



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

AGRICULTURAL EXTENSION DIVISION  
UNIVERSITY OF MINNESOTA

F. W. Peck, Director

MINNESOTA FARM BUSINESS NOTES

No. 177

September 20, 1937

Prepared by the Division of Agricultural Economics  
University Farm, St. Paul, Minnesota

SHORT TERM LENDING TO FARMERS BY COUNTRY BANKS

Prepared by G. L. Peterson

Country banks are an important source of short term credit for farmers. While the major portion of short term loans is secured by chattel mortgage on live-stock and equipment, a substantial volume is made without collateral security. Especially is this true where there is competition among two or more banks to supply the farmers' credit needs and in localities where farm income is relatively certain. In a study of five banks located in different parts of Minnesota, it was found that in two banks the credit extended without security exceeded 25 per cent of the total volume of short term loans. These two are located in areas which are very productive and both are subject to the competition of other credit agencies in the same locality. The proportion of secured and unsecured credit outstanding on July 1, 1936, in each of the five banks studied is shown in Table 1. Bank No. 1 is located

Table 1

Proportion of Total Volume of Credit and Total Number of Loans  
Secured and Unsecured in Five Banks, July 1, 1936

	Bank No. 1	Bank No. 2	Bank No. 3	Bank No. 4	Bank No. 5
	(Per cent)	(Per cent)	(Per cent)	(Per cent)	(Per cent)
Proportion of volume of credit:					
Secured	100	82	59	86	71
Unsecured	-	18	41	14	29
Proportion of number of loans:					
Secured	100	69	35	78	43
Unsecured	-	31	65	22	57

in the East Central Dairy Region north of the Twin Cities. No. 2 is in the north-western part of the state but east of the Valley. No. 3 is in the Central Dairy Region west of the Twin Cities. No. 4 is in the Livestock and Cash Grain Area of western Minnesota, and No. 5 is in the southwestern part of the state.

Table 1 also shows the proportions of secured and unsecured loans in each bank. In Banks Nos. 3 and 5, there were a greater number of the latter than of the former, but the volume of credit extended on this basis, as pointed out above, was less than that extended on chattel mortgage loans.

A comparison of the average size of secured and unsecured loans in each bank is presented in Table 2. In general, the latter were considerably less than one-half as large as the former. Unsecured loans are usually granted only to farmers with an established credit standing. To a large extent unsecured loans were accommodation loans since more than 55 per cent of the number of these loans in three of the banks studied did not exceed \$150.

Table 2

Comparison of the Average Size of Secured and Unsecured Loans  
in Five Banks, July 1, 1936

	Bank No. 1	Bank No. 2	Bank No. 3	Bank No. 4	Bank No. 5
Average secured loan	\$240	\$454	\$697	\$563	\$664
Average unsecured loan	-	223	271	311	148

Considerable difference between the lending policies of the various banks is noted when a group of loans in each is studied. In some banks, several loans had remained in force over a long period of time whereas in others the majority of the loans in the group studied was of recent origin. Crop yields and prices received for farm products have an important influence on the length of time loans remain unpaid but perhaps of equal importance is the banker's willingness to carry loans over long periods of time. The proportion of the loans originating in each of the years covered by the study is given in Table 3. In Banks Nos. 1, 2 and 4, 22, 60 and 35

Table 3

Date of Origin of Loans Studied

Time of origin	Proportion of all loans				
	Bank No. 1 (Per cent)	Bank No. 2 (Per cent)	Bank No. 3 (Per cent)	Bank No. 4 (Per cent)	Bank No. 5 (Per cent)
Prior to 1931	22	46	9	24	5
1931	-	14	3	11	9
1932	5	14	16	4	9
1933	20	6	-	7	5
1934	17	6	3	40	19
1935	12	12	16	7	21
New loans (less than 1 year)	24	2	53	7	32

per cent, respectively, originated prior to the year 1932. These loans have been intermittently renewed. No attempt was made to determine the exact time of origin of the loans which were made previous to 1931. In Banks Nos. 3 and 5, the majority of the loans studied was less than two years old. These banks had relatively few old loans.

In all banks, the average of the loans selected for study was larger on July 1, 1936, than the average of the same group at the time the loans were made. The latter average was calculated without regard to differences in the dates when loans were made. The averages at the time of origin and on July 1, 1936, are shown in Table 4. The increases ranged from 8 per cent in Bank No. 2 to 54 per cent in

Table 4

Comparison of Original and Present Bank Debt, and Percentage Change

	Bank No. 1	Bank No. 2	Bank No. 3	Bank No. 4	Bank No. 5
Average original debt	\$331	\$560	\$312	\$580	\$434
Average present debt	396	602	407	892	589
Per cent change in:					
Average of all loans	19	8	30	54	38
Average of secured loans	19	12	47	63	46
Average of unsecured loans	-	-13	10	14	-30

Bank No. 4. Average loans in the latter bank were larger at origin than in any other bank and also showed the greatest increases. There was no characteristic difference in the size of owner and tenant loans but, in general, the latter had increased more than the former. A comparison of the changes in secured and unsecured loans is also made in Table 4. In three banks, the former had increased greatly whereas the latter showed marked reductions in two banks, and inconsequential increases in the others relative to the size of increases of secured loans.

