THE MAJOR SOURCES, USES AND AVAILABILITY OF AGRICULTURAL CREDIT AS REPORTED BY LENDING INSTITUTIONS IN A TWO COUNTY AREA IN WEST CENTRAL OKLAHOMA

By

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CHAPTER I

INTRODUCTION

Agricultural credit is the lifeblood of the farming business, because not many people are financially able to provide all of the capital needed for farming operations. What exactly then is meant by agricultural credit? "Credit" may be defined as "belief in the truth of a statement, or in the sincerity of a person." [1] In farming and ranching, credit means "confidence that men will take care of their future obligations." [2]

Agricultural sources of credit range from individuals who willingly assist young farmers to large commercial banks or government-sponsored agencies. Historically, the financial management function has been a multi-faceted operation, especially for young farmers, as large amounts of capital and other financial resources become necessary to operate a modern farm business. Establishing a sound, realistic and workable program of credit need and utilization becomes a sound prerequisite for achieving farm operation success.

In today's agriculture, managing credit has become an even more important facet of farm life and the rural economy. If credit were not available to modern farm businesses, resources and production levels would be drastically cut. According to Richardson, Camp and McVay, "Modern farm managers rely on credit. Yet credit must be used wisely and in a total financial plan if the farm business is to remain solvent." [1]

Credit becomes necessary in farming enterprises for the prosperity of farms and closely related agri-business firms. Krebs, in his discussion of farm credit pointed out that "for farmers to be prosperous, the entire nation must be prosperous." [2]

Problem

The problem to be resolved by this study is to determine the sources, uses and availability of agricultural credit in a two county area in west central Oklahoma through the collection and examination of data submitted by participating lending institutions. Because of the increased importance of the role of agricultural credit to the producer in his aim for a sound business operation, this problem has developed its own need for a study of the major sources, availability and acquisition of agricultural credit by producers in Kingfisher and Blaine Counties.

"Credit is extremely important to farmers." [3] And, agricultutal credit will continue to be important to those farmers who depend on credit to maintain or expand their farming operations. So, as Dennis Themer, loan officer of Kingfisher Bank and Trust Company, states, "the acquisition of proper credit will be very important to farmers to prosper in today's agriculture." [4] Today, especially, with the increase of bank closings, a farmer will need to know the different sources and requirements of obtaining credit.

Rationale

Younger farmers, established farmers and vocational agriculture students seek credit in order to achieve career opportunities for future prosperity as well as the cash flow necessary to operate the farm business. Producers' needs include the knowledge of credit utilization, determination of credit sources, availability, and cost of credit acquisition.

Purpose

The purpose of this study was to determine the major sources, availability and acquisition of agricultural credit for agricultural producers in the two county area of west central Oklahoma.

Objectives

1. To identify major agricultural credit sources available to producers in Kingfisher and Blaine Counties.

2. To determine the availability of agricultural credit to students and producers in the Kingfisher and Blaine Counties.

3. To identify problems of credit acquisition encountered by producers from agricultural lending institu-

tions in Kingfisher and Blaine Counties.

4. To draw implications from this study regarding the influence of lending policies affecting young adult farmers and high school vocational agricultural FFA students.

5. To describe the difference among lending institutions in Kingfisher and Blaine Counties making agricultural loans.

Assumptions

With regard to the study, the following assumptions were made:

1. The instrument used gave an accurate determination of the sources, availability and guidelines for agricultural credit.

2. The opinions given by loan officers were honest, giving the true policies of their institutions.

Definitions

The following definitions are included to assist the reader in a better understanding of the study. The words are explained in general terms and are not meant to be all-inclusive, but are given to serve as a guide to the meanings of the following defined terms.

Lender: is a firm that extends money to borrower with the expectations of being repaid, usually with interest.

Assets: are anything having commercial or exchange value that is owned by a business, institution or individual.

Chattel: is an item of tangible, movable property.

Cash Flow: is an analysis of all the changes that affect the cash account during an accounting period, broken down into sources of cash and uses of cash.

Collateral: is an asset pledged to a lender until a loan is repaid.

Co-Signiture: is a signature of an individual or business which guarantees the line of credit of another individual or business.

Credit: is an act of making an entry which increases liabilities, owner equity, revenue and gains, and decreases assets and expenses.

Debt: is money, goods or services that one party is obligated to pay another in accordance with an expressed or implied agreement. Debt may or may not be secured.

Default: is the failure of a debtor to make timely payments or other breach of contract.

Equity: is the difference between the amount the property could be sold for and the claims held against it.

Federal Farm Credit System: was established by the Farm Credit Act of 1971 to provide credit sources to farmers and farm related enterprises through a network of twelve farm credit districts. Each district has a Federal Land Bank, Federal Intermediate Credit Bank and Bank for Cooperatives to carry out the policies of the system.

Federal Intermediate Credit Bank (FICB): is one of twelve banks that make funds available to production credit associations, commercial banks and agricultural credit corporations.

Federal Land Bank (FLB): is one of the twelve banks under the Federal Credit Administration that extends long term mortgage credit to crop farmers.

Financial Statement: is a written record of the financial status of an individual, association or business organization.

Interest: is the cost of using money for a period of time, usually expressed in percentages for a time period.

Liabilities: are the claims to the assets of a company or an individual excluding ownership equity.

Mortgage: is the debt instrument by which the borrower gives the lender a lien on property as security for repayment of a loan.

Net Worth: is the amount in which assets exceed liabilities.

Operating Expense: is that expense which occurs in the operation of a business.

Refinance: is extending the maturity date or altering the amount of existing debt or both.

Security: is collateral offered by a debtor to a lender to secure a loan.

Scope

This study was limited to lending institutions of all types in Kingfisher and Blaine Counties, which are located in the central Oklahoma area, thirty miles northwest of Oklahoma City. The major products in this area, other than oil and gas, are beef and wheat, with a few outlays of oats, barley, sheep, swine and hay.

This study included the following insitutions in the two county area: (1) Peoples National Bank, Kingfisher; (2) Production Credit Association, Watonga/Kingfisher; (3) Federal Land Bank, Watonga/Kingfisher; (4) Capital Federal Bank, Kingfisher; (5) Farmers Home Administration, Watonga/Kingfisher; (6) Kingfisher Savings and Loan, Kingfisher; (7) Watonga Savings and Loan, Watonga; (8) First National Bank of Hennessey, Hennessey; (9) Cashion Community Bank, Cashion; (10) Dover Community Bank, Cashion, Dover Branch; (11) Watonga State Bank, Watonga; (12) First State Bank of Watonga, Watonga; (13) State Guaranty Bank, Okeene; (14) First National Bank of Okeene, Okeene; (15) First National Bank of Geary, Geary; (16) Community Bank, Canton/Okarche; and (17) Kingfisher Bank and Trust, Kingfisher.

It was the intent of this study to acquire realistic information from all of the above lending institutions in order to better serve young farmers in the acquisition of funds for beginning or continuing their farming operations.

Organization of Paper

This study is organized into five chapters to inform the reader of the uses, sources and availability of agricultural credit in Kingfisher and Blaine Counties. Chapter I introduces the reader to the problem, rationale, purpose, and objectives of this study. It also sets forth the assumptions made by the author as the basis for the conclusions and includes a table of definitions to assist the reader.

Chapter II reviews the literature applicable to this study and reviews pertinent articles by reputable authors on the subjects of credit sources, availability and acquisition.

The methodology and design of the study is described in Chapter III. The population of the survey and the development and administration of the survey instrument are included to illustrate to the reader the basis for the author's analysis of the data.

Chapter IV presents a systematic arrangement of all data collected from the surveys sent to the study area. An analysis of the data is categorized by the characteristics and factors which are considered by the lending institutions in the survey area.

The author sets forth his findings and conclusions of the study in Chapter V. The findings and conclusions are based on the data stated in the previous four chapters. The author attempts to make known to the reader the uses, sources and availability of agricultural credit in the survey area. The author makes recommendations for further research and study.

CHAPTER II

REVIEW OF LITERATURE

The purpose of this chapter is to present an overview of related and indirectly related literature and research that identified a number of factors relevant to this study. The presentation of the review was divided into three major areas and a summary to facilitate clarity and organization. The areas were (1) Credit Sources, (2) Credit Availability and (3) Credit Acquisition.

Credit Sources

In order to have a complete understanding of the sources of credit available to the producer which will lead to the proper choice of financing, producers need to know and be familiar with the various types of lending institutions and how each will best serve their needs.

Commercial Banks

Commercial Banks are usually privately owned and regulated by the United States Comptroller of the Federal Reserve System and the Federal Deposit Insurance Corporation. They are concerned with short term notes repayable in one year, some intermediate term notes and very few long term notes.

These commercial banks are very important sources of short term and intermediate term credit. Maximum loan amount is twenty percent of total capital and surplus of state banks and ten percent of total capital and surplus of national banks. If the loan exceeds this percentage, a correspondent bank may be asked to participate in the loan.

