

CHAPTER XXII

THE FARMER AND THE BANKER

UP to the passage of the Farm Loan act for the advancement of money to farmers at low rates of interest and on long-term mortgages the farmer was in an almost hopeless position in so far as credit was concerned. But the Farm Loan act offers no relief to the would-be farmer who wants to buy land nor yet to the tenant who has no real estate to offer as security.

Credit is as vital to agriculture as it is to industry. The farmer must borrow a part of the purchase price to acquire his land. He must borrow to build, to drain, to clear, to improve. He must borrow for farm implements, to plant his crop, and even to pay wages for harvesting. But the whole fabric of credit, with the exception of the relief now available to owning farmers through the farm-loan banks, is organized against the farmer. He is more discriminated against than any class of borrowers. Yet a properly organized system of banking would make the promotion of agriculture a matter of first concern. Credit in the United States is so controlled that the interests which need credit the least command it most readily and on

the lowest terms. Money can be borrowed for speculation on the New York Stock Exchange at from 2 to 3 per cent. The wheat speculators, food speculators, and middlemen of Chicago, Minneapolis, and elsewhere have every facility extended to them by the banks. Credit to the extent of billions can be had for speculation, yet Stock Exchange credits are not used for production at all. They serve no really useful purpose. They are extended for gambling purposes; for the purchase and holding of stocks and securities. Money for sky-scrapers, for industry, and loans on commercial paper is available at from 4 to 6 per cent. and in unlimited quantities. Yet the farmer, when he comes to market the most secure of all commodities, wheat, corn, cattle, and the produce of the farm, has to beg for assistance, while the tenant farmer, the man who most needs encouragement, has to pay loan-shark rates to secure any credit at all.

Here is another obstacle to agriculture. Here is a further economic explanation of the decay of farming. The farm-loan banks have relieved the owning farmer who has security to offer. He can now borrow at 5 per cent. interest and on long-term loans. No longer need he go to the local banks, the broker, or the private money-lender. And this will aid in checking the drift to tenancy and alien farm ownership which is largely traceable to foreclosures. But nothing has been done to aid the

would-be farmer who has nothing to offer but his labor. There is no provision for the tenant farmer except such as he secures from the local banks or the store which has a claim upon his produce. And the extortion of the banks and money-lenders of the South, the Southwest, and the West is almost incredible.

The Comptroller of the Currency has investigated usury and the excessive rates charged by the banks. A similar investigation was made by the Commission on Industrial Relations. In the South and West the tenant farmer is continually in debt. He rarely escapes.

An elaborate report of the practices of the banks in Oklahoma was made to the Comptroller of the Currency by Judge L. C. McNabb, of the county court of Sequoyah County. It describes how the bankers and money-lenders keep the farmer in bondage, of how they increase the rates and commissions, of how the farmer once involved is rarely permitted to get free, and how as a result his farm is finally foreclosed and he is reduced to the position of tenant or farm-laborer. Probably in no State in the Union have the banks contributed more to the destruction of home ownership than in Oklahoma which a few years ago was one of the richest agricultural States in the nation.¹

The farmer, says Judge McNabb, usually makes

¹ *Report of Comptroller of the Currency, 1915, pp. 218 ff.*

his first loan just before the spring planting, that is, in February or March, in order to put in his crop. He has to sign a mortgage on his horses and some 75 or 100 acres of his land. The banker insists that he must plant nearly all of his land in cotton, in which crop the banker sees the most money, even if it would be more to the farmer's advantage to plant some of it in grain. Finally, he receives \$200 as a loan and makes out his note for \$237.50, payable at "potato-digging" time, about July 1. He is thus paying interest at the rate of 55 per cent. per annum. He has no ready money on July 1, for he has planted no potato crop and never intended to do so. But the banker graciously allows him to renew his note, although complaining about the difficulty of getting money. The rate of interest is now greatly increased. The farmer's note now reads \$287.50, payable October 1, which is an interest rate of 100 per cent. per annum. On October 1 the process is repeated, for the farmer still has no ready money, although he has now begun picking his cotton crop. He hastens the picking, takes some of the crop to town, and pays off a considerable portion of the loan. On the remainder he pays \$10 a month for each monthly extension, which usually amounts to an interest rate of about 60 per cent. a year. During the fall and winter he again pays off some of the principal but extends the rest, a process which goes on through

the picking season till the year is up and it is again February or March and he must borrow anew to plant his crop. Had he put forth his best efforts he could have paid the whole note in full during the picking season, but the banker flattered him upon his good credit and encouraged him not to pay up in full. By March, then, he has paid \$137.50 in interest on the original loan, but finds that he still owes \$100 on the sum first borrowed.

The new note now must be \$300 and interest. It is made out for \$347.50, due July 1, with promises of extensions. When he renews in July he signs for \$397.50, payable October 1. Again he makes payments on the principal in the fall and pays \$10 a month for each renewal on the remainder. But his family needs clothes and other things and he has to keep most of the money he gets for his crop. When the cotton is all gathered in the middle of the winter he finds he owes \$200. Of this sum \$147.50 is interest, of which \$50 has been paid in five monthly "extensions" besides the \$97.50 on the face of the note.

In March this \$200 must be added to the \$200 he needs to make his crop. He now no longer finds the banker gracious. In fact, he is threatened for not having paid more on his old notes, and foreclosure is broadly hinted at. The farmer is now thoroughly frightened and glad if the banker will let him have further credit on almost any terms.

