f6 The range of interest rates

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MILTON FRIEDMAN

ON

DEFENSE OF USURY



In 1787, Jeremy Bentham published a lengthy pamphlet entitled, "Defense of Usury; Shewing the Impolicy of the Present Legal Restraints on the Terms of Pecuniary Bargains." The pecuniary bargains he was concerned with were loans between individuals or business enterprises. The legal restraints were limits on interest rates paid or received. Usury was and is the popular term for charging interest rates in excess of legal limits.

Bentham makes an overwhelmingly persuasive case for the proposition he sets forth at the beginning of the pamphlet, "viz. that *no man of ripe years and of sound mind, acting freely, and with his eyes open, ought to be hindered, with a view to his advantage, from making such bargain, in the way of obtaining money, as he thinks fit: nor* (what is a necessary consequence) *any body hindered from supplying him, upon any terms he thinks proper to accede to.*"

CONVICTION VERSUS PRACTICE

During the nearly two centuries since Bentham's pamphlet was published, his arguments have been widely accepted by economists and as widely neglected by politicians. I know of no economist of any standing from that time to this who has favored a legal limit on the rate of interest that borrowers could pay or lenders receive—though there must have been some. I know of no country that does not limit by law the rates of interest—and I doubt that there are any. As Bentham wrote, "in great political questions, wide indeed is the distance between conviction and practice."

Bentham's explanation of the "grounds of the prejudices against usury" is as valid today as when he wrote: "The business of a moneylender . . . has no where, nor at any time, been a popular one. Those who have the resolution to sacrifice the present to future, are natural objects of envy to those who have sacrificed the future to the present. The children who have eat their cake are the natural enemies of the children who have theirs. While the money is hoped for, and for a short time after it has been received, he who lends it is a friend and benefactor: by the time the money is spent, and the evil hour of reckoning is come, the benefactor is found to have changed his nature, and to have put on the tyrant and the oppressor. It is an oppression for a man to reclaim his own money: it is none to keep it from him."

Bentham's explanation of the "mischief of the anti-usurious laws" is also as valid today as when he wrote that these laws preclude "many people, altogether, from the getting the money they stand in need of, to answer their respective exigencies." For still others, they render "the terms so much the worse . . . While, out of loving-kindness, or whatsoever other motive, the law precludes a man from *borrowing*, upon terms which it deems too disadvantageous, it does not preclude him from *selling*, upon any terms, howsoever disadvantageous." His conclusion: "The sole tendency of the law is to heap distress upon distress."

WHO IS HURT?

Developments since Bentham's day have increased the mischief done by usury legislation. Economic progress has provided the ordinary man with the means to save. The spread of banks, savings-and-loan associations, and the like has given the ordinary man the facilities for saving. For the first time in history, the working class may well be net lenders rather than net borrowers. They are also the ones who have fewest alternatives, who find it hardest to avoid legal regulations, and who are therefore hardest hit by them.

Under the spur of Wright Patman and his ilk, the Federal Reserve now limits the interest rate that commercial banks may pay to a maximum of 4½ per cent for small savers but to 7½ per cent for deposits of $100,000 or more. And the deposits of small savers have been relatively stable or growing, while those of large depositors have been declining sharply because they have still better alternatives.

That is the way the self-labeled defenders of the "people" look after their interests—by keeping them from receiving the interest they are entitled to. Along with Bentham, "I would . . . wish to learn . . . why the legislator should be more anxious to limit the rate of interest one way, than the other? Why should he set his face against the owners of that species of property more than of any other? Why he should make it his business to prevent their getting *more* than a certain price for the use of it, rather than to prevent their getting *less*? . . . Let any one that can, find an answer to these questions; it is more than I can do."

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The Sense of the Census

And the Lord spake unto Moses in the wilderness of Sinai . . . saying,

Take ye the sum of all the congregation of the children of Israel . . . their names, every male, by the polls;

From twenty years old and upward, all that are able to go forth to war . . .

Following Biblical precedent, the framers of the U.S. Constitution called for a national census each decade, starting in 1790. Like the Mosaic head count, it was meant to tell how many men were ripe for military service—and, perhaps even more important to the Founding Fathers, to provide a basis for Congressional apportionment. This week the nineteenth decennial poll begins, with more than the usual hum of confusion and resentment. Despite the grumbling, however, the result is likely to be the most accurate profile ever made of the American population, especially of its poor and minorities.

Counting mobile Americans has never been an easy task. Census workers are responsible for reaching the denizens of jails, convents and monasteries, mission homes and boardinghouses. They must track down those who live on Alaskan mountain peaks and in abandoned buses in the desert. Sometimes they have to travel on snowshoe or by outrigger canoe, only to be attacked by a bull, walk in on a death or family fight, or help deliver a baby. A more common hurdle is the uncommunicativeness of ghetto residents, understandably wary of police, welfare workers and other sometimes punitive manifestations of "the Man."

Short: In 1969 a committee of population scholars, headed by Presidential aide Daniel P. Moynihan, gathered in Washington, D.C., to find out where previous censuses had fallen short. They concluded that in 1960 some 5.7 million people had not been counted. Two-fifths of these were classic "invisible men"—poor, nonwhite and predominantly male. Some were ghetto blacks, concealed accidentally by poverty and frequent moves or deliberately by common-law wives afraid of official backlash. But other nonwhites, such as Orientals, Filipinos and Indians, had fared as badly or worse. And poor whites, too, had been underrepresented—especially Puerto Ricans and Mexican-Americans.

All this is of far more than academic interest. Since census figures determine not only apportionment but play a role in Federal allocations for housing, education, hospital construction, welfare and other social services, inaccurate computations penalize local governments, particularly in urban centers. "The U.S. Government owes Philadelphia $10 million!" protested one local official after he learned of undercounts in his city.

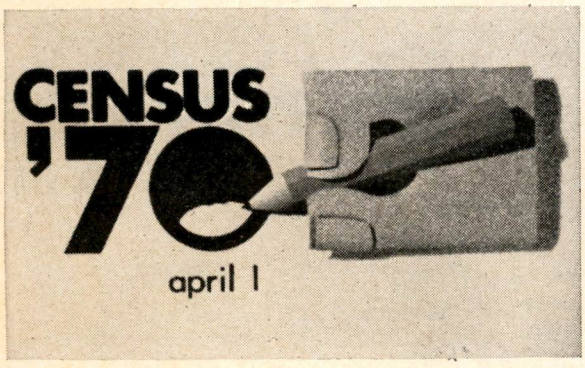
To correct such inaccuracies, the Census Bureau decided not to waste time trudging to every American door this year. Instead, last week it began mailing questionnaires to 44 million households, to be filled out and returned by mail. This vastly reduces the workload on the 160,000 "enumerators"—mostly Republican women who passed a test to qualify for working at $2 to $2.50 an hour during the four peak months of the poll. On April 1, wearing red, white and blue badges, the enumerators will set out to quiz some 80 million Americans not covered by the mailing—many of them rural, transient or socially "invisible." Later, the census takers will follow up on the one person out of five who is expected not to return his mailed questionnaire.

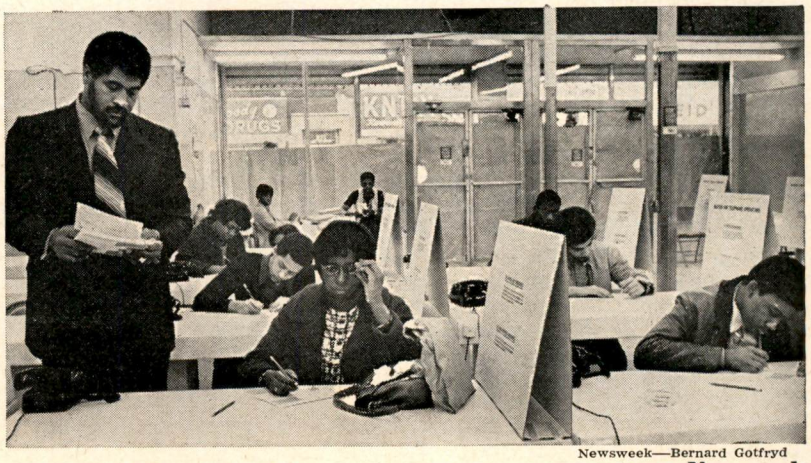
Snoop: The terrain has been softened up for the counters by television ads telling the poor and nonwhite what they will gain by cooperating. Signs in predominantly black North Philadelphia's bars, stores and barbershops proclaim: "You are important. Don't be a missing person." Both the Urban League and Black Muslims, as well as such black heroes as Jim Brown, Bill Cosby and New York Jets lineman Verlon Biggs, have also carried the message to Negro communities. Almost 400 temporary census centers, many of them in makeshift storefronts, have been set up around the country, and bilingual workers have been hired in heavily ethnic areas. Census workers have been carefully trained to explain they are not engaged in gratuitous snooping.

All this has not saved the Census Bureau from bumping into an unprecedented number of cold shoulders. Fretfulness over government record keeping and possible invasion of privacy united the liberal American Civil Liberties Union and the far-right Liberty Lobby last year in opposing long census questionnaires. Congressional and other critics asked why there were so few questions on education and employment but so many on household appliances—suggesting that the government had given in to pressure from market-research firms who often try to freeload on the census.

Improved: The Census Bureau answered that the questionnaire was actually not very different from that of 1960. In fact, officials argued, it is an improvement on many older questionnaires, some of which were longer (470 questions in 1890, as compared with 23 in the 1970 standard form) and others highly offensive. (Before 1929, the questionnaire asked: "Do you have an idiot in your house? What size is its head? Do you chain it up?") But the bureau did yield to critics by rewording a question about shared use of bathtubs, changing the category "Negro" to "Negro or black," and agreeing to send its special long form—containing up to 89 questions—to only 12 million instead of 15 million people.

More significantly, to calm fears that "Big Brother" in Washington is out to compile dossiers on the whole population, the bureau will delete all names when census data is microfilmed for analysis. Last week, too, President Nixon issued a proclamation reassuring the nation that "there will be no improper use of the information." Generally, census officials are sanguine about this year's operation being more accurate and less exacerbating than any in the past. And pollster Richard Scammon, director of the 1960 census agrees. "We have a better, more affluent, more educated society, which is easier to count," he says. Such reassuring words may mollify many people, who in time-honored U.S. fashion still bristle reflexively when the government insists it has the right to ask them questions. Inevitably, however, the Census Bureau blitz will leave many Americans unmollified—and some uncounted.





Counting heads: TV ad (above) and Biggs helping out at a New York census center

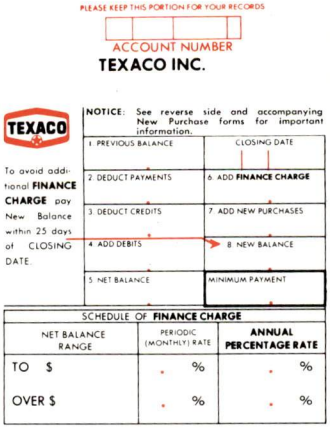
Newsweek—Bernard Gotfryd

FINANCE CHARGE Rate Schedule

State of Residence	Unpaid Balance Range	Periodic (Monthly) Rate	ANNUAL PERCENTAGE RATE
Alaska - California - Delaware	To $1000 Over $1000	1½ % 1%	18% 12%
Kansas - Maryland - Massachusetts Nebraska - New Mexico New York - Texas - Vermont	To $500 Over $500	1½ % 1%	18% 12%
Missouri	To $500 Over $500	1½ % ¾ %	18% 9%
Ohio	To $400 Over $400	1½ % 1%	18% 12%
Arkansas	Total Balance	⅚%	10%
Arizona	Total Balance	1⅓%	16%
Pennsylvania	Total Balance	1¼ %	15%
South Carolina - Washington - Wisconsin	Total Balance	1%	12%
All States not listed above	Total Balance	1½ %	18%

TEXACO'S TIME CHARGE PLAN STATEMENT

(For tires, batteries, accessories and services where extended terms are desired. Texaco Charge Plan can not be used for gasoline and motor oil.)



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TEXACO

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1. PREVIOUS BALANCE	CLOSING DATE
2. DEDUCT PAYMENTS	6. ADD **FINANCE CHARGE**
3. DEDUCT CREDITS	7. ADD NEW PURCHASES
4. ADD DEBITS	8. NEW BALANCE
5. NET BALANCE	MINIMUM PAYMENT

SCHEDULE OF **FINANCE CHARGE**

NET BALANCE RANGE	PERIODIC (MONTHLY) RATE	**ANNUAL PERCENTAGE RATE**
TO $	. %	. %
OVER $	. %	. %

TEXACO'S TIME CHARGE PLAN STATEMENT

After a purchase is made, you will receive a special Time Charge statement. This statement will show the status of your account and offer you the choice of paying the New Balance without a FINANCE CHARGE, or paying at least 10%, plus any past due amounts, and deferring the rest. (However, your Minimum Payment cannot be less than $10.00 or the New Balance of your account if it is less than $10.00.)

If you choose to pay the New Balance, we must receive your payment within 25 days of the closing date on your statement to avoid a FINANCE CHARGE.

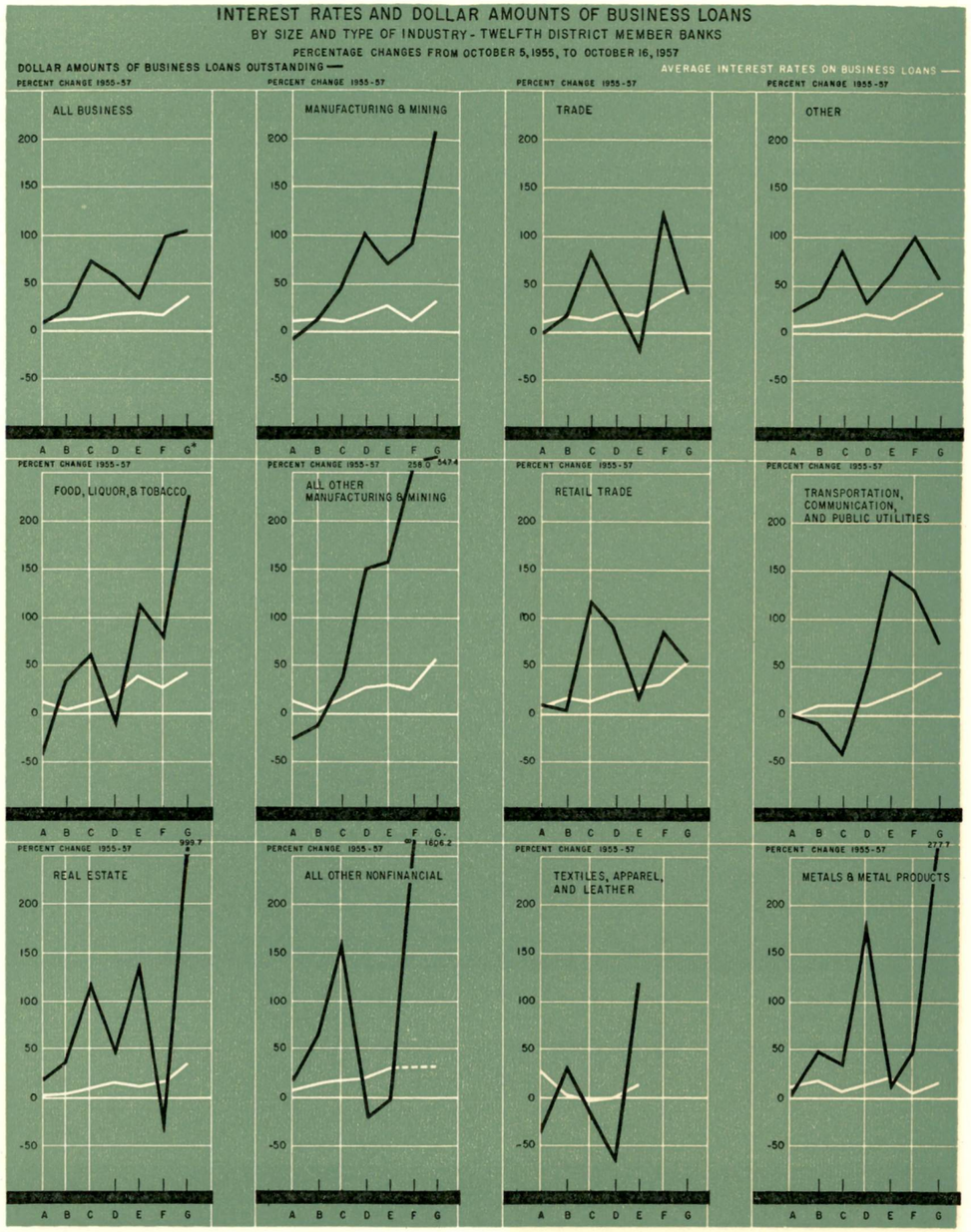
If you decide to defer a part of your balance, you will be charged a FINANCE CHARGE on the Net Balance remaining unpaid after Payments received and Credit adjustments are subtracted from, and Debit adjustments are added to, the Previous Balance as shown on your monthly statement.

Our FINANCE CHARGE is computed by applying the appropriate periodic (monthly) rate, as determined from the Rate Schedule shown on the reverse side, to the Net Balance appearing on your monthly statement.

No FINANCE CHARGE will be imposed on New Purchases made during the month as shown on your monthly statement.

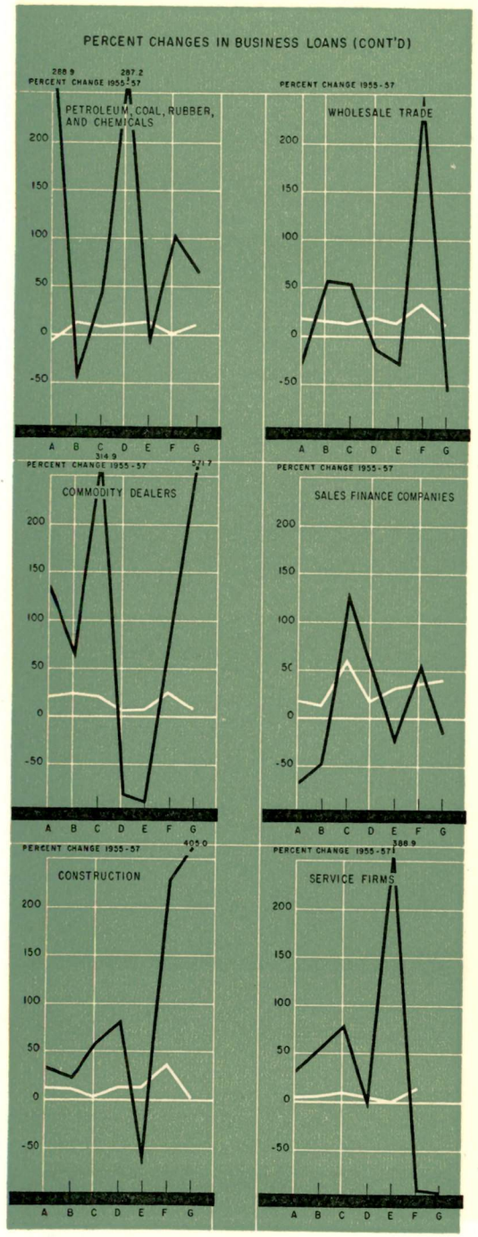
Once you have selected the Time Charge Plan, additional FINANCE CHARGES may be avoided at any time by paying the New Balance within 25 days of the closing date on your monthly statement.

If either your Regular credit card account or Time Charge account is not paid when due, Texaco may decide that the entire unpaid balance of your Time Charge account will become due and payable immediately. Also, if you fail to keep your credit standing good, Texaco may restrict or withdraw your credit card privileges.



*Total assets of borrower:
A less than $50,000
B $50,000-250,000
C $250,000-1,000,000
D $1,000,000-5,000,000
E $5,000,000-25,000,000
F $25,000,000-100,000,000
G $100,000,000 and over

Vertical divisions in charts separate business into small, medium, and large categories, which vary by industry. In all charts with only one vertical division, the small category is under $50,000.



ing the tight money period, the resulting upgrading of loan quality among small borrowers would render unnecessary increases in interest rates as great as those for large borrowers. From this point of view, it appears that the advantage of relatively smaller increases in interest rates accruing to small borrowers was gained at the cost of a smaller advance in the dollar amount of loans.

There are some general reasons, disclosed by the Federal Reserve's interviews with bankers and businessmen, for supposing that the demand for credit increased more among larger businesses. Larger businesses extended more trade credit to their smaller customers and therefore needed more credit themselves. Moreover, some small businesses may have been at a competitive disadvantage and thus were not so favorably situated to demand and use as much additional bank credit as large business. This last factor may cut two ways, since a competitive disadvantage can not only curb the demand for credit but can also lead to a restriction of the supply by banks—where the element of risk is extremely important in the process of lending.

In summary, it appears that both demand and supply factors were responsible for the relatively greater increase in credit to medium and large businesses during the 1955-57 period of monetary restraint; that small business expanded its bank indebtedness more in the Twelfth than in any other district; that the smallest banks (those with total deposits under $10 million) showed a decline in their business loans outstanding; that the capital goods boom was reflected by greater increases in bank lending to the industries involved; and that long-term lending grew relatively faster than short-term lending.

Review of Business Conditions

NATIONAL business activity rose more than seasonally during May and early June. Although this development suggests that the decline in activity is being reversed, optimism should be tempered. Improvements thus far in employment, business sales, construction, and other indicators contrast with declines in many of these measures only a few months ago, but the degree of strength in most of these indicators is not conclusive evidence of a continuing upturn.

Industrial production rose four index points during May and June, to 130 percent of the 1947-49 average (seasonally adjusted) in the latter month. Most of the gain occurred in the production of durable goods, although output of most types of nondurable goods and minerals was also higher. Both automobile assemblies and steel output rose sharply through most of the period, but production declines were scheduled in these industries for late June and early July. Sales and new order inflows of manufacturers during May showed moderate increases after seasonal adjustment and all of the improvement occurred among durable goods producers. Unfilled order backlogs at the end of May were about 1 percent below the April level, however. New construction put in place fell slightly during May, but rose a little more than seasonally during June. Private housing starts increased to a seasonally adjusted annual rate of 1,010,000 dwelling units in May, compared with 950,000 units in April. Construction contracts awarded during May, as reported by the F. W. Dodge Corporation, rose from the improved April level and were slightly above the total for May 1957. Heavy construction awards showed marked improvement in both May and June. Retail sales changed very little during May and June after increasing in April, but sales by automobile dealers showed a less than seasonal rise in June following advances in April and May. Recent data on total manufacturing and trade inventories point to an improved relationship to current sales, although it appears that stocks still remain above desired levels. Total inventories have been reduced by an average of about $800 million per month in the first five months of 1958.

Personal income has been rising since March and recorded a substantial gain in May. Most significant during the month was the reversal in wage and salary payments, which rose for the first time since last August, and accounted for a little over half the $1.3 billion total increase in personal income. Recent Federal salary increases are augmenting the flow of wage and salary payments in June and July.

Changes in employment and unemployment were also generally favorable in May and June. Nonfarm jobs rose more than seasonally during both months. Unemployment was reduced to 6.8 percent of the labor force by mid-June (after seasonal adjustment). Despite the improvements, however, 1.5 million fewer persons held civilian jobs during June than in the same month a year ago, and unemployment was about 2.1 million persons higher. The rise in unemployment of approximately 600,000 persons in excess of actual civilian job losses over the year reflects a 200,000-man decrease in the size of the armed forces and a further addition of about 400,000 persons to the nation's work force resulting from continued growth in the working-age population.

While growth of the labor force continues, capital outlays to equip current and potential workers are being sharply curtailed. According to the most recent Department of Commerce-Securities and Exchange Commission survey, business firms in most industries continued to reduce their plant and equipment expenditures during the second quarter of

sociated with the fact that business usually borrows on a long-term basis for expansion of plant and equipment, which was widespread during the period under review. Moreover, the unusually high bond rates prevailing during the latter part of the 1955-57 period probably encouraged intermediate-term bank borrowing, in the hope that this credit could later be converted to long-term borrowing in the capital market on more favorable terms.