While the trend of the average of the groups studied was upward, there was in each bank a number of loans which had been reduced. When all loans less than one year old are excluded from consideration, the number of loans which showed reductions was less than half of the number which had been increased. The great majority of all loans showing reductions was contracted previous to the year 1933. As indicated in Table 3, more than 60 per cent of the loans studied in each bank, except in Bank No. 2 where a deliberate effort was made to select old loans for the sample, was made subsequent to 1932 and these account mainly for the increases in size of loans shown in Table 4. The volume of short term credit used by farmers commonly increases during periods of rising prices such as that which has occurred since 1933. It is likely that the utilization of these funds has increased the value of the borrowers' inventory of livestock and equipment by an amount greater than the size of the loans.

The ratios of bank debt to the value of current assets of the borrowers, whose loans were studied, were higher in Banks Nos. 1, 2 and 4 than in Nos. 3 and 5. The ratio in Bank No. 4, where loans showed the greatest increases, was not on that account less favorable than in Nos. 1 and 2, where the increase was considerably less. Despite the fact that loans in Banks Nos. 3 and 5 increased 30 and 38 per cent, respectively, the ratios in these two were substantially lower than in the others. These ratios are shown by groups in Table 5. Tenant loans showed higher liability

Table 5

Ratio of Bank Debt to the Value of Current Assets

	Bank No. 1	Bank No. 2	Bank No. 3	Bank No. 4	Bank No. 5
	(Per cent)	(Per cent)	(Per cent)	(Per cent)	(Per cent)
All loans	22	25	14	24	17
Owner loans	21	24	13	18	15
Tenant loans	23	29	15	32	18
Secured loans	-	34	34	21	24
Unsecured loans	-	21	6	14	11
Increased loans	22	24	24	29	25
Decreased loans	17	26	5	23	17

ratios than did owner loans. The difference was small, however, except in Bank No. 4, where tenant loans increased more than 50 per cent. A comparison of secured and unsecured loans shows the expected difference; the ratios of the latter were substantially less than those of chattel mortgage loans. In all banks except No. 2, the ratios of the loans which had been reduced were materially more favorable than those which had increased. All loans which showed reductions in Bank No. 2 were made at a time when property values were higher than when the study was made; hence, the failure to show a more favorable ratio.

MINNESOTA FARM PRICES FOR AUGUST, 1937  
Prepared by W. C. Waite and W. B. Garver

The index number of Minnesota farm prices for the month of August, 1937 was 87. When the average of farm prices of the three Augusts, 1924-25-26 is represented by 100, the indexes for August of each year from 1924 to date are as follows:

August 1924 - 95	August 1931 - 55
" 1925 - 104	" 1932 - 41
" 1926 - 101	" 1933 - 54
" 1927 - 100	" 1934 - 72
" 1928 - 100	" 1935 - 70
" 1929 - 104	" 1936 - 97*
" 1930 - 81	" 1937 - 87*

\*Preliminary

The price index of 87 for the past month is the net result of increases and decreases in the prices of farm products in August, 1937 over the average of August, 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index,  
August 15, 1937, with Comparisons\*

	Aug. 15, 1937	July 15, 1937	Aug. 15, 1936	Av. Aug. 1924-25- 26	% Aug. 15, 1937 is of July 15, 1937	% Aug. 15, 1937 is of Aug. 15, 1936	% Aug. 15, 1937 is of Aug. 15, 1924-25-26
Wheat	\$1.14	\$1.31	\$1.23	\$1.38	87	93	83
Corn	.97	1.13	.99	.94	86	98	103
Oats	.23	.40	.38	.35	58	61	66
Barley	.50	.63	.93	.60	79	54	83
Rye	.69	.79	.69	.81	87	100	85
Flax	1.84	1.85	1.93	2.24	99	95	82
Potatoes	.75	1.05	1.70	1.17	71	44	64
Hogs	11.80	11.00	10.10	10.58	107	117	112
Cattle	8.30	8.10	5.60	6.08	102	148	136
Calves	8.70	8.30	7.10	8.67	105	123	100
Lambs-sheep	8.78	8.78	8.00	11.06	100	110	79
Chickens	.155	.126	.135	.182	123	115	85
Eggs	.175	.172	.205	.26	102	85	67
Butterfat	.33	.33	.37	.41	100	89	80
Hay	5.68	6.08	9.68	11.60	93	59	49
Milk	1.75	1.70	1.97	2.13	103	89	82

\*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

Indexes and Ratios of Minnesota Agriculture\*

	August, 1937	July, 1937	August, 1936	Av. August, 1924-26
U.S. farm price index	87.0	90.0	83.0	100.0
Minnesota farm price index	87.0	97.0	97.0	100.0
U.S. purchasing power of farm products	100.0	104.0	106.0	100.0
Minnesota purchasing power of farm products	100.0	111.0	117.0	100.0
U.S. hog-corn ratio	11.2	9.1	9.5	11.4
Minnesota hog-corn ratio	12.2	9.7	10.2	12.3
Minnesota egg-grain ratio	11.0	8.9	11.6	14.2
Minnesota butterfat-farm-grain ratio	31.3	22.6	24.3	32.4

\*Explanations of the computation of these data may be had upon request.