Federal Land Banks

Federal Land Banks handle notes usually amortized over periods of time ranging up to forty years. They primarily help with securing first mortgages of land and major improvements on land. The maximum loan can be 85 percent of the appraised value of the land, unless guaranteed by a government agency; then, the loan can be 97 percent of the appraised value. Payments can be monthly, quarterly or yearly. There is no penalty for early repayment. The interest rate is based on the variable rate set by the Federal Land Bank Association and dependent on money market conditions. To obtain a loan, one must realize that one has to purchase stock in the Federal Land Bank at the value of five percent of the total loan. Thus, a note of $100,000.00 would require a purchase of $5,000.00 in stock.

Production Credit Associations

Production Credit Associations are second following commercial banks in providing short term and intermediate term financing. These loans have a maximum maturity of ten years. The loan limit can be 100% of the appraised value of the land, but is usually about 70% of the appraised value. Short term operating loans are budgeted loans in which cash is advanced and payments are scheduled according to cash flow. There is also a requirement of five to ten percent of stock purchase in the PCA. The maximum loan available is determined by the capital and surplus of the Production Credit Association and credit factors of the individual borrower.

Farmers Home Administration

The Farmers Home Administration (FmHA) is a part of the United State Department of Agriculture. Loans are granted only if an individual farmer or rancher, farm partnership or farm corporation cannot acquire financial support from some other means. Basically, it is a supervised loan by the lender (FmHA) and is "a means of last resort."[5] One version can be obtained through the commercial bank in which farmers make application for a guarantee of 90 percent of the total loan. The maximum amount of the loan varies. Operating loans to an individual can be $200,000.00. Under the guarantee of 90 percent, loan maximum is $400,000.00 for operating expense and $300,000.00 for real estate loans. The interest rate is determined and agreed upon by both the lender and the borrower. The interest rate cannot exceed cost of the money to the government, plus one percent.

Emergency disaster loans can be obtained where production or property loss has occurred. The interest rate is set at the time of the loss.

Individual

Historically, individuals are one of the most important sources of real estate financing in the United States. [5] Loan maturity and terms vary according to each individual contract. Interest rates are usually lower and maturities are usually shorter. The loan can be complicated if a well-drawn agreement does not exist between the borrower and the lender.

Insurance Companies

Insurance Companies mainly confine their lending to real estate long term debt. They secure these loans through these loans through real estate mortgages. They usually use only first mortgages and will lend up to 60% of the appraised value of the land. Interest rates are generally higher than the Federal Land Bank by a couple of percentage points.

Small Business Administration

Small Business Administration loans are made to farmers who have less than $1,000,000.00 gross income and have been turned down by the Farmers Home Administration. They can lend two to twenty years on real estate backed loans, one year on operating expenses, and ten years on intermediate loans.

Dealer Credit

This is credit obtained for operating one's own farm or ranch. These are usually open accounts which have a relatively high interest rate but are used to encourage business by providing a "grace period" - interest free pay-back period. This is used primarily for promoting a sales item. A drawback may be that a person is on a limited amount of credit which requires a certain level of liquidity, not usually for a large amount. [5]

Credit Availability

Credit availability is obviously the initial concern of those attempting to finance their farming operations. Commercial banks and those institutions contained within the Farm Credit System (FCS) are, of course, the primary sources of credit for those seeking agricultural loans.

While the demand for farm credit has increased drastically in recent years, commercial banks' share of agricultural credit has, in fact, declined. This decline is due largely to commercial banks' inability to compete with institutions such as Production Credit Associations (PCA) who, because of federal support, are able to offer lower lending rates. However, the more aggressive agriculturally-minded banks have been able to maintain their share of the market. "These banks have been able to do this by developing stronger loan participation ties with their city correspondents and by creating wholly-owned agriculture credit corporations that have rediscount privileges with the Federal Intermediate Credit Banks (FICB)." [6] These credit corporations operate on a basis similar to that of a PCA and have the same cost of money from FICB as the PCA. Such commercial banks can and do efficiently provide and service agricultural loans for both short and intermediate term needs. Commercial Banks are still the best source for immediate cash flow. Sources for long term credit needs, however, should probably be sought through alternative sources such as those provided by the FCS.

The first component established by the FCS was the Federal Land Bank System. As it has since its inception, the Land Bank System provides farmers with a source of long-term loans -- maturities ranging from seven to forty years -- secured by first mortgages on real estate. Farmers commonly use the loans to purchase land, improve farm properties, construct or repair buildings, refinance existing mortgages and pay other debts. However, because of the need for more credit, especially credit of a short term nature, the second major component of the Federal Land Bank System evolved, establishing local Production Credit Associations.

The PCA's loan money to farmers yearly for crop and operating expenses. PCA's loan on terms up to seven years for the purchase of machinery, equipment, livestock and facilities, land improvement and for meeting other farm and family needs.

Credit Acquisition

How, then, does agricultural credit work for farmers and ranchers? "The ability to transfer debt is made through the use of credit instruments." [7] These are written extentions of credit used when an individual needs financing. The credit can be obtained by transferring debt from one person to another. A credit instrument is that means by which money can be obtained to purchase another asset or generate additional income. A person may own fifty acres of land in which he needs a small tractor to help till the land. The credit instrument is used in purchasing this tractor, which will be paid for over due time and which will be backed by the land as collateral. The fifty acres is the element of the instrument which will help suffice to protect the lender if payments are not made.

Collateral is means used to secure credit. There are basically two types of collateral:

(1) Equipment used in the farming operation, and

(2) Farm Products, crops, livestock or supplies used or purchased in farming operations. They could be products of crops or livestock in the manufactured states. They may be in possession of the debtor engaged in raising, fattening, grazing and other farming operation. If the goods are farm products, they are neither equipment nor inventory. 8 (Page 83).

A basic plan of action for obtaining money for one's specific needs includes the following:

(1) Plan in detail the agriculture enterprise.

(2) Utilize past or present work-related experiences.

(3) Explain the time frame for the operation and the loan;

(4) Explain the necessary budget;

(5) Explain the payback plan to include (a) how much, (b) what source of money and (c) how often; and

(6) Outline one's loan security, such as (a) signiture note, (b) financial statement, (c) real estate and (d) other. 8 (Page 85).

By organizing one's own financial data, an individual producer can make a more realistic analysis of what his needs are. First, a producer should prepare a balance sheet describing his assets, liabilities and net worth. Second, he should prepare an income statement showing net farm income. Third, a producer should generate a monthly cash flow statement which reveals cash receipts, expenses and borrowing needs.

Producers need to keep these statistics in perspective during the year for future projections. These are important in making an analysis of an individual producer's operation.

Lenders are best utilized as outside partners who, as an individual, can assist in justifying a person's actions towards his operation. While using one's outside partner, it seems advisable to get a grasp on whether one's projections are being kept in perspective. If so, then a presentation may be necessary during the loan request period or at the closing. When visiting a lender, borrowers should be prepared to reveal a balance sheet, cash flow statement, and have the payback period and collateral to secure the note in mind. These should be presented so that no hesitation precedes the approval of the loan.

It is wise for one to know the collateral prior to signing the note. "The legal document one signs spells out repayment terms, intended uses for the money and other factors needed to justify the note." [9] If concerns are not put in writing, they do not exist. One of the most common failings is to use operating money in a manner not intended by the lender. [9] If the loan does not state that the money can be used for that purpose, a person should get a clearance from his lender prior to using the money. Misuse of funds could cause a default under the note.

After one has answered all the questions concerning acquisition of the money, where does one go to acquire the credit? The borrower must first consider the item which he needs to borrow and the length of time or category of note that is required.

There are basically three types of loans:

(1) Long term loans that have maturities of ten to forty years. These are usually considered for real estate and refinancing other loans. These notes are usually backed by real estate mortgages or under land purchase contracts;

(2) Intermediate loans that are typically matured after one year and less than ten years. The intermediate notes are used for

easily depreciated items such as machinery, equipment or livestock breeding. They are usually secured by a lien on the particular item; and

(3) Short term loans that have a maturation of less than one year. The purpose of this type of note is to suffice the payment of operating expenses. It will generally be secured by anything -- usually crops, equipment, livestock or one's own financial statement. 5

Agricultural financing is changing and it will continue to change even more in the years ahead. Some time or another, producers will find it necessary to borrow money to buy land, building buildings and conduct general operations.