The accompanying set of charts shows the percentage changes between the two surveys in both the dollar amount of Twelfth District business loans and interest rates by industry and size of business. The vertical lines, corresponding to certain size groups on each industry chart, represent the division between small, medium, and large business.[1] What general information can be drawn from these charts? In most of the industries medium and large business generally experienced a greater percentage increase in dollar amount of loans outstanding than did small business. The most striking exception appears to be the group labeled "petroleum, coal, chemicals, and rubber," in which large increases were registered in the less than $50,000 and the $1-5 million size classes. (Both classes are defined as small business in this particular industry.) In addition, the larger of the small sales finance companies, as well as of the metals and metal products companies, fared relatively well. In every industry, percentage changes in amounts outstanding between the surveys exceeded those in interest rates. Actually, the interest rate line would be slightly different if the composition of borrowers had not changed between the two surveys. For example, if bank lenders weeded out the small marginal borrower dur-

[1] A discussion of the criteria used to arrive at definitions of small, medium, and large business in the various industry categories may be found in: U. S., Congress, *Financing Small Business, Report to the Committees on Banking and Currency and the Select Committees on Small Business by the Federal Reserve System,* Parts 1 and 2, 85th Cong., 2nd Sess., April 11, 1958, pp. 150-171.

TABLE 6

INTEREST RATES ON TWELFTH DISTRICT MEMBER BANK LOANS TO BUSINESS BY BUSINESS OF BORROWER AND MATURITY OF LOAN, 1955 AND 1957

	Short-term (one year or less)			Long-term (over one year)		
BUSINESS OF BORROWER	1955	1957	Percent change 1955-57	1955	1957	Percent change 1955-57
Manufacturing and Mining						
Food, liquor, tobacco	4.34	5.39	24.2	4.97	4.98	0.2
Textiles, apparel, leather	5.29	5.63	6.4	4.84	6.11	26.2
Metals and metal products	4.75	5.06	6.5	4.83	5.73	18.6
Petroleum, coal, chemicals, and rubber	4.17	5.11	22.5	3.88	3.96	2.1
All other manufacturing and mining	4.65	5.45	17.2	4.78	5.08	6.3
Trade						
Wholesale	4.83	5.64	16.8	4.72	5.71	21.0
Retail	4.65	5.35	15.1	5.10	6.10	19.6
Other						
Commodity dealers	4.32	5.37	24.3	4.48	5.56	24.1
Sales finance companies	3.68	5.17	40.5	4.63	5.61	21.2
Transportation, communication, and other public utilities	3.66	4.77	30.3	4.57	4.96	8.5
Construction	5.06	5.57	10.1	5.79	6.09	5.2
Real estate	4.58	5.26	14.8	4.92	5.20	5.7
Service firms	5.16	5.45	5.6	5.66	5.92	4.6
All other nonfinancial	4.47	5.49	22.8	5.21	5.67	8.8

TABLE 4

INTEREST RATES OF TWELFTH DISTRICT MEMBER BANK BUSINESS LOANS BY SIZE OF BORROWER AND SIZE OF BANK, 1955 AND 1957

SIZE OF BANK (Total deposits in millions of dollars)	SIZE OF BORROWER (Total assets, in thousands of dollars)								
	Less than 250		Percent change	250-5,000		Percent change	5,000 and over		Percent change
	1955	1957	1955-57	1955	1957	1955-57	1955	1957	1955-57
Less than 2	6.33	7.23	14.2	7.54	*	*	*	*	*
2— 10	5.87	6.01	2.4	5.18	5.68	9.7	4.03	*	*
10— 20	5.86	6.55	11.8	5.50	5.65	2.7	4.67	4.02	—13.9
20— 50	5.69	5.99	5.3	5.30	5.58	5.3	3.53	4.87	38.0
50— 100	5.42	6.19	14.2	5.02	5.69	13.4	3.93	4.82	22.7
100— 250	5.58	6.30	12.9	4.73	5.44	15.0	3.30	4.57	38.5
250— 500	5.51	6.19	12.3	4.58	5.52	20.5	3.73	4.62	23.9
500—1,000	5.58	5.94	6.5	4.69	5.39	14.9	3.58	4.53	26.5
1,000 and over	5.72	6.48	13.3	4.95	5.68	14.8	3.89	4.63	19.0
All banks	5.66	6.29	11.1	4.83	5.58	15.5	3.79	4.61	21.6

*Indicates no comparable interest rate.

business organization during this period, since corporations received only a slightly greater amount of loans than did noncorporate business. The percentage increases in the dollar amount of secured and unsecured loans for all size groups of business do not indicate a preference by bankers for either type of loan; there was an almost equal percentage advance in both. However, there was a much greater increase in the number of secured loans, which seems to indicate that most of the new loans made during the period were secured ones. Long-term loans showed a larger increase than short-term loans, both in number and amount. The correspondence in relative gain of both secured and long-term loans is not surprising, since long-term loans are generally secured.

Long-term borrowing, as shown in Table 6, did not grow by so much as to force interest rates up to the level of short-term loans. The large increase in long-term borrowing is as-

TABLE 5

BUSINESS LOANS OUTSTANDING AT TWELFTH DISTRICT MEMBER BANKS BY INCORPORATION, SECURITY, AND MATURITY, 1955 AND 1957

	ALL BORROWERS					
	Number (in thousands)		Percent change	Amounts outstanding (in billions of dollars)		Percent change
	1955	1957	1955-57	1955	1957	1955-57
Corporate or Noncorporate						
Corporate	31.4	44.1	40.4	2.5	3.9	53.8
Noncorporate	120.0	151.4	26.2	1.0	1.6	52.4
Secured or Unsecured						
Secured	56.1	120.0	113.7	2.0	3.1	53.7
Unsecured	61.1	75.6	23.8	1.5	2.3	53.0
Maturity of Loans						
Short-term (one year or less)	90.1	106.6	18.3	2.2	3.3	47.6
Long-term (over one year)	61.3	88.9	45.1	1.3	2.1	63.3

1958, and further reductions are scheduled for the balance of the year. Presumably, many of the anticipated cutbacks would be revised should the sales outlook improve substantially, but most observers foresee declining plant and equipment outlays well into 1959.

Government spending is presently rising, but some state and local governments are experiencing increased difficulty in finding funds to replace falling tax revenues. The upswing in Federal Government contracts, particularly for defense items, has not yet resulted in a significant increase in actual Federal cash outlays.

In summary, recent economic developments suggest that downward pressures of past months have abated. Personal income has risen for three months, consumer spending has been largely maintained, and there has been a slight upturn in employment. Government outlays continue to be expansionary, and a moderate recovery in construction activity is evident from recent increases in contract awards and housing starts. Moreover, manufacturers report improvement in sales and new orders. The extended decline in plant and equipment expenditures and the continuing liquidation of business inventories give a mixed tone to the overall economic situation. The national economy at present may be characterized as lacking in strong forces which point either toward a further sharp decline or to a speedy recovery.

District production improves moderately

A comparison with previous months shows that business developments in the Twelfth District during May and early June also improved. Seasonal outdoor activity expanded as operations were no longer hampered by weather. Some downward pressures continue to be apparent, but they have largely moderated, and several key District industries have shown renewed strength in the most recent period.

Lumber industry reports indicate some slight improvement in both production and new order inflows during May and early June. In addition, firms have maintained a better balance between production and demand this year, bringing inventories more into line. The plywood industry remains in an unsettled state due to current excess capacity, but plywood prices increased in June to $68 per thousand square feet of the basic grade, and several firms were reported as quoting a price of $72 per thousand square feet at the end of the month.

Twelfth District steel output rose further during May and most of June but declined slightly toward the end of the month. As in other sections of the nation, part of the increase during the period seems to have been the result of hedging against a steel price increase previously anticipated in early July.

The important fruit and vegetable canning industry in this district is entering the 1958-59 marketing season with significantly better prospects than a year ago. Inventories carried over from the previous season are generally not so burdensome as in 1956 or 1957. No major changes in the size of the total pack are foreseen for this year, and demand continues to be strong. The recent recovery in price of several important items is expected to be maintainable in coming months, so that there may be an improvement in the rather narrow profit margins of the past two years.

Housing records additional gain

Residential construction in the Twelfth District recorded an additional gain during May. Construction employment, in which the housing segment is the most changeable during short-run periods, rebounded to the May level of a year ago. In addition, the F. W. Dodge Corporation reports that residential construction contracts awarded during May

exceeded the same month in both 1956 and 1957. Renewed lender interest in Federal Housing Administration and Veterans' Administration mortgages has given additional impetus to the housing revival. Nonresidential building awards dropped off from May 1957, however, after several months of favorable year-ago comparisons, and public works and utilities awards in this district still have not shown the recent strength evidenced by such awards in other parts of the nation.

Employment rises more than seasonally

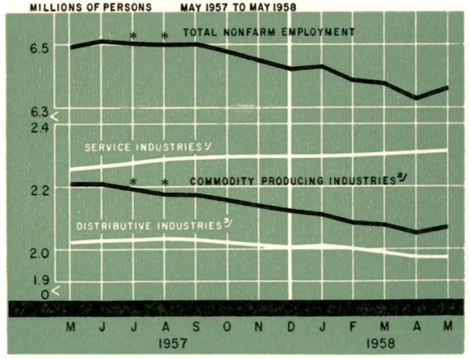
The number of persons at work in nonfarm jobs in the Twelfth District rose slightly above seasonal expectations in May. The improvement was shared by all major types of industry except transportation, but the only exceptional gain occurred in construction employment. Compared with last year, nonfarm employment has dropped by about 135,000 persons, the largest job loss being recorded by commodity-producing industries. (Chart 1) Government employment showed the only sizable increase over the period—about 46,000 workers were added to government payrolls.

The gain in manufacturing employment during May was significant in that a series of uninterrupted declines extending back to mid-1957 had been reported by manufacturing firms. Changes within individual lines were generally small during the month; machinery and canning experienced the only sizable losses from April—1,700 and 3,100 workers respectively. The variability of harvest seasons suggests, however, that the decline in the latter industry is not significant. Moreover, these losses were more than offset by gains in apparel, lumber, and transportation equipment. The key aircraft industry has increased employment slightly over the past few months, as moderate job cutbacks at Southern California plants were exceeded by job expansions in other parts of the state and in Washington.

Despite the overall improvement in employment during May, continued growth in the civilian labor force resulted in a less than seasonal decline in unemployment. Unemployment in the three Pacific Coast states rose to 7.2 percent of the labor force after seasonal adjustment, compared with a rate of 7.1 percent in April. The number of persons in the Twelfth District drawing benefit checks under the various state and Federal unemployment insurance programs in May also failed to show a significant decline after seasonal adjustment. Insured unemployment continued to be particularly high in the Pacific Northwest, despite the increasing number of persons who have exhausted their eligibility for benefits.

CHART 1

NONFARM EMPLOYMENT IN TWELFTH DISTRICT STATES
SEASONALLY ADJUSTED MONTHLY DATA



[1] Finance, insurance, and real estate; services; Government.
[2] Manufacturing, mining, contract construction.
[3] Transportation, communication, and public utilities; wholesale and retail trade.
* Employment reduced significantly by labor disputes.
Source: State Employment Agencies, seasonal adjustments by Federal Reserve Bank of San Francisco.

TABLE 2

BUSINESS LOANS OF MEMBER BANKS IN THE TWELFTH DISTRICT AND THE UNITED STATES BY BUSINESS OF BORROWER, 1955 and 1957

BUSINESS OF BORROWER	TWELFTH DISTRICT Millions of Dollars 1955	1957	Percent Distribution 1955	1957	Percent Change 1955-57	UNITED STATES Billions of Dollars 1955	1957	Percent Distribution 1955	1957	Percent Change 1955-57
All Businesses	3,527	5,411	100.0	100.0	53.4	30.8	40.6	100.0	100.0	31.9
Manufacturing and Mining										
Food, liquor, tobacco	299	471	8.5	8.7	57.6	1.9	2.4	6.1	5.9	28.0
Textiles, apparel, leather	50	36	1.4	0.7	— 28.4	1.7	1.7	5.6	4.1	— 3.1
Metals and metal products	356	645	10.1	11.9	81.2	3.2	5.5	10.5	13.6	70.5
Petroleum, coal, chemicals, rubber	143	244	4.1	4.5	70.8	2.6	3.8	8.5	9.2	44.1
All other manufacturing and mining	295	636	8.3	11.8	115.3	1.9	2.8	6.2	6.9	47.2
Trade										
Wholesale	470	510	13.3	9.4	8.5	2.4	3.0	7.8	7.3	24.7
Retail	539	789	15.3	14.6	46.5	3.4	4.6	11.2	11.3	33.2
Other										
Commodity dealers	64	95	1.8	1.8	48.8	0.7	0.8	2.4	2.0	10.7
Sales finance companies	199	215	5.7	4.0	8.3	2.8	3.1	9.2	7.6	9.3
Transportation, communication, and public utilities	233	337	6.6	6.2	44.6	2.8	4.2	9.2	10.3	47.0
Construction	181	265	5.1	4.9	46.4	1.7	2.0	5.5	4.9	17.1
Real estate	300	508	8.5	9.4	69.3	2.4	3.0	7.9	7.3	22.5
Services	248	391	7.0	7.2	57.6	1.8	2.3	5.7	5.6	28.3
All other nonfinancial	151	269	4.3	4.9	78.2	1.3	1.6	4.3	4.0	20.4

Note: Details may not add to totals because of rounding.

In general, the smallest District banks also had the smallest percentage rise in interest rates. (Table 4) Otherwise, all sizes of banks increased their rates more for large borrowers than for small ones.

Table 5 provides additional information about bank lending in the Twelfth District during the period of monetary restraint from 1955 to 1957. Evidently banks did not give great preference to the corporate form of

TABLE 3

BUSINESS LOANS OF TWELFTH DISTRICT MEMBER BANKS BY SIZE OF BORROWER AND SIZE OF BANK, 1955 AND 1957

(Amounts outstanding in millions of dollars)

SIZE OF BANK (Total deposits in millions of dollars)	SIZE OF BORROWER[1] (Total assets, in thousands of dollars) Less than 250 1955	1957	Percent change 1955-57	250-5,000 1955	1957	Percent change 1955-57	5,000 and over 1955	1957	Percent change 1955-57
Less than 2	1.8	1.3	—26.3	0.2	*	*	*	*	*
2— 10	36.4	27.7	—23.8	14.1	7.4	—47.1	0.3	*	*
10— 20	37.6	36.2	— 3.6	19.0	31.2	63.6	2.1	1.9	— 9.7
20— 50	38.3	38.4	0.2	36.3	51.9	42.8	1.5	4.6	214.9
50— 100	20.7	41.2	98.9	57.1	85.8	50.3	2.8	9.1	229.0
100— 250	99.9	116.3	16.4	120.3	229.6	90.8	48.7	79.4	63.1
250— 500	89.5	122.4	36.9	244.3	365.6	49.7	170.4	133.5	— 21.7
500—1,000	180.6	183.4	1.5	350.0	552.7	57.9	177.2	264.7	49.4
1,000 and over	373.8	472.4	26.4	661.0	1,138.1	72.2	740.3	1,415.4	91.2
All banks	878.6	1,039.5	18.3	1,502.4	2,462.3	63.9	1,143.3	1,908.7	67.0

[1] The three sizes of borrower categories in Table 3 do not correspond to the small, medium, and large classification in Table 1, which were designated on the basis of relative sizes in the various industries.
*Indicates less than $50,000 outstanding.

BANKS AND BORROWERS DURING THE BOOM, 1955-57

IN order to provide information on bank loans made for commercial and industrial purposes, the Federal Reserve System conducted two nationwide surveys of loans outstanding — one as of October 5, 1955, the other as of October 16, 1957.[1] Based on the information revealed by these two surveys, this article presents a broad cross-section of Twelfth District data, and makes some comparisons between these changes and those which have taken place in other Federal Reserve Districts.

Table 1 shows the changes between the two surveys in business loans to small, medium, and large business in each of the Federal Reserve Districts. The Twelfth District is distinguished by the greatest percentage increase in total loans, reflecting in part rapid industrial expansion in the Far West from 1955 to 1957. The gain experienced in loans to large business in this district was not so striking as the increase in loans to small and medium size borrowers.

Which lines of business obtained most of the loan expansion in the Twelfth District compared with other areas of the United States? Table 2 reveals that the greatest District expansion occurred in the business category labeled "all other manufacturing and mining,"[2] whereas "metals and metal products" experienced the largest growth in the nation. The latter category showed a considerable gain in the District as well, and in both cases this growth mirrors the capital goods boom of 1955-57. The only declines appear in the "textile, apparel, and leather" group, which was generally weak during the period. Although the District reduction in amounts outstanding to this group exceeded that of the nation, the share of credit outstanding to these producers in the District is much smaller than their shares in other districts.

The total increase in loans from 1955 to 1957 varied considerably among banks of different sizes. In fact, the smallest banks in this district (those with total deposits of less than $10 million) actually experienced a decline in business loans outstanding, as Table 3 shows. On the other hand, the largest percentage increases in these loans were registered by banks of intermediate size ($20-250 million in total deposits) although the largest banks had substantial gains also. The one exception occurs in loans to large business by banks with total deposits of $250-500 million, where a considerable decline occurred.

TABLE 1

REGIONAL CHANGE IN BUSINESS LOANS OF MEMBER BANKS, 1955-57

(Percent increase or decrease in amounts outstanding)

Federal Reserve District	All Borrowers[1]	Relative Size of Borrower		
		Small	Medium	Large
All Districts	**31.9**	**10.6**	**28.0**	**50.7**
Boston	**20.1**	**.1**	**23.8**	**36.8**
New York	**35.8**	**.6**	**28.5**	**55.0**
Philadelphia	**17.7**	**9.8**	**16.8**	**18.4**
Cleveland	**43.4**	**22.4**	**40.8**	**65.1**
Richmond	**20.8**	**6.7**	**24.1**	**32.1**
Atlanta	**26.5**	**18.2**	**26.1**	**51.1**
Chicago	**35.0**	**11.3**	**22.7**	**59.9**
St. Louis	**16.1**	**—15.6**	**2.4**	**33.3**
Minneapolis	**20.5**	**2.1**	**35.3**	**11.6**
Kansas City	**17.7**	**17.2**	**16.2**	**29.5**
Dallas	**10.4**	**— 7.6**	**17.0**	**21.1**
San Francisco	**50.6**	**46.1**	**52.1**	**61.0**

[1] Includes a small amount of loans for borrowers whose size was not ascertained.

Source: Board of Governors of the Federal Reserve System, "Member Bank Lending to Small Business, 1955-57," *Federal Reserve Bulletin*, April 1958, p. 405. (For classification of borrowers by relative size, see Appendix A, p. 409.)

[1] This is the second *Monthly Review* article based on the two surveys. The first contained broad conclusions regarding the impact of monetary restraint on the cost and distribution of credit as between small and large business. See "Monetary Restraint and Business Loans in the Twelfth District, 1955-57," Federal Reserve Bank of San Francisco *Monthly Review*, May 1958.

[2] This includes such groups as lumber and wood products, furniture and fixtures, paper and allied products, printing and publishing, and scientific instruments.

BUSINESS INDEXES — TWELFTH DISTRICT[1]

(1947-49 average = 100)

Year and month	Industrial production (physical volume)[2]							Total nonagricultural employment	Total mf'g employment	Carloadings (number)[3]	Dep't store sales (value)[2]	Retail food prices[3, 4]	Waterborne foreign trade[3, 5]	
	Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Electric power						Exports	Imports
1929	95	87	78	54	165	105	29	....	....	102	30	64	190	124
1933	40	52	50	27	72	17	26	....	....	52	18	42	110	72
1939	71	67	63	56	93	80	40	....	55	77	31	47	163	95
1949	100	99	103	100	101	93	108	99	97	94	98	100	85	121
1950	113	98	103	112	109	113	119	103	105	98	107	100	91	137
1951	113	106	112	128	89	115	136	112	120	100	112	113	186	157
1952	116	107	116	124	87	113	144	118	130	100	120	115	171	200
1953	118	109	122	130	77	111	161	121	137	100	122	113	140	308
1954	116	106	119	132	71	101	172	120	134	96	122	113	131	260
1955	124	106	122	145	75	118	192	127	143	104	132	112	164	308
1956	116	105	129	156	79	129	210	134	152	104	141	114	195	443
1957	106	101	132	149	77	126	224	138	157	96	141	118	230	575
1957														
May	108	101	138	157	83	126	229	138	158	99	141	117	283	698
June	109	101	131	152	78	130	239	139	159	100	148	118	252	511
July	103	101	133	162	69	113	238	138	159	94	141	118	188	770
August	104	101	137	160	75	115	233	138	158	97	144	119	210	572
September	101	102	135	169	75	127	217	138	156	93	141	119	173	607
October	101	101	132	161	76	126	223	138	155	84	134	119	199	684
November	102	101	131	146	63	125	222	137	152	95	139	118	210	582
December	99	101	124	139	62	125	216	137	151	93	139	119	178	610
1958														
January	106	100	122	135	62	123	223	137	150	94	132	121	163	393
February	104	97	114	112	64	125	221	136	149	86	135	121	...	358
March	101	95	119	112	60	123*r*	226	136	148	87	137	123	...	...
April	95	94	119	129	65	117	...	135	147*r*	87	142	125	...	...
May	102	93	124	...	...	...	...	135	147	90	142	124	...	...

BANKING AND CREDIT STATISTICS — TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[6]				Bank rates on short-term business loans[8]	Member bank reserves and related items					Bank debits Index 31 cities[3, 12] (1947-49 = 100)[3]
						Factors affecting reserves:					
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[7]	Total time deposits		Reserve bank credit[9]	Commercial[10]	Treasury[10]	Money in circulation[9]	Reserves[11]	
1929	2,239	495	1,234	1,790	.....	— 34	0	+ 23	— 6	175	42
1933	1,486	720	951	1,609	.....	— 2	— 110	+ 150	— 18	185	18
1939	1,967	1,450	1,983	2,267	.....	+ 2	— 192	+ 245	+ 31	584	30
1950	7,093	6,415	9,254	6,302	3.35	+ 39	—1,141	+1,198	— 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	— 21	—1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	—1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	— 14	—3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	4.09	+ 2	—2,448	+2,328	— 30	2,505	154
1955	11,124	7,239	11,864	9,120	4.10	+ 38	—2,685	+2,757	+ 100	2,530	172
1956	12,613	6,452	12,169	9,424	4.50	— 52	—3,259	+3,274	— 96	2,654	189
1957	13,178	6,619	11,870	10,679	4.97	+ 31	—4,164	+3,903	— 83	2,686	203
1957											
June	12,911	6,249	11,310	10,155	4.81	— 29	— 374	+ 402	+ 20	2,483	203
July	12,912	6,319	11,407	10,188	.....	— 49	— 426	+ 320	+ 6	2,457	205
August	12,945	6,313	11,329	10,220	.....	+ 50	— 175	+ 322	+ 39	2,592	197
September	13,178	6,293	11,561	10,301	5.21	— 109	— 424	+ 470	— 30	2,581	204
October	13,064	6,433	11,570	10,417	.....	+ 76	— 322	+ 159	— 8	2,517	200
November	13,185	6,357	11,770	10,304	.....	+ 14	— 298	+ 447	+ 37	2,652	202
December	13,178	6,619	11,870	10,679	5.13	— 18	— 454	+ 480	— 23	2,686	217
1958											
January	13,106	6,573	11,601	10,761	....	— 16	— 258	+ 180	— 137	2,662	211
February	13,002	6,884	11,305	10,992	.....	+ 12	— 427	+ 298	+ 17	2,520	203
March	12,860	7,075	11,225	11,183	4.95	— 62	— 180	+ 253	+ 11	2,530	198
April	12,979	7,605	11,570	11,406	.....	+ 43	— 391	+ 371	— 2	2,574	206
May	12,977	7,546	11,292	11,530	.....	+ 11	— 203	+ 154	+ 90	2,456	193
June	13,197	7,632	11,278	11,724	.....	— 59	— 409	+ 531	+ 22	2,494	212

[1] Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, California Redwood Association and U.S. Bureau of the Census; petroleum, cement, copper, and lead, U.S. Bureau of Mines; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census. [2] Daily average. [3] Not adjusted for seasonal variation. [4] Los Angeles, San Francisco, and Seattle indexes combined. [5] Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. [6] Annual figures are as of end of year, monthly figures as of last Wednesday in month. [7] Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. [8] Average rates on loans made in five major cities. [9] Changes from end of previous month or year. [10] Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. [11] End of year and end of month figures. [12] Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. *p*—Preliminary. *r*—Revised.

Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

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TABLE 1

INTEREST RATES ON DIRECT AND ACQUIRED BANK LOANS TO FARMERS BY SIZE OF NOTE
TWELFTH DISTRICT
(Average annual rate on loans outstanding June 30, 1956)

	Amount outstanding (thousands of dollars)	All sizes	Size of note[1]				
			Under $500	$500-$999	$1,000-$4,999	$5,000-$9,999	$10,000-over
Direct notes	656,324	5.9	7.7	7.3	6.5	5.8	5.5
Acquired notes	81,866	8.4	9.2	8.7	8.4	8.0	8.2
Classification not reported	208	8.0	8.0	7.0	8.2	..	..
All notes	738,398	6.1	8.4	7.7	7.0	5.9	5.6

[1] When originally made or (if renewed) when last renewed.

Interest rates also tend to reflect the risk attached to a credit obligation. In general, interest rates tend to be higher on loans with long maturities than for loans callable on demand or with short maturities. This is partly because the repayment ability of the borrower in the distant future is more uncertain than it is for demand or short-term loans. Interest rates are not the only way in which the risk element may be considered in lending. For instance, interest charges may be identical on two loans—although one is much riskier than the other—but more collateral or a shorter repayment period instead of a higher interest charge may be required on the riskier loan in view of the greater uncertainty of repayment.

Strong seasonal deposit swings affect character of rural bank loans

Interest rates charged by commercial banks are influenced by all the factors mentioned in the previous section. In addition, however, there are certain attributes of banking that influence lending practices. These, in turn, are reflected in interest rates charged by commercial banks.

Most rural banks which are convenient to the farmer are necessarily small, and their loans and deposits vary seasonally with the fortunes of their customers. Industrial diversification is not available to smooth the peaks and valleys of their needs for and supplies of funds. Furthermore, by the very nature of the case, peak needs will never coincide with peak supplies; for when the farmer gets in his crop, he is long on cash. During the next few months he draws down his account, and by the time he asks for a seed, feed, or equipment loan six months later, the bank too has reached a minimum in its deposits available for lending. Thus, the banker reacts to protect his liquidity with loans of short maturity and with investment in short-term Government obligations to take care of seasonal fund surpluses.

The desire to stay liquid combined with the seasonal nature of agriculture induces country banks to make mainly short- and intermediate-term loans. These are usually used to purchase livestock or machinery, consumer durables, or to tide the farmer over in his current expenses. Loans of this type accounted for about three-fourths of the dollar volume of loans by commercial banks to farmers in mid-1956, as shown in Table 2. Insurance companies and individuals tend to widen the market for real estate loans. It pays them to investigate the permanent assets

TABLE 2

INTEREST RATES ON BANK LOANS TO FARMERS BY PURPOSE AND SIZE OF NOTE
TWELFTH DISTRICT
(Average annual rate on loans outstanding June 30, 1956)

Purpose	Amount outstanding (thousands of dollars)	All sizes	Size of note[1]				
			Under $500	$500-$999	$1,000-$4,999	$5,000-$9,999	$10,000-over
Purchase of farm real estate	101,773	5.3	7.5	7.5	5.9	5.3	5.2
Refinancing	55,002	5.6	9.7	7.9	6.6	5.9	5.3
Current expense	314,636	5.9	7.4	6.9	6.3	6.0	5.6
Intermediate-term investment	212,686	7.1	9.2	8.6	7.9	6.3	6.0
Other	54,302	5.8	7.4	7.2	6.2	5.8	5.6
All notes	738,398	6.1	8.4	7.7	7.0	5.9	5.6

[1] When originally made or (if renewed) when last renewed.

securing the large amounts involved at long term even if they don't maintain local offices. Banks, on the other hand, with their intimate knowledge of local people and conditions, are peculiarly suited to take care of needs more transient and difficult to evaluate.

But branch banks are not similarly influenced

The structure of the banking system may also be a factor influencing the ability or desire to make farm loans for longer periods of time. In the Twelfth Federal Reserve District, for instance, branch banking is quite common, and time deposits are more important than elsewhere in the country. Branch systems extend over wide areas geographically and into localities where income of depositors is not as subject to seasonal fluctuation as is apparent at unit banks in some rural areas. The broader source of deposits should permit these banks to extend non-real estate loans with longer maturity periods than in areas where branch banking is less common. This may account for the longer maturity period for non-real estate loans in the District than in the country as a whole. Bank lending for the purchase of farm real estate also might be expected to be somewhat more prevalent in this District than nationally, as these loans generally have a longer repayment period than other types of farm loans. Farm real estate loans, however, make up such a small part of commercial bank loans to farmers that this factor does not stand out.

And the District has larger farms and larger loans

In addition to institutional factors, interest rates are influenced by the type of agricultural production being financed. Considerable difference is apparent between the type of agricultural production activities being carried on in the District and in the country as a whole. In the District about 60 percent of cash receipts generally come from the marketing of crops while in the country as a whole receipts from marketings of livestock and livestock products are of greater importance than those from crop marketings. Moreover, the size of District farms is large, a factor which is reflected in the average outstanding balance on farm loans in the District of $3,154 compared with $1,431 nationally.

Rates Vary with Loan and Borrower Characteristics

So far, this article has dwelt on the broader categories of variation in interest rates and on what may be termed institutional reasons for their differences. But interest rates also vary with differences in the original size of the loan, net worth of the borrower, length of the repayment period, amount and nature of security, method of repayment, and purpose of the loan. The remainder of this article will be devoted to focusing the shafts of light thrown by the Agricultural Loan Survey on these more specific reasons for differences in rates.

Lower rates on larger loans and those secured by real estate

Interest rates charged on farm loans were found to be consistently associated with the size of loan. The mid-1956 survey indicates that rates decline as the size of note increases, as shown in Table 3. Size of loan, of course, is associated with many factors affecting interest rates. The cost of handling farm loans, for instance, is one of these. Costs such as those related to setting up and servicing loans tend to rise at a slower rate than the size of loan. Hence, these somewhat fixed costs are a larger proportion of the face value of a small note than of a large one. Borrowers of large amounts may also have more alternative sources of funds than small borrowers, be better informed, and be more able to "shop around" for lower rates. In addition, the net worth of the borrower is certainly a consideration. For loans of the same size the risk of repayment would generally be considered to be less on the loan to the borrower with the higher net worth, and it appears that borrower net worth is more than proportionately larger as the size of the outstanding note increases.

Interest rates were generally lower on notes secured by real estate than on other loans, as is shown in Table 3. Real estate loans carried an average rate of 5.5 percent compared with 6.3 percent for other loans. The difference in the level of rates, although persisting for most size loans, was not sufficient to indicate with a high degree of reliability that real estate is really

TABLE 3

INTEREST RATES ON BANK LOANS TO FARMERS BY SECURITY AND SIZE OF NOTE
TWELFTH DISTRICT

(Average annual rate on loans outstanding June 30, 1956)

	Amount outstanding (thousands of dollars)	All sizes	Size of note[1] Under $500	$500-$999	$1,000-$4,999	$5,000-$9,999	$10,000-over
Secured by real estate	174,423	5.5	9.2	8.7	6.4	5.4	5.3
Other	563,975	6.3	8.3	7.7	7.1	6.1	5.7
All loans	738,398	6.1	8.4	7.7	7.0	5.9	5.6

[1] When originally made or (if renewed) when last renewed.

considered a higher quality of collateral by lenders than other types of security. On single payment loans, for instance, rates on some size loans were higher on real estate secured loans than on other loans. Moreover, the generally lower rates on real estate loans may be a reflection of the broader and perhaps more competitive market for funds to be invested in real estate mortgages than is usually available to borrowers for non-real estate purposes.

Higher rates on longer loans and instalment loans

Maturity of loans, as shown in Table 4, had some effect on interest rates. Within various size groups of loans, interest rates tended to increase as maturity lengthened, particularly for repayment periods of less than five years. Type of security apparently was at least partially responsible for this relationship, as it was more apparent for loans not secured by real estate than on loans secured by real estate. The effect of repayment period on interest charges apparently overshadowed the effect of setting up and servicing the loan. As these latter costs are somewhat fixed, they would be spread over longer repayment periods as maturity increased. This would reduce the annual cost.

Method of repayment was as influential in affecting interest rates as the size of loan, as shown in Table 5. The variation in rates between repayment methods was greater than the variation in interest rates between the smallest and the largest size group of loans. Highest rates were on loans that were scheduled for repayment in instalments with interest charged on the original amount of the loan. Rates on these loans averaged 9.7 percent compared with 5.7 percent on other instalment loans (interest charged on the amount

TABLE 4

INTEREST RATES ON BANK LOANS TO FARMERS BY MATURITY, SECURITY, AND SIZE OF NOTE
TWELFTH DISTRICT

(Average annual rate on loans outstanding June 30, 1956)

Loan characteristics	Amount outstanding (in thousands of dollars)	All sizes	Size of note[1] Under $500	$500-$999	$1,000-$4,999	$5,000-$9,999	$10,000-over
All loans		6.1	8.4	7.7	7.0	5.9	5.6
Maturity							
Demand	44,136	5.8	6.8	6.2	5.9	6.0	5.7
1-6 months	178,692	6.0	7.6	7.0	6.3	5.9	5.6
9 months-1 year	234,407	5.9	8.2	7.7	6.7	5.9	5.5
15 months-5 years	161,484	7.2	9.6	8.9	8.1	6.5	6.0
Over 5 years	119,679	5.3	..	6.0	5.9	5.3	5.2
Secured by real estate		5.5	9.2	8.7	6.4	5.4	5.3
Maturity							
Demand	830	6.1	..	..	6.3	..	6.0
1-6 months	2,098	6.2	9.0	9.0	6.0	6.0	6.0
9 months-1 year	6,751	6.1	9.5	7.3	6.7	5.9	5.7
15 months-5 years	48,429	5.9	9.1	9.0	6.8	5.6	5.7
Over 5 years	116,315	5.3	..	6.0	6.0	5.3	5.0
Not secured by real estate		6.3	8.3	7.7	7.1	6.1	5.7
Maturity							
Demand	43,306	5.8	6.8	6.2	5.9	6.0	5.7
1-6 months	176,594	6.0	7.6	6.9	6.3	5.9	5.6
9 months-1 year	227,656	5.9	8.2	7.7	6.7	5.9	5.5
15 months-5 years	113,055	7.7	9.6	8.8	8.4	7.5	6.3
Over 5 years	3,364	5.4	..	..	4.8	6.0	5.5

[1] When originally made or (if renewed) when last renewed.

What Farmers Pay for Bank Loans

AT the present time, farmers have debts equal to about $20 billion. About one-fourth of this farm debt is held by commercial banks. Whether credit is obtained from a commercial bank or from other sources, it costs money to borrow money. The average annual cost of farm credit at District banks in mid-1956 was 6.1 percent, a rate which was roughly comparable with that charged small business firms by commercial banks. These facts were drawn from the Agricultural Loan Survey conducted in mid-1956. A separate survey of commercial bank lending to business firms which was conducted nine months earlier showed an average rate of 5.9 percent on loans outstanding to small business firms.

Interest rates on the different farm loans held by commercial banks vary considerably, however. Thus we are faced with the question: Why is the interest rate charged one farmer different from that charged another farmer? And, indeed, why do separate farm loans to the same borrower often carry different interest rates? Answers to these questions will be found in the fact that farmers don't all look alike to the lenders, and neither do the different kinds of loans that can be made to a single borrower. One farmer may be worth more than another or may have a better record of repayment on former loans. A loan may be secured or unsecured, short or long term, instalment or single payment. These factors and others were found to be importantly related to interest rates charged, both in the District and in the nation as a whole. Some of them, of course, are more important than others, as we shall see in the details presented below.

General factors affecting the interest rates: market scope, costs, and risks

The cost of loanable funds is not uniform to all borrowers in all places and at all times. A large number of factors affect the rate of interest charged. Among them are (1) the scope of the market from which loanable funds are available, (2) the inconvenience and cost of acquiring and servicing the particular obligation of debt, (3) the cost of exchanging obligations of debt for more liquid assets, and (4) the risk associated with the borrower's ability to pay.

The markets for loanable funds vary considerably in scope depending in part on the availability of information regarding the ability of the borrower to repay the loan and on his business reputation. Treasury securities, for example, are widely accepted throughout the country as are securities of most large corporations. The market for loanable funds open to the small farmers, on the other hand, is often restricted to a very small area, probably the local community where he does his trading. Because of such differences in the availability of loanable funds, the geographic pattern of interest rates on Treasury securities is much more uniform than on notes of individuals. In the Philadelphia Federal Reserve District, for example, the average rate on outstanding farm loans between $5,000 and $10,000 was 5.1 percent compared with 6.5 percent in the Dallas District. The interest rates charged individuals reflect to a great degree the relative supply of loanable funds in the local market, whereas the securities of the Treasury reflect the relative supply of loanable funds in a much broader market.

As markets for government securities and securities of well-known corporations are usually highly developed, such securities may be bought and sold with ease and are usually less costly to buy and sell than credit obligations of less widely known individuals or businesses. Since many loans to individuals and small businesses are made from loanable funds in a localized area, it is often necessary for a lender to sell such obligations at a considerable discount to induce some other party to purchase them. For example, acquired notes in the District carried an average interest rate of 8.4 percent compared with 5.9 percent for loans made directly to farmers. (Table 1) In extending the credit in the first instance to the smaller borrowers it is usually necessary to conduct a fairly thorough credit investigation which increases the cost of making such loans. Such investigations are not common when the maker of a credit obligation is well known.

District interest rates higher than the nation's

Every size category of loan carried a higher interest rate in the Twelfth District than in the nation as a whole. (Chart 1) The same statement holds in each classification of loan covered by the Survey with the single exception of instalment loans under $5,000 with interest calculated on the original balance, a relatively small class. The same general conclusion may be drawn from the surveys of loans to business.

The reason often advanced to explain this differential is that the West is a capital importing area and therefore must pay a premium in its rates over the rest of the country in order to attract the funds it needs from the areas of surplus. In farm real estate loans, however, where the market is probably widest of those examined, the rates of the District are closer to those of the country as a whole and closest in the larger notes where nationwide insurance companies are known to operate most extensively. This may indicate that debt instruments other than mortgages are unattractive to Eastern investors in spite of the higher yields obtainable in the rapidly growing West.

Rates rise over the past ten years

It is hardly news to anyone that interest rates in every category of borrowing have been rising over the country as a whole for some time now. A 1947 loan survey, although not strictly comparable in coverage, provides a convenient benchmark from which to chronicle rises in rates on farm loans.

To give some perspective, loans in all categories in the surveys carried smaller rises in rates than the increase of 1.5 percent in money rates on Treasury bills between the two surveys. This was due in part to increased size of loans in comparable categories, since larger loans carry lower rates, and also to the longer-term character of nearly all farm loans as compared with bills. Rates on long-term debt rarely fluctuate as much as on short-term debt. Thus the average rate on outstanding notes not secured by farm real estate increased from 5.5 percent in mid-1947 to 6.3 percent in mid-1956, while the average size of loan increased from $2,030 to $2,737. The average interest on notes secured by real estate increased during this period from 5.0 percent to 5.5 percent, while size of these loans increased from $4,930 to $6,215. Small loans carried some-

CHART 2

INTEREST RATES ON BANK HELD FARM LOANS BY TYPE OF SECURITY
TWELFTH DISTRICT—JUNE 30, 1947 AND 1956

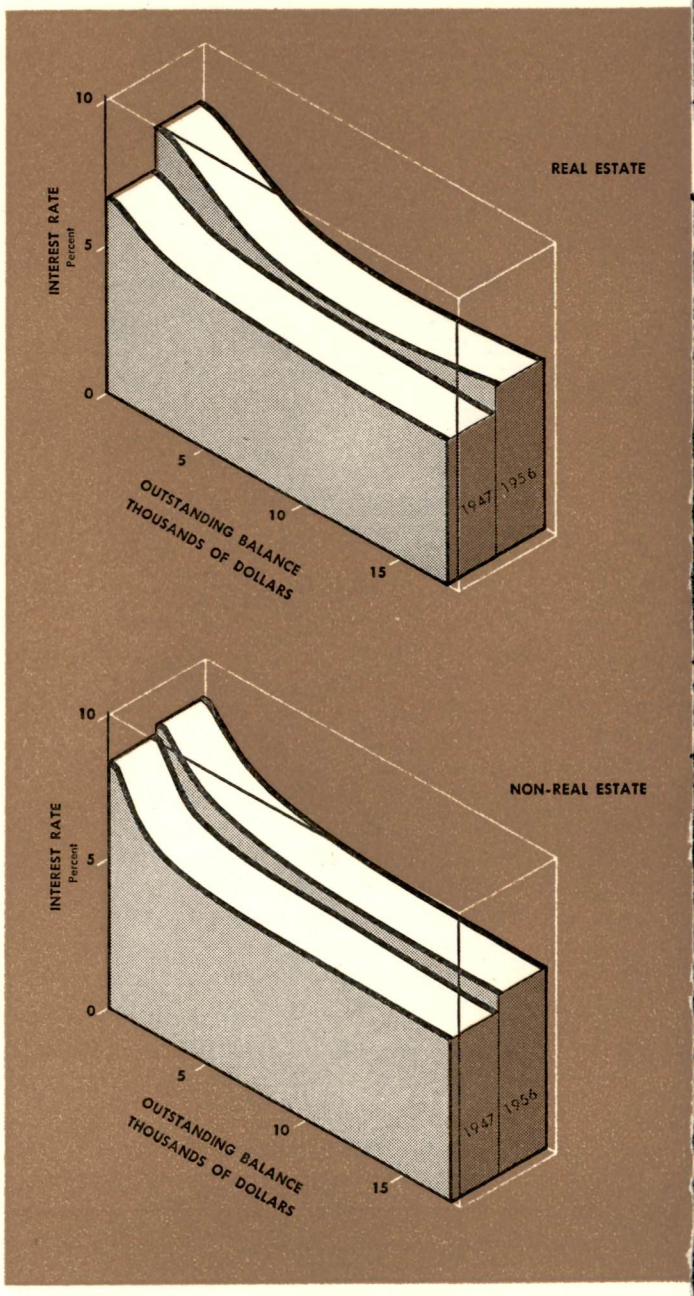


TABLE 5

INTEREST RATES ON BANK LOANS TO FARMERS BY REPAYMENT METHOD, SECURITY, AND SIZE OF NOTE
TWELFTH DISTRICT
(Average annual rate on loans outstanding June 30, 1956)

Loan characteristics	Amount outstanding (in thousands of dollars)	All sizes	Size of note[1]				
			Under $500	$500-$999	$1,000-$4,999	$5,000-$9,999	$10,000-over
All loans							
Repayment method							
Single payment	418,322	5.9	7.4	6.9	6.3	5.9	5.6
Instalment—interest charged on unpaid balance...	259,682	5.7	7.8	7.6	6.5	5.6	5.3
Instalment—interest charged on original amount..	60,394	9.7	9.8	9.6	8.9	10.2	9.7
Secured by real estate	174,423	5.5	..	..	..	..	..
Repayment method							
Single payment	12,991	5.9	9.2	7.4	6.3	5.5	5.8
Instalment—interest charged on unpaid balance...	156,827	5.4	6.8	6.9	6.0	5.4	5.3
Instalment—interest charged on original amount..	4,606	8.8	9.7	9.6	8.6	6.0	..
Not secured by real estate	563,975	6.3	..	..	..	..	..
Repayment method							
Single payment	405,331	5.9	7.4	6.9	6.3	5.9	5.6
Instalment—interest charged on unpaid balance...	102,855	6.1	7.9	7.6	6.8	6.3	5.4
Instalment—interest charged on original amount..	55,789	9.8	10.3	9.8	9.7	9.0	10.2

[1] When originally made or (if renewed) when last renewed.

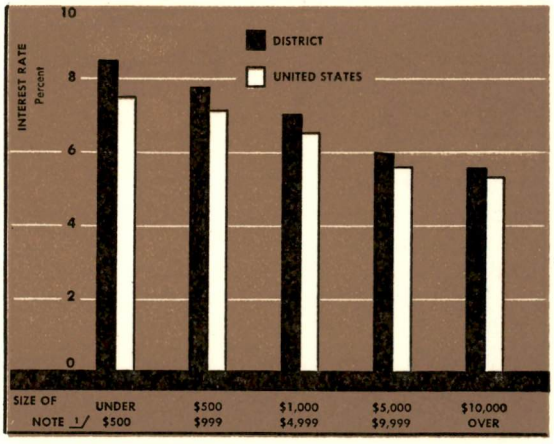
of the loan outstanding) and 5.9 percent on loans to be repaid in a single payment. But they were of minor importance in terms of dollar volume—accounting for only 8 percent of the credit outstanding. Nevertheless, the distribution of these loans by size groups was partially responsible for the higher rates on small loans. Highly concentrated in the loan size groups under $5,000 were these high interest bearing instalment loans with interest chargeable on the original amount of the loan. Hence, this repayment method influenced the interest rates charged on the small notes much more than those charged on loans larger than $5,000. While the higher effective rate on loans with interest charged on the original amount may partly reflect ignorance on the part of the borrower—to whom 6 percent on the original amount may sound equivalent to 6 percent of the outstanding balance—it probably also reflects a higher rate of interest associated with higher risk.

Purpose of loan gives less reliable clue to rate

Loans may also be classified by purpose for which the funds are to be used, since it is common practice among lenders to ascertain this type of information. When this is done with farm credit, intermediate-term investment loans—so-called because they usually run between one and five years and are used to finance the purchase of machinery, consumer durables, livestock, and farm improvements—are found to bear higher rates than any other class, whereas real estate loans bear the lowest rates. (Table 2) Investigation of the former class, however, confirms the suspicion that most of these are instalment loans with interest computed on the original amount, and it has already been shown that rates are low on real estate loans because of type of security and breadth of the market. Higher rates which were observed on short-term notes in large amounts not secured by real estate but for the purpose of buying real estate may have been due to the fact that these were temporary contracts entered into during the course of making arrangements for more permanent financing.

CHART 1

INTEREST RATES ON BANK LOANS TO FARMERS
TWELFTH DISTRICT AND UNITED STATES—JUNE 30, 1956



[1] When originally made or (if renewed) when last renewed.

what greater shares of these increases than large ones, perhaps due to the worsening income position of farmers as indicated by their greater need to secure such notes with real estate. Specific inclusion of consumer instalment loans in 1956 and not in 1947 would also increase the spread in the smaller loans. (Chart 2)

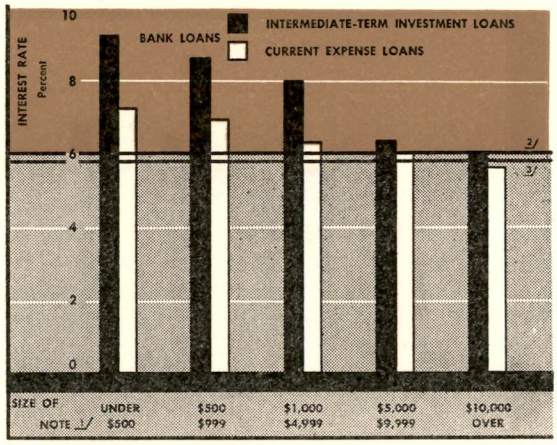
The difference in average rates understates the spread in rates between survey years. This is because the dollar volume of loans outstanding, originally written for $25,000 and over, accounted for a considerably larger portion of the total dollar amount outstanding in 1956 (37 percent) than in 1947 (19 percent); and large loans carried lower interest rates. Another factor is the trend in interest rates prior to the survey date. The repayment period on farm loans secured by farm real estate is generally for a number of years. Since the loans included in the surveys included all loans outstanding as of the survey date, regardless of their age, some of the loans may have been several years old and may have been originally made at rates quite different from those in effect on a particular day or month. The average rate on real estate secured farm loans in the 1947 survey was probably closer to the rate in effect on new loans just prior to the survey date than was the case for loans included in the 1956 survey. For a few years prior to the 1947 survey, interest rates were fairly constant whereas rates were trending upward prior to the 1956 survey. (This trend was temporarily interrupted in 1953 and 1954, but interest rates recovered rapidly from the low point in 1954.) The rising trend of interest rates would hold average rates on outstanding notes somewhat below the level of rates in effect in mid-1956.

