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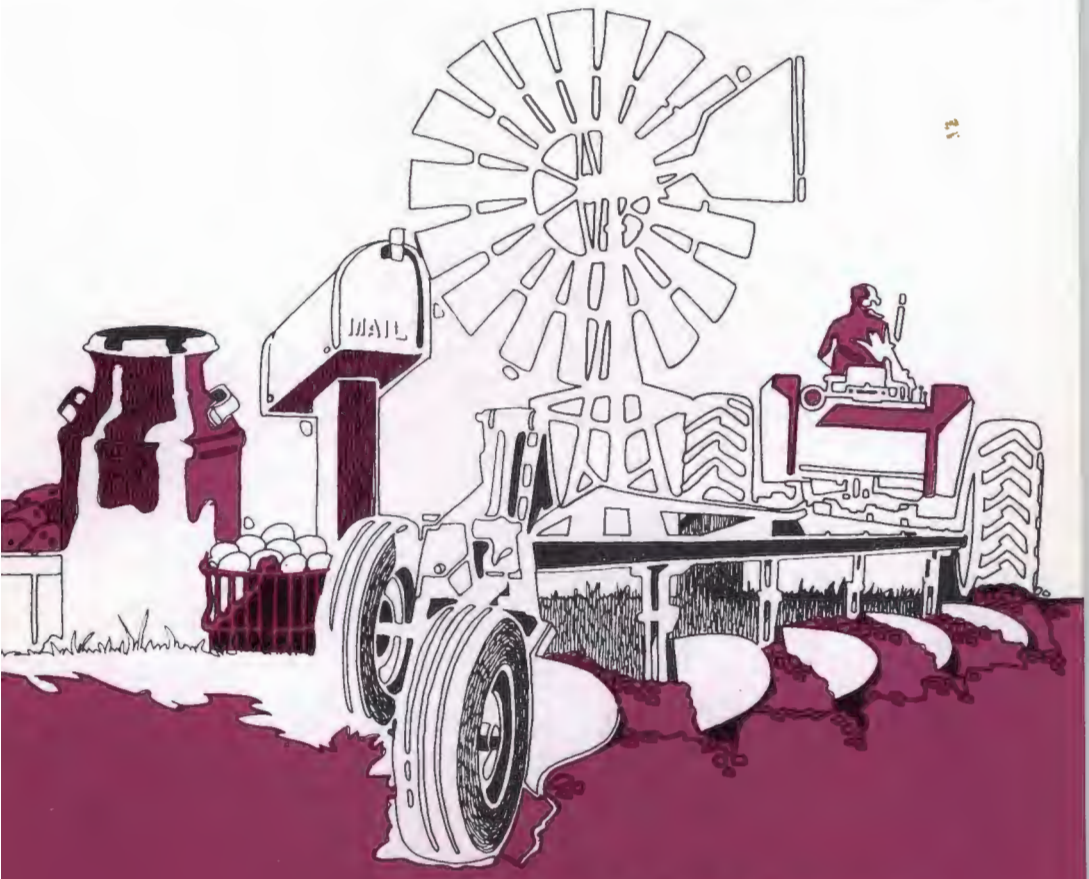

An Assessment of Alternative Credit Sources for Low Resource, Beginning Farmers

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This report is based on results of a study of financial obstacles to and solutions for entry into farming [7]. The study was stimulated by (1) a need for new (perhaps younger) farmers in agriculture reflected by demographic data on ages of current farmers, and (2) the importance of capital (and thus credit) for the viability of a commercial farm (Table1). This publication provides findings concerning alternatives offered to beginning farmers by financial institutions and individuals. A second publication evaluates the economic opportunities and problems of low resource, beginning farmers [14].

