short-term cash loans were the production credit associations, individuals, small loan companies, and a credit union. The Production Credit Association was better established as a source of credit among Ralls county farmers than among Lawrence county farmers.

Size of loan, length of loan, and amount of loans outstanding.—In both Ralls county and Lawrence county the majority of the short-term cash loans were granted for amounts of less than \$300 (table 5). The loans made to provide farm business needs, were larger than the loans for family living or family living-farm business purposes. In Ralls county the loans used for the farm business averaged \$216; for family living or family living-farm business purposes, \$100. In

TABLE 5. SHORT-TERM CASH LOANS ACCORDING TO AMOUNT OF ORIGINAL LOAN AND PURPOSE

Amount (dollars)	Number of accounts				Per cent			
	Farm business		Family living or family living-farm business		Farm business		Family living or family living-farm business	
	Ralls	Lawrence	Ralls	Lawrence	Ralls	Lawrence	Ralls	Lawrence
0-99	16	22	8	3	21	35	50	14
100-199	20	10	2	10	27	16	13	45
200-299	9	13	1	6	12	21	6	27
300-399	4	5	2	1	6	8	13	5
400-499	3	2	1	2	4	3	6	9
500-599	4	1	1	-	5	2	6	-
600-699	3	1	-	-	4	2	-	-
700-799	1	5	1	-	1	8	6	-
800-899	1	1	-	-	1	2	-	-
900-999	14	2	-	-	19	3	-	-
Total	75	62	16	22	100	100	100	100

Lawrence county, farm business loans averaged \$190; family living or family living-farm business, \$180. The average farm business loan in both counties was considerably smaller than the average of \$500 reported for the United States.⁵

There was a tendency for the short-term cash loans in Ralls county to be granted for longer periods than in Lawrence county. Of the loans in Ralls county, about 50 per cent were extended for six months or less; 37 per cent for one year. In Lawrence county 60 per cent of the loans had been extended for six months or less; 22 per cent for one year.

A larger percentage of the loans in Lawrence county had been paid without necessity of renewal (in full) than in Ralls county. In both counties more of the loans made for family living or family living-farm business purposes were paid in full than the loans made solely for farm business purposes. In Lawrence county, 44 per cent of the farm business loans and 60 per cent of the family living or family living-farm business loans had been entirely paid by August 1, 1941. In Ralls county, 24 per cent of the farm business loans and 67 per cent of the family living or family living-farm business loans had been paid in full by June 1, 1940.

Security, cost of credit, and repayment policy.—Short-term cash loans were usually secured by a promissory note. In Lawrence county, bank loans in addition frequently required chattel mortgages. Individuals seldom demanded a chattel mortgage for short-term cash loans.

The farmers in Ralls county, in general, were able to obtain credit at a lower cost than those in Lawrence county for the following reasons: a lower interest rate, the practice of paying interest at the maturity of the note, and the usual absence of additional fees.

About four-fifths of the families in Lawrence county who reported interest rates stated that the charge was eight per cent. In Ralls county less than one-fifth had paid eight per cent interest whereas more than half had paid six per cent or less. There was practically no difference in the rate of interest for short-term cash loans for the farm business or for those involving family living.

In Ralls county a straight interest rate payable at the maturity of the note was charged on all loans. The only fees reported were in connection with loans from the Production Credit Association. In Lawrence county various methods were used: a straight interest rate paid at the maturity of loan, a straight interest rate but discounted, a flat fee, or a straight interest rate plus additional fees such as chattel mortgage fees, service fees, or a combination of these.

The discounting of interest and the addition of fees increased the cost of credit beyond the interest rate reported by the families. In fact for some small loans the chattel mortgage fee doubled the cost

⁵William G. Murray, *Agricultural Finance* (Ames, Iowa: The Iowa State College Press, 1941), p. 146.

of credit to the farmer. More than 50 per cent of the bank loans in Lawrence county were charged additional fees, usually these were chattel mortgage fees. On about 40 per cent of the Lawrence county bank loans the interest was deducted when the loan was made.

In general, Ralls county farmers reported that they had repaid their loans in lump sums at the maturity of the note whereas the Lawrence county families frequently reported that they had paid on their loan before maturity. Failure of certain lenders to refund interest paid in advance of maturity increased the cost of credit to the Lawrence county farmers, since they did not have the use of the money for the period for which the interest was paid.