Summary

Agriculture, with assets of $1,090,300,000.00, ranks as the nation's biggest single industry. It seems destined that it will become even bigger and more complex. From 1935 to 1981, existent farms have decreased from 6.8 million to 2.4 million and size has increased from 154.8 acres to 431 acres.[10] In other words, nearly 65% of farms in this time period have vanished. With the increasing size of farms, money will be needed to help produce these farms. Farm credit has been a major factor in both the banking industry and the farmers' growth and productivity. Both entities use farm loans for growth in their own areas. One hand washes the other. Lenders loan money to help buy equipment, crop supplies, livestock, and real estate. This use was reasonable and useful to farmers, bankers and businessmen, who also benefited from the sales of their products. Rural America depends on the farm economy. When the farm economy does well, rural America thrives. The rural American in Blaine and Kingfisher Counties is dependent on agriculture and oil. Without either one, and especially agriculture, the rural communities of Blaine and Kingfisher Counties might all but vanish. Individuals in all sections have become dependent on these two industries in the backbone of their success. "Agricultural production will need money -- money that most farmers probably do not have resting in their local banks. Thus, it seems obvious that more capital will be needed, more money will be borrowed and a bigger line of credit will be required by the producer." [11]

CHAPTER III

METHODOLOGY AND DESIGN

This chapter is designed to describe the methodology used to provide information relating to the purposes and objectives of this study. To acquire the data which would provide information relating to the objectives of the study, a population was determined and a survey to be mailed was developed. Data was collected during February, 1986. Specific objectives were developed and utilized in development of the survey and to provide direction in conducting research. These objectives were:

1. To identify major agricultural credit sources available to producers in Kingfisher and Blaine Counties;
2. To determine the availability of credit to producers in Kingfisher and Blaine Counties;
3. To identify problems of credit acquisition encountered by producers from agricultural lending institutions in Kingfisher and Blaine Counties.

The Population

The population of this study consisted of commercial banks, land banks and financial institutions in Kingfisher and Blaine Counties. This area was chosen because of its proximity to the author's home and contacts with various lending institutions. The institutions were selected from a telephone directory made from two different companies. The author made his list and mailed the survey to the institutions on the list.

Development and Administration of the Instrument

In the preparation of the instrument, first looked at were the questions to fulfill the puposes and objectives of the study. Also considered were the personal concerns of vocational-agriculture teachers in Kingfisher and Blaine Counties. The author used suggestions from vocational-agriculture teachers, bankers and agriculture education faculty members of Oklahoma State University. These varied ideas were all taken into consideration in the development of the instrument. The questionaire was developed after studying a similar instrument developed by Marler [19] in 1963. After consultation with authors, thesis committee, agriculture education 5980 and several revisions, the survey was mailed to all lending institutions in Kingfisher and Blaine Counties in the Spring of 1986. To receive an unbiased opinion, the author mailed the survey. After two weeks of not having the survey returned to the author, the author repeatedly called the lending institutions until survey was received or notified of not participating.

Analysis of Data

The population of the study consisted of all lending institutions in Kingfisher and Blaine Counties. Information from the survey provided a procedure for identifying credit sources, its availability and procedures for acquisition. The questionaire had twenty-three short answer and two short essay questions. The data was then collected and broken down into specific categories according to the questions included in the survey. The responses to the questions were calculated with the aid of a calculator. Frequency distributions, percentages and rank ordering were the descriptive statistics used to decribe the data.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

Introduction

The purposes of this chapter is to present, describe and analyze the major sources, availability and acquisition of agricultural credit for producers in Kingfisher and Blaine Counties of Oklahoma. The data was collected by a survey containing twenty-five questions relating to specific areas of agricultural credit. Fifteen of the seventeen suppliers of agricultural and commercial credit in this two-county area were included in this study.

The first section of this chapter identifies the general characteristics of the lending institutions surveyed. The second section of the chapter describes the perceived causes of producer foreclosures by the credit agencies. General characteristics of agricultural borrowers and details related to loans to high school students are discussed in the third section of this chapter. The fourth section of this chapter is devoted to an analysis of agricultural credit education and who should be responsible for such programs.

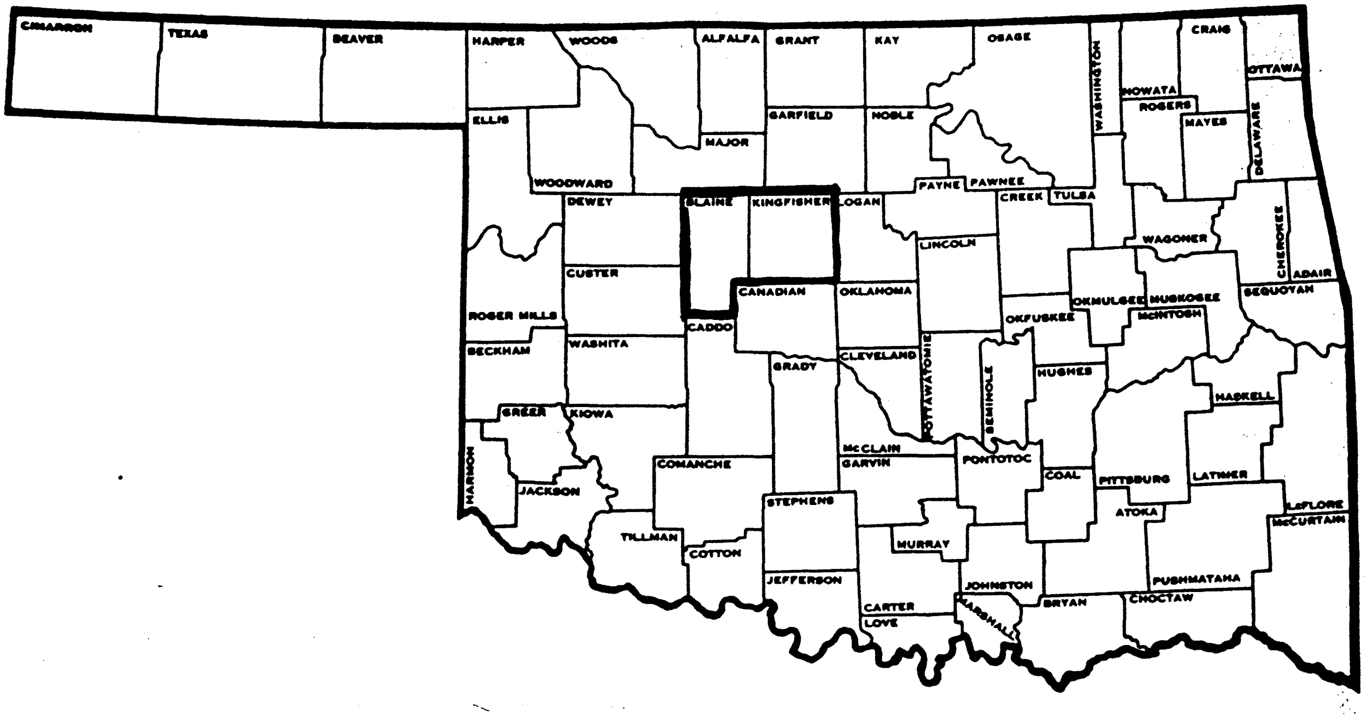

Figure 1. Location of the Two County Study Area in Oklahoma

1. State Guaranty Bank
2. First National Bank of Okeene
3. Community Bank of Canton, Okarche Branch
4. Watonga Savings and Loan
5. Watonga State Bank
6. First State Bank of Watonga
7. Production Credit Association
8. Federal Land Bank
9. Farmers Home Administration
10. First National Bank of Geary
11. First National Bank of Hennessey
12. Dover Community Bank
    Cashion Community Bank
13. Peoples National Bank
14. Kingfisher Bank and Trust
15. Kingfisher Federal Savings and Loan
16. Capital Federal Bank
17. Community Bank of Okarche

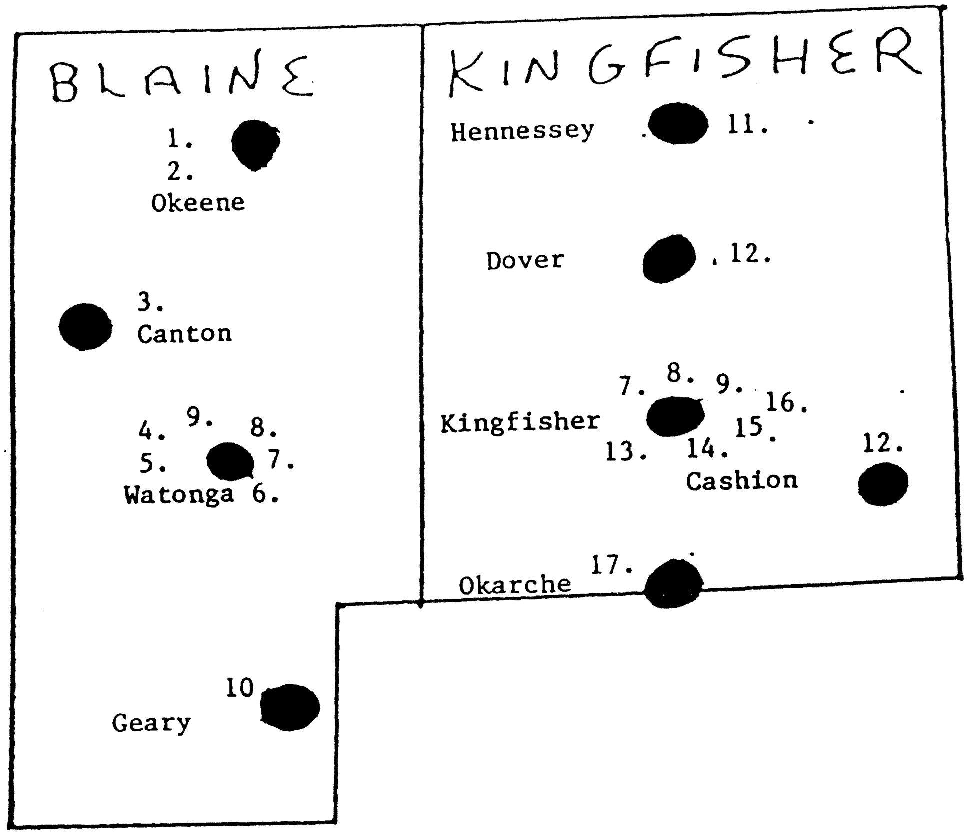

Figure 2. Map of Study Area and List of Agricultural Lending Institutions within this Area

General Characteristics of Agricultural Lending Institutions

Fifteen of the seventeen lending institution of Kingfisher and Blaine Counties of Oklahoma served as subjects for this study. Lending institutions were defined as those agencies offering all types of loans, including agricultural loans, commercial and otherwise.