Interest rates higher on farm loans held by banks than those of Production Credit Associations

Aside from banks, the Production Credit Associations located throughout the District[1] extend significant amounts of non-real estate credit to farmers. The loans of these associations are confined largely to those purposes which are similar to those defined in the bank survey in mid-1956 as current expense and intermediate-term investment loans. The most common rate charged in mid-1956 by these associations was 6 percent, which is very close to the average rate on outstanding bank loans for current expense purposes (5.9 percent) but somewhat lower than the average rate on bank loans for intermediate-term investment purposes (7.1 percent).

CHART 3

INTEREST RATES ON FARM LOANS: BANKS AND P.C.A.'S
TWELFTH DISTRICT—JUNE 30, 1956



[1] When originally made or (if renewed) when last renewed.
[2] Berkeley farm credit district.
[3] Spokane farm credit district.

As interest charges on PCA loans do not vary by the size of loan[2], it would appear that the incentive to small borrowers to utilize credit extended by PCA's would be greater than to borrowers who required large amounts of credit. Comparison on the basis of interest rates alone is by no means a complete indication of the attractiveness of a type of credit. Service or other charges, the prompt and assured availability of funds, or the availability of complementary services, are also factors. Nevertheless, interest rates charged by commercial banks declined as the size of note increased, and PCA rates are clearly lower except on the large size loans. Shown in Chart 3 is the average rate on outstanding loans held by PCA's in the Berkeley and Spokane Districts in mid-1956, along with the rates charged by commercial banks on similar type loans in the Twelfth Federal Reserve District.

[1] A survey of PCA lending to farmers was conducted by the Farm Credit Administration at the same time (June 30, 1956) as the survey of commercial bank lending to farmers.

[2] Interest rates in effect at a particular association do not vary with the size of loan, but loan service fees may. As no data are available to show how these service fees vary with size of loan, the average fee rate was used. In the Berkeley district this average charge was 0.30 percent, in the Spokane district, 0.22 percent.

Revised Department Store Indexes

In order to bring the department store sales and stock indexes published by the Federal Reserve Bank of San Francisco into agreement with the trends in actual sales figures obtained by the United States Bureau of the Census in its Census of Retail Trade for 1948 and 1952, this Bank has revised its indexes for the years 1949-1957. At the same time that adjustments were being made in Census data, a review of seasonal adjustments was made and new seasonal factors derived. In addition to these two adjustments it was decided to give equal weight to each trading day during the month. Prior to this change if a month had five Saturdays, one third of a day was added to the number of trading days for calculating daily average sales.

Persons interested in obtaining copies of revised Twelfth District sales and stock indexes or revised sales indexes for any city, area, or state for which we publish them may do so by writing to the Federal Reserve Bank of San Francisco, 400 Sansome Street, San Francisco, California. A reprint of the article describing the revision that appeared in the *Federal Reserve Bulletin,* December 1957, will also be supplied on request.

BUSINESS INDEXES — TWELFTH DISTRICT[1]

(1947-49 average = 100)

Year and month	Industrial production (physical volume)[2]							Total nonagricultural employment	Total mf'g employment	Carloadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3, 4]	Waterborne foreign trade[3, 5]	
	Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Electric power						Exports	Imports
1929	95	87	78	54	165	105	29	....	....	102	30	64	190	124
1933	40	52	50	27	72	17	26	....	....	52	18	42	110	72
1939	71	67	63	56	93	80	40	....	55	77	31	47	163	95
1948	104	101	100	104	105	101	101	102	102	100	104	103	86	98
1949	100	99	103	100	101	93	108	99	97	94	98	100	85	121
1950	113	98	103	112	109	113	119	103	105	97	105	100	91	137
1951	113	106	112	128	89	115	136	112	120	100	109	113	186	157
1952	116	107	116	124	87	112	144	118	130	101	114	115	171	200
1953	118	109	122	130	77	111	161	121	137	100	115	113	140	308
1954	116*r*	106	119	133	71	101	172	120	134	96	114	113	131	260
1955	124*r*	106	122	145	75	117	192	127	143	104	122	112	164	308
1956	119*r*	105	129	156	77	118	210	134	152	104	129	114	195	443
1956														
October	110	104	128	163	81	127	217	136	154	102	130	115	256	563
November	111	104	135	146	79	123	216	137	156	100	132	116	242	401
December	112	103	132	139	72	123	210	138	159	106	131	116	234	436
1957														
January	108	102	131	120	79	125	220	139	160	105	131	116	237	421
February	115	102	130	127	88	138	211	138	159	96	127	117	269	417
March	115	101	132	140	88	133	221	138	159	100	133	116	267	489
April	111	101	132	154	78	135	228	138	159	103	127	117	298	534
May	111	101	138	157	82	126	229	138	159	99	126	117	283	698
June	114	101	131	152	75	130	239	139	160	100	131	118	252*r*	511
July	109	101	133	162	68	133	238	138	159	94	133	118	188	770
August	...	101	137	160	74	142	233	138*r*	156	97	131	118	....	551
September	...	102	135	169	74*r*	152	217	138	155	93*r*	134	119	....	....
October	...	101	132	...	75	148	...	138	153	91	125	119	....	....

BANKING AND CREDIT STATISTICS — TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[6]				Bank rates on short-term business loans[8]	Member bank reserves and related items					Bank debits Index 31 cities[3, 12] (1947-49 = 100)[2]
						Factors affecting reserves:					
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[7]	Total time deposits		Reserve bank credit[9]	Commercial[10]	Treasury[10]	Money in circulation[9]	Reserves[11]	
1929	2,239	495	1,234	1,790	.....	− 34	0	+ 23	− 6	175	42
1933	1,486	720	951	1,609	.....	− 2	− 110	+ 150	− 18	185	18
1939	1,967	1,450	1,983	2,267	.....	+ 2	− 192	+ 245	+ 31	584	30
1949	5,925	7,016	8,536	6,255	3.20	+ 13	− 930	+ 378	− 65	1,924	102
1950	7,093	6,415	9,254	6,302	3.35	+ 39	−1,141	+1,198	− 14	2,026	115
1951	7,866	6,463	9,937	6,777	3.66	− 21	−1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	3.95	+ 7	−1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	4.14	− 14	−3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	4.09	+ 2	−2,448	+2,328	− 30	2,505	154
1955	11,124	7,239	11,864	9,120	4.10	+ 38	−2,685	+2,757	+ 100	2,530	172
1956	12,613	6,452	12,169	9,424	4.50	− 52	−3,259	+3,274	− 96	2,654	189
1956											
November	12,504	6,431	11,867	9,235	.....	0	− 143	+ 209	+ 38	2,579	195
December	12,804	6,383	12,078	9,356	4.65	− 17	− 303	+ 451	+ 38	2,654	200
1957											
January	12,488	6,505	11,812	9,587	.....	+ 33	− 558	+ 249	− 144	2,548	206
February	12,556	6,356	11,279	9,690	.....	+ 41	− 816	+ 494	− 139	2,517	200
March	12,576	6,177	11,129	9,794	4.74	− 37	− 170	+ 170	− 9	2,495	199
April	12,649	6,520	11,622	9,839	.....	− 35	− 445	+ 430	− 31	2,560	202
May	12,694	6,315	11,210	9,995	.....	+ 56	− 261	+ 209	+ 54	2,526	200
June	12,911	6,249	11,310	10,155	4.81	− 29	− 374	+ 402	+ 20	2,483	203
July	12,912	6,319	11,407	10,188	.....	− 49	− 426	+ 320	+ 6	2,457	205
August	12,945	6,313	11,329	10,220	.....	+ 50	− 145	+ 292	+ 39	2,592	197
September	13,178	6,293	11,561	10,301	5.21	− 109	− 434	+ 480	− 30	2,581	204
October	13,064	6,433	11,570	10,417	.....	+ 76	− 322*r*	+ 159*r*	− 8	2,517	200
November	13,185	6,357	11,770	10,304	.....	+ 14	− 298	+ 447	+ 37	2,652	202

[1] Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, California Redwood Association and U. S. Bureau of the Census; petroleum, cement, copper, and lead, U. S. Bureau of Mines; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U. S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U. S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U. S. Bureau of the Census.
[2] Daily average. [3] Not adjusted for seasonal variation. [4] Los Angeles, San Francisco, and Seattle indexes combined. [5] Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. [6] Annual figures are as of end of year, monthly figures as of last Wednesday in month. [7] Demand deposits, excluding interbank and U. S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. [8] Average rates on loans made in five major cities. [9] Changes from end of previous month or year. [10] Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. [11] End of year and end of month figures. [12] Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U. S. Government and interbank deposits from 1942. *p*—Preliminary. *r*—Revised.

loan, $68.48 on each of the second and third loans and $79.50 on the fourth loan.

Tower Underwriters paid insurance on the automobile and after such payment there was left a net balance of brokerage fees of $154.80.

The Court stated that the alleged brokerage fees collected by the resident corporation amounted to more than 20% per annum interest on the loans, if these were considered as in fact interest.

Chief Justice McGehee said the question presented was whether the money received by the non-resident corporation and the total, less insurance, received by the resident corporation might all be regarded as interest for the hire of the money loaned to the borrower. Since the provisions of Section 36, Code of 1942 are, as the Court said, highly penal they must be strictly construed.

Therefore, no recovery could be had by Lott against Tower Underwriters unless the Court could hold on the record presented that Tower was in reality the lender of the money. The Court said to do so it would have to disregard the acknowledgment in writing of Lott that he knowingly received the money from the resident corporation as his agent and broker and that he had read the papers he signed. The Court held that if he read these papers he knew what he was doing.

The Supreme Court in its opinion stated that it was sympathetic with the facts entertained by the Chancellor, but that the question is whether or not the resident corporation may lawfully charge and collect a brokerage or service fee for the borrower for placing a loan for him with a non-resident corporation and for guaranteeing the payment of such loan. The Court stated that it has repeatedly held that if it were to assume that the amounts received by the resident corporation were brokerage or service fees and not interest that it must hold for the defendant.

Tower Underwriters' officials testified, and it was undisputed, that no stockholders of the Louisiana corporation owned any stock in Tower Underwriters and neither do stockholders in the latter own any stock in the former, and that they are entirely separate and distinct corporate entities.

Further, it was testified, and undisputed, that Tower Underwriters acted only as an agent and broker and received no payment of the principal or interest when the loan was paid.

When a witness for Tower Underwriters was asked if it were able to make the loans itself he answered "It is not. It would take approximately one and one-half million dollars a year for it and we don't have it."

Thus, the Court stated that the non-resident corporation "has been able to work out a scheme whereby it may place loans to this enormous amount in this state and collect these exorbitant charges on the money advanced as fees by it to the agent or broker of the borrower, and to successfully claim that it is not doing business in this state, or violating our usury laws since it has no office, place of business or agents and employees in this state, has not qualified to do business under the laws, and admittedly receives no part of the fees collected by the agent and broker of the borrower."

But the Supreme Court stated the problem thus presented is one for the Legislature. It is not for the

courts, in the absence of clear, positive and certain proof that no interest is received as such than is allowed by Section 36, Code of 1942.

The difference between the two cases outlined above is as follows:

In the Acme Loan Service case it was conclusively proven that Acme Loan Service was in fact the direct lender of the money.

In the Tower Underwriters case it was shown that there was a complete separation between the lender and the broker of the money borrowed.

Thus as a result of these two cases it became evident that if relief were to be given to necessitous borrowers there would necessarily have to be **clear legislative action.**

While the Alt et al vs. Bailey and Tower Underwriters, Inc. vs. Lott cases are particularly well documented and illustrative, other cases of interest coming before the courts of Mississippi are:

Fry vs. Layton, decided May 26, 1941. 2 Southern Reporter, (2D) 561.

Hays Finance Company vs. Bailey—54 So. (2D) 727.

Sinclair vs. Bailey. 55 So. (2D) 175.

Dixie Brokerage and Guaranty Company vs. Bailey, 55 So. (2D) 438.

THE MISSISSIPPI PATTERN

Are all loan brokers in Mississippi "guilty" of charging excessive rates of interest ranging up to and over 1000% per annum? **Certainly not.** But the field is now wide open to those who choose to do so. Unhappily many do so through loose laws, ill designed to protect the necessitous and often ignorant borrower. ("Ignorant" here is meant lack of knowledge of the complexities of the law and finance.)

It is not possible to classify loan brokers in one category. There are in effect three general classifications of loan brokers in Mississippi.

1. The brokers who operate similar to Morris Plan and Industrial Bankers in other states.

These generally secure loans by endorsement or collateral in the form of automobiles, household furniture, or short-term real estate.

Generally the loans are in principal amounts of $50 to $5000 and run some six to twenty-four months. The loans are discounted at interest rates ranging up to 12% per annum. Such interest rate means that the maximum true interest rate any borrower would pay would be 22% per annum. Here we run into difficulties in calculating percentage cost to the consumer since such brokers generally charge a $1.50 recording fee which is standard despite the amount of the loan. Thus the smaller the loan the higher the percent cost such a recording fee is.

Note that such "interest," if treated as interest, would be usury under Mississippi law. These industrial bank brokers must separate part of the percentage cost and treat it as a "brokerage" charge.

2. The so-called "Secondary Risk" broker.

Generally this type broker lends money on the same type security as the "Morris Plan" broker does above. The difference is that the so-called "Morris Plan" broker has about 75% of his available principal funds

in secured loans and 25% in unsecured loans whereas, the secondary risk broker is in reverse with 25% secured loans and 75% unsecured.

Of course, one individual might overlap even on one loan into one or the other category.

The secondary risk broker generally lends amounts varying from $25 to $500 for terms varying from three to twenty-four months at discounted rates of interest which will range up to 75% in true interest rates per annum. Here again there is normally a recording fee of $1.50 with each note and again the smaller the loan the higher percentage cost of the recording fee. Here also part of the "interest" cost is apportioned to interest and part to "brokerage" charges.

3. The so-called "shark" or short-term and unsecured broker.

Here the loan is normally in amounts from $5 to $50 and ranging up to $100 in rare cases. Loan terms run from four weeks to three months.

The true rate of interest ranges in many cases from a minimum of 300 to 900% and can on occasions go higher. The device in this type lending is in the number of "flips" which can be forced on the borrower. "Flips" is this business' name for rapid refinancing or rapid renewal of notes. The more "flips" the higher is the true rate of interest.

THE BROKERAGE SYSTEM

Read the following documents carefully. Remember the originals are in very small print. These are **samples only** of forms signed by borrowers getting small sums from **certain** loan "brokers." The purpose of including these forms is to indicate the legal forms which have been devised to circumvent the state's traditional usury laws.

The "brokerage" contract

I hereby engage you to negotiate and obtain a loan for me, in the amount of $_____.

As an inducement to the lender to make such loan, I hereby request you to guarantee the payment of the same.

I hereby agree to pay you a brokerage fee of $_____ for obtaining said loan, for guarantying the payment thereof and for performing the services hereafter provided. I agree that if this obligation is placed in the hands of an attorney at law for collection, I will pay an attorney's fee of twenty per cent (20%), or a minimum of $10.00.

I hereby authorize and request you, as my agent, to investigate my credit for the purpose of said loan, to prepare all papers in connection with said loan and transmit the same to the lender and to do any and all things necessary to obtain and consummate such loan for which services you will be compensated by the above mentioned brokerage fee.

In order to provide me with funds prior to the making and disbursement of said loan, it is understood that I will draw a draft on the lender, after the lender has become committed to make said loan, in the amount of such loan, and that you will cash such draft, as an accommodation and service to me, for

This suit is for the recovery of $1546, the total amount of principal, interest and other charges paid by T. A. Lott on four loans of money made to him by the Louisiana Loan Discount Corporation of Bogalusa, Louisiana, allegedly through its agent, the Tower Underwriters, Inc. at Greenwood, Mississippi.

The facts are that on July 3, 1945, T. A. Lott applied for a loan of $300 on an automobile at the office of Tower Underwriters at Greenwood.

Lott was given a draft drawn by Tower on the Louisiana Loan Discount Corporation at Bogalusa for $300. He was given a second draft drawn in his favor for $53.78 which he endorsed and delivered to Tower Underwriters.

Lott executed an installment note of $387 payable to the order of the Louisiana company or bearer in twelve installments. The note bore 8% interest from maturity until paid. The note appeared on its face to have been executed at Bogalusa.

Lott executed a "receipt for loan" dated at Greenwood in which he acknowledged Tower Underwriters trading as Tower Loan Brokers as his agent and broker. Lott also executed an indemnifying chattel deed of trust on the automobile in favor of the Louisiana corporation.

In this chattel deed of trust he recited that Tower Underwriters, by its unconditional endorsement and guarantee of the note, secured from others a loan for him.

Lott cashed his draft for $300 at a local bank "within less than thirty minutes from the time he applied for the loan and he then went on his way."

In other words, the papers were not submitted to the Louisiana corporation for approval between the time of the execution and the borrower's receipt of the money.

Lott testified that he paid the monthly installments or otherwise paid off the loan to Tower Underwriters at Greenwood.

The borrower testified before the court that he read all the papers before signing them and understood that he was agreeing to pay the sum of $387 in return for the $300 he received.

He testified that he didn't request Tower Underwriters to find someone to make him a loan or empower it to serve as his agent. He claimed that he merely walked into the office, applied for the loan, and received the draft which he was able to cash as soon as he could go to the local bank.

The two drafts were honored by the Louisiana corporation when presented at its bank in Bogalusa.

The court inferred from the testimony that the legal instruments were sent to Bogalusa since Lott testified that after he paid his note in full he inquired about the deed of trust and the insurance policy and was informed by Tower that the same were at Bogalusa.

On July 3, 1946, and November 19, 1946 Lott made two loans in a similar way and form as outlined above. On April 7, 1947 a fourth loan was obtained in similar manner.

The net result stated the Court, was that the Louisiana corporation allegedly received as interest $33.22 on the first loan, $23.52 on each of the second and third loans, and $22.50 on the last loan. Tower Underwriters received as brokerage fees $53.78 on the first

Chancellor V. J. Stricker had held for the plaintiff and defendants, Alt and Puckett, appealed to the Supreme Court.

Chancellor Stricker in rendering his decision had said in part:

"To the necessitous borrower exorbitant service charges may be as ruinous as illegal interest.

"When operating on a big scale, without interruption and unrestrained, these money-mongering outfits are in their very nature repugnant to public policy, and inimical to the general welfare of the people.

"They are economic evils in whatever form, and potential instruments of oppression and slavery."

The Supreme Court held the evidence was sufficient to show that the business was in no real sense a brokerage and that the "brokerage" pretense was a subterfuge. The decree of the lower court was affirmed.

Evidence was sufficient to show that the defendants obtained funds in Louisiana. The "brokers" unqualifiedly endorsed the borrowers notes. They arranged funds for the borrowers in a few minutes. The borrower had nothing to do with the sending of the draft to the Louisiana bank. The loan was repaid in the "brokers" office.

The Mississippi Supreme Court said in substance in its opinion upholding the Chancellor:

1. The findings of the Chancellor are amply supported by the testimony.
2. The defendants were engaged in the money-lending business.
3. "Brokerage" was a subterfuge.
4. The loan was made and completed in the office in Jackson.
5. The partners admitted it was their own credit rating which enabled them to obtain the funds from a bank at Bunkie, Louisiana.
6. The partner-defendants admitted they made loans directly to customers in Alabama.

If the "Acme Loan Case" had become the controlling case, legal proceedings against brokers charging excessive rates would have been simplified. But, under a different set of facts the Mississippi Supreme Court ruled differently in the Tower Underwriters case.

The Tower Underwriters, Inc. Case.

Action was begun by T. A. Lott against Tower Underwriters, Inc. to recover the total amount of principal, interest and other charges paid by Lott on loans of money on ground of a violation of the usury statute.

Tower Underwriters, Inc. appealed an adverse decision of the lower court to the Mississippi Supreme Court. The Supreme Court held that the borrower was not entitled to recover principal and interest paid to a non-resident corporation even though paid through the office of a resident corporation.

The court held for the defendant, Tower Underwriters, Inc.

Chief Justice McGehee wrote the Court's opinion. Pertinent sections of that opinion are summarized below because of the extreme importance of this case as it bears on the overall problem of small loans in Mississippi:

which you will be compensated by the above mentioned brokerage fee.

I understand that said loan will be made by a lender in Baton Rouge, Louisiana, and that the note evidencing the same will be payable at the office of such lender in Baton Rouge. I recognize my obligation to make all payments on account of said note at, or deliver all such payments to, the office of the lender in Baton Rouge. It is understood, however, that I may, if I wish, deliver funds to you, as my agent, and that said funds will be transmitted by you for my account and on my behalf, to the lender in Baton Rouge, as payments on account of my note, as a convenience and service to me, for which you will be compensated by the above mentioned brokerage fee. Any funds delivered by me to your office shall be deemed to have been delivered for that purpose. I agree that such funds may be commingled with your funds or similar funds of other of your customers, may be retained by you until convenient to make delivery to the lender, may be transmitted by your check in favor of the lender, covering such funds and similar funds of other of your customers, and shall not constitute payment on account of my note until received by the lender in Baton Rouge. I hereby authorize and request you, as my agent, to receive all receipts issued by the lender for payments on account of my note and to receive my cancelled note when it is paid in full.

IT IS UNDERSTOOD THAT SAID LOAN WILL BE CONSTRUED ACCORDINNG TO AND GOVERNED BY THE LAW OF LOUISIANA.

Executed on_____, 19____.

_____

_____

The note to the "lender" in another state

No._____ _____
NAME (Print or type)

$_____ Due_____ Baton Rouge, La._____19___
(Date)

For value received_____days after date, we the makers, endorsers, guarantors, sureties, and each of us in solido, promise to pay to the order of Myself at the office of the_____Inc. in Baton Rouge, Louisiana,_____

DOLLARS ($_____) with interest at the rate of eight per cent per annum from MATURITY until paid. It is understood and recognized by the signers hereof that the loan for which this note is being negotiated and closed, and is payable in Baton Rouge, La., and it is agreed that since the lenders have no agents elsewhere authorized to make loans or receive payments thereon, the balance at all times on the note will be the amount shown on the books of the holders in Baton Rouge, La. and that the signers hereof may remit to the holders directly by mail or otherwise as well as through brokers or agents of the signers. It is agreed that all rights of the note holders shall be governed by the laws of the State of Louisiana which are hereby expressly adopted to control this entire transaction.

The signers further promise, whenever required by the holders, to increase the amount of security for this

obligation until satisfactory to the holders. If said security be not increased when so requested, or if any of the signers default in the performance of any obligation whatever resting upon them by reason of any agreement contained in any form of security, investment certificate or otherwise, now or hereafter pledged to secure this note, then this obligation, at the option of the holders hereof, shall become due and payable, whether due according to its face or not.

For the purpose of enforcing the payment of this obligation, the holders shall have full power and authority to sell, assign, collect, compromise, transfer and deliver any and all collateral pledged or hypothecated to secure this note, whether original or additional, or so much thereof as may be requisite. Such sale may be made wherever the holders may direct, and may be public or private, with or without advertisement, and with or without notice to or demand on the signers, or any of them, and the holders may become the purchasers of any or all of said collateral.

If, before this obligation is paid and the collateral herewith hypothecated is released, any signer depositing such collateral shall become liable to the holders of any other obligations, then the collateral deposited by such signer and herewith hypothecated, or the proceeds thereof to the extent that they are not required in paying his obligation, shall be held by the holders as collateral security and applied by them upon the terms herein set forth upon such other obligations of said signer as the holders may elect.

It is understood and agreed that the holders shall not be compelled to resort first to the collateral hypothecated, if any, for the security of this obligation but may at their election require said obligation to be paid by any signer or signers, endorser or endorsers, surety or sureties hereon, and to this agreement said signers, makers, endorsers and sureties hereby specifically give their assent, and upon the payment of this obligation by the said signers, makers, endorsers and sureties, or any of them, this note, together with the collateral aforesaid, if same is not held pursuant to the preceding paragraph hereof, as security for any other obligation or obligations, shall be transferred without recourse against the holders to the party or parties paying this note.

In the event that any of the signers should fail in business, or become insolvent, or be adjudged bankrupt, or proceedings in involuntary bankruptcy or for the appointment of a receiver should be filed against them or any of them, this note, and every other debt, liability, or obligation due by the signers or any of them to the holder or holders of this note shall, immediately become due and payable without demand, or notice, or a putting in default. The signers further agree to secure and pay premiums on any amount and type of insurance required by holders hereof at any time on demand.