He makes out his note for \$487.50, payable July 1. When he comes for his renewal in July the banker agrees, provided a cold \$75 interest is added. The note now reads \$562.50, containing 75 per cent. compound interest. The poor farmer becomes discouraged and loses hope of paying all he owes. He tries desperately to borrow money from other sources. He is now closely watched by the banker for fear that he will try to "beat it." Now he must bring practically all he gets for his crop to the bank and fairly beg for enough to clothe and feed his family, who, by the way, have all worked hard gathering the crops and have received no reward beyond their barest necessities. In desperation he finally does try to "beat it," and steals out some of his cotton to sell to people who are looking out for just such opportunities. During all this time the note has been reduced only to \$300. He can get no more credit at the bank, although he may succeed in borrowing enough from friends to make his next crop. Meantime, he has had to renew the old note again at ruinous interest, which makes it \$466.50. In the fall the banker takes as much of the proceeds of his crop as possible, and yet, after the season's picking, the farmer still owes \$400. His chattels are now demanded, advertised, and sold at public auction, and the farmer is ruined.

Mr. McNabb says there are thousands of such cases in Oklahoma alone. Those who fight against

the system are ruined politically. The banks, by standing together, can put up and elect their own man as State treasurer. Honest bankers, he says, are the great exception in Oklahoma, for the system is such that good men are driven away from it.

Usury is practised on a vicious scale all over this part of the country. An investigation of conditions was made by the Comptroller of the Currency in 1915.¹ His report showed that on loans of small amounts, such as the tenant farmer is compelled to accept, the interest rates rose as high as 100, 200, and in small sums as high as 2,000 per cent. In some sections the banks have been charging rates that were ruinous to their customers. A Texas national bank with a surplus and capital of \$250,000 in a city of 15,000 sent to the Comptroller, in response to a special request, a statement of all loans made by it between August 1, 1914, and November 27, 1914, upon which the interest was more than 8 per cent. per annum. The statement showed that the rate charged by this bank ranged anywhere from 20 to 100 per cent. on short-term paper. In general the high interest rates, which sometimes exceeded 100 per cent., were on the smaller loans, while notes for \$1,000 or over rarely paid more than 10 per cent. or 15 per cent. interest. As a matter of fact, the extortionate interest rates were almost all to the most necessitous borrowers, who were for the most part tenant farmers. In-

¹ *Annual Report of the Comptroller of the Currency, 1915, p. 23.*

terest rates of 10 per cent., 20 per cent., and 30 per cent. were so common as to seem to be the rule in this bank.

In June, 1915, a number of national banks in the South and Southwest were required by the Comptroller's office to make a report of all loans made by them between May 1, 1915 (the date of the last previous statement), and June 23, 1915, on which the interest, discount, or commission was 12 per cent. or more, providing the amount of the interest, discount, or commission exceeded \$.50. At this period money was particularly easy to get, so that it is safe to infer that the rates charged by the banks, excessive as they were, were probably not so high as they had been during the preceding twelve months. The reports in each case were made under oath by executive officers of the banks. Most of the banks under investigation were in small towns in Georgia, Louisiana, Texas, and Oklahoma. Names of banks and of borrowers are omitted in the Comptroller's report.

Of the 105 loans reported by a certain national bank in Texas, in a town of 2,000, 71 bore interest at 25 per cent. or more. Four were at 100 per cent. or more. A national bank in Oklahoma reporting 112 loans at rates exceeding 12 per cent. admitted that 84 of them bore interest at 25 per cent. or more. In 15 cases the rate exceeded 100 per cent., in one instance even reaching 514 per cent. on a small sum loaned for seven days.

As part of the exhibits in its investigation of usurious interest, the Comptroller's office asked a certain national bank for the record of its loans to one particular borrower chosen at random from a number to whom a series of loans had been made. The bank was requested to send in a list of all the loans made to this borrower during the preceding twelve months. The bank submitted under oath a list of 29 loans made to the borrower, a woman living on a farm six or seven miles from the town in which the bank was located. The loans were all for small sums and on short time, the largest amount being \$620, which was borrowed for twenty-three days. The interest rate on the 29 loans ranged from 36 per cent. to 2,000 per cent. per annum. Of the 29 loans 21 bore interest at the rate of 100 per cent. or more. Fortunately, in this case the borrower was able to pay all the notes in full.

One Oklahoma bank in its list of loans at interest rates exceeding 12 per cent., issued from January 1, 1915, to November 10, 1915, reported 184 at rates exceeding 150 per cent., 75 of which were at rates exceeding 300 per cent. Thirty-three paid interest charges of 500 per cent. per annum or more. In the town in which this bank is situated there are two national banks and two State banks, and one might suppose that competition would reduce these high rates. But the borrower apparently derives no benefit from any such competition. The list of

loans submitted by the other national bank in this town showed no more moderate rates of interest than in the first bank.

Another Oklahoma national bank, in its sworn statement, reported that the lowest rate charged by it on loans between September 2, 1915, and November 10, 1915, was 10 per cent. Its average on *all* loans issued during this period was 25 per cent. In another national bank the average interest rate was 36 per cent. and in a third 40 per cent., the rates at this bank ranging from a minimum of 8 per cent. to a maximum of 300 per cent.

Here again are reasons why men do not become farmers and why those who do so often fail. The wonder is that agriculture has not been more completely destroyed than it is. Free seeds will not help these evils. Nor will education. The economic foundations of agriculture have been neglected. The farmer has been compelled to fight, unaided and alone, against such odds that he is discouraged and often in despair. If the evidences of the Commission on Industrial Relations, if the evidences of a casual traveller in the South and Southwest can be accepted as representative, then there is the most urgent need of a comprehensive programme of national and State legislation for the protection of the farmer and a big, constructive programme on the whole subject of agriculture as well.