A twenty five question survey was given to each credit institution. The statistical analysis was based on the frequency of responses given on each statement. Respondents often chose to answer more than one area of a question and this had an effect of altering the frequency of total responses on those questions.

Table I shows the utility of experienced farm credit officers by the seventeen lending agencies. Twelve (70.59%) firms employed full time farm credit officers. None of the credit agencies in this two county area used a part time credit officer, only two (11.76%) used a combination of full and part time officers and three (17.65%) firms employed loan officers with no experience in farm credit loans.

Table II shows the types of agricultural loans available to producers in Kingfisher and Blaine Counties. One (5.89%) of the seventeen agencies made only chattel loans, two (11.76%) firms made real estate loans only and fourteen (82.36%)of the firms made both real estate and chattel loans.

Table III reveals the repayment schedule of chattel

TABLE I

DISTRIBUTION OF RESPONDENTS BY CAPACITY OF EXPERIENCED FARM CREDIT OFFICERS

Employment Arrangement	Frequency (N=17) N	Distribution %
Yes, Full-time	12	70.59
Yes, Part-time	0	0.00
Combination	2	11.76
None employed	3	17.65
Total	17	100.00%

TABLE II

DISTRIBUTION OF RESPONDENTS BY TYPES OF AGRICULTURAL LOANS

Types of Loans	Frequency (N=17) N	Distribution %
Chattel, exclusively	1	5.89
Real Estate, exclusively	2	11.76
Both	14	82.35
Total	17	100.00%

TABLE III

DISTRIBUTION OF RESPONDENTS BY REPAYMENT SCHEDULE OF CHATTEL LOANS

Repayment Schedule	Frequency (N=15) N	Distribution %
Under 1 year	6	40.00
1 to 3 years	6	40.00
3 to 5 years	5	33.33
5 or more years	4	26.67

loans. Repayments on chattel loans under one year were used by six (40.00%) of the fifteen responding credit agencies, while repayments of one to three years on chattel loans were used by six (40.00%) more firms. Five (33.33%) agencies used three to five year repayment terms, and four (26.67%) firms allowed five years or more for the repayments of chattel loans.

Shown on Table IV is the repayment schedule for real estate loans in the Kingfisher and Blaine County area. Three (20.00%) credit institutions used a schedule of one to three years, four (26.66%) agencies used a four to six year repayment schedule, and repayments over a period of seven to nine years were used by three (20.00%) credit agencies. Repayments made over a period of ten years or more were accepted by ten (66.66%) of these lending institutions.

Table V reveals the specific areas of chattel loan utilization. Land purchases ranked first with seventeen (100%) of the lending institutions reporting loans for such purposes. Ranking second was livestock purchases with fourteen (82.35%) of the agencies making loans, and machinery and equipment purchases ranked third in loan utilization with twelve (70.51%) firms reporting activity. Ten (58.82%) agencies reported loans for wheat, ranking it fourth. Hay and pasture loans both ranked fifth with six (35.29%) lending agencies making such loans, and milo loans were made by four (23.52%) agencies, ranking it seventh. Loans for growing vegetables were made by two (11.76%) lenders for a

TABLE IV

DISTRIBUTION OF RESPONDENTS BY REPAYMENT SCHEDULE OF REAL ESTATE LOANS

Repayment Schedule	Frequency (N=15) N	Distribution %
1 to 3 years	3	20.00
4 to 6 years	4	26.66
7 to 9 years	3	20.00
10 years or more	10	66.66

TABLE V

A SUMMARY OF CHATTEL LOANS BY AREA OF UTILIZATION

Area of Loan Utilization	Frequency (N=17) N	Distribution %	Percent of lending agencies (%)	Rank
Purchase Livestock	14	18.42	82.35	2
Wheat	10	13.16	58.82	4
Hay	6	7.89	35.29	5
Pasture	6	7.89	35.29	5
Milo	4	5.26	23.52	8
Land	17	22.37	100.00	1
Machinery and Equipment	12	15.79	70.51	3
Vegetables	2	2.64	11.76	9
Other	5	6.58	29.41	7
Total	76	100.00		

rank of eighth in chattel loan utilization. Table VI shows the frequency of credit institutions with maximum loan amounts. Thirteen (86.66%) of the fifteen responding agencies set maximum amounts on real estate loans. Only one (6.67%) agency had no maximum loan amount for real estate, and only one (6.67%) of the fifteen agencies did not make real estate loans. Chattel mortgages were given maximum limits by fourteen (93.33%) of the fifteen lenders, and only one (6.67%) agency set no maximum amounts on chattel loans.

Displayed in Table VII is the use of agricultural credit as perceived by those institutions responding to the survey. Of the fifteen responding credit agencies in the two county area, only four (26.67%) saw the use of agricultural credit increasing. Two (13.33%) of the firms reported the use of agricultural credit at their firms to be relatively constant and nine (60.00%) firms perceived the use of agricultural credit at their institutions to be on the decline.

Table VIII indicates repayment methods to financial institutions by agricultural producers. Five (33.33%) of the firms used only monthly repayments, three (20.00%) of the firms used quarterly repayments, semi-annual repayments were used by ten (66.66%) of the institutions and nine (60.00%) credit firms reported the use of annual repayments. Three (20.00%) of the firms used both semi-annual and annual payments, and three (20.00%) of the firms used a combination of all of the repayment terms.

TABLE VI

A SUMMARY OF WHETHER OR NOT MAXIMUM LOAN AMOUNTS WERE MADE FOR REAL ESTATE AND/OR CHATTEL MORTGAGES

Type of Mortgage	Frequency (N=15) N	Distribution %
Real Estate:		
Yes	13	86.66
No	1	6.67
Not Applicable	1	6.67
Total:	15	100.00%
Chattel Mortgages:		
Yes	14	93.33
No	1	6.67
Not Applicable	0	
Total	15	100.00%

TABLE VII

A SUMMARY OF RESPONDENTS' PERCEPTIONS BY CATEGORY OF AGRICULTURAL CREDIT UTILIZATION

Frequency (N=15)

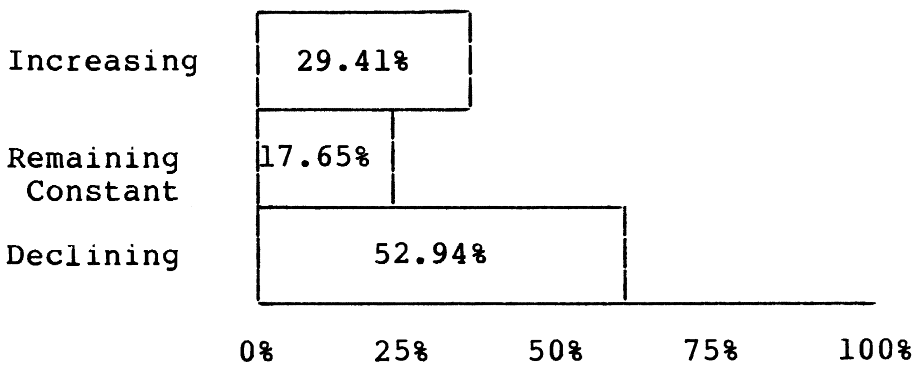

TABLE VIII

A SUMMARY OF AGRICULTURAL LOAN REPAYMENT SCHEDULES

Method	Frequency (N=15) N	Distribution %
Monthly	5	33.33%
Quarterly	3	20.00%
Semi-annually	10	66.67%
Annually	9	60.00%
Both annually and semi-annually	3	20.00%
Combination of all terms	3	20.00%

Characteristics of Agricultural Interest Rates

Table IX indicates the arrangement of interest rates used by lending agencies in Kingfisher and Blaine Counties. Fixed rates for chattel loans were used by three (20.00%) institutions, none of the firms used a variable rate for chattel loans, and eleven (73.33%) firms used both forms of rates for chattel loans. One institution said "not applicable." Concerning real estate loans, a fixed rate was used by three (20.00%) lending agencies. Only one (6.66%) agency used a variable interest rate for real estate loans and ten (66.67%) agencies used a combination of fixed and variable interest rate loans. One (6.66%) firm stated "not applicable."