And each of us, whether principal, surety, guarantor or other party hereto, hereby both individually and severally agrees that additional signers, makers, endorsers, guarantors or sureties may become parties hereto, either with or without notice to us or to any of us, without affecting our liability hereon and hereunder; and each of us hereby both individually and severally waives any or all benefit or relief from homestead exemption and all other exemptions or moratoriums to which the signers or any of them may

An analysis of the above summary reveals the looseness of the state's usury laws to protect "necessitous" borrowers. No administrative regulation is devised. Recovery depends on suit brought by borrowers, who in most cases are ignorant of the law. They also are in no position to initiate expensive court proceedings.

The privilege tax suits under Section 9696-135 are only initiated when the tax is delinquent. Also the State Tax Collector, with a small staff engaged in other duties, must prove excessive interest rates.

Furthermore, the Supreme Court of Mississippi has said in the *Tower Underwriters, Inc. vs. Lott* case that brokerage charges, under Mississippi law, cannot be counted as interest. Therefore, as the court says it is a matter for the Legislature to correct.

The proof that such negative law is not workable is the bare handful of cases successfully prosecuted over the past decade. In this same period the small loan "brokerage" business has become a multi-million dollar "trade" in the state. Men in the business estimate the volume to be at least $20,000,000 annually.

Below is a sample notice assessing tax liability against a "broker" by the State Tax Collector.

STATE TAX COLLECTOR

Municipal Privilege Tax

TO: _____Loan Company

_____ Street No._____

Jackson, Mississippi

Municipal Privilege Taxes imposed by the ordinances of the Municipality of Jackson, Mississippi, and damages required by said ordinances, for exercising the privilege of lending money for which a greater rate of interest than 15% per annum is charged are past due and unpaid by you for the following years and amounts to wit:

YEARS	PRIVILEGE TAX	DAMAGES
Sept. 1, 1951 - Sept. 1, 1952	$2000.00	$1000.00
Total $3000.00		

Please call at the office of the City Tax Collector and settle at once.

Witness my signature, this_____Day of November, 1951.

Mrs. Thomas L. Bailey
State Tax Collector

John G. Burkett
Special Counsel

SUPREME COURT CASES

How are such exorbitant rates charged and collected in a state whose laws define usury as an annual interest rate exceeding 8%?

The best explanation comes from the record of the Supreme Court of Mississippi. The two pertinent cases are *Alt et al vs. Bailey*, 49 *So* (2D)704, decided May 7, 1951 and *Tower Underwriters, Inc. vs. Lott*, 49 So. (2D) 704, decided January 2, 1951.

Both of these cases deal with the brokerage problem but the Court decisions based on two sets of facts were different in the two cases.

The Acme Loan Service Case

In the *Alt et al vs. Bailey* case the State Tax Collector brought suit against L. E. Alt and P. E. Puckett doing business as Acme Loan Service, for the privilege tax for engaging in the business of lending money at a greater rate of interest than 15% per annum.

Case No. 15

L., a truck driver, employed by a state manufacturing plant borrowed $50 from * * * Loan Brokers, Inc. He signed a brokerage contract to repay $70.38. His weekly payments are $12.88. He is not sure how many weeks the contract is for.

Estimate of approximate true rate of annual interest—**605%.**

SUPREME COURT FINDINGS ON INTEREST RATES

If the foregoing cases seem dramatic and even unbelievable the few cases reaching the Mississippi Supreme Court support the evidence of these documented but legally untried cases.

From the records of the Supreme Court of Mississippi.

CASE No. 37926 decided in November 1951. On a loan of $10.00 to be paid in eight weekly installments the approximate true interest rate per annum was shown to be 880%.

CASE No. 38080 decided in November 1951. On a loan of $10.00 for forty-five days the approximate true interest rate per annum was shown to be 360%.

CASE No. 38078 decided in 1951. On a loan of $25.00 payable in four weekly installments the approximate true rate of interest per annum was shown to be 510%.

CASE No. 38123 decided in December of 1951. On a loan of $25.00 for a period of thirty days the approximate true rate of interest was shown to be 362%.

INADEQUACY OF PRESENT MISSISSIPPI LAW

SUMMARY OF PERTINENT STATE LAW

Section 36, Code of 1942.

The maximum legal rate of interest is 8%. If a greater rate is stipulated or received all interest is forfeited and recoverable.

If interest is greater than 20% both principal and interest are forfeited and recoverable.

Section 5579, Code of 1942.

Fees for investigating security or title in closing a loan may be charged. This is the "pawnshop" statute, under which some small lenders operate.

Section 9696-115. Code of 1942.

Upon each person engaged in the business of brokering or negotiating loans as an agent there is levied a privilege tax of from $25 to $50 depending on location.

Section 9696-134. Code of 1942.

Money lenders commonly known as industrial loan companies or "Morris Plan Bankers" are liable for privilege taxes of from $75 to $400 depending on location.

Section 9696-135. Code of 1942.

Money lenders who charge more than 15% are liable for privilege taxes amounting to $2000 plus $1000 for delinquency.

be entitled under the laws of this or any other State, now in force or hereafter to be passed, as against this debt or any renewal thereof; it is further agreed that in the event this note is not paid at maturity and is placed in the hands of an attorney for collection we will pay, in addition to principal and interest according to the face of the note, a reasonable attorney's fee, which shall not be less than twenty per cent of balance principal and interest, or a minimum of $10.00 and each both individually and severally further waives presentment for payment, protest, notice of protest and non-payment of this note and all defenses by reason of any extension of time of its payment that may be given by the holders to any of them. Delay in exercising any right herein shall not operate as a waiver thereof. The signers hereof are makers and principals, jointly and severally and in solido.

WITNESS:

_____

_____ _____

The customer's draft—normally cashed by the "broker"

CUSTOMER'S DRAFT

No._____

Jackson, Miss _____ Date_____

Pay to the
Order of _____$_____

_____DOLLARS

To: , Inc.

Baton Rouge, La. _____

_____

The customer's payment book—the only document which he is given

_____Loan, Company

Telephone_____

_____Street

_____Mississippi

PAYMENT RECORD BOOK
Your First Payment
DUE

_____
Month Date Year

_____

Account No._____

Name_____

Address_____

Note_____

The typical borrower cannot know what "true interest" he pays by reading these legal instruments. Except in rare cases he is not even furnished a copy. One copy is sent to the lender, one is retained by the broker. Very often the "broker" and the "lender" are one and the same real person, under different corporate names.

Under the above contracts the borrower does not ordinarily see a loan and interest schedule. Below is

such a schedule used by one "broker," in calculating his "loans" in his office. The schedule was obtained January 8, 1952 by attorneys acting for the State Tax Collector.

Approximate true annual interest rates are calculated and added to the schedule for study and sober thought by the reader.

Calculation of approximate true interest annual rates is done through use of the "constant" ratio formula which is the most acceptable device for determining true annual interest. "Approximate" means within 2% of accuracy. Lender's discount and "brokerage" service charge are considered as interest cost of the loan to the borrower.

This loan schedule does not necessarily reflect the interest charges of ALL loan brokers in the state.

60 DAY LOANS

Principal Amount Loan	Lender's Discount	Brokerage Service Charge	Total Loan Cost	8 Weekly Payments	Approx. True Annual Int. Rate
10.00	$.50	$ 5.46	$15.96	$2.00	689%
15.00	.50	7.42	22.92	2.87	610%
20.00	.50	9.26	29.76	3.72	564%
25.00	.50	12.30	37.80	4.73	592%
30.00	.58	13.12	43.70	5.46	528%
35.00	.66	13.97	49.63	6.20	483%
40.00	.74	15.79	56.53	7.07	478%
45.00	.84	17.64	63.48	7.94	475%
50.00	.94	19.50	70.44	8.80	472%

The above documents when studied in sequence show how "brokering" can be used to charge excessive loan costs. The borrower is legally dealing with two corporate entities—a broker and a lender.

To the typical necessitous borrower this legal split between the broker and the lender means little at first glance but if he is charged high overall costs through this device, it means a great deal to him.

The truth of the matter is that in many cases the legal division is not realistic. The borrower applies for the loan, completes the transaction and gets the cash in one office at one time.

METHODS OF CONTROL

How does a state protect its people against usurious practices in the field of small consumer loans?

First, it must decide if the matter is one of broad general public policy. If so, it can proceed to effective cures based upon clear law and effective administration by a competent and impartial public body.

There are many guide posts for Mississippi to follow. There is a wealth of information from other states.

An excellent general rule for evaluating the problem is—"What Is Best From the Point of View of the Borrower?"

The Mississippi Economic Council does not recommend any specific legislative cure. It knows, however, that the subject is a proper one for legislative consideration and action.

The MEC Study Committee on Usury Laws made the following recommendation which was endorsed by unanimous action of the MEC Board of Directors:

Jim signed an agreement to pay $303 in fifteen equal monthly installments of $20.20 each.

In July, Jim and his employer were served with a garnishment.

It showed a judgment against him of $223 with a balance due of $161.60. Added to this were $7.50 in justice of the peace court costs.

After the court proceedings were over Jim paid the "broker" $19 in "service" costs and $5.00 on the principal.

His employer agreed to hold $5 out of each of his pay checks. He now owes a balance of $75.10.

Approximate true annual interest rate, **exclusive** of court costs—**52%.**

Case No. 12

A Negro who had made high wages for many years died in 1953. He died without a will, leaving a widow and two minor children. His widow was reportedly a woman of no education and little native intelligence. The dead man left his widow and children a home worth some $5000.

Shortly following his death his widow borrowed from one loan broker $516. She signed a chattel deed of trust on the home, property, furniture, and all personal property. It was taken and filed for record despite the cloud thrown on the real property by virtue of the two minor children's share in the estate.

The next month she borrowed $142.80 from another loan "broker" and signed a similar chattel deed of trust.

A month later she borrowed $1098 from the second "broker" again signing a chattel deed of trust. This large loan was, supposedly, to pay off the $516 to the first "broker." The second "broker" said he would take care of the matter for her. She also received a certain amount of cash.

Her stories are confused but the chancery record speaks eloquently. For on file are not only three chattel deeds of trust in the amounts of $516, $142.80 and $1098 but a fourth deed of trust in the amount of $1098.

This fourth deed was filed a month after the woman made the $1098 loan and nearly a month after a previous deed for $1098 was filed.

The woman has no recollection of signing a second deed of trust for $1098. Moreover the $516 deed was never paid off and serviced by the second "broker."

The widow got a lawyer. She is now paying nothing and has not been sued.

Case No. 13

R., an employee of a state manufacturing company borrowed $50 from * * * Loan Brokers in 1955. He signed a brokerage agreement to repay $75.55 in payments of $5.35 a week.

Approximate true rate of annual interest—**280%.**

Case No. 14

An employee of a state manufacturing plant borrowed $50 in 1955 from * * * Inc. S. signed a brokerage agreement to repay $73.20 in six weekly payments of $12.20.

Approximate true rate of annual interest—**689%.**

Case No. 8

An employee of a Mississippi meat packing plant borrowed in 1953 $10 from the * * * Brokers Company. He paid 8% "interest" (added on to the note) and $4.50 "brokerage" fee. He paid the $15.30 back in four weekly payments.

Approximate true annual interest rate—**1102%.**

Case No. 9

L. J., an employee of a Mississippi bottling plant borrowed $20 in the spring of 1955 from * * * Loan Brokers. He put in his pocket $20. He agreed to repay the loan in weekly payments.

Through November 8, 1955, L. J. had repaid $17.93 of the loan according to his employer. He still owed a balance of $24.84 on this $20 loan.

Each time he misses a weekly payment by one day the "broker" sends him a special delivery letter. For this service his account is charged $2.00. If they phone him a reminder they charge his account 10c.

It is difficult to calculate the true annual interest rate on this loan since it has been renewed several times and L. J. has lost track of the figures. In this case, as in most others, the borrower is furnished only a payment book and **no copies of the legal papers** he signed.

Case No. 10

A very large state employee testifies to this case.

His wife's maid borrowed $75 from the * * * Finance Company. She signed a "brokerage" agreement to repay $102 in payments of $4 every two weeks for 26 weeks. She understood she gave as security her electric refrigerator.

The loan first came to her employer's attention when a deputy sheriff served a writ of replevin on **all** of Katie's furniture.

The employer went with the deputy sheriff to the "brokers" office. He asked to see all the papers Katie had signed. The "employee" of the firm left the place of business and returned in five minutes with a "brokerage agreement," an installment note and a chattel deed of trust.

The employer found that in one handwriting was listed Katie's refrigerator and in another hand the balance of her furniture.

"Interest" was listed at $4.86 and "brokerage" fee at $22.14.

The employer threatened to bring his lawyers into the case and the "broker" agreed to forget the writ of replevin.

Approximate true annual interest rate—**69%.**

Case No. 11

Jim, an employee of a road supply company borrowed $225 from * * * Loan Brokers in 1954.

The case came to his employers' attention when a garnishment was served against Jim's wages. Here are the facts dug up by his employers.

Jim had owed this firm of "brokers" on a previous loan. In the summer of 1954 Jim consolidated his previous loans with this firm. He then put into his pocket $225. He was charged $27 "interest" and $51 "brokerage" fees.

BE IT RESOLVED, that this Study Committee does hereby report as follows:

1. That the business of handling small loans in the State of Mississippi is a proper subject for action by the Mississippi Economic Council.
2. That legislation is needed for the protection of the necessitous borrower of small amounts of money.
3. That the Mississippi Legislature should be urged to consider this problem and to enact legislation in connection therewith.
4. That the Mississippi Economic Council should prepare and release a research report covering this problem and submit a copy of same to all members of the Mississippi Economic Council and all members of the Mississippi Legislature, together with our Lieutenant Governor-Elect and Governor-Elect, at the earliest practical time.
5. That the Mississippi Economic Council support, in principle, legislation designed to relieve the hardships now being imposed upon necessitous borrowers in the State of Mississippi.

Members of the study committee are:

Orrin H. Swayze, Chairman, First National Bank, Jackson.

Robert Cannada, Butler, Snow, O'Mara, Stevens and Cannada, Jackson.

Alvin H. Fine, Fine Brothers-Matison Company, Laurel.

Lawrence Y. Foote, First National Bank, Hattiesburg.

Charlie McNeil, Mississippi Federated Coops, Jackson.

J. A. Mills, United Gas Corporation, Jackson.

Wyatt Robinson, Tower Underwriters, Hattiesburg.

W. E. Tillman, Tillman Finance Company, Jackson.

THE SMALL LOAN STATUTE APPROACH

As an aid to the legislature the laws and experiences of other states are summarized here. Much additional information is readily available.

Thirty-nine states have over the past fifty years adopted small loan statutes of one sort or the other. The vast majority of these state statutes followed in principle the "model law" first developed about 1907 under the auspices of the Russell Sage Foundation. This "model" law has, since that time, gone through seven successive drafts and has been adopted by more than two-thirds of the states.

Consumer finance companies, sometimes called small loan companies, operate in all states having a small loan law. In fact, they are created by such laws since these laws exempt them from the traditional usury statutes.

Typical state laws permit such companies:

1. To make personal loans, secured and unsecured, up to a maximum size specifed. Normally, the maximums range from $300 to $500. More recent laws have increased the maximum loan to $1000.

2. The statutes specify the maximum interest rate per month on the **unpaid** principal balances. Such maximums range from 3½% per month to ½% per month depending on the size of the loan and the state's law.

New York's Law Permits:

2½ % per month on loans up to $100.

2% per month on loans over $100 and less than $300.

½ % per month on loans over $300.

The maximum loan covered is $1500.

Louisiana's Law Permits:

3½ % per month to $150.

2½ % per month on $150 to $300.

Louisiana's Small Loan Law does not regulate loans greater than $300.

If the borrower made a $200 loan in Louisiana he would pay 3½ % on $150 and 2½ % on the last $50. His approximate true annual interest rate would be 39%.

3. Certain states' small loan laws specify that the monthly interest charges must include **all service charges and interest on the money.**

However, certain state laws require a breakdown to the borrower as to "what is interest" and "what are service costs". Other state laws specify a flat overall percentage.

4. The laws of some states provide that such loans cannot be "split" as for example between man and wife so as to gain added interest and service charges.

5. Administration and regulation of most state laws is vested with the state banking departments in a separate division. Normally it is provided that regulation of the acts is self-supporting by fees for licensing, annual audits and other needed regulation of the lenders by the state agency.

6. Severe civil and criminal penalities against licensees who violate the small loan laws are normally provided.

7. Acceptable state laws specify that the lender must give the borrower a statement disclosing amount of loan, the security if any, the payment schedule and the monthly rate of charge.

8. Pre-payment priviliges are included in some state laws.

9. Advertising of a misleading or false nature is prohibited.

10. Prohibitions against such subterfuges as the selling of "health and accident" insurance to the borrower are included in some state laws.

11. Wage buying devices are prevented by classifying "wage buying" at a discount as loans.

12. Exemption from state acts is normally granted commercial banks, industrial banks, building and loan associations, credit unions and others regulated already.

States with such small loan laws are: Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming.

Approximate true annual interest rate on this loan —**1156%.**

J. R. went back shortly thereafter and borrowed $25 from * * * Loan Brokers. He paid this $25 on a weekly basis down to $12.

J. R. missed a weekly payment and was forced to renew the loan. In the course of twelve weeks J. R. paid back overall $60 on the $25 loan.

Approximate true annual interest rate on this loan —**1120%.**

Case No. 4

J. C., an employee of a manufacturing plant is a constant borrower. In 1953 he borrowed $15 from * * * Loan Brokers and paid back $28 in four weeks.

Approximate true annual interest rate of this loan —**1803%.**

In 1954 J. C. borrowed $15 from * * * Finance Company. The "brokerage" agreement called for him to pay back $25 at the rate of $4 every two weeks.

Approximate true annual interest rate of this loan —**495%.**

In 1954 J. C. borrowed $20 from * * * Loan Brokers. He paid back $37 at the rate of $7 every week until he had paid the $37.

Approximate true annual interest rate—**737%.**

Case No. 5

Another employee, named C. J., of a very large wood working plant borrowed $10 from * * * Loan Brokers in 1955.

C. J. signed a "brokerage" agreement to pay back $17.50 at $2.50 a week. He paid the loan down to $6. C. J. missed one payment and then went to the office to make a payment. The man in the office told him "his time had run out."

Approximate true annual interest rate on original loan—**975%.**

C. J. had a choice of paying the $6 in full or renewing. He renewed since he didn't have the $6. The man gave him $3 in cash which together with the "renewal" charges ran his account back to $17.50. He is, as of the date of this testimony, paying $2.50 a week.

Approximately true annual interest rate of this renewal loan—**1264%.**

Case No. 6

G. W. in 1954 and 1955 obtained loans from several loan "brokers," while working for a Jackson manufacturing concern. One such loan is typical of the others he made.

G. W. borrowed $30 from the * * * Finance Company. He paid back $52 at $4 weekly.

Approximate true annual interest rate—**545%.**

Case No. 7

J. N., a resident of one of the state's larger cities made the following sworn statement:

"In 1955 I received from the * * * Brokerage Company $15.00 as a loan. I signed a note and other papers in the amount of $27.00 payable $1.90 per week until paid in full."

Approximate true annual interest rate—**555%.**

CASE HISTORIES OF USURY

The following cases are all factual case histories of real experiences. They were supplied by employers or employees with the consent of their employers. Real names are not used for obvious reasons. The case records are all in the research files of the Mississippi Economic Council.

Approximate true annual interest rates are calculated using the "constant ratio" method explained on page 24. "Approximate" means within one or two percent accuracy.

All charges, of whatever kind, are treated as "interest."

All calculations of approximate true rate of annual interest were made by the MEC research staff and checked by Dr. E. S. Wallace, Professor of Economics and Business Administration, Millsaps College, Jackson.

Case No. 1

Jim works on a major state railroad. His child became ill and he needed extra money. In 1954 he borrowed $75 from the * * * Loan Agency. Jim signed a "brokerage" agreement to pay back $10.50 each payday or $21 per month for five months.

Jim paid for four months and then missed a payment. The loan office called and threatened suit. Jim refinanced, bringing his note back to $105. Later he missed a weekly payment. The loan office again threatened suit.

Jim went to a lawyer, who took his case. The lawyer told him to forget the loan. He did and has heard nothing further.

Approximate true annual rate of interest on this loan—**174%.**

Case No. 2

Bill, another employee of the same railroad which employs Jim, tells of this experience.

"I borrowed $250 in 1954 from * * * Finance Company. I paid about three or four months and then I got behind with the payments for about two months.

"During that time I also owed Mrs. X some money and she told me to go to the * * * Finance Company and borrow money, so I could pay her what I owed her.

"I went to see Mr. A of * * * Finance Company and he made arrangements for a $300 new loan endorsed for me by Mr. and Mrs. X. The finance company gave Mrs. X the money.

"I then began paying on two notes. One pay day I would pay $31 on one note and the next pay day $31.50 on the other. I couldn't make this and so I talked to Mr. A. He arranged for me to pay $20 each pay day or $40 every month. The last note will pay out in twenty-four payments, I think."

Approximate true rate of annual interest on this $300 note cannot be calculated because of lack of information on how many payments Bill made.

Case No. 3

J. R., an employee of a state manufacturing firm, borrowed $20 from * * * Loan Brokers in 1951. J. R. signed a "brokerage" agreement for $40 to be paid back in eight weekly installments of $5.00 each.

DISCUSSION OF SMALL LOAN LAWS

There are three general areas of discussion of such small loan laws. They are:

1. Does A Small Loan Law Legalize "Usury"?

It is true that small loan laws allow maximum rates of interest, including all service charges, exceeding the traditional limits of usury.

Experience has shown that in the case of small loans made to weekly wage earners and collected weekly traditional limits of usury cannot apply.

It is possible in a small loan statute to set too high a maximum rate. Also, the question of what these maximums should be is debatable. The Legislature must be the judge of what is right and proper.

It has become accepted that it is impossible to make small personal and unsecured loans on the basis of the traditional usury laws. Even commercial banks, taking only the best "risks", have not found this possible and a special statute, Section 5212, Code of 1942, permits them to charge higher rates.

For example, an 8%, $200 installment loan at a commercial bank payable in twelve equal installments on the unpaid balance amounts to approximately 15% on true annual rate of interest. If the loan had to be collected weekly, as small lenders do under small loan laws, added service charges for billing and collection would have to be incorporated into the cost of the loan.

Small loan laws in most states attempt to set practical maximums and enforce them through responsible state regulation.

2. Can the Present Situation in Mississippi be Controlled By Prosecution of Those Small Lenders Who Charge Usurious Rates of Interest?

There are some who will argue that the way to stop the high rate "shark" is vigorous prosection in the courts. The difficulty here is that for every successful prosecution many more cases of usury escape the attention of the courts. The bare handful of court cases tried in Mississippi substantiates this statement.

The recent Supreme Court rulings which hold that brokerage charges cannot be counted as interest make prosecutions doubly difficult.

3. Will Enactment of a Small Loan Law Drive Not Only "Bad" Loan Brokers Out of Business But the Good Ones Also and Leave the Small Loan Field to National Chains of Direct Lenders?

In considering this argument there must first be a definition of a chain. Certainly there are larger nationally owned small loan firms with many separate, but centrally controlled offices in many states.

Certainly these national companies utilize all modern corporate techniques of sales promotion, office management, and the like which may tend to make them more efficient than small operators.

But "chains" are not limited to direct lenders only. There are "chain brokers" today operating in Mississippi. Moreover there are companies with "brokering" offices operating in Mississippi and "lending" offices operating in other states. Chain operations, therefore, are not limited to direct lending companies only. The brokering business too has found and utilized the economies of large scale operation.

In order to determine whether there is substance to the charge that a small loan act serves to hurt independents and help nationwide chain lenders research inquiries were made nationwide.

The following is an excerpt from a letter dated August 29, 1955, from the Banking Department of the State of Louisiana.

"The following figures are for the year 1954. As of this date there are 324 small loan licensees in Louisiana with loans of $32,705,926.15, reported for 1954.

"The 'out of state' owned companies total 105, and reported a total of $13,850,986.33 in loans for 1954. The 'within the state' owned companies total 219, and they reported a total of $18,854,939.82 in loans for 1954."