The Problem

U.S. Census data reveal that the average age of U.S. farm operators increased from 47.6 years in 1950 to 51.7 years in 1964 [11, p. 527]. Approximately 40 percent of the U.S. farm operators were 55 years of age or older in 1964 and 17.4 percent of these operators were age 65 or older [11]. In 1964, 4,881 Oklahoma commercial farm operators were 65 years of age or older and 11,528 farmers were 55 to 65 years of age [11]. By 1969 the number of farm operators in the 65 and older category had almost doubled to 8,015 representing 15.5% of all farm operators [12]. The number in the 55 to 65 age grouping increased to 15,266, 29.5% of total operators. Forty-five percent of the commercial farm operators in Oklahoma were 55 years of age or older in 1969. The average age of all commercial farm operators was 51.7 years in 1969. The implications of these data are that younger farmers will soon have to succeed the aging entrepreneurs in order to sustain agricultural production [6].

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Because of historical attempts by farm firms to meet income goals, achieve economies of size, and adopt new technology, the amounts of capital required to acquire a financially viable farm unit have increased significantly [12]. Therefore, acknowledging that barriers to entry are present in various forms, the most difficult obstacles appear to proliferate from the financial aspects of capital acquisition related to entry. The development of personal skills, acquisition of education technology, and accumulation of managerial capacity are obstacles easily identifiable as being internal to the individual. Conversely, the acquistion of adequate amounts of debt capital is an external problem of often indeterminant magnitude.

Table 1 provides estimates of potential capital needs of beginning farmers in five areas of Oklahoma (Figure 1). For example, to earn a $7,000 return to operator labor and management on a general farm in Northeast Oklahoma, a farmer would need 1,081 acres and $487,838 in total capital. The latter assumes that the annual land cost is six percent of the land value, $362,351. The six percent charge on land could be (1) a rental charge for land, (2) an interest charge for money borrowed on land, (3) the opportunity cost of owned

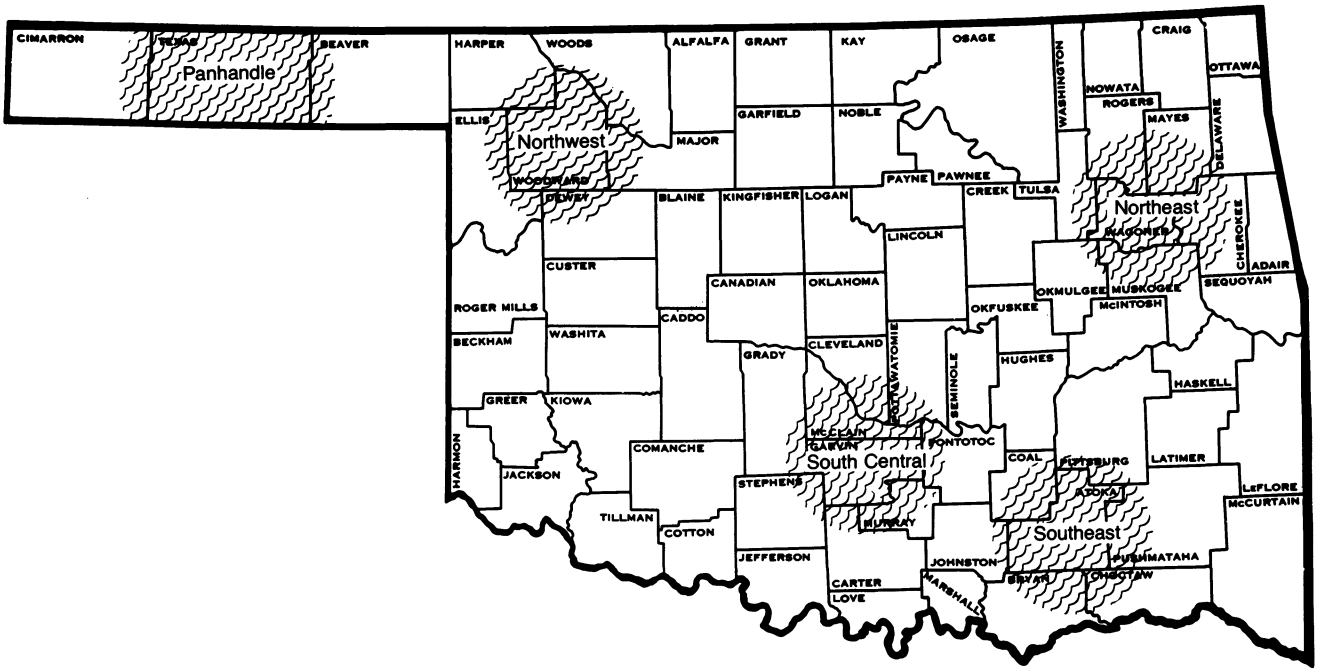
Table 1. Estimated Minimum Capital Requirements and Acres Needed to Earn a $7,000 Return to Operator Labor, Management and Risk in Five Areas of Oklahoma, Assuming Alternative Land Interest Rates, Agricultural Product Prices Based on $3.00 Wheat and $32.50 Stocker Steer Calves and Current (1974) Input Prices.[1]