Table X reveals one range of interest rates offered to agricultural producers at the time of the survey. Interest rates on chattel loans within the range of 8.9 percent to 10.0 percent were used by three (20.00%) lending firms, while four (26.66%) firms offered chattel loan rates in the 10.1 percent to 12.0 percent range. The majority, twelve (80.00%), of the credit agencies charged agricultural producers 12.1 percent to 14.0 percent for chattel loans, only one (6.66%) firm charged 14.1 percent to 18.0 percent, and one (6.66%) other agency charged 16.1 percent to 18.0 percent for chattel loans.

Real estate interest rates from 8.5 percent to 10.5

TABLE IX

A SUMMARY OF INTEREST RATE ARRANGEMENTS
UTILIZED BY AGRICULTURAL CREDIT FIRMS

Type of Arrangement	Frequency (N=15) N	Distribution %
Chattel:		
Fixed	3	20.00
Variable	0	0.00
Both	11	73.33
Not Applicable	1	6.66
Total:	15	100.00%
Real Estate:		
Fixed	3	20.00
Variable	1	6.66
Both	10	66.67
Not Applicable	1	6.66
Total:	15	100.00%

TABLE X

A SUMMARY DISTRIBUTION OF INTEREST RATES ASSESSED BY FINANCIAL FIRMS FOR REAL ESTATE AND CHATTEL LOANS IN KINGFISHER AND BLAINE COUNTIES

Range of Interest Rates	Frequency (N=15) N	Distribution %
Real Estate:		
8.5-10.5	3	20.00
10.6-12.5	4	26.66
12.6-14.5	12	80.00
14.6-16.5	1	6.66
16.6-18.5	1	6.66*
Chattel:		
8.9-10.0	3	20.00
10.1-12.0	7	46.66
12.1-14.0	10	66.67
14.1-16.0	1	6.66
16.1-18.0	1	6.66

* Many banks had various alternative interest rates that were offered to customers.

percent were used by three (20.00%) lending agencies, seven (46.66%) charged rates ranging from 10.6 percent to 12.5 percent, and most, ten (66.67%) of the lending firms assessed interest rates to agricultural producers in the 12.6 percent to 14.5 percent range. Only one (6.66%) firm charged in the range of 14.6 percent to 16.5 percent, and one (6.66%) firm assessed an interest rate for real estate within the range of 16.6 percent to 18.5 percent.

Selected Activities of Agricultural Loan Departments

Table XI shows the distribution of agencies relative to how information pertinent to their agricultural loan programs was made available to the producers. Ranked first by thirteen (86.66%) of the lending firms was "farmer/rancher comes to you." Solicitation was also used by nine (60.00%) firms, while seven (46.66%) agencies used advertising or other promotions to inform producers.

Table XII illustrates the areas which responding credit institutions ranked as reasons for foreclosure. Averages were computed among the fifteen respondents for each of the ten "causes" of foreclosure. A score of "1" represented a category seen as the most likely cause of foreclosure, with a score of "10" representing the least likely cause of foreclosure. "Inadequate cash flow" ranked first with an average ranking among the fifteen responding firms of 3.20. "Over-expansion" was second with an average ranking of 3.60,

TABLE XI

SUMMARY OF HOW PERTINENT INFORMATION REGARDING INSTITUTIONS' LOAN PROGRAMS IS DISTRIBUTED TO THE COMMUNITY

Availability of Pertinent Information	Frequency (N=15) N	Distribution %
Farmer/Rancher comes to you	13	86.66
Solicitation	9	60.00
Other means of promotion	7	46.66

TABLE XII

SUMMARY OF FACTORS ATTRIBUTING TO NECESSITY OF FORECLOSURE

Cause of foreclosure	Average ranking 1 = most likely 10 = least likely	Actual ranking
Inadequate cash flow	3.20	1
Over-expansion	3.60	2
Mismanagement	3.73	3
Over-borrowed	4.26	4
Lack of technical skills	5.46	5
Lack of current resources other than current loan portfolio	5.80	6
Loss due to unforeseen risks	5.80	6
Excessive family living costs	6.26	8
Borrowing too little	7.73	9
Other	9.13	10

"mismanagement" was blamed in the third position with a 3.73 average ranking and "overborrowing" was perceived as the fourth leading cause of foreclosure with a rank average of 4.26. "Lack of technical skills" follwed with a 5.46 average, and receiving the same average ranking of 5.80 was "loss due to unforeseen risks" and "lack of resources other than current loan portfolio." "Excessive family living costs" was seen as the seventh leading cause of foreclosure with an average rank of 6.26, while "borrowing too little" was the eighth perceived cause with an average of 7.73. The final category labeled "other" received an average rank of 9.13. This category was not defined by any of the fifteen responding agencies.

Table XIII shows the frequency of staff participation in meetings or activities of an agricultural nature. Weekly meetings were held by three (20.00%) of the fifteen banks responding to the survey. Three (20.00%) responses were tablulated for both monthly and semi-annually meetings. Most firms, six (40.00%), held quarterly meetings. None of the institutions held annual meetings.

Characteristics of Loans to High School Students

Table XIV summarizes the details surrounding loans made to high school students. Thirteen (86.66%) lending agencies made loans to high school students, while the only other two (13.33%) responding firms did not.

TABLE XIII

A SUMMARY OF AGRICULTURAL MEETINGS BY FREQUENCY OF RESPONDENTS PARTICIPATION

Frequency of Participation	Frequency (N=15) N	Distribution %
Weekly	3	20.00
Monthly	3	20.00
Quarterly	6	40.00
Semi-Annually	3	20.00
Annually	0	0.00
Total	15	100.00%

TABLE XIV

A SUMMARY OF WHETHER OR NOT LOANS ARE MADE TO HIGH SCHOOL AGED STUDENTS

Loans to High School Aged Students	Frequency (N=15) N	Distribution %
Yes	13	86.66
No	2	12.50
Total	15	100.00%

The reasons typically given for not loaning to high school students concerned the students' lack of assets. Another major reason for not loaning to high school students was their minor status. Table XV shows that three (23.08%) firms made loans to high school students under the condition that it would be used for FFA or 4-H projects. Seven (53.84%) firms considered loans to students as long as they had cosigners or signed a guaranty agreement. Only three (23.08%) lending agencies made loans to high school students for vehicles and small stocker-wheat programs. Table XVI also illustrates that thirteen (100.00%) of the respondents made chattel loans; none made real estate loans to high school students.

Interest rates assessed to high school students by the ten responding institutions varied greatly as reveals by Table XVII. Only one (10.00%) agency made loans to students using a variable interest rate and three (30.00%) firms made loans at the rate current at the time of the loan. Rates between 6.5 percent and 9.5 percent were offered by two (20.00%) lenders while two (20.00%) other lenders offered rates between 10 percent and 11.5 percent. A rate of 13 percent and 13.5 percent was assessed by two (20.00%) lending agencies with the stipulation that the student must have a cosigner.

Maximum loan amount limits were also varied. Table XVIII reveals that two (22.22%) of the nine responding agencies set no limits on loan amounts, while three (33.33%)

TABLE XV

A SUMMARY OF CONDITIONS UNDER WHICH LOANS TO HIGH SCHOOL STUDENTS ARE MADE

Conditions under which Loans are made	Frequency (N=13) N	Distribution %
FFA or 4-H project	3	23.08
With guaranty	7	53.84
Livestock or vehicle pledged	3	23.08
Total	13	100.00%

TABLE XVI

A SUMMARY OF TYPES OF LOANS MADE TO HIGH SCHOOL STUDENTS

Type of loan	Frequency (N=13) N	Distribution %
Real estate	0	0.00
Chattel	13	100.00
Total	13	100.00%

TABLE XVII

SUMMARY OF INTEREST RATES AVAILABLE
TO HIGH SCHOOL STUDENTS

Interest Rate	Frequency (N=10) N	Distribution %
Variable	1	10
Current Rate	3	30
6.5 - 9.5	2	20
10.0 - 11.5	2	20
13.0 - 13.5, if cosigned	2	20
Total:	10	100%

TABLE XVIII

SUMMARY OF MAXIMUM LOANS AVAILABLE
TO HIGH SCHOOL STUDENTS

Maximum Loan Amount	Frequency (N=9) N	Distribution %
No limit	2	22.22
Depending on individual	3	33.33
$1,500.00	1	11.11
$10,000.00	2	22.22
$35,000.00	1	11.11
Total:	9	99.99%

firms set loan limits depending on the individual. One (11.11%) credit agency set a loan limit for high school students at $1,500.00, and two (22.22%) agencies used a $10,000.00 loan limit for students. One (11.11%) firm had a maximum limit set at $35,000.00.