Personal letters were written to executive officers of commercial banks in Florida, Illinois, Louisiana, Massachusetts, Michigan, Ohio and Virginia as samples of states with small loan laws.

Only one of these bankers reported any evidence that local people were driven out of the small loan field by entry into their states of nationwide lending chains.

This particular banker's family owns and operates two small loan companies in his state, and feels rather strongly that his family's loan operation has suffered somewhat from competition from national firms.

There is an element of truth in the argument that some states' small loan laws do have a tendency to discriminate against home-owned small loan businesses.

The reason for this tendency in several states is that these state laws specify that no other business but lending can be conducted under the roof of a small loan office. Such a stipulation is advocated by at least one nationwide small loan company. Such a provision does have a tendency to stifle independent small lenders especially in small towns.

Such lenders often times do not have sufficient volume to justify operation in the absence of another business such as real estate or insurance.

A number of states have provided that other types of business may be operated in connection with small loan offices. Such laws have vigorous provisions, however, to prevent such a lender from forcibly incorporating his "other business" into the cost of a loan.

REGULATION OF BROKERING

There is a view point expressed among some members of the loan brokering business in Mississippi that there can be effective regulation of the trade and retain the brokerage system.

This approach would subject brokers to regulation and would be opposed to a small loan law as the proper remedy for the high rate "sharks."

The research survey on which this report is based has found no evidence that such regulation of brokering has ever been tried in any other state. This does not mean that it is necessarily unworkable. It does mean that, if tried, Mississippi would be treading unknown fields in which there are no guide posts established by others.

One proposed legislative remedy through the route of regulating brokering has been presented for review

To The Reader:

This is a fact finding study of usury in Mississippi. It does not cover all types of usurious practices. It is limited to usury as developed under the system of "brokering" of small loans to necessitous borrowers.

For more than six months an MEC study group dug into a morass of facts, figures, opinions, prejudices, and allegations. The group is headed by Orrin H. Swayze, Executive Vice-President of the First National Bank in Jackson. This report is the result of their work.

The MEC issues this report as a factual aid to the people and the Legislature, believing that first, small loans must be available to persons who could not otherwise secure credit, second, that these small loans cannot be made at or near "bank rates," third that our Supreme Court has said that "brokerage" of loans from out of state sources is legal and permissible, and has called upon the Legislature for any change in the system.

No inference is made that all brokers operate in accordance with some of the illustrated case histories. All do not. Some do, however.

The matter is one in which the general public has an interest and one which should be acted on by the Legislature as a matter of regulation and protection of those persons unable to protect themselves.

A specific legislative recommendation is not made. Suggested remedies are reviewed. As the Mississippi Supreme Court has said, it is a matter of legislative responsibility.

H. V. Watkins, Jackson
Chairman, Committee on Public Administration and Taxation

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in this report. It follows this general outline as a means of control:

1. Prohibits a loan broker from having a financial interest in a money lending agency.
2. Provides for licensing of brokers by state comptroller of banks.
3. Provides for payment of licensing and investigation fees by brokers to make the act self-supporting.
4. Provides for regulation and policing by comptroller of banks.
5. Interest on monthly installment loans is fixed at rate of 5% per annum—added into face of loan.
6. Brokerage fees are to be fixed by comptroller of banks after he ascertains majority opinion of the licensed loan brokers as to their opinion of what brokerage fees shall be. Maximum brokerage fees may not exceed 3½% per month on loans of $60 or less and 2½% per month on loans of $61 or more including the interest charged.
7. Prohibits making of more than one loan by any one broker to the same person within 30 days.
8. Loans of $60 or less cannot be made for a period of more than six months.

One problem in any proposal to regulate brokering is the difficulty raised by the constitutional question as to whether the Legislature can regulate charges for services rendered.

The Mississippi Constitution is quite clear in giving the Legislature authority to set maximum rates of interest. There is no constitutional authority to regulate service charges.

The question is whether a service charge for arranging a loan can be treated any differently than service charges for medical, dental, legal or any other professional or personal services rendered.

The proposal to regulate brokering outlined above attempts to clear this possible constitutional hurdle by allowing the Comptroller of Banks to ascertain the majority opinion of all licensed loan brokers as to what the brokerage fees should be. But in the same breath it sets a statutory maximum. It is possible that an individual broker might challenge this contradiction and charge whatever brokerage fee he pleased. If he did so it would raise a constitutional question and the state might find itself again with no effective regulation.

CONCLUSION

The need for legislation to insure fair treatment for the necessitious borrower of small sums is one of the most immediate and pressing problems in Mississippi today. It does very little good to hopefully wish for bygone times when all loans could be made for 8% simple interest per annum or less.

Mississippi is fast becoming a more industrialized and urban state. If proper statutes are not enacted to set maximum interest rates for small loans and to police the business, many borrowers will continue to be at the mercy of unconscionable lenders of money. Such "lender-brokers" will continue to use the failure to have laws as subterfuges for lending small sums at extravagant rates of true interest.

What is to be done is a matter for the legislature to decide. It is hoped that this report is a help in arriving at a correct solution.

EXPLANATORY TABLE

The following is an explanation of the constant ratio method or formula for computing true annual interest rates. This is the method used in this report. It assumes as "interest" all costs charged to the borrower.

The formula is written as follows:

$$r = \frac{2\ pc}{A\ (N\ plus\ 1)}$$ WHERE

r= Approximate true annual interest rate.
p= Number of equal installment payments **in one year** exclusive of the down payment.
c= The interest or finance charge in dollars.
A= The amount borrowed.
N= Number of equal installment payments in the whole contract period exclusive of the down payment.

EXAMPLE:

Jim Smith borrows $20.00 from a loan "broker." He pays $.50 interest and $9.26 service charges or a total loan cost of $9.76. It is payable in eight weekly payments of $3.72 each.

$$r = \frac{2 \times 52 \times \$9.76}{\$20.00\ (8\ plus\ 1)} = 564\% = \text{Approximate true annual interest rate}$$

Approximate has been proven to be within 2% accuracy using this constant ratio method.

A Factual Study of

Usury In Mississippi

MISSISSIPPI ECONOMIC COUNCIL
Committee on
PUBLIC ADMINISTRATION AND
TAXATION

January, 1956

Public Administration & Taxation Committee

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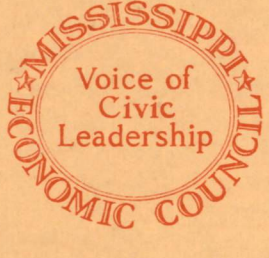
LOUIS WISE
Columbus

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Brookhaven

From Bob T.

A Factual Study of

Usury In Mississippi



MISSISSIPPI ECONOMIC COUNCIL

COMMITTEE ON
PUBLIC ADMINISTRATION AND
TAXATION

January, 1956

Funds cluster, nucleate

Nucleation

If you have land, that considered best security for long term loans ---
hence those having land borrow longest, this abets concentr.

Diff. mrs & Conc

Small man can't figure he gets compound int. from stocks. He must let div.s accumulate long temps before is ee. to buy another --- commissions, investigations, etc.

Same with land rent. He puts lower value on same rents, interest-wise, can't compound them.

Still, finds his secure inv. in land.

So we have 2 ownership

pulls away from opt size:
very small, very large.
LVT ends both

Clara Eliot, Nat. Banks only lend ~~near home, &~~ w/in 100 m., by law; & farm mtgge loans go to nearby.

But S.O. holds land all over world, & people all over world own it - thru N.Y.

Thus is easier for man to lend to S.O., or buy its stock, than to lend to neighbor to buy land he op.s.

Ford is low i, even though earns 50% on mgnl inv. — because they figure mgnl rev. that brings down to mkt i, is why they don't borrow to expand.

Burns. Decline 5419

10 Large corps keep so much inside them, this 'facilitates expansion w/o the necessity of issuing new securities; those mgrs who find size attractive can satisfy their desire w/o having to submit their plans to the test of the capital market.'

Large profits to who arrange mergers.

Cites Dewing, fcnte, consolidations shown unec.

p. 39 Alcoa owned 90% fabrite, controls rest by agreements. - 1920s.

39. Since 1907, subs for lumber developed, anticipations hurt,

4,9 - 20 Big firms, easier access to capital. Develop & finance subsidiary cos, because can borrow cheaper.

~~The Public~~ ~~SD I 24 P3 v. 10:7~~

Burns, Decline . .

Conc.

Diff mrs, Eng

Maxton, JLPUE Oc t 1926 "Reform of Ag system in GB" p. 459, Eng banks do not lend on long tm, esp to small holders implied.

Rich as nucleus for cap. → 53 Hearst has borrowed c. $80m -- gross assets $200b, net 140. 5 70

Diff mrs:

Wickson, Rural Cal, . 19th, 12-24%, sht tm, small settlers. 20th, cheap loans to big org fmrs, not small.

Very hi mrs, new settlers, w. no title

p. 33 No financial inst., including Fed Land Bank, will lend to one with no land. & new settler, buying land on time, has no deed to mortgage. Takes c. 5 yrs. His part equity in land, 2 p34 'is absolutely no basis for credit at any of the recognized credit institutions.' 558

1920, Wise, Ely, Hibbard, Cox.

& whole thing is on diff. mrs

Diff mrs

The officlal %s one reads of that banks charge do not show full discr between big & little; big gets smaller fees. Before Land Bank, 1916, 5-8% plus fees, 3-5 yrs, no renewal in crisis, good sec. demanded. Land Bank helped some, esp after 1935, when cd lend to one with just 25% equity in land. Pres's Repr fm Tenncy, p. 44

Diff mrs:

Wickson, Rural Cal, . 19th, 12-24%, sht tm,
small settlers. 20th, cheap loans to big org fmrs, not small.

you can't do much about, anyhow—is the specific outlook for your own particular business—which you CAN do something about by making wise decisions before you start. Will your new business really satisfy some need? Will it be in a good location? Will you have a reasonable chance against the existing competition? Have you dug out all the dope you will need to run it day to day?

You have to have some cash

LOOK at the small chart opposite. It emphasizes, better than words, one fact that many an entrepreneur overlooks. You have to have capital, and most of it will have to come out of your own sugar bowl.

In retailing, particularly, the percentage of initial capital put up by the ownership is high. The average is 56%. And in some businesses the figure is usually higher, reaching up to 80%. Notice, too, that the smaller the business, the greater the portion of capital that comes from the personal savings of the owner.

When he has to borrow to get funds for a new enterprise, the retailer is usually hard put to find sources. Banks will lend, but on a very selective basis, and only if the borrower has already put up the lion's share of the money.

Few small businesses are able to get equity capital by selling stock the way big business does. By far the most common sources of money for small business, aside from personal savings, are personal loans from relatives and friends, credit from suppliers, and finally the formation of partnerships.

When the would-be businessman surveys his savings and adds up the amount he can get from relatives, friends, or his bank, he's then faced with the question, Will this be enough? The answer, of course, depends on the kind of business he wants to enter and the size of the firm he intends to establish.

Generally, for a small retail business, the average amount of capital required is $10,000 to $15,000. But it varies with the line of business.

You needn't fly blind

THE beginning businessman can get a real assist from his competition.

No matter what business he picks, there is a formidable array of statistics that he can use to chart his own course. They represent the accumulated experience of those who have gone into business for themselves—and they will show the way to the newcomer.

WHERE SMALL BUSINESS GETS CAPITAL
(notice that most of it comes out of the owner's personal savings)

initial investment	sources of funds				
	personal savings	capital stock	supplier credit	bank loans	other
under $10,000	70%	1%	7%	10%	12%
10,000 — 19,999	65	2	9	11	13
20,000 — 49,999	57	8	9	16	10
50,000 and over	42	11	14	17	16
all retailers	56	7	10	14	13

Look, now, at the big table on pages 10 and 11. (Put your finger between those pages so you can flip back to them as you read what follows.)

The material in the table answers some of the questions most frequently asked by people who are considering becoming their own bosses.

The most common question is the one about how much capital is needed. The answer is given in the first column. You may know a man who set up shop on a shoestring, far less than the amount shown in the table. No question about it—it can be done. But the record shows that lack of adequate capital is a leading cause of business failure.

The second column will help you decide whether or not your town is big enough to accommodate the kind of business you have in mind. The young man who wants to open a second sporting goods store in a town of 5,000 families would and should be brought up short by the fact that it takes that many families to support one store, as a rule. On the other hand, the experienced and alert hardware merchant who sees a new community of more than 5,000 homes springing up on the edge of a city where there's but one small and poorly managed hardware store to compete, will certainly jump at the chance to locate there.

You'll see more answers in the other columns of the table. For example, how much you should spend for rent, salaries, advertising. Here are average figures for various popular lines of business. Exceed the averages at your own risk.

You'll notice, too, just what sales volume the average small business has been able to reach in good times. As a new businessman, you

probably won't hit those averages in the first year, and maybe not even in the second year. The figures include the sales of all businesses, established and brand-new, and as such, are somewhat weighted in favor of the established businesses. But keep those averages in mind as a goal to shoot at.

In the chart you'll also see what percentage of your sales dollar you'll have to spend to buy the goods you sell, and what's left to pay the operating expenses. Stack these figures against your own estimates of the cost of doing business. Is there any room for profit?

Don't take these figures lightly. They are probably the closest thing to a peek at your competitor's books you'll ever get. Experts use them to check up on ailing businesses and thereby find the sources of trouble almost immediately.

But you needn't wait until your business is ailing. You can use these statistics to keep your business out of trouble.

Remember that the figures in the table don't tell the whole story. For further information, look to trade magazines, trade associations, the Small Business Division of the Department of Commerce, and your local bank and chamber of commerce.

A good many businesses neither fail nor succeed. They just go along, staying out of the red, but never getting nicely into the black. You can see that you have to do a lot better than the average to get wealthy in most lines of retailing.

Be sure to take a good look at the failure records shown in the table. Right now, of course, the rate is low in all lines of business. The figures do show you which are the so-called safe businesses, and which carry a higher risk. If yours is in the high-risk category, better be doubly sure

25 BUSINESSES—*and facts you should know about them*

kind of business	minimum capital to start (est.)	number of families needed to support	failure rate per 10,000 firms (1952)	total number in operation (thousands)	average number of full-time employes	typical annual sales volume
APPLIANCE STORE	$ 7,500 - $10,000	1,000	85[1]	29.7	3.5	$72,600
AUTO PARTS & ACCESS. STORE	10,000 - 15,000	1,800	10	20.6	2.4	65,300
BEAUTY SHOP	2,000 - 3,000	600	—	74.5	1.1	5,600
BAKERY SHOP	5,000 - 8,000	2,400	50	20.1	3.1	36,000
BOOKSTORE	7,000 - 10,000	12,800	29	2.9	3.8	92,100
CAMERA & PHOTO SUPPLY STORE	8,000 - 10,000	12,300	40	3.0	2.8	80,800
DRUGSTORE	10,000 - 15,000	800	22	55.8	3.8	89,800
DRY GOODS STORE	10,000 - 14,000	1,250	24	29.7	4.3	66,700
FURNITURE STORE	15,000 - 18,000	1,300	58[1]	29.0	5.2	118,000
FROZEN CUSTARD STAND	6,000 - 7,500	—	—	—	2.0	21,000
GAS STATION	5,000 - 8,000	500	5	188.3	2.0	34,440
GROCERY STORE	6,000 - 8,000	250	16	377.9	1.3	139,600
HARDWARE STORE	7,500 - 12,000	1,100	13	34.7	3.1	91,100
INFANTS' & CHILDREN'S WEAR STORE	6,000 - 9,000	5,500	97	6.7	1.4	53,300
JEWELRY STORE	10,000 - 15,000	1,750	36	21.2	2.7	60,000
DRY CLEANING SHOP	5,000 - 7,000	1,300	21	25.5	8.3	111,000
LIQUOR STORE	5,000 - 8,000	1,100	14	33.4	1.8	74,300
LUMBER & BUILDING SUPPLY	15,000 - 20,000	1,900	31	26.1	7.4	286,600
MEN'S WEAR STORE	8,000 - 12,000	2,500	41	23.7	3.2	74,700
MOTEL	35,000 - 50,000	—	—	20.0	—	20,500
RESTAURANT	6,000 - 8,000	300	26	194.1	5.2	65,800
SHOE STORE	8,000 - 12,000	1,900	50	19.5	2.7	67,500
SPORTING GOODS STORE	8,000 - 10,000	3,400	57	6.8	1.6	45,100
WOMEN'S READY-TO-WEAR SHOP	7,500 - 10,000	1,200	60	30.6	3.2	60,900
WOMEN'S ACCESSORY SHOP	3,500 - 6,000	4,600	37	13.5	1.6	39,500

Pvt. long term debt, U.S.

1900	15m
1914	33m
1930	86m
1934	77m

574

Nucleation of cap.

Most significant change in composition, above pd., growth of mortage debt as %, non-farm. Items included: Farm mortgage, non-farm mortgage, mfr.,& mining, steam r.r.s, p.u.

	1900	1920	1930
Non-farm mortage	23%		46%
Farm mortgage	13%	19%	13%
Steam r.r.	38%		17%
Public Utility	8		15
Mfr & Mining	18%		8%

574

Rising or higher l.v. set the loans.

Mortgages, non-farm r.e., 1930, 43b$ -- at which time urban r.e. est at 197b$, 1929 p. 6 As values ~~for~~ rose to this height, from 32b$, 1900, the % of them that mortgages were rose, as mor tgages rose even faster.10%, 1900, to 16.5%, 1929. 574

p. 7 1932, payments est 1/3 under charges, urban r.e. mortgages. 574

Farm mortgages debt, 8% 1910; 10%, 1920 -- despite great rise of values; 16%, 1925, 17% 1928.

p. 8 35% due payments not met, farm mortgage, 1932

Ellis recognizes nucleation

Recognition that conc. cap. insts hurt comp.

150 Would limit insurance co.s to the insurance function. This, & anti-restriction measures, would increase bank profits, allowing 2 fundamental reforms: requiring higher capital ratio, & higher reserve ratio. Thus letting banks make more risky loans, more equity financing, to smaller, competitive companies. 587

Cal Nucleation. anti-LVT

8 Cal CVP was to be financed with revenue bonds, but can't sell. 594
(i.e, need LVT to sell bonds)

Nucleation → Concentration, LVT stops

LVT lowers opt size:

p. 52 'Large-scale farmers often can secure credit ..... under more favorable terms & conditions than small farmers.'

LVT reduces this advantage. 5115

~~34 Table II~~

36, Table III

Showing 200 largest non-financial corps growing much faster than all ~~such~~ non-f. corps, 576

Growing conc., corps.

1909-28

& p 39, corps as vs. all owners are getting bigger %, too, they opine, — from situation in 'industry after industry'

p. 40 summary. Large corps gross assets growing 2-3 times as fast as all other.

H Large corps save greater % net inc. (perhaps because divorced owner & mgt, this is how mgrs Δ their control.) 38.5 % net inc. available for dividends, cf. 29.4% for all corps. 576

Clusters.

42 'Of much greater importance as a source of relative expansion has been the 2d method — the raising of new capital in the public markets. 1922-7, sample indicates 2/3 public offerings new securities ~~issue~~, excluding banking u.s, were by 200 largest or their subsidiaries. 55% growth of bigs is by new sec.s publically offered. Merger is 3d. 576

Largest continue to grow by new stock issues.

clusters P.U. borrow easier.

p. 8 Electric r.r., funded debt was 43% "value of investment", 1907, 56% 1927 -- much higher, i.e. than farms, even when farms in serious trouble. p.7 farm debt/value, '10, 89%; '20, 109%; '25, 169%; '28, 179%

574

p. 11 Mfr, 1930, 15% bonds/assets, 1930; 18%, 1900; 11%, 1922. They use bonds much less than franchisees -- more equity financing.

[redacted]

Conc., w/o mnpy motive. E

R.r.s & p.u. have become very concentrated. Not that there is much economy, uniting e.g. Insull Co.s, whose ~~mere~~ financial ~~structure~~ structure alone was incomprehensible to one man. But franchise is landownership. Is not even any Δ mnpy ... mnpy clearly not motive, each has mnpy already.

573

Schultz, 2

Poorer borrow harder

314 'The smaller the total assets the farmer owns the greater the relative difference between the amount of capital that is rentable and the amount that is borrowable." 579

Table 1 Can rent land with no equity, no cap. To borrow to buy it, must have ½ its value to begin.

d

Diff mrs & concentr

Squatters, Australia, having land, were "freely accommodated by the banks", thus could bid in ~~more valuable~~ choice water land, block settlement. Wynne, Public Land Apolicy In Australia, JLPUE Oct '26

Conc thru nucleating cap.

There is evidently a 'breaking point', a 'watershed divide', in cap rationing. Very small, borrow little. As get bigger, can borrow higher % of assets, finally become a nucleus for large cap. agglomerations like bank, control many times what own.

Nuc.

New lands, even tho ec. to develop them, hard to do it by local govt. For until the developments in, no land value. So no land value to ~~have~~ be security for bonds -- it must be pre-existing value, to be good collateral. Hence, a, central govt can make many ec. developments of wilds that local people cdnt

b, To all people, those who have can borrow more. Ideally, a co. with no assets could sell stock, & the assets they buy with the M are the collateral for it. Actually, only small loans with creditor supervision can be made this way; or, in boom times & w/o blue sky laws, stocks sell this way, but frauds discredit. Hence consolidation.

Too big - de-specialization.

Baxter says before every depression you see "everybodyg going into everyone else's business". A familiar phrase -- is it true? If so, good e.g. for me -- i.e., good way to express trend. Of financial emperors buying up land of others.

~~Acreage dep. def. Sp.~~

1940, ranged from 22 % S.D., to 12 % Me. (op.'s equity (incl. d's int.)) ND, SD & Nebr, esp. small % farms op by full owners, free of mortgage. Fig. 10

565

Fig. 10. Equity of operators is lowest where farm values highest -- e.g. n. ⅔ Ill, & nw Ia. In poor, mt. areas, owner-op. have highest equity -- Ozarks, cut-overs, arid parts of w., Me., mtns areas of n.e., W. Va

Better land worse alloc.

Chap. & 3

USBAE, 'Graphic Summary of Farm Tenure' from 1940 Census, Max M. Sharp & Howard A. Turner Apr '46 Wash.

Fig. 10: "As a general rule the equity interest of farm operators in relation to the value of all farms is comparatively low in the states where land values are relatively high." 'Op.s' includes tenants; but they are also making pt. that mortgaged titleholders have less equity where l.v. hi.

Fig 11: 1940, equity of owner-op.s in their "n.e." ave. $3,893. (From this, ed. figure what % of n.e. value of owner-op. farms. ~~43~~

Fig. 10: Farmers' equity, 1940, was 43 % value of all farms. 2($146)

11

Larger, lower mrs

377 Speculative profits, on par with hope to mnpize, possibly even greater he allows. "The securities of the ~~greater~~

586

Fetter, 2

larger consolidations have greater publicity and greater saleability and generally a market price higher than their earnings relative to the smaller companies." 378 The investing public also went crazy over merger stocks -- helped by banke s & publicists -- presumably thinking wd get great mnpy, or efficiency, returns. Great disappointment.

Land & mnpy

260 Many mnpies are local. (probly all are). (so location, which is land, is important element)

TNEC # 13, p2

financing, merger motive

129 Willard Thorp, 1929, "Recent Ec. Changes in the U.S.", Nat. Bur. "The present mergers often appear to be quickly followed by new financing, thus implying that the desire for additional capital is an important motive." 584

Diff. mrs

Expansive stage.

59 NY consolidated, 1898, & "large street improvements ~~were~~ previously unattainable by the scattered villages were being planned for the outlying boroughs on the basis of the borrowing power of the enlarged city & the revenue derived from Manhattan & downtown Brooklyn." Shows diff mrs, & concentration. Also shows central city willing to help develop outskirts?-- at that stage in game. Cf. League of Cal. cities today. 560

& by analogy, shows how corps with much land can borrow, thus buying up outlying land.

lowest mx, best land.

130 Urban ~~rates~~ cap. rates vary, 4% highest class, largest cities, on up. 582

132

Reasons for lower cap. on high class prop:

Rents stabler, easier collected

Prop quicker convertible

(Nucleation) Mortgagable at lower i.r., & ∴ higher % value

Bldgs depr. slower

'prospects of Δ in value are better'. 582

Is this lower mx, or higher vacancy? ?