Area		Interest Rate on Land Capital			
		4	5	6	7
Panhandle (Irrigated)	Acres	191	209	230	265
	Total Capital	79,360	86,629	95,363	106,057
	Land Capital[2]	67,126	73,274	80,662	89,707
Northwest	Acres	852	1,128	1,707	35,988
	Total Capital	223,180	295,565	447,451	9,428,410
	Land Capital	195,923	259,468	392,805	8,277,295
Northeast	Acres	503	645	1,081	[3]
	Total Capital	229,268	291,270	487,838	-
	Land Capital	170,293	216,346	362,351	-
South Central	Acres	515	568	675	925
	Total Capital	156,003	183,970	223,119	293,542
	Land Capital	123,851	142,021	168,742	231,360
Southeast	Acres	460	532	630	780
	Total Capital	128,728	148,846	176,417	218,242
	Land Capital	108,128	125,028	148,187	183,318

[1]Other crop and livestock prices were related to wheat and stocker steer calf prices using historical prices.

[2]Land prices used were Panhandle, $350 per acre; Northwest, $230 per acre; Northeast, $335 per acre; South Central, $250 per acre, and Southeast, $235 per acre.

[3]The resource amounts required at this price for land capital are infinitely large.



Map of Oklahoma Depicting the Areas of Study

capital invested in land, or (4) a combination of all of these. An interest charge of 8.5 percent is assumed on the $125,487 of short and intermediate term capital required for this farm.

It is clear that, depending on the income target of the operator and the cost of capital, capital needs for a farm unit which can sustain an operator are impressive.[1] A land capital cost of six percent results in total capital requirements ranging from $95, 363 on an intensive irrigated farm in the Oklahoma Panhandle to $447,838 in Northeast Oklahoma. If a farmer could rent all land at a four percent charge of land, his capital requirements would range from $12,134 in the Panhandle to $48,975 in the Northeast.[2] Because of other considerations in land rental vs. ownership, the real opportunities probably lie somewhere between the two extremes of full owner and full tenant. In either case, the low resource, beginning farmer has capital acquisiton problems to face.

Alternative Financial Intermediaries

Because this study is concerned with low resource, beginning farmers, the assistance of financial intermediaries of some type is an ultimate inevitability. This section provides information regarding the backgrounds, structures, general policies, and significance of those intermediaries judged pertinent and available to potential entrants.

Commercial Banks

Commercial banks in Oklahoma are an important source of short term, intermediate term and long term credit. Commercial banks are corporations, and, depending upon whether they are chartered under state or federal law, are denoted as being either state or national banks [8, p. 320]. There are approximately 270 state and 194 national banks operating in Oklahoma, virtually all of which have some agricultural loan volume. Each of the two types of banks must adhere to certain restrictions and regulations set forth by their controlling agencies.

The primary factors which distinguish state and national banks from each other, and from other lenders, lie in the regulation of their long-term loans. National banks may make loans against unimproved real estate up to 67 percent of the appraised value. They may also make loans against real estate improved by buildings up to 90 percent of the appraised value with amortization not required except where the loan exceeds 75 percent of the appraised value. Amortization where required is based on a maximum 30 year payout with no requirement that the loan be fully amortized by maturity if the term is

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[1]The reader should observe that average yields, prices, etc., are used in Table 1. In the uncertain environment of agricultural production and marketing, some farmers would fail due to cylical and stochastic variations of factors determining the net returns to labor and management.