Influence of tenure and gross cash income.—The renters in both of these counties had used short-term cash loans for production purposes more frequently than the owners, however, the average size of the loans for renters was smaller. The average size of the loans in Ralls county for renters was \$160; for owners, \$286. In Lawrence county the average for renters was \$82; for owners, \$245. The regularity of the dairy farmers' incomes probably accounted for the smaller cash loans.

As gross cash income increased, the use of short-term cash loans for production also increased. In Ralls county those who received incomes of \$1500 or more had short-term loans averaging \$700. Those with incomes of less than \$1500 averaged, \$170. In Lawrence county the loans for the higher income group averaged, \$320; the lower income group, \$90.

Comparison of Present Study with Short-term Farm Credit in Selected Counties of Ohio, Indiana, Kentucky, and Tennessee⁶

A recent study made concerning credit used by farmers in selected counties in Ohio, Indiana, Kentucky, and Tennessee reported findings that may be compared with some of those in the present study. In both investigations an effort was made to discover the purposes for which credit was used and the amount and type extended by all agencies in the field. Mauch gathered detailed facts concerning the financial condition of the farmer; the present study related the use of credit principally to gross cash income. Emphasis in the present study has been placed upon credit involved in family living, although in both studies the total use of farm credit was reported.

The purposes for which the various types of credit were used were similar in the two studies as well as the fact that certain variations in the use of credit related to similar factors. In both reports (1) the dairy farmers used smaller accounts of short-term credit than the general livestock farmers, (2) banks were the principal source of short-term cash loans, and (3) as gross cash income increased the use of short-term loans increased.

⁶Arthur Mauch, *Short-term Farm Credit in Selected Counties of Ohio, Indiana, Kentucky, and Tennessee*. (Production Credit Corporation, Louisville, Kentucky) pp. 5-26.

More families used open account credit in this study than in the study made in the nearby states, since the small accounts made for convenience were included. The average size of the accounts, was smaller undoubtedly for this reason. Only five of the 324 families in Missouri reported a discount for monthly payments while many merchants in the other states granted a five per cent discount.

Lack of information about the installment contract was general in all areas studied. The farmers in Missouri however appeared to accept installment buying more favorably than those in the states studied by Mauch. In both investigations the tenants used more open account and installment credit than the owners.

Both studies emphasized the difficulty in discussing the costs of credit since terms differ with individual cases. Interest rates, fees, and service all vary greatly between lending agencies and create a need to appraise the costs of credit in relation to a particular situation.

THE USE OF LONG-TERM CREDIT

Less than one-half of the families studied in the two counties had incurred long-term debts: 45 per cent in Ralls county; 42 per cent in Lawrence county. The majority of these debts were extended as cash loans, but a few of them were mortgages given to a former owner as part of the sale price of a farm.

Although long-term credit is generally considered production credit, certain consumer needs are financed as a part of long-term loans. The farm dwelling, for instance, ordinarily is not financed as a consumption need but is carried as a part of land mortgage credit. Likewise frequently when farmers refinance loans, family debts are financed along with business debts although the general impression is that this type of loan is production credit.

Purpose and Source

The majority of the long-term loans were used to purchase land or to refinance land mortgages. The rest of the loans were incurred to refinance short-term debts made to carry on general operating expenses, to purchase livestock, feed, or equipment or other operating needs, or, for a few families, to finance family living needs such as the building of a home, the paying of doctor bills or the educating of children. Seventy-two per cent of the Ralls county long-term loans were made to purchase land or to refinance land mortgages; 64 per cent of the Lawrence county long-term loans were for these purposes. In both counties approximately 25 per cent of the long-term loans made in connection with the purchase of land were used to refinance previous loans.

Federal lending agencies and individuals loaned 74 per cent of the long-term loans in both counties (table 6). In addition, insurance building and loan associations and real estate companies, granted long-term loans.

Individuals in Ralls county were the most important single source of long term loans; while government agencies were the source in

TABLE 6. LONG-TERM LOANS ACCORDING TO SOURCE

Source	Number of loans		Per cent	
	Ralls	Lawrence	Ralls	Lawrence
Individuals	32	22	35	30
Federal Land Bank	23	17	25	23
Farm Security Administration	13	16	14	21
Insurance company	2	12	2	16
Commercial banks	15	2	17	3
Other	6	5	7	7
Total	91	74	100	100

Lawrence county. Individuals loaned 42 per cent of the long term debt in Ralls county and 32 per cent in Lawrence county. Government agencies loaned 44 per cent of the long-term debt in Lawrence county and 30 per cent in Ralls county.