Hence, expect more conc. in central area. also spec vacant. Least in stable areas of homes, lo l.v.

P.v. discrim.

Rich nat. ops. can borrow for 2% less from local banker than local fellow making living from ranching.

s554, opp. p. 157

7 - Range of interest rates

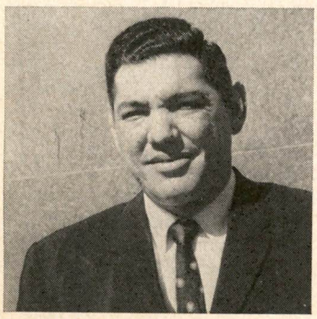
HOUSING MARKET

Do Negroes face a double standard in credit reporting?

How would you like to be able to tell FHA to insure loans for 50 of your low-income Negro buyers, no questions asked?

Builder Philip Emmer of Gainsville, Fla. is in that enviable spot—and yet he is unhappy. He explained why to a meeting of the National Association of Home Builders urban renewal committee in Nashville last month—and found some vocal support among builders who have tried to build for the low-income market.

Emmer won his unique standing with FHA by persuading HHFA to let him demonstrate, if he can, that low-income and mostly Negro would-be buyers now bounced by FHA are actually good home-buying credit risks.



BUILDER EMMER
New insights into Negro credit

Emmer, working with the University of Florida, will actually tell FHA to insure 50 prospects FHA has already turned down. The university will keep records of how the families fare in the next three years, and a $37,500 HHFA grant will assure FHA it will lose no money on the homes in the next five years. Another $67,380 will let university researchers keep up with what happens.

How it began. The HHFA experiment is progress in a negative way to Emmer.

The test will take from three to five years to produce results, he figures. Looking for a way to short-circuit this time lag, Emmer is asking builders in other areas who have had experience in selling to the same market to work out the same type of detailed statistics he used to talk HHFA into making the test.

Here's what Emmer did. After "wholesale rejections" in his Gainesville subdivision (prices: $8,750 to $11,000) Emmer listed 23 questions challenging widely-accepted yardsticks used to gauge the ability of low-income Negroes to pay for homes. Sample questions: Are people who paid lower rent in the past having difficulty adjusting to higher mortgage payments? Is there any relation between large families and their capability to make mortgage payments?

Then Emmer went through records of 120 buyers of his homes in minute detail and found that: 1) 13 buyers who paid less than $20 monthly rent before buyings made 88% of their mortgage payments before the 15th of the month in an eight-month period; 2) 24 families with seven or more members made 85% of their mortgage payments before the 15th of the month (vs. 86% for all families).

When he took his findings in a 14-page report to Washington, officials told him: "That's fine—but it's only 120 cases." Now, he worries the same lack of enthusiasm will greet his new study of 50 families. FHA Commissioner Philip Brownstein says it won't.

In Emmer's view, the housing industry has a vital stake in the question of how private builders can serve the politically-potent low-income families. The nation's 8 million ill-housed families* cannot all be put into public housing, he reasons. And slums are more expensive than public housing. "It's my belief that FHA should be pushing us into this [low-income] market. I couldn't sell four houses a year without FHA [because of higher down payments required for conventional loans] but as it is, we don't try to sell houses till we get everything cleared in Washington."

The double standard. Despite Emmer's pioneering in researching the credit standards applied to Negroes, Renewal Chairman George Martin of Louisville asserted heatedly:

"There is a double standard for the Negro. I have quit trying to build for this market because of the double standard—and because I had to make some money before I can start the fight again."

Martin related how he encountered such difficulty in qualifying Negro buyers for his pace-setting Southwick renewal townhouses in Louisville (H&H, Mar. '61) that he decided to switch to a Sec. 221d3 rental housing project after building just 100 units.

He tried, as have other builders, to organize a non-profit corporation to sponsor the units and after some effort got the cream of the Negro community to serve. The five-man controlling board included the president of a Negro college, the general counsel of a Negro life insurance company, the pastor of the largest Negro church, and two others. "All own homes over $20,000," said Martin.

But FHA, leery that any non-profit group might suddenly fold, insisted the five undergo a cursory credit check. Related Martin: "Four of the five failed to pass muster. I am telling you what that means to me—you can draw your own conclusions."

Now FHA has decided to approve the non-profit group—if a sixth member appointed by the city is appointed treasurer.

Martin was not alone in his view. Builder after builder selling to the low-income Negro market chimed in with similar gripes:

- Builder Leon Weiner of Wilmington, Del. told of having a Negro buyer turned down because he didn't make a $2 payment on a diamond ring. Angered, Weiner decided to order a credit report on himself at a time when a $3,700 claim had been entered on a court docket in a dispute he was having with a boat repairman. The report came back clean as a whistle," cried Weiner. "I am saying that credit reporting on Negroes and other minorities is miserable and is not comparable to the job they do on white families."

- Builder Vince Mazzara of Birmingham: "I would be willing to pay up to $50 to get a good report on Negroes. In our 180-house subdivision, we are running two sales for each eight applications. We eliminate two on our own and get three of the remaining six approved by FHA. In one case we found one man who was rejected because years ago he suddenly came up with six judgments. We checked and found he was on strike."

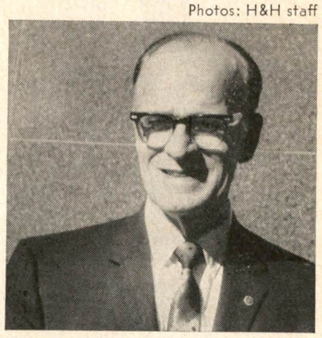
How to qualify buyers. But Builder Ollie Frith who has sold over 100 single-family brick homes (highest price: $11,200 for a 1½-bath model) reported only one turndown on his minority buyers. How does he do it? Said Frith:

"When I get a bad credit report on a buyer, I go back to him and ask him what happened. I have him dictate a statement and then my secretary types it up exactly as he said it—if he uses 'ain't' or anything else, we include it just like that—and have him sign it right away. In one case we found a bricklayer who had fallen off a scaffolding and broken a leg. When he told his story, he was approved."

Leon Weiner replied that even this hadn't worked for him. He draws his own credit report on a buyer before submitting the application to the mortgagee to draw the official report. If anything detrimental turns up, he tells his prospect to clean up the debt fast.

Another builder cited a deeper problem: What do ratings like "Slow pay" or "Slow but satisfactory" mean, he asked. Some credit jewelers call a payment slow if it is one day late, he argued; some department stores make no report if the payment comes in by the 10th of the following month.

Photos: H&H staff



FHA's JARCHOW
Sloppy reporting instead of bias?

Official rebuttal. Al Jarchow, deputy assistant FHA commissioner for technical standards, promised to look into the definitions on credit reports. But he shied from accepting the builder's view of a double standard. Most of the trouble stems from sloppy credit reports, he argued, the same trouble that has plagued FHA for a long time. When credit report standards were tightened a year ago, he pointed out that insuring officers were directed to use their customary evaluation standards on the more detailed reports.

But Agency Manager Frank H. Greer of the Atlanta office of the Federal National Mortgage Assn. verified that some credit reports reached his office with the word "Nigger" written across the front—despite an official ban on race markings for Negro loans. Greer says he has seen credit reports on low-income whites just as poor as on Negroes, and blamed "lousy information from merchants."

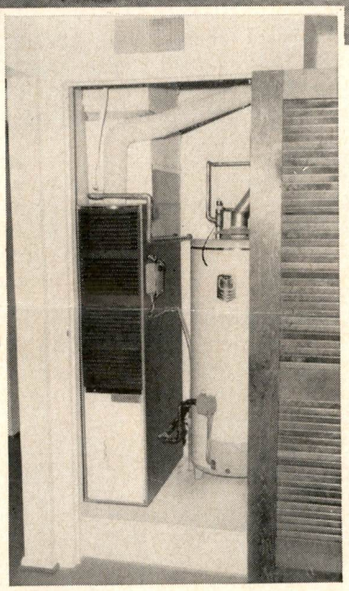
And one mortgage man said no Negro credit reports bore race designations in his area. But all white applications have a "W" after their name. *NEWS continued on p. 23*

* The 1960 census found 8,473,695 families living in quarters either dilapidated or lacking some facilities. But only 4,682,868 live in urban areas.

"Apartment heating and air conditioning is really simplified with the new Janitrol comfort package"

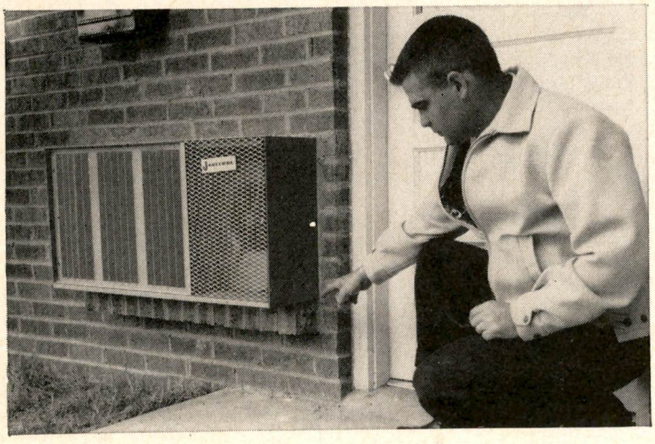
Robert E. Smith, Builder and President
Columbia Street Apartments, Newark, Ohio





Right: The 12-inch wide, 570 Series conditioner is installed in a central utility closet directly over the return air plenum.

Below: The through-wall condensing unit is flush with the inside wall, yet has only a slight exterior projection.



"Each apartment in this 12-unit project is individually year 'round conditioned by the new Janitrol 570 Series package, that has proved to be the most practical system we've found. Since we've built this plan before, we can appreciate the extra design features built into this equipment. We were most impressed with the ease of installation, flexibility of location and service accessibility of the 570 Series".

This all-new heating-cooling package is built and priced especially for apartments and small homes. Most models are only 12 inches wide to conserve floor space . . . cooling evaporator can install through-wall, on slab or on the roof . . . cooling is optional for either original installation or economical later addition. All units are completely factory-assembled, tested and feature a precharged cooling system with quick-connect couplings to speed installation.

Packages are available with nominal 1½, 2 and 3 tons of cooling and in heating capacities from 50,000 to 125,000 Btu./hr. for natural, mixed or LP gases, in either upflow or downflow models.

Free Application-Specification File. For complete information on all of the unusual features of the Janitrol 570 Series ask your Janitrol representative for Form J-379S, or mail coupon.

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Please send me your Application-Specification File on the Janitrol 570 Series Comfort Package.

Name_____

Address_____

City_____ Zone____ State_____

Edw. N. Pearson, Jr., "Stat. regarding Calif. Irrig. Dists" 1916-17. He is with Anglo Bank, is selling ID bonds.

"My recommendation of certain Cal. ID bonds is founded on these unchangeable facts -- namely, that agricultural land is indestructible, that there is no substitute for water ....."

Thus landownership guides (& distorts) capital markets. Owners of best land get lowest i.r.

Munic. bonds differ from others in that their object is to increase land values. Hence very tricky. In this brochure, value of lands in district is given to indicate bonds are very secure, for they are much less than ass. valuation. (probly ass. values are not less than real values here, or he would have mentioned it)

Oakdale & SSJ districts seem marginal, in that tax rates high, & bonds are high % ass. value, & ass. value low. Except that SSJ, like Modesto, ass. value very high. Lindsay-Strathmore, highest of all, $100/acre (oranges) But still marginal, for bonds equal ass. value.

diff mrs p27: SP sells in 9 annual payments, 6% int on deferred payments. 5104

Diff mrs p. 15. 6%, very lowest rate at which lumbermen can borrow. 567

High mrs:
W. Colo, 1931, 7-8%. No mnpy. Credit rationing, quantity changed much, price little. Melcher, Chap 8

Diff mrs
Holt, W.S., The Fed Farm Loan Bureau, 1924 p. 4, NM, Fla, Wyo, Mont, Ark, 10-11%, c. 1910, & 3-5 yrs longest terms. These highest in U.S. Ely, Wis aesb 318, has some 6%, & frequent easy renewals. Wisc. 1920

hi m.r. p. 53 I.r. as high as 40%, cropper area, 1934. 5180

~~Check 1910 Census~~

4. CP Victoria

Diff. mrs			
	Max loan	£400	£500
	Stock loans	8%	6%
	Deferred & L loans	6%	4½%

U.S. often only short term, & 8-12%

541

W.a.e.s.b. 247, 1915, "Farm Credit in Wisc." Hibbard & Robotka 1915

B1,2 p. 8 In pioneering areas of state, n. & farther from cities, mr much higher, up to 10%, and credit harder to get at that. in S. near cities, farmers get it about as easily as city folks, c. 6%.

B 2 Loans made by banks; loan & trust co.s; ins. co.s; r.e. dealers, lawyers, & private individuals. The private individuals lend at lowest rates.

B 2 Max. mortgage loan usually 50% land value. 5 yrs. ave. run. Local sources provide nearly all the loans, I mean are ultimate source, in s. Wisc. cty -- this means private loans I guess, wouldn't go for big inst. lenders. N. Wisc., much higher % from outside.

O In s. cty, higher % of mortgages, are to buy land; in n. for equipment -I presume, land being cheaper.

B2, O Chattel mortgages ma dly used in s. Wisc; people borrow on their r.e. for big loans, personal notes for small. In n., more common to use chattel mortgage -- I suppose because land worth less.

Keynes 208, & 244-5,

when govt i.r. low, cliffs

are higher 9%.

A good example of important
exp. which is Santa Paula
Bldg & Loan. They pay
3½% 90. In nearby L.A.,
3% is high, in Berkeley you
would get less yet, so they
tell me. For some reason,
they do not encourage
investors from outside the
county. Why is that??
Ask Pressey.

Do they have a monop,
& more interest in keeping
rates up than down?

CP credit, Mead wrong

Hedges says they gave for 10 yrs, & in practise extended. 224. Made a big pt of extending credit to settlers, allowed them to pay for land with crops, etc.

Settler's Lack of Cap

Mead, Rept to Min, Can. Pac. gave better credit to settlers than any Am. outfit, & they charged 8%, 400L. Am settlers often cannot borrow at all, or just sht tm at 8-12% int. p. 4

Ec of Land Rel.

Teele, 229, lack of cap by settlers greatest slower down of projects. Like so many who see this, he misses that cap to buy land from specs is an unnec. use of cap.

Land Bank rates: Circular 690, p. 35. In 1943-4 it lowered rate to 3½%, raised l.v. thus. Does it really lend that low? USBAE "Farm RE mkt activity '42, Western States, Tyr V. Johnson, p. 2, says land bank ceasing to lend as land prices rise, sellers giving more credit.

Buck, S.J., The Granger Movement, 1913

Cites 15-20% i.r., p. 19, no ref

High mrs:

Hacker, 210, 3-4%/month (36%-48%/yr), frontier, to squatters, c. after 1841

Business--Industry

Friday, June 12, 1953 CCCCAA
THE SAN FRANCISCO CHRONICLE

Santa Fe Not Nervous About 100-Year Debts

By DONALD K. WHITE

Atchison, Topeka & Santa Fe will have to pay off a debt of $200,000,000 in a single year, but company executives are not nervous about it.

It seems the debt won't have to be paid until 1995, a time when the executives will presumably have their minds on more ethereal subjects.

E. S. Marsh, Santa Fe's vice president in charge of finance, explained the whole thing to the Security Analysts of San Francisco at a meeting yesterday.

Back in 1895 the railroad went through a reorganization and in the process issued about $200,000,000 in 4 per cent general mortgage bonds and adjustment bonds as 100-year bonds that could not be called in by Santa Fe before they reached maturity.

SAVING FUND

If the bonds were callable, said Marsh, the railroad would have called them in in 1945 or 1946 and issued new bonds carrying a lower interest rate, perhaps 2½ per cent or lower.

Santa Fe is saving money methodically to pay off the huge debt when it comes due. Semi-annual appropriations from income are made, amounting to 25 cents per share of common stock or 20 per cent of the dividends declared on the common stock in the preceding six months, whichever is smaller.

Marsh said there's nothing unusual about the saving fund. It is "just a matter of establishing a systematic plan for paying off debts which were contracted to build the property that is producing the results of today . ."

MODEL STRUCTURE

Two hundred million dollars is a large amount to fall due in one year, even under favorable circumstances, Marsh admitted. If conditions 42 years from now should approximate those of 1895, or 1933 "the company might find it difficult to refund such an amount on a reasonable basis—if indeed it could be refunded at all."

This bond retirement fund, which should retire almost all of the debt by 1995, and other sound debt management policies has earned Santa Fe a rare compliment from Moody's Manual of Investments. Moody's says Santa Fe's capital structure is a model of what a railroad capitalization should be.

Marsh went on to tell the analysts what his railroad is doing to combat the squeeze upon earnings brought about by higher labor and material costs and higher taxes.

POSSIBILITIES

Santa Fe has some good cost-cutting possibilities on tap:

1—A mechanical refrigerator car requiring no ice at all. Thirty of these are being built for experimental use. Each car has a diesel-powered refrigeration unit and can carry 120,000 pounds of frozen food at sub-zero temperature. This would cut out ice plants, ice docks and delays in stopping for icing operations.

2—Roller bearings for freight cars. This is one of those improvements to freight equipment which is difficult to bring about, since freight cars move over various railroad lines. Unless all railroads get into the act, few will equip their cars with roller bearings except on an experimental basis.

3—Continuous welded rail. Track joint in rails are the most troublesome part of the rail structure. In Kansas, Santa Fe has a section of track of welded rails with lengths up to 2700 feet contrasted with the normal rail length of 39 feet.

Women's News

CCCCAAB
San Francisco Chronicle
Friday, June 12, 1953

in N. Y.

Beyrle during the last week in June. Each guest invited was given a certain hour and asked to bring a gift suitable for use at that hour.

So the bride-elect received all sorts of useful things. For instance, there were cards (for 1 o'clock), a teapot for 4 p. m. cocktail accessories for an hour later and so forth.

The hostess had a large clock set on a card table with pink ribbons running from each hour to the gift associated with that time.

The newlywedded Mr. and Mrs. Ethan Allen Ives (Eve McNear)

will be honored at a cocktail party this afternoon by **Jack Breeden** in his apartment on Telegraph Hill.

Return From Hawaii

Mr. and Mrs. Kenneth Monteagle, who have been house guests of Mr. and Mrs. Paul F

Ransohoffs For 8
Sum
Ransoh



3 pairs
regularly 3

15-denier, 60-gauge . . . s
summer-long wear. In bea
And remember! Of all the
we selected these . . . to

MMER'S S



paper on land allocation

together, but the operators of small-to medium-size farms can hold out better against sustained unfavorable conditions. It may be assumed under existing institutional facilities, a farmer is allowed to rent a larger volume of capital than he is permitted to borrow.

A Proposed Remedy.—A proposed plan for flexible credit based on a re-appraisal and with controlled disbursements is treated in the pamphlet, "Bank Credit for Soil Conservation," by Darryl R. Francis of the Federal Reserve Bank of St. Louis, 1945.

Inv. Davis, 'Financing Ag. Dev.', p.11, Mar '57

Bach writes of

"the going rate of return";

assumed same alternative for

all. p. 436

(tho on p. 430 ff. he shows diff. of i.)

Morgan, p. 356, the "normal

return", same idea — all

prop. must yield it, =ngnly.

Morgan not so bald as Bach

BANKING

Big Loan for G.M.

Detroit was busy with rumors that General Motors had just snagged the world's biggest private bank credit—$500,000,000 to $1,000,000,000 at perhaps 2½% interest. Partly guaranteed by the Government under newly enacted Regulation V of the Federal Reserve System, the new loan will bolster G.M.'s working capital ($518,000,000 on March 31) to a point where the company can produce at least $6,000,000,000 in war goods in 1943—four times its biggest peacetime year.

The loan double-checks G.M.'s horror of funded debt, presumably means that the company expects the end of the war will also mean the end of its need for added capital.

TIME, August 24, 1942

Bankers To Push Assembly For Late Payment Penalty

6-17-56

BY JACK CROSSWELL.

North Carolina bankers want a stick to keep their time-payment customers in line.

They propose legislation which would make it legal for them to collect penalties on late installment payments. The plan will be presented to the 1957 General Assembly. House members killed a similar bill in 1955 after it got Senatorial approval.

W. C. Owens Jr., of Greensboro, vice president of Security National Bank, declared yesterday that the plan was designed to protect bankers who finance automobile purchases. Owens added that it would not affect commercial banking in any way whatsoever.

He commented that late penalties would help defray expenses faced by banks that send collectors and adjustors for overdue payments.

North Carolina banks, said Owens, are handling approximately 90 per cent of the automobile loans in the State. "We are not skimming the cream, taking only the better risks," he added. "We take them as they come."

He said that Tar Heel banks have been "real aggresive in soliciting time-payment loans" and have taken national finance firms out of the leadership.

He also stated that the late installment charge would be an added weapon against back-street loan companies.

Owens, who is chairman of the Consumer Banking Section of the N. C. Bankers Association, said that the installment penalty would be less than five per cent of the overdue payment and not more than five dollars.

Designed for auto business, the proposed bill could affect persons owning home-improvement loans. Owens said, however, that long-term house buyers would not be affected.

At the present, banks can confiscate mortgaged property when payments are not met, but do not have the authority to charge a late fee. A local banker said that confiscation of property "never is a satisfactory solution."

A "General Bulletin" was mailed to Tar Heel bankers prior to the May Democratic Primary. It called on them to contact legislator-candidates and get pledges for the proposal.

". . . We expect to have introduced a bill authorizing a charge of five per cent of the overdue installment, the total charge of any one overdue installment not to exceed five dollars. The charge shall not take effect until one full day after the payment is due . . .

"Contact your legislative candidates now. Let them know you are interested in this legislation. Get them committeed, preferably by letter to you, to vote for this. Let you know as soon as possible the names of favorable legislative candidates in your counties . . ."

The bulletin was signed by Owens and carried a note from Jesse Helms, Raleigh office man for the Association.

North Carolina banks, led by the First Citizens chain of Smithfield, began a program to finance automobile purchases shortly after World War II. Other banks followed. Now they control the State's auto finance business, said Owens.

Independent insurance companies, unable to cope with combination national finance-insurance firms, joined forces with the bankers in an unofficial capacity. They recommended that their customers borrow from banks, and offered a more "personalized" insurance service, so independent agents claim.

"North Carolina pointed the way for the South," said Owens. "We showed how banks could serve the masses."

But the small percentage of late installment payers posed a problem. Owens said that some banks even had to buy cars for their collectors.

Sun Full of Pep Saturday

Old Man Sun smiled yesterday and nearly everybody who could ran away.

The mercury zoomed up to a sweaty 91 and people fled to beaches, the mountains and to the country. Some took refuge in air-conditioned buildings while less fortunate ones plugged in electric fans.

Soda fountains poured gallons of cold refreshments while movie houses boasted of their internal coolness rather than the title of the featured film.

By 2:30 p.m., when the mercury hits its 91 peak at Raleigh-Durham airport, the streets saw shoppers dash from one air-conditioned store to another, mopping their brows between doors.

And the weather man says Old Man Sun is going to be in a happy mood again today.

In the Wake of the News

BY *FRANCES WALLS*

W. I. Rowland of Willow Springs was telling us the other ay that a billion dollars lined back to back would stretch miles.

uffman of the State Conservation and



as though they belonged to someone else.

Talking to Pete Murdock in Cary we learned he collects models of automobiles — the miniatures that car manufactures put on display in agency showrooms.

Pete said he had gotten these miniatures wherever he could buy them until one day he suddenly realized he had a bookcase filled. He has around 40 in all including a jeep, a number of tractors, a firetruck and autos ld during the last 10 years.

ms he saw a miniature after he got out of got it and then er minia-

extensive a study of the Canal Zone's environmental features has been made. The data will be compared with that gathered from other tropical areas in the world to see if the Zone is typically tropical.

The Waterways Experiment Station of the U. S. Army Corps of Engineers sponsored the study. Other institutions have collected data about arctic and desert environments in similar studies for the Experiment Station.

Damage Suit Filed.