[2]It has been estimated that the rental return before taxes under conventional share rental arrangements is less than 4 percent [1].

less than 30 years. State banks may make loans up to 70 percent of the appraised value of the real estate offered as security with no loan being made for a term longer than five years [13].

The following exceptions, however, apply: (1) Real estate loans may be made up to 70 percent of the appraised value for a term not longer than 10 years if the installment payments are sufficient to amortize 40 percent or more of the principal of the loan within 10 years or less. (2) Real estate loans may be made up to 80 percent of the appraised value of the real estate for a term not longer than 25 years providing the installment payments are sufficient to amortize the entire principal of the loan within a period ending on the date of its maturity.

Because various circumstances dictate that banks be flexible in arranging short and intermediate term financing, no regulations exist in this area other than maximum loan limits expressed as a percentage of total capital and surplus or total deposits and savings. Commercial banks constituted 13.0 percent of the total farm real estate debt and 69.2 percent of the total institutional non-real estate farm debt in Oklahoma during 1973.

Production Credit Associations

The 14 Production Credit Associations (PCA's) in Oklahoma accounted for 163.5 million dollars of the total non-real estate farm debt in 1973 [4]. This constituted 21.9 percent of the total non-real estate farm loans held by institutional lenders in Oklahoma.

PCA's are primarily short term and intermediate term non-real estate farm lenders and may make loans with maturities of up to seven years. They may also make intermediate term real estate loans with maturities of up to seven years [5, p. 81].

PCA's operate under the direct supervision of a district Federal Intermediate Credit Bank (FICB). They operate as corporations with five to seven directors elected for three-year terms by members-borrowers. The FICB's do not loan money themselves, but are merely wholesalers of credit. The origin of the present structure dates back to its establishment in 1933 at which time it was entirely owned by the government. On December 31, 1968, all the FICB's retired the capital stock owned by the government and became wholly owned by borrowers through their Production Credit Associations [8, p. 449].

Borrowers must buy Class B voting stock in their Association equal to not less than $5.00 nor more than $10.00 for each $100.00 or fraction thereof of the loan. The amount of stock required to be purchased is determined by each individual PCA board of directors. Interest must be paid on the total loan including the amount loaned to buy the stock. Interest is charged on the outstanding balance only for the number of days used. The stock may be retired after the loan is repaid or converted, eventually, to class A nonvoting stock. Class A stock can receive dividend payments [5, p. 81].

Individual PCA's may not loan more than 15 percent of their capital and surplus on any single loan without prior approval of the Federal Intermediate Credit Bank. Individual loans in excess of 35 percent of the total capital and surplus of an individual association require not only local and FICB approval but also Farm Credit Administration approval. Production Credit Assoications usually utilize a variable interest rate based on a fixed interest spread. This results from the FICB's acquisition of loanable funds through the sale on the New York money-market of nine-month bonds and, occasionally, three-year bonds. The interest rate to the association, therefore, varies each month and is calculated by averaging the interest rates of the outstanding debentures, and adding to it a margin to cover operation cost of the bank. This margin is usually one-half of one percent. The PCA will in turn add a charge of less than one per cent to cover its operation expenses.

Federal Land Banks

The Federal Land Banks system constitutes that portion of the farm credit system which provides real estate mortgage loans for farmers. Each Federal Land Bank Association (FLBA) is a corporation chartered under the Federal Farm Loan Act of 1916. There are 12 FLBA's in Oklahoma. Oklahoma, along with Kansas, New Mexico, and Colorado, is in the Wichita district which received the first national charter in 1917. Individual associations are under the supervision of the district Federal Land Bank. Each association, being a corporation, is controlled by a board of directors. Directors are elected by the member-borrowers of the association for three-year terms and may number not less than five no more than seven. Federal Land Banks have been completely owned by the FLBA's since 1947, whereas, the FLBA's have always been entirely borrower owned.