Appraised Value Loaned

The percentage of appraised value loaned varied greatly for real estate and chattel loans. Chattel loan value appraisals ranged from 66 percent to 100 percent, with an average value of 78.28 percent. Real estate loan value appraisals varied from 60 percent to 100 percent, with an average appraised value of 75.61 percent.

Perceptions of Greater Borrowing

Revealed in Table XIX is the perceptions of the lenders surveyed region concerning the prospect that greater borrowing would benefit the agricultural economy. Of the fifteen responding agencies, fourteen (93.33%) disagreed that greater borrowing would serve to help the economy. Only one (6.67%) of these credit agencies believed that the agricultural economy would prosper with greater borrowing.

Table XX illustrates what factors the lending agencies considered in the establishment of a good credit rating. With "1" serving as "most important" and "5" as "least important", "repayment honesty" ranked first with an average of 1.81 average among fifteen responding institutions.

TABLE XIX

A SUMMARY OF WHETHER OR NOT RESPONDENTS PERCEIVED THAT THE AGRICULTURAL ECONOMY OF KINGFISHER AND BLAINE COUNTIES WOULD PROSPER IF GREATER FARMER BORROWING OCCURRED

Perceptions of Greater Borrowing	Frequency (N=15) N	Distribution %
Yes	1	6.67
No	14	93.33
Total	15	100.00%

TABLE XX

FACTORS THAT LENDING AGENCIES CONSIDER IN ESTABLISHING GOOD CREDIT RATING

Factors	Average ranking 1 = most important 5 = least important	Actual ranking
Repayment honesty	1.81	1
Character	2.56	2
Honesty	2.81	3
Managerial ability	3.50	4
Other factors	4.31	5

Ranking second was "character" with an average ranking of 2.56, "honesty" ranked third with 2.81, "managerial ability" gained an average ranking of 3.5, and an average ranking of 4.31 was given to factors in the "other" category. Stability, promptness in loan repayments and production management ability were among the other factors given consideration.

Table XXI lists the items farmers need to present lenders for loan consideration. Each repondent was allowed to select as many items as he required of his clients. All fifteen (100.00%) firms required a financial statement. Also, a cash flow plan was considered essential by all fifteen (100.00%) of the lending firms. Fourteen (93.33%) institutions required a balance sheet, while six (40.00%) required an enterprise budget. Fourteen (93.33%) agencies also asked for previous tax records, and twelve (80.00%) wanted previous years' production records. A producer's need for credit was deemed necessary by eleven (73.33%) credit agencies, and four (26.66%) agencies desired a history of ability in hedging or contracting. Eight (53.33%) of sixteen required participation in government programs, while one (6.67%) firm required farm business management training. The primary items required by lenders in Kingfisher and Blaine counties in consideration of agricultural credit were (1-2) a financial statement and a cash flow plan and (3-4) previous tax records and a balance sheet.

Table XXII describes the difficulties lenders perceive

TABLE XXI

A SUMMARY OF RESPONDENTS' PERCEPTIONS OF ITEMS, RECORDS AND/OR KNOWLEDGE PRODUCERS SHOULD PRESENT TO LENDING AGENCIES

Items/Records	Frequency (N=15) N	Distribution %	Rank
Financial Statement	15	100.00	1
Cash Flow Plan	15	100.00	1
Balance Sheet	14	93.33	3
Enterprise Budget	6	40.00	8
Previous Tax Records	14	93.33	3
Previous Years' Production Records	12	80.00	5
Need of Credit	11	73.33	6
Hedging or Contracting Ability	4	26.66	9
Participation in government progras	8	53.33	7
Farm business management training	1	6.67	10

TABLE XXII

A SUMMARY OF RESPONDENTS PERCEPTIONS REGARDING PROBLEMS FACING FARMERS IN SECURING CREDIT

Problem	Frequency (N=15) N	Distribution %	Rank
Repayment ability	6	40.00	2
Suppressed market price for agricultural products	8	53.33	1
Cash flow problems	1	6.67	3
Decreased real estate values	0	0.00	4
Integrity of Producers	0	0.00	4
Total	15	100.00%	

as the greatest problems facing farmers in securing financing today. Each respondent was asked to select only one problem area. Repayment ability was thought by six (40.00%) lending institutions to be the single greatest problem facing farmers seeking credit. Eight (53.33%) lending agencies named suppressed market prices for agricultural products as the greatest problem. One (6.67%) agency ranked cash flow problems as the greatest problem inhibiting farmers from gaining agricultural financing.

Agricultural Credit Education

Table XXIII reveals the assistance given to clients in determining their short term or long term credit needs. Twelve (80.00%) agencies provided assistance to the borrower in assessing his credit needs. Only three (20.00%) institutions offered no assistance in the area.

Table XXIV summarizes the specific type of credit assistance provided by the twelve lending firms who offered assistance in determining credit needs. Eleven (91.66%) lending institutions provided assistance in assessing "cash flow" problems, two (16.66%) offered assistance in "tax management," and two (16.66%) offered "estate tax planning" assistance. "Field supervision" assistance was provided by seven (58.33%) agencies, and one (8.33%) agency offered credit life and crop insurance assistance.

Table XXV describes the requirements of educational program participation by clients seeking agricultural

TABLE XXIII

A SUMMARY OF WHETHER OR NOT ASSISTANCE WAS PROVIDED BORROWERS IN DETERMINING SHORT TERM OR LONG TERM CREDIT NEEDS

Assistance Provided	Frequency (N=15) N	Distribution %
Yes	12	80.00
No	3	20.00
Total	15	100.00%

TABLE XXIV

A SUMMARY OF TYPES OF ASSISTANCE PROVIDED TO AGRICULTURAL BORROWERS

Kind of Assistance	Frequency (N=12) N	Distribution %	Rank
Cash Flow	11	91.66	1
Tax Management	2	16.66	3
Estate Planning	2	16.66	3
Field Supervision	7	58.33	2
Other	1	8.33	5

TABLE XXV

A SUMMARY OF WHETHER OR NOT A FINANCIAL FIRM'S CLIENTS ARE REQUIRED TO PARTICIPATE IN AN EDUCATIONAL PROGRAM

Educational Program Required	Frequency (N=15) N	Distribution %
Yes	2	13.33
No	13	86.67
Total	15	100.00%

credit. Only two (13.33%) agencies required educational courses for their clients, while the remaining thirteen (86.67%) agencies required no educational programs. Of the two firms which required educational programs only one specified the nature of the program which concerned extension service and bookkeeping assistance.

Table XXVI reveals that ten (66.66%) of the fifteen responding lending agencies asserted that the responsibility of developing and presenting educational programs concerning agricultural credit rests upon a combination of agricultural educators. Among the educators listed which composed the various combinations suggested by the firms were lending agencies themselves, young farmer advisors (vocational-agriculture instructors), farm business management instructors, county extension agents and Oklahoma State University extension specialists (farm management). While the majority of the firms held a combination of several educators responsible, a few agencies gave the responsibility entirely to the singular educators. Three (20.00%) of the firms suggested that Oklahoma State University extension specialists were solely responsible for bringing educational programs to producers. Another agency (6.67%) held county extension agents responsible for educational programs, and one (6.67%) credit institution gave the responsibility to farm business management instructors.

TABLE XXVI

A SUMMARY OF RESPONDENTS' PERCEPTIONS REGARDING AGENCY RESPONSIBILITY FOR DEVELOPING AND PRESENTING EDUCATIONAL PROGRAMS CONCERNING AGRICULTURAL CREDIT FOR FARMERS

Responsible Agency	Frequency (N=15) N	Distribution %
Varying combinations of lending agencies, young farmer advisors, farm business management instructors, county extension agents, O.S.U. extension specialists	10	66.66
O.S.U. extension specialists only	3	20.00
County extension agents only	1	6.67
Farm business management instructors only	1	6.67
Total	15	100.00%

CHAPTER V

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter is intended to provide a concise summary of each of the following areas: purpose of the study, the rationale, design and procedures, and major findings of the research. After thorough evaluation of these areas, conclusions and recommendations were outlined based on the analysis of the data and major findings.

Purpose of the Study

The purpose of this study was to determine the major sources, availability and acquisition of agricultural credit for producers in Kingfisher and Blaine Counties.

Rationale for the Study

Young farmers, established farmers and vocational agriculture students seek credit in order to achieve career opportunities for future prosperity as well as the cash flow necessary to operate their present or proposed farm business. Producers' needs include the knowledge of credit utilization, determination of credit sources, availability and cost of credit acquisition.