WILMINGTON, June 16—A suit for $8,500 in personal and property damages has been filed in the New Hanover Superior Court against two Camp Lejeune Marines from Pennsylvania. Plaintiff is Clarence O. Edge of Wilmington and defendants are Shelly Edwin Roberts, driver, and Robert George Johnson, owner of the car which was involved in a collision with Edge's car.

Miss Ann Hartzog, daughter of Mr. and Mrs. Henry G. Hartzog Jr. of Raleigh, has been named assistant to the dean of the Presbyterian Assembly's Training School in Richmond, Va. A recent graduate of the training school, Miss Hartzog previously attended Needham Broughton High School here, the Woman's College and the University of North Carolina at Chapel Hill. She will begin her new assignment June 19.

hour until other workers returned M. Robertson of Harmony. Dr from lunch. They called Dr. J. Robertson decided surgical equipment would be needed and called Dr. T. V. Goode III of Statesville, giving Doby a sedative to help him wait out the ordeal.

Said Doby cooly as the operation got underway:

"Take your time, Doc. You're doing all right."

"I've never seen anything like his courage," said Mrs. Robertson. "His composure was the most outstanding thing I've ever seen."

Iredell Memorial Hospital said Doby, the father of several children, came through the operation in fine shape.

Air Route Safer.

BALTIMORE, Md. (AP) — Two squirrels occasionally find it necessary to cross a busy thoroughfare. When traffic is slow, they trot across on the ground. But during rush-hour, they dash across on the trolley guy-wires.

Safety Films Invade Grills

WILMINGTON, June 16—The State Highway Patrol is taking its safety education campaign into taverns and grills these days.

Sgt. A. H. Clark of the Wilmington District Office of the patrol reported today that a series of sound films are being shown in taverns and grills and at such places as Carolina Beach, Wrightsville Beach and Seabreeze.

Sgt. Clark reported the program is paying off in fewer collisions and fatalities. Said he, "We're reaching a different class of people that we never have touched before."

Assisting Sgt. Clark is H. V. Hawley, field representative for the State Department of Motor Vehicles.

Last night, for example, a crowd of about 150 saw two films shown at one of the local beaches. The films include such titles as "The Last Date" and "Billy Graham on Safety."

Sgt. Clark said the program was initiated by the local district office last year in Brunswick and Pender County "piccolo joints." Since then it is being used more and more by other district highway patrol organizations.

In Fayetteville

LENNOX
AIR CONDITIONING-HEATING
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Tryouts For New Summer Theater Play Set Monday

Tryouts for a cast of 20 or more for "Green Grow the Lilacs," the Raleigh Summer Theatre's next play, will be held in the amphitheatre on Pogue Street Monday night at 7:30 o'clock, Director Dick Snavely announced yesterday.

"This show promises to be the biggest production ever attempted here in arena theatre," the director said. "Therefore, it will provide an excellent opportunity for new people to gain experience in small roles without having to speak lines, for a number of cowboys and settlers, both men and women, are needed for the singing and square dancing scenes."

"Both leading characters have songs to sing," he said, "and we will also need a number of male and female voices and a banjo player."

Anyone wishing to try out for any of these parts is invited to do so. Rehearsals will begin Tuesday. The show will be given "arena style" in the amphitheatre for five performances Tuesday, July 10, through Saturday, July 14.

"Green Grow the Lilacs" i... folk-play by Lynn Rig... deals with the ear... Indian Territ... it becam... homa...

...u owe after you
...r old appliance?
...DAIRE
...n-Lambe Co.
...and true value allowances plus
...chance to show you the differ-
... Buy FRIGIDAIRE, the finest
General Motors.
...RIGIDAIRE

THIS?
OR
THIS?

GOLD MAY SLICE PREMIUM AGAIN

Insurance Chief Calls On Companies to Prove Health Policy Rates

Insurance Commissioner Charles F. Gold gave fair warning yesterday that unless evidence is produced to convince him otherwise another rate cut is in prospect for accident and health insurance sold in connection with small loans.

He gave the State's credit accident and health insurers until Oct. 8 to produce their evidence, meanwhile warning the best they can expect would be to hold the rate at its present level.

"I certainly don't think you have made out a case for a rate increase," he said at the conclusion of his second annual review of loss experience for the coverage. "I am not going to give a rate increase. I am going to give consideration to a revision of rates."

The 1955 General Assembly gave the Commissioner authority over credit accident and health rates. After his initial hearing last year, Gold ordered the rate reduced by 25 per cent, from $3.30 to $2.50.

His decision then was based on figures showing the companies had paid claims during 1954 which came to only 30.34 per cent of the premiums they collected.

Robert W. Potts, actuary for the Department, testified yesterday that experience filed by the companies for the period from Jan. 1, 1955, to Sept. 30, 1955, showed a loss ratio for the nine months of 24.4 per cent.

During that time, four of five companies operating in the State reported they collected $3,025,360.95 in premiums and paid out $738,-624.27. Coastal Plain Life, of Rocky Mount, filed no report, explaining its statistics for that period were

See INSURANCE, Page Two.

way Commission's published list of main primary system projects for the 1957-58 fiscal year.

Counting $1,200,000 available in federal funds, the $800,000 allocated by the Governor will provide a total of $2,200,000 to get the job started. That is expected to be enough for grading the approximately 17 miles the new route will run and building structures—bridges, culverts and grade separations. The paving will not come until later.

The new road will leave Western Boulevard at a point between the city limits and the intersection of Western Boulevard and Hillsboro Street. It will run in approximately a straight line from there to Merry Oaks just over the Chatham line, bypassing Cary and Apex.

The road will be carried from Merry Oaks past Moncure to Deep River. This project also is set up for the 1957-58 fiscal year and will be built to the same standards.

By the time the two projects are ready to be let to contract, the State Highway Commission should know whether there's a chance of getting US 1 (from Henderson to Columbia, S. C.) on the Interstate System. The Commission, along with the South Carolina Commission, Raleigh and the 14 members of North Carolina's Congressional delegation are urging the Federal Bureau of Public Roads to put US 1 on the system.

Meanwhile, US 1 improvements are underway at other points. Bypasses are under construction for Sanford, Southern Pines and Henderson and Raleigh's Downtown Boulevard is being connected with US 1 on the north side of town.

The northern end of US 1 — from Henderson to the Virginia line — is part of an Interstate route which will run via Durham and Greensboro to Charlotte and into South Carolina. It will be relocated and completely rebuilt with Interstate money.

PROBE

Heady, S 124

p. 559, frnte: "Uniform i.r. wd prevail in the long run under a competitive credit mkt;"

—

Speak of 'costs', never discuss nature of 'cost' of land. Is it o.c., int. on price, or what?

Hedges, 3 "Many homesteaders had not been bona fide ~~settlers~~ farmers

Diff. mrs * "Large no.s of them mortgaged their homesteads to loan co.s immed.ly upon acquiring title." Good stuff, more to 357 348

Low mrs p56: "Having made huge fortunes....the Bourbons grow timid, buy up r.e. & stop investg in any but sure things." low mr types. 5103

Greeley, 2

Diff mrs p. 14 Bond sellers could borrow at lower i.r., than bank borrowers. 567

Dramatize diff mrs:
Story of mortgaged farm, resist foreclosure; contrast power of landowner over tenant. Thus answer why not lend: are risks in lending, meaning same as low returns to investments.

p. 98 Cites a "Consumer Purchases Study in the Pac. NW, 5159 that higher income farms, a higher % were "solvent". Vague, but right direction. Might give it a frnte somewhere.

Mnp can borrow easier because steady P mean less risk.

Marginal firms borrow hardest. & comp. ones. Farmers.

LVT equalizes, improves comp.

Review notes, 12

Mustn't underestimate mr as cost too much. In construction it is ½, over the years, remember. But on these long term commitments, I think most all theorists have missed main point. It is not that expectations are either good or bad, but that for rising or falling mr, but that borrowers expect it to be higher more, & lenders expect it to be lower, more, that increases volume of investing. Difference of opinion, & the spread between opinions. So there is an important ½ truth in K's idea that lending stops when lenders anticipated higher long term rates. Except there isn't, since, if borrowers anticipate them equally, they will pay a little more. It is the spread that counts. High risk is what reduces spread: it makes lenders charge more, & borrowers offer less. Fellner dovetails with this. & high risk just is another way of saying anticipated yield is low. So here is crux: low anticipations reduce what people will offer for loans, but increase therate asked. This risk element is what Fellner is speaking of with contingency reserves: in another way: people need more cash for their own risks; and are less willing to lend because of others' risks. So add this to Fellner.

Taxes on banking natch increase cost of transacting loans, increase disparity of rixxxxxxxxxx diff. i.r.s, distort allocation.

5402

p. 45: Stresses that banks have been unable to penetrate rural districts because the farmers themselves tax them away!

HB 171
.7

Ring, Henry F., "Problem of the Unemployed", p. 97, good description of land bubble growing -- emphasis on construction.

Decreasing ret. to scale:

Big inst. investors must use only conservative, stereotyped inv.s. Smaller can take new risks, etc.

T
in.

"Lender's risk" is often not just 0, but negative. I.e. you wd rather lend to Rockefeller, for him to go into risky project, than you go in to it yourself. For he repays you regardless.

5174

p. 47. Table C. Hungary, '32

Size of Prop. (in Yokes, 1 Yoke = 1.422 acres)	Debt per Yoke (pengo) = 8.3d
<5	534
6-10	309
-50	330
-100	280
-1,000	221
>1,000	167
ave.	280

All Debts, Public and Private, Go Up $33,000,000,000

1952

WASHINGTON, Sept. 21 (AP)—The Department of Commerce said today private and public debt rose $33,000,000,000 during 1951.

Practically all the increase was in private, State and local government indebtedness, the department's office of business economics said. It said Federal Government net debt showed "virtually no change for the second successive year in calendar 1951.

The rise in indebtedness pushed the total of all net private and public obligations to $519,000,000,000 at the end of the year, the department said. The announcement gave these details:

Aggregate private indebtedness reached $277,000,000,000 at the close of 1951. This was $21,000,000,000, or 12 per cent, above the calendar 1950 total.

State and local governments increased their indebtedness in the calendar year by $2,500,000,000, or 13 per cent. Total indebtedness of State and local units rose to $23,000,000,000 at the end of fiscal 1951—June 30, 1950.

Federal Government net debt remained at $218,700,000,000 at the end of December, 1951, just where it was at the end of calendar 1950. Net Federal debt is everything the Government owes except to Government agencies and corporations.

The growth of private debt during calendar 1951 increased the proportion of private debt in the total debt structure to 53 per cent, compared with 51 per cent at the end of 1950 and 35 per cent at the end of 1945.

Total farm debt amounted to $13,300,000,000 at the end of 1951, a rise during the year of 11 per cent. Two-thirds of the increase was in farm production loans and one-third in farm mortgage debt.

Nonfarm mortgage debt rose 14 per cent during 1951.

Corporate indebtedness increased $19,500,000,000 in the year to a total of $156,000,000,000, a 14 per cent increase. Corporate indebtedness increased 18 per cent in 1950.

Borrowing of noncorporate business and individuals for commercial, financial and consumer purposes increased 5 per cent in 1951 to a total of $38,700,000,000. The 14 per cent expansion in commercial (nonfarm) debt during 1951 was half as great as the 1950 rate of increase. Loans for financial purposes decreased 3 per cent.

Consumer debt rose 3 per cent in 1951, contrasting sharply with a 20 per cent rise in 1050.

Florence Swims From Catalina

Continued from Page 1

nel last July 3-4. She blamed rough water and chilling cold.

The only other woman to come close to making the rough swim from offshore Catalina Island to to the mainland was Myrtle Huddleson, who collaped just before reaching the beach in an attempt several years ago.

Florence was favored this time by calm water almost 10 degrees warmer than during her July try. The water temperature was 66 degrees at one stage of her progress last night.

She maintained a rhythmic beat of 26 to 28 strokes per minute throughout the night, pausing hourly for snacks of broth, sandwiches and sugar.

Twice watchers with rifles fired at what they thought were sharks, attracted by lights on the small flotilla that accompanied her.

The swim was televised by KNBH, local NBC affiliate, and broadcast by radio station KFWB.

The normally rough channel has been swum many times, twice previously this year.

McCalmont Loses His Pastorate

Special to The Chronicle

ROSEVILLE, Sept. 21—The Rev. William C. McCalmont was fired today.

The pastor, who is free on bail after being charged with swindling an aged couple out of their life savings, failed to show up for services this morning at Roseville's Presbyterian Church.

This afternoon, the Rev. Hugh A. Huddleson, clerk of the Sacramento Presbytery, issued this statement:

"Pastoral relations between the Roseville Presbyterian Church and the Rev. William C. McCalmont have been dissolved. The pulpit is declared vacant as of Sept. 21."

McCalmont, 35, left the Auburn jail Friday after his bail was reduced from $25,000 to $5000. He is now in a private Bay Area hospital.

His admitted accomplice, Harry Daniels, 42, was freed on $2500 bail Saturday.

The two men are charged with posing as Federal agents and frightening Mr. and Mrs. Joseph Lemos of Loomis into giving up their hidden savings of $22,408.

Eliot, 3

5120

'21, opposition in, bank kept from expanding much.

Latest farm org. is Farm Bureau Federation. Ass. with coop. movement (i.e. ass. with agric. mnp. Hence significance. Well, coops are more than mnp, esp at first)

Chap II: Mortage Credit, description & analysis of problem

A business, (corp form e.g.) can borrow permanently, never expect to retire debt, in form of equities, as well as bonds. Farmer borrowing is expected to repay -- tho with mortage, & renewals, can borrow semi-permanently perhaps.

Old days, didn't even have amortization privisions, lump payment due. (this looked on as great improvement, I suspect is adjustment to more settled conditions. In old days, farmer probly preferred not to have to start repaying first year, for he was clearing land. Like Emphyteusis. Now he buys going land.)

Up to 1920, farm land values increased (Mosk's figures e.g.) But then fell. (Mosk stopped before fall, probly started at depth, vastly overstated)

ch.3 Too-small

p. 38 "..although an increase in land values may benefit landowners, the purchasers of land find it a disadvantage. The higher the initial capital outlay, the less does the purchaser have for working the farm."

On this, cites "A farm mgmt Survey of 3 rep areas in Ind, Ill, Ia", Bull 41, USDA, '14.

ch.8

Farms harder to borrow on than other prop. So farms not typical debtors. ~~xx~~ Ratio of farm mortages to total farm land values is c. 10%; but r.r. bonds were c. 50% r.r. prop value (how assessed? Mnp value properly included?)

1920, bonded debt of r.r.s 1/4 greater than entire farm mortage debt. (farmers have votes, but r.r.s contribute to campaign funds) 1890, had been est. that farm mortage debt was just 1/5 debt of r.r.s)

(One is tempted to interpret history in populist terms, that farmers, disorganized, scattered by homestead act, were exploited as debtors. But when is seen they were such small % of debtors, this vanishes. More likely their disporportionate votin strength was exploited by richer debtors, who backed Bryan etc. Who, then, engineered deflation? Just an accident? Since when are creditors, bondholders, so well org. as debtors, who are landowners.?)

2/3 mortage debt of country was urban, 1890. (probly more now?) & urban debt was increasing much faster, 1890. (So before, was more farm debt?)

vs. me

Regionally, where farm land values higher, mortgage debt a lower % of the value. (probly just because richer farmers don't borrow so much)

5/20

~~Put in chap 2~~ → 1890-1910, farm mortgage debt reduced materially all over. 1910-20, rose greatly again. (i.e., the first 20 yrs after tough times, farmers invested in paying off debts. But after 20 years of rising l.v., psych. changes, they go into debt again, just when they shouldn't)

Then use whole in chap. 8. (or ch. 14)

1890 census showed almost exclusive purpose of farm mortgage borrowing was to buy land. p. 48. 64.38% for "purchase of r.e.", ~~xxx~~ 22.3% for various combinations of that with improving. From Census Abstract, 1890, p. 243

They seem to interpret buying land as "money going into improvements", interesting error.

Diff rates

Great regional differences of i.r. 1920, NH 5.4%, NM 9.5%. p. 49

Higher for i.r.

p. 52: Ins. co.s get higher i.r. on farm loans than urban, consistently. Lows in Mass., Vt., 5%; highs in Utah, Ark., area, c. 8%.

Where land values of farms highest, i.r. lowest, hence nearer to urban. (so urban i.r. lower because l.v. higher, security better) Cited from Robert Lynn Cox, "Investments of Life Ins. Co.s in Farm Mortgages,", Proceedings, 9th Annual mtg, 1915, Ass. of Life Ins. Pres.s.

Ch. 4

Commission charges another heavy expense, recur with renewals. They are sometimes an extra risk premium, too. AVE. ANNUAL commissions: N.D., 1.8%; S.D. 1.0%; NC 1.4%; Ga 1.1%; Okla 1.8%; Mont 1.6%. Cites Kingman Nott Robins, Farm Mortgage Handbook, p. 33; & Meyer Jacobstein, "Farm Credit in A NW state (ND)", AER, 1913, p. 598.

Highest commissions are where outside capital must be brought in -- sort of transportation cost of capital. States with highest ones are states without their local sources of cap. p. 53 Cites "Costs & Sources of Farm Mortgage Loans in U.S.", Bull 384, DA, p. 7.

Short

Ave. length of mortgage: 3-4 yrs. (corps sell bonds over many, many years)

Hi i.r.s less spread ch. 9

W.w.1, mortgage rates rose all over country, cap. scarcity due to war. As they rose, they equalized -- i.e., greatest rise where they were previously lowest. (because transfer costs are lower % as i.r. rises?) Attributes some effect to Fed. Land Banks, which have same i.r. all over country, in doing this.

Farm i.r. high because great risks of any one farmer. Little diversification. Weather, price risks, insects, etc. He has no standardized security to offer. Land hard to appraise as security.

(farm price supports probly improve farm credit conditions much, by reducing price risks)

5120

Banks & insurance co.s together make maybe 1/3 farm mortgages, c. 1920 (USDA Bull. 1047) Private investors, often thru "farm loan co.s", 60%. Land banks, state agencies, mortgage co.s, "bankers" (as individuals presumably), the rest.

Of the private individuals 60%, c. 40% from farm loan co.s, which import capital, 20% from private individuals, e.g. land sellers on credit.

Banks & land loans

Until 1913 FRA, Nat. Banks not allowed to lend on ~~farm~~ mortgage. Perhaps the reason farm bust did not widen into general depression was that in 1921, only 1½% total Nat. bank loans were on farm r.e.

Farm Mortgage Co.s would raise cap by debenture bonds, invest in farm mortgages. Early 90s, wholesale failures. Gave bad name to farm mortgages, & debenture system. Since then, re-established.

Most mortgage loans made close to home. Farm mortgage co.s allow people to lend on land they never see, but still they stick in same state, largely. Except for plains & mt states, i.e. trans-miss. (except La & Cal), mostly borrow from outside state. (Aha, so this is why they spearheaded debtor movement. It was not that they had more debts; but that they had no creditors to neutralize the debtors. So eastern senators would be pushed both ways, but westerners were definitely for inflation. & the thing took on regional aspect then -- & voting on populism follows that too.

Western farmers were small % of debtors. But the debts were spread among large no.s of them, being in small portions; & each of those individuals had disproportionate voting strength. Hence the loud wail -- & the overemphasis on this in political history, which was so much less meaningful in economic history)

(Deflation after civil war can be explained by political neutralization of formerly powerful debtor class. It took a while for the western debtors, & others, to grow in debt & strength political, to restore inflationary bias to politics.)

(This not part of an yone's "plot", just result of general pressure that became dominant)

FRA allowed Nat Banks to lend on farm mortgages, within 100 miles of bank.

But couldn't lend more than 10% capital & surplus to any individual. Many small town nat banks had min cap of 25,000$, so max loan was $2,500. Limited lending.

Banks could pile up munic bonds w/o limit, tho many no good.

(Since other banks thus prohibited from serving farmers, speci l land banks perhaps not a special privilege, but compensation)

5120 Eliot, 6

Chap III Recent Nat. & State Provisions for Mortgage Credit

1913-16, investigations of credit for farmers. Commissions sent to Eur. (natch, they had had agric. l.v. for years, hence need for subsidized cap mkts)

5120

Frontiersmen, all the way accross U.S., always wanted cheap M. Because: they were debtors, wanted relief.
they needed a medium of exchange which private enterprise did not furnish
they wanted to borrow cheaply, to compete with city folks to buy land. Many of the inflation schemes merge into coop credit schemes. (this my interp)
they needed capital, export of bank notes based on mortgages easier than exporting mortgages, perhaps.
they wanted land to be credit base, since they had land, cities had commercial loan collateral.

Cities generally opposed, for contrary reasons.

Fed. govt, constitutional days, pushed thru by city people. They wanted free trade, which farmers didn't care so much about, & sound money. Colonial days, had been many inflationary acts by rurals, const. forbade states to issue currency. States, & states rights, were in convention days the inflationists hideout. (thus the Hamiltonian system, federalists, was urban, commercial)

1st BUS was organ of hard M people, kept states from issuing, state banks i.e.

States got around prohibition of note issue by chartering state banks, which issued notes, never redeemed, made loans to states, never paid (my recollections) thus in effect states printed M. Function of BUS, 1 & 2, to prevent this, as well as other inflationist abuses.

In pds between banks, wild inflations. Nat. Banking Act, 1863, finally taxed state banks notes out of existence.

Colonial days, "banks on land" often created in west. Land was security for notes, which often just meant they loaned on mortages. 1740s, debtors got control of Mass legislature, great inflation. Eng. forbade, using the Bubble Act vs corps to prohibit such inflationary banking. A potent cause of revolution.

Curious contradiction, that the spark of the revolution was the inflation minded westerners. Yet the control went to commercialists on seaboard. It was not until those seaborders got mad at Eng that they joined with westerners vs Eng. But then they formed a new govt with precautions vs inflation -- tho, meantime, thru war & continentals, all had had a very good dose of inflation.

1725, very successful such land bank in Pa, Franklin favoring. Lasted to revolution. (so who says Hammond's Bank of NA was first bank in U.S.?)

5/20

Pa bank was like what populists later demanded.

Another paper M method was colony govt issued them. This relieved landowners of taxes, made farmers very happy.

Curious contradiction that Jefferson, the anti-Federalist leader, had hard M ideas. To be sure, Jackson had such ideas, too, but his acts were inflationary, Jeff's weren't.

Commercial areas seemed to lead in est. sound M: Boston, with Suffolk system. NY, safety fund system; & New Orleans, Forstall system.

Political mismanagement of state banks was such that gradually many states made them unconst. Then NBA finished off their notes.

Grangers were first vs r.r. rates, but after '73, turned to inflation, because of deflation that had occurred, & burden of debt.

Leg.: Root, Carroll, "Sound Currency" (jnl?), V. II, #10, "States as Bankers".

Deflation esp. distressed those who had bought land on credit when value inflated.

Strong Greenback pty, fded. 1874, but even so specie payment resumed, '79. '78, Bland-Allison compromise act, $2m/mo silver coinage.

1883 & sequences brought further discontent. Farmers Alliance, peak power 1888-9, inflationism, subtreasury scheme, r.r. public ownership, etc.

"Greenback" movement assoc. with Ohio, Ind. etc., esp; free silver & populism with trans-Miss. states, in 90s.

Subtreas. was to make currency, as well as store agric. products. NW alliance variation would have it a "land bank", making currency by lending on farm mortgages, the old idea. (thus the historical significance of calling the later "land banks" by that name. Except they never played much role in inflating anything.)

1890, Sherman silver purchase act, govt must buy 4½m oz. silver/mo at mkt; but this didn't stop its -dP even.

1900, "Gold Standard Act,", settled it. (that was when we adopted gold standard, abandoned bi-metallism. Meaning was just that govt undertook to redeem all types of currency in gold, making all good as gold.-- in effect supporting silver price I judge, so no one would melt gold to buy silver cheaper on free mkt, as silver sellers could always sell to govt. at fixed price)

"Non-Partisan League", N.D., carried state 1919, put thru its state bank, etc., state rain elevators, hail insurance.

State Bank's bonds had to be taken directly to buyers, bond houses proving uncooperative -- (suggesting mmp)

~~Large NY state~~

Valuable NY r.e., equity often well under 50%.

s413 p.46, 2 e.g., one being Emp. State bldg, $50m total, $14m equity.

Val Pikner borrows from F.H.A. for home at 5% — is best he can do.

(G.I. loans probly lower)