Borrowers are required to buy stock in their association equal to at least five percent of the value of their loan. An additional one percent is assessed the borrower to cover the costs associated with the closing of the loan (e.g. appraisals, title searches, and abstract inspections). Total interest charges are subsequently based on the amount of the loan closing charge. FLB loans are made for long terms, 5 to 40 years, and in no case may exceed 85 percent of the fair market value of the real estate [5, p. 80]. Loans are typically made for no more than 33 years but can be for up to 40 years. FLBA's may loan money for any agricultural purpose providing a first mortage on real estate is committed as security.

In 1973 FLBA's held 20.1 percent of the total outstanding farm real estate debt in Oklahoma. This amounted to 194.16 million dollars in total farm real estate debt [3].

Farmers Home Administration

The genesis of the Farmers Home Administration (FmHA) was marked

by the creation of the Resettlement Administration in 1935. This later became known as the Farm Security Administration. This organization, along with the Emergency Crop and Feed Loan division of the Farm Credit Administration, was abolished by the Farmers Home Administration Act of 1946, and replaced by the FmHA [8, p. 47].

The FmHA in Oklahoma is comprised of the state office in Stillwater and approximately 67 county offices. The operations of each county office are maintained by a county supervisor who is responsible for receiving loan applications. An FmHA Committee consists of three members appointed by the state director for each county office area. These committees determine the eligiblility of applicants, review each borrower's progress and extend recommendations regarding loan approvals and loan servicing actions.

The FmHA is a government credit agency. Therefore, a detailed explication of its money sources is impertinent to the purpose of this study. One important note, however, is that FmHA is authorized by law to make loans only to those farmers who are unable to obtain adequate credit from other sources on reasonable terms. Another lending practice frequently employed by FmHA is that of participation with other lenders on both real estate and non-real estate loans. Their effectiveness in arranging real estate participation loans for low equity applicants stems from their acceptance of second liens on farm land and security.

FmHA offices are allowed to loan 100 percent of the appraised value of real estate and non-real estate assets. By law they are not permitted to lend more than $100,000 on real estate, providing the total debt secured by real estate does not exceed $225,000. Also $50,000 is the maximum allowable for operation loans or non-real estate loans [5, p. 88].

The Farmer's Home Administration accounted for 12 percent of the total outstanding farm real estate debt in Oklahoma in 1973 [3]. This amounted to 115.6 million dollars of total outstanding debt. FmHA also accounted for 4.4 percent of total outstanding non-real estate farm debt held by institutional lenders in Oklahoma in 1973 [4]. This amounted to 32.78 million dollars of total debt.

Private Individuals

Private lenders are primarliy a source of long-term debt capital. These lenders include retiring farmers who provide financing for the purchase of farmland they own, as well as private individuals who loan accumulated savings.

This group of financiers held an estimated 367.34 million dollars in total outstanding farm real estate debt in Oklahoma in 1973 [3]. This constituted 38.1 percent of the total outstanding land loans held by all lenders in Oklahoma. Although private individuals provide significant amounts of farm real estate debt capital, very little information is available regarding their lending

terms and characteristics. This lack of useful data provided an incentive to obtain information via surveying techniques as described later in this study.

Insurance Companies

Life insurance companies are of two types: (1) stock companies and (2) mutual companies. Stock companies are owned by the stockholders who provide the capital required by the company. Mutual insurance companies, in contrast, are owned by the policy holders. Life insurance companies prefer diversifications of investments to reduce risks and to develop good will. They consider it sound policy to spread investment among different businesses or classes of investments, as well as to spread them geographically. Farm mortgage loans will satisfy the investment preferences of life insurance companies. These lenders typically make only first-mortgage loans on farm and ranch property. In past years they have characteristically loaned on farm sizes somewhat larger than the average. Because most life insurance companies are chartered in states other than those occupied by their branch offices, loan limits may vary. Insurance companies are authorized by law to grant mortgage loans up to 75 percent of the appraised value. The average life insurance company loan is usually greater than the average of other institutional lenders. Insurance company loans range in terms from 5 to 25 years depending on company policy. These loans are amortized at rates relatively lower than those used by other lenders. As a result, a balloon payment at maturity is required. Insurance companies generally prohibit prepayments in any one year greater than 20 percent of the original amount of the loan. Beyond this limit a prepayment penalty is assessed the borrower. Some life insurance companies assess penalities for any amount of prepayment. Loan procurement may originate in branch offices, through agreements with commercial banks, or via farm mortgage correspondents such as mortgage bankers, mortgage companies and real estate offices [8, p. 386].