Design of the Study

This study was limited to the lending institutions located within Kingfisher and Blaine Counties of Oklahoma. Lending institutions were defined as those agencies providing both agricultural and commercial loans at the time of the study. All credit agencies within the two counties were sent a twenty-five question survey pertaining to specific areas of agricultural credit. Fifteen (88.23%) of the seventeen lending institutions agreed to participate in the survey. The twenty-five question survey was developed with the help of the Oklahoma State University Education Staff and approved for data collection. The data obtained was compiled and used to compute frequency distributions and percentages.

Major Findings of the Study

The following categories were selected to delineate the major findings of this study:

1. General characteristics of agricultural lending institutions;
2. Characteristics of agricultural interest rates;
3. Selected activities of agricultural loan departments;
4. Agriculture foreclosure;
5. High School loans;
6. Characteristics of agricultural borrowers; and
7. Agricultural credit education.

General Characteristics of Agricultural Lending Institutions

In general terms, 70 percent of the lending agencies had an experienced full time farm credit officer while none of the lenders used a part time credit representative. Eighteen percent used farm credit personnel with no experience in agricultural loans.

In terms of types of loans available, 82 percent of the lending institutions made both real estate and chattel loans. One of the lenders made only chattel loans, and 12 percent made only real estate loans. Of the fourteen responding credit firms, 40 percent used a repayment schedule on chattel loans of one to three years. Forty percent of the lenders expected full payment in less than a year, and 33 percent used three to five year terms. Twenty-seven percent allowed repayments on chattel loans to continue up to five years or more. Several of the firms used more than one category of terms for repayment schedules. Repayments on real estate loans were, of course, accepted over longer periods of time. Seventy-seven percent of the firms allowed ten years or more for repayment. Twenty percent allowed seven to nine years for repayments, twenty-seven percent accepted payments within a range of four to six years,and twenty percent of the agencies allowed only one to three years for the repayment of real estate loans.

Specific areas for which chattel loans were obtained ranked respectively:

(1) Land purchases;

(2) Livestock purchases;

(3) Machinery and equipment;

(4) Wheat;

(5) Hay and pasture;

(6) Other areas;

(7) Milo; and

(8) Vegetables.

Purchases of machinery and equipment and livestock were the primary areas of chattel loan activity as indicated by 100 percent and 82.35 percent of the usage respectively. A maximum loan amount was set by 87 percent of the agencies providing real estate loans, and 93 percent of the firms providing chattel loans set maximum amounts. The average maximum loan amount for both real estate and chattel loans was approximately $300,000.00.

Twenty-seven percent of the lending institutions within the two county area perceived the use of agricultural credit to be increasing. Thirteen percent felt that the use of credit was relatively constant at their firm, and 60 percent perceived that the use of agricultural credit was decreasing. Semi-annual and annual repayments of agricultural loans combined accounted for the majority of payments.

Characteristics of Agricultural Interest Rates

Fixed rates for chattel loans were used by 20 percent of the firms, while none of the firms relied solely on variable interest rate loans. Seventy-three percent of the firms, however, used both fixed and variable rate loans. Interest rates for real estate loans were quite varied with twenty percent of the institutions using a fixed rate, only seven percent using a variable rate and sixty-seven percent using both forms of interest rates on real estate loans.

The range of interest rates on real estate loans was 8.5 percent to 18.5 percent. Twenty percent of the firms charged from 8.5 percent to 10.5 percent, twenty-seven percent charged in the range of 10.6 percent to 12.5 percent and eighty-seven percent used interest rates ranging from 12.6 percent to 16.5 percent. One firm (6.66%) charged 14.5 percent to 16.5 percent and one firm charged in the range of 16.6 percent to 18.5 percent. Chattel loan interest rates in the range of 8.9 percent to 10.0 percent were used by twenty percent of the firms, and a range of 10.1 percent to 12.0 percent was used by forty seven percent. Sixty-seven percent used a range of 12.1 percent to 14.0 percent and one (6.66%) charged 14.1 percent to 16.0 percent for chattel loans. Only one (6.66%) agency charged in the range of 16.1 percent to 18.0 percent.

Selected Activities of Agricultural Loan Departments

Advertising and solicitation were used by 47 percent and 60 percent of the lenders respectively in providing the producer with information relative to their loan program. Thirteen (87.00%) of the institutions indicated "farmer/rancher comes to you" as the most common means of providing information for the producer. The frequency of staff participation in agriculturally related activities or meetings varied. Most (40.00%) of the lenders met at least quarterly, while twenty percent met monthly. Weekly participation in some form of agriculturally related activity was organized by twenty percent of the lenders and another twenty percent had semi-annual participation in related activities. None of the firms held only annual meetings.

Agricultural Foreclosure

"Inadequate cash flow" ranked first as the factor most often selected as a necessity for foreclosure. "Over-expansion" was ranked a very close second, with "over-borrowing" a close third.

High School Student Loans

Eighty-seven percent of the credit agencies assisted high school students with chattel loans; thirteen percent did not make student loans. None of the firms made real estate loans to students. Reasons for not loaning to students were probably their lack of assets and the fact that they were not of legal age. Conditions under which most firms made student loans included a parents co-signature and that the loan be used to support a 4-H or FFA project. Interest rates offered to high school students ranged from 6.5 percent to 13.5 percent. Maximum amounts set on loans to high school students ranged from $1,500.00 to $35,000.00 to no limit.

Characteristics of Agricultural Borrowers

Each of the credit institutions surveyed were asked to respond to the statement, "the agricultural economy of Kingfisher or Blaine Counties would be more prosperous if farmers borrowed more money and in larger amounts." Ninety-three percent of the lenders disagreed. They generally concluded that the increasing inability to repay the debt due to the ever-decreasing flow of cash was the primary reason that borrowing more was not the was to prosperity. One (7.00%) firm agreed with the statement.

According to lenders, the following factors about borrowers are given the most consideration: (1) repayment honesty; (2) character; (3) honesty; (4) managerial ability and (5) other factors.

In securing agricultural credit, the following items were needed foremost by the farmer for presentation to the lending institution: (1) a financial statement was required by 100 percent of the firms; (2) a cash flow plan was also required by all sixteen of the responding institutions; (3) 93 percent required a balance sheet.

Suppressed market prices was perceived by 53 percent of the credit agencies to be the single greatest factor facing farmers today. Forty percent implicated repayment ability as the greatest problem facing farmers. Cash flow problems was held by only one (7.00%) firm to be a major problem for farmers.

Agricultural Credit Education

Eighty percent of the lenders provided assistance to the borrower in determining his long and short term credit needs. Twenty percent provided no assistance in this area. Of the 75 percent who did provided assistance, 92 percent assisted in the assessment of cash flow problems, two of the twelve (17%) offered tax management assessment and 17 percent offered estate planning assistance. Field supervisions was provided by 58 percent and one (8%) agency offered assistance with credit life and crop insurance. Only 13 percent of the firms required educational programs related to agricultural credit while 87 percent required none.

The majority (66%) of the lenders gave the responsibility for the development and presentation of educational programs concerning agricultural credit to a combination of several groups of educators, including county extension agents, OSU extension specialists, farm management instructors, young farmer advisors and lending agencies. Twenty percent of the firms held OSU extension specialists solely responsible, while another seven percent held county extensionist responsible. Another seven percent which believed farm business management instructors were responsible.

Conclusions

The following conclusions were based on data collected and the subsequent findings:

1. There were an adequate number of lending institutions for both real estate and chattel loans in agriculture in the two county area of Kingfisher and Blaine Counties.

2. Most institutions employed an agricultural loan officer.

3. The repayment period for loans was varied from short term of less than one year to long term over seven years.

4. Livestock and machinery were most often purchased by chattel loans,

5. Most all lending agencies had a lending loan maximum on both chattel and real estate.

6. The use of agriculture credit is declining.

7. Most institutions used a semi-annual payment schedule.

8. Variable interest rates were most commonly used on real estate and chattel.

9. Interest rates charged for chattel were usually 12.1% to 14.0% and for real estate, 12.6% to 14.5%.

10. Inadequate cash flow, over-expansion and mismanagement were the primary reasons for foreclosure.

11. Most lending institutions made agricultural loans to high school students.

12. Education amongst bank employees seemed relatively important.

13. The primary reason for not lending to high school students was lack of assets.

14. All institutions would make chattel loans but not real estate to high school students.

15. The loan limit and interest rate was varied for high school students.

16. For both chattel and real estate, the average loan was 75% to 80% of appraised value of the collateral.

17. Most institutions agreed that the economy of Kingfisher and Blaine Counties would not be more prosperous of farmers borrowed in larger amounts at the present time.

18. Repayment honesty was the leading factor considered in establishing a good credit rating.

19. Financial statements and cash flow plans were a requirement of all lending institutions.

20. Repayment ability and suppressed market prices were regarded as the biggest problem in securing credit.

21. Assistance was provided to most borrowers in determing short and long term needs.

22. Clients of financial firms were not required to participate in educational programs.

23. Lenders' responses considerations have indicated that borrowers would not be better off to be extended more credit.

24. The implication from savings and loans was that an

individual needing operating capital in agriculture needs not to call the lending institutions.