Size of Loans and Amount Outstanding

The average size of the original long-term loan was larger in Ralls county than in Lawrence county, but both were considerably smaller than the average of \$2500 reported for the United States.⁷ The average for Ralls county was \$2091; for Lawrence county, \$1682.

Approximately three-fourths of the long-term loans had been in existence for less than ten years, more than half of these had been contracted within the last five years. Sixteen of the 30 loans reported by the Lawrence county farmers to have been contracted within the last five years were made by the Farm Security Administration; a year earlier, 13 of 33 loans in Ralls county had been

TABLE 7. LONG-TERM LOANS ACCORDING TO AMOUNT OUTSTANDING

Amount (dollars)	Number of accounts		Per cent	
	Ralls	Lawrence	Ralls	Lawrence
0-999	33	27	41	38
1000-1999	16	20	20	28
2000-2999	13	8	16	11
3000-3999	9	5	11	7
4000-4999	5	5	6	7
5000 and more	4	6	5	9
Total	80	71	100	100

⁷William G. Murray, *Agricultural Finance* (Ames, Iowa: The Iowa State College Press, 1941), p. 146.

granted by the same agency. These loans, in general, had been reduced to a greater extent in Ralls county than in Lawrence county. The average long-term loan outstanding in Ralls county, August 1, 1940, was \$1438; in Lawrence county, August 1, 1941, \$1452 (Table 7). The greater debt paying ability of the Ralls county farmers was probably the result of larger farms and greater crop acreage.

Interest Rate and Age of Loan

The interest rate for long-term credit was comparable in the two counties studied. Approximately two-thirds of the loans had been made at rates ranging from 4 to 6½ per cent; about one-fourth at 3 or 3½ per cent. The highest charge made in Ralls county was 7 per cent whereas in Lawrence county a few of the loans were charged 8 per cent.

Influence of Tenure and Gross Cash Income

Tenure exerted a marked influence upon the use of long-term credit for more than 90 per cent of the loans were made by owners. This was to be expected since farmers generally incur long-term indebtedness in connection with land ownership. The long-term loans used by renters were principally the standard loans granted by the Farm Security Administration.

Gross cash income had practically no influence upon the number of families using long-term credit since the families with incomes of more than \$1500 had used this type of credit about as frequently as the families with smaller incomes. An increase in income, however, was accompanied by a rapid increase in the average size of loan granted.

SUMMARY

1. Consumer credit for the majority of the farm families investigated was so interrelated with production credit that its study was most realistically treated in relation to the total use of credit by the farm family.
2. The majority of the farm families used some form of credit. The accounts usually were made in connection with the farm business.
3. Short-term credit accounts were far more numerous than intermediate-term or long-term credit accounts.
4. Merchant credit in Ralls county was used principally for family living. In Lawrence county it was common to purchase goods for the farm business and the home on the same account.
5. Installment credit was used almost as often as open account credit in Ralls county, but less often in Lawrence county.

6. Short-term cash loans equalled long-term loans in Ralls county, but more short-term cash loans were made than long-term loans in Lawrence county.
7. Installment buying in both counties was used more frequently than short-term cash loans to finance family living or family living-farm business needs. When the cost of cash loans was less and other factors were satisfactory, it would appear wise for farm families to make cash loans to finance consumer needs.
8. The farmers in the general livestock farming area and in the dairy farming area made practically the same selection of kind of credit. The accounts usually were for larger amounts in the livestock area.
9. The practice of recording the chattel mortgages was an added charge unnecessary for many short-term loans since a filing fee at a fraction of the cost would have been sufficient to protect the loan.
10. Since the credit costs for cash loans and for installment buying vary according to type of loan, size of loan, length of time granted, and the credit status of borrower it is important that credit be compared as it relates to a specific need.
11. Open account credit costs money and this fact should be realized by the many families who use this form of credit.
12. Frequently the annual rate of interest for installment buying could not be calculated because of insufficient data. If the annual rate is not quoted, adequate information should be given so that the buyer may calculate the interest rate.
13. These families, in general, did not understand the legal aspects of their installment contracts. Efforts to simplify the contracts and to educate consumers concerning these matters would help overcome this problem.
14. The credit needs for each farm family are individual and must be studied with that point of view in mind. A clear statement of credit requirements and adequate information concerning the various types of credit possible for farm families are valuable in helping solve problems involving the use of consumer credit.