

service, but loans from these agencies were confined chiefly to larger growers and feeders.

In 1923 the Federal Government established 12 Federal intermediate-credit banks to provide farmers with credit of an intermediate term. These banks do not make direct loans to individual farmers. They discount farmers' notes for banks and other credit agencies, and are authorized to make direct loans to farmers' cooperative associations.

Several hundred agricultural-credit corporations have been organized to obtain credit for farmers by using the discount facilities of the Federal intermediate-credit banks. The term of loans and discounts by these banks is limited to a maximum period of three years, and in practice has rarely exceeded one year. Renewals, however, are granted when circumstances justify, and these banks, which draw their loanable funds from the central money markets through the sale of debentures, are more likely to be in position to grant renewals than are many commercial banks that rely upon deposits.

### Management by the Banks

The 12 Federal intermediate-credit banks are managed by the same directors and officers that manage the Federal land banks, each Federal land-bank board having charge also of one intermediate-credit bank. All these banks, as well as the joint-stock land banks, operate under the supervision of the Federal Farm Loan Board in Washington, D. C.

The Federal intermediate-credit banks have as yet supplied only a small part of the intermediate credit needed by farmers. They have, nevertheless, been of real assistance to farmers' cooperative marketing associations and to many local credit institutions and their farmer clients, in areas where this new source of credit has been used. Their loan and discount operations are capable of a very substantial expansion.

In most communities there has been a lack of local credit agencies that were willing and able to use the discount facilities of these banks. The recent action of the Federal Farm Loan Board in allowing the local bank or credit corporation a somewhat wider spread between the discount rate and the rate charged the borrower may be expected to increase the use of these discount facilities to the benefit of the farmer in need of credit. This should be particularly true of farmers who have in mind well-considered farm improvements and programs that require credit for an intermediate term.

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### SHORT-TERM CREDIT IS BEST RESTRICTED TO PRODUCTIVE USES

It often is said that farmers should use short-term bank credit only for productive purposes. Taken literally, this means that farmers should not borrow unless by so doing they can increase their profits or avoid losses. The rule is intended to discourage unnecessary or wasteful expenditures by the use of credit.

Although opinion may be divided as to the rigidity with which this rule should be applied, few persons will deny the wisdom of its warning. It is a common weakness to desire comforts and luxuries that are beyond one's means. For this reason it is hard to deny oneself when credit is easily obtained. If comforts or luxuries are limited to those which can be purchased with funds actually possessed, the worst that can happen is failure to accumulate savings. When they are purchased with credit, however, the result is likely to be a burden of indebtedness which will become progressively more difficult to carry. Limiting borrowing to the necessities of production is one of the surest methods of avoiding extravagant expenditure and of accumulating a reserve for future needs.

If the spirit of the rule is borne in mind, the term "productive purposes" may be liberally interpreted. Borrowing to pay taxes, necessary living expenses, and interest on mortgage indebtedness may be sound uses of bank credit, if the amount of such borrowing is kept well within the farmer's current income-producing power. Frequently, expenses of this character have to be met at a time when it is disadvantageous to dispose of crops or livestock. In such cases, it is most profitable to meet those needs by borrowing, and to mature or hold products until they may be sold to better advantage. Unforeseen emergencies may necessitate borrowing for purposes that would not ordinarily be classed as productive.

Under some circumstances, it may even be desirable to borrow for vacations, automobiles, or radios. But these are border-line cases and may easily be carried to excess. The spirit of the rule is to keep expenditures well below income so that each year one's accumulation of savings will be increased.

### The Bankers' Problem

Unwise loans not only are a detriment to the borrower but they also are likely to impair the services of banks. Each year many farmers of a community need financial assistance in growing and marketing their products. Banks have a fund of deposits from which they make advances for these purposes. Once the funds are loaned, however, future advances depend upon the repayment of advances made in the past. Loans made to finance the operations of one season must be paid if the banks are to have funds for financing the next season's operations. When borrowers fail to pay their notes, they impair their own borrowing positions and reduce the ability of banks to finance local productive operations. Furthermore, excessive loans frequently cause banks as well as farmers to become hopelessly insolvent.

When borrowing seems advisable, or becomes necessary, farmers should attempt to obtain loans that will not mature before there is a reasonable chance of paying them. It is a widely prevailing practice among bankers to date notes at 60, 90, or 180 days with the tacit understanding that they will be renewed at maturity if the funds are needed for a longer period and if conditions of the loan remain sound. When all is going well, this practice works little, if any, hardship to farmers. But it is likely to produce a false appearance of liquidity in banks, and in a time of stress farmers may be asked to pay before they are in position to do so without disrupting their farming operations. Both bankers and farmers should be benefited by a careful consideration of the time within which payment is likely to be possible and a

frank recognition of the necessary duration of the loan in the conditions of the note.

Most country banks have a customary rate of interest which is charged to the rank and file of borrowers. Nearly always, however, some farmers obtain preferential rates by reason of borrowing large amounts, offering excellent security, and carrying large deposit balances. While banks need some average rate on their loans in order to maintain themselves, it is not necessary that this rate be charged to all borrowers. Farmers who are more than ordinarily valuable to their banks may reasonably expect to receive advantages in the form of preferential borrowing rates. On the other hand, farmers who are poor credit risks and whose deposit accounts are a source of more expense than income to the banks find it difficult to secure loans even at the customary rate.

### Interdependence of Banker and Farmer

What has been said here emphasizes the interdependence of banker and farmer. For the financing of current operations, most farmers have few, if any, sources of credit other than their local banks. Local banks, in turn, depend mainly on local deposits for their loan funds. The high charges for loans which are paid by farmers in many areas may be traced directly to the personal and agricultural risks involved in such loans and to the inadequacy of local supplies of deposit funds.

Because of this interdependence, farmers and bankers will profit most from an attitude of utmost frankness, sympathy, and fairness in their relations with each other. By making a complete and accurate statement of his financial position the farmer gains the benefit of the banker's opinion on the soundness of his proposed venture. The banker in turn is assisted in maintaining a condition that will enable him to finance the requirements of his farmer customers. By explaining frankly the reasons for refusing a given loan, the banker may save his farmer customer from an unwise venture and save his bank from the resentment of an offended customer. Frankness and fair dealing promote the most friendly relations between banker and farmer, with profit to both.

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### MORTGAGE CREDIT USE REQUIRES CLOSE STUDY OF LONG-TERM FACTORS

At least once in the life of nearly every farmer there arises the question whether he will use farm-mortgage credit. Such credit usually represents a major credit transaction in which the farmer employs the greater part of his property to secure the loan, and assumes a debt which, on the average, continues in whole or in part for an active lifetime. Whether the mortgage results in improving the farmer's financial condition depends largely upon how he deals with several special problems connected with the proposed loan. The more important of these are the problems presented by the trend of prices during the term of the mortgage, the amount of the mortgage with relation to the productive capacity of the farm involved, the use that is made of the borrowed money, the cost in the form of interest and commission charges, and the conditions of repayment.