Recommendations and Implications

The following recommendations were made as a result of the conclusions drawn for analysis and interpretation of the data:

1. Lenders and educators should continue to assist, encourage and educate farmers and ranchers to keep better farm records.

2. Whether borrowing or not borrowing, a producer should keep a financial statement, cash flow plan and records of previous years production.

3. All educators, including the lending firms, should make known their role and expertise in agricultural credit education.

Recommendations for Further Research

1. A comprehensive study should be taken over the past ten years to get a more realistic view of percentage rates of loans among lending institutions.

2. A study should be taken of all different educational alternatives available to producers and lenders.

3. When collecting information from lending institutions a personal interview would be much more beneficial to the study.

4. A study should be taken of why creditors are not requiring the loan customers to provide more records.

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APPENDIXES

APPENDIX A

COVER LETTER

P. O. Box 669
Okarche, Oklahoma 73762
February 7, 1986

Dear Sir:

My name is Kevin Wittrock from Okarche, Oklahoma. I am currently a graduate student at Oklahoma State University and am doing a study on the uses, sources and availability of farm credit for producers in Kingfisher and Blaine Counties. I have enclosed a survey to help me derive some conclusions over the subject. I am sending this survey to all lending institutions in the two county area.

Please answer the survey according to the standard practices established by your institution and return it to me in the self address, stamped envelope provided. The name of your institution will remain confidential in relation to your answers. Your participation would be greatly appreciated.

Sincerely,

Kevin J. Wittrock

Enclosures

APPENDIX B

AGRICULTURAL LOAN SURVEY

AGRICULTURAL LENDER SURVEY

Kingfisher and Blaine Counties

____
I. D. Number

1. Name of agency or organization ________________________

2. Does your agency employ an experienced farm credit representative?

   1. _______ Yes, full-time
   2. _______ Yes, part-time
   3. _______ Combination
   4. _______ No

3. Types of loans available:

   1. _______ Chattel
   2. _______ Real estate
   3. _______ Both

4. Repayment schedule of loans in your portfolio (number of years):

Chattel		Real Estate	
1. _______	Under 1 year	1. _______	1 - 3years
2. _______	1 - 3 years	2. _______	4 - 6years
3. _______	3 - 5 years	3. _______	7 - 9years
4. _______	5 years or more	4. _______	10 years or more

5. Purpose(s) for which loans are secured and type of chattel mortgage utilized (percentage of each):

_______	Livestock	_______	Land
_______	Wheat	_______	Machinery and equipment
_______	Hay	_______	Vegetables
_______	Pasture	_______	Other_________________
_______	Milo		

6. Maximum loan to one individual (family farm, family corporation, etc.):

Chattel		Real Estate	
_______	Yes	_______	Yes
_______	No	_______	No
Amount_______		Amount_______	

7. Level of agricultural credit utilization from your agency:

_______ Increasing
_______ Remaining constant
_______ Declining

8. Frequency of loan repayment schedule by your producers:

_______ Monthly
_______ Quarterly
_______ Semi-annually
_______ Annually

9. Interest rates your firm assesses producers:

Chattel	Real Estate
_______ Fixed	_______ Fixed
_______ Variable	_______ Variable
_______ Both	_______ Both

10. Range of interest rates assessed by your firm:

Chattel	Real Estate
_______ 8.9 - 10.0	_______ 8.5 - 10.5
_______ 10.1 - 12.0	_______ 10.6 - 12.5
_______ 12.1 - 14.0	_______ 12.6 - 14.5
_______ 14.1 - 16.0	_______ 14.6 - 16.5
_______ 16.0 - 18.0	_______ 16.6 - 18.5

11. How is information relative to your program made available to producers?

_______ Solicitation (personal contact)
_______ Farmer/rancher comes to you
_______ Advertising/promotion
_______ Other _______________________________

12. To what do you attribute the necessity for foreclosure? Number from 1 (most likely) to 10 (least likely):

______ Lack of technical skills
______ Lack of resources other than current loan portfolio
______ Inadequate cash flow
______ Overexpansion
______ Excessive family living costs
______ Loss due to unforeseen risks
______ Borrowing too little
______ Overborrowed
______ Mismanagement
______ Other _______________________________

14. Are loans made to high school students?

_______ Yes
_______ No

15. If yes, type:

_______ Chattel
_______ Real estate

A. Under what conditions?________
____
B. Interest rate(s) _____________
C. Maximum loan_________________
____

16. Percentage of appraised value loaned to your clientele:

_______ Chattel____________ %
_______ Real Estate____________%

17. The most important considerations in making a loan are: Number from 1 (most important) to 8 (least important):

_______ Ability to repay
_______ Size of business
_______ Managerial ability
_______ Cash flow
_______ Character
_______ Age of borrower
_______ Honesty
_______ Stability in business

18. The most important factor(s) in establishing a good credit rating are: Number from 1 (most important to 5 (least important).

_______ Repayment honesty
_______ Honesty
_______ Character
_______ Managerial ability
_______ Other________________________________

19. When seeking agricultural credit, what items, record or knowledge should the farmer/rancher present to the lender? (Mark only needed items):

_______ Financial statement
_______ Cash flow plan
_______ Balance sheet
_______ Enterprise budget
_______ Previous tax records
_______ Previous years' production records
_______ Need of credit
_______ Hedging or contracting (history of ability)
_______ Participation in government programs
_______ Farm business management training
_______ Other ________________________________

20. In your opinion what is the single greatest problem facing farmers in securing financing today?

_______ Repayment ability
_______ Suppressed market prices of agricultural products
_______ Cash flow problems
_______ Decreased real estate values
_______ Integrity of producers
_______ Other ______________________________

21. Do you provide assistance to the borrower in determining short or long term credit needs?

_______ Yes
_______ No

If yes, what types of assistant do you provide?

_______ Cash flow
_______ Tax management
_______ Estate planning
_______ Field supervision
_______ Other ______________________________

22. Do you require an educational training program regarding farm management for your clients?

_______ Yes
_______ No

If yes, please specify nature ____________________

23. Who should be responsbile for developing and presenting farm management educational programs to producers?

_______ Lending agency
_______ Young farmer advisor (Vo-ag Inst.)
_______ Farm business management instructor
_______ County extension agent
_______ OSU extension specialists (farm management)
_______ Combination
_______ Other ______________________________

24. Frequency you or your agency staff participate in meeting, committees or activities of an agricultural nature:

_______ Weekly
_______ Monthly
_______ Quarterly
_______ Semi-annually
_______ Annually

Nature ______________________________

25. The agricultual economy of Kingfisher and Blaine Counties would be more prosperous if producers borrowed more money and in larger amounts.

_______ Yes
_______ No

Why/why not?

26. Do you favor consolidating the current farm credit system (PCA, FLB, and Bank of Co-ops)?

_______ Yes
_______ No

Why/why not?

APPENDIX C

LENDING INSTITUTIONS

LENDING INSTITUTIONS

Peoples National Bank, Kingfisher;

Production Credit Association, Watonga/Kingfisher;

FederalLand Bank, Watonga/Kingfisher;

Capital Federal Bank, Kingfisher;

Farmers Home Administration, Watonga/Kingfisher;

Kingfisher Savings and Loan, Kingfisher;

Watonga Savings and Loan, Watonga;

First National Bank of Hennessey, Hennessey;

Cashion Community Bank, Cashion;

Dover Community Bank, Cashion, Dover Branch;

Watonga State Bank, Watonga;

First State Bank of Watonga, Watonga;

State Guaranty Bank, Okeene;

First National Bank of Okeene, Okeene;

First National Bank of Geary, Geary;

Community Bank, Canton/Okarche; and

Kingfisher Bank and Trust, Kingfisher.

VITA

Kevin Joseph Wittrock

Candidate for the Degree of

Master of Science

Thesis: THE MAJOR SOURCES, USES AND AVAILABILITY OF AGRICULTURAL CREDIT AS REPORTED BY LENDING INSTITUTIONS IN A TWO COUNTY AREA IN WEST CENTRAL OKLAHOMA

Major Field: Agricultural Education

Biographical:

Personal Data: Born in Okarche, Oklahoma, January 7, 1959, the son of Harold and Carolyn Wittrock. To be married February 7, 1987, to Monica Ann Amis.

Education: Graduated from Okarche High School, Okarche, Oklahoma, in May, 1977; attended Oklahoma State University and received a Bachelor of Science Degree in Agriculture in December, 1981; completed requirements for the Master of Science Degree at Oklahoma State University in May, 1987.

Professional Experience: Vocational Agriculture Instructor, Piedmont High School, July 1983 to July, 1985; Assistant Vice President, First Bank of Okarche, July 22, 1985 to present date.

Professional Organizations: Member, Alpha Tau Alpha; Oklahoma Vocational Agriculture Teachers Association; National Vocational Agriculture Teachers Association; Oklahoma Bankers Association; Alumni FFA and Farm-House Fraternity.