In 1972, only 2.5 percent of total insurance company assets consisted of farm mortgages [8, p. 372]. Life insurance companies provided 16.8 percent of the total farm real estate debt in Oklahoma in 1973 [3]. This amounted to 161.9 million dollars of outstanding farm real-estate debt.

Oklahoma School Land Commission

Very little data is available as to the percentage of total outstanding real estate farm debt in Oklahoma provided by the Oklahoma School Land Commission. This lender grants only long term farm real estate loans to borrowers. These loans cannot exceed 50 percent of the agricultural value of the land as determined by the School Land appraiser[3]. No loans can be made

[3]Most of this information was taken from a 1974 application form used by the Oklahoma School Land Commision.

in excess of $80,000. The amount loaned cannot exceed an average of $200 per acre. Loans are granted for a term of 33 years with interest at the rate of 7 ½ percent per annum. Delinquent installments, both principle and interest, bear interest at the rate of 10 percent until paid. Payments may be made on either annual or semi-annual basis. An applicatiion fee is assessed the borrower amounting to no less than $50 and no greater than one percent of the amount applied for. Appraisals for the land purchase in question are made gratis unless the land lies in more than one county. In these cases, the fee is $40 for each additional county. A $50 charge is also made for the examination of abstracts and transcripts.

In some instances the Oklahoma School Land Commission might be considered a viable alternative to financing low resource beginning farmers. The limitations, however, provided by (1) the $80,000 maximum loan limit, (2) the 50 percent of appraised value maximum and (3) the per acre limit of $200, necessitates participation with FmHA if the Oklahoma School Land Commission is to be considered a practicable financial alternative for beginning farmers. As a result, further research was not conducted regarding this agricultural lender.

Results of a Survey of Agricultural Lenders in Oklahoma

The best available method of investigating the various financial alternatives proved to be the collection of primary data. This stemmed from a lack of specific data for each of the geographic areas in question as well as the absence of any information concerning lender attitudes toward entrants into agriculture in Oklahoma.

The first step in compiling relevant data was to design a pertinent questionnaire for each of the lenders discussed in the preceeding section except the Oklahoma School Land Commission. Because of the diverse structures, objectives and services offered by each lender, the questionnaires differed in content [7]. An attempt was made to tailor the questionnaires for their intended set of respondents and simultaneously maintain some degree of standardization to provide a basis for comparative analyses.

The second step involved direct personal interviews with a representative sample of lenders in each of the selected areas. To achieve this a central county was chosen within each area and the agricultural lenders serving therein were personally visited. Some lending agencies (e.g., insurance companies), maintain regional or state offices only. Therefore, the agency office, which served the selected county, regardless of its location, was the subject of the interview.[4]

Representatives of eighteen commercial banks in the five counties were interviewed. Questionnaire information was also obtained from five PCA's,

[4]For example, the Durant FLBA in Bryan County serves Atoka County farmers and was used as a source of information for Atoka County.

five FLBA's, five FmHA offices, five life insurance companies, and 23 private lenders. The reactions supplied by the 61 respondents provide the basis for discussion in the remainder of the chapter.

Types of Loans Granted by Lending Institutions

Selected types of loans were specified in those questionnaires designed for commercial banks and Production Credit Associations.
Because all commercial banks and PCA's do not make each of the selected types of loans, responses were sought which would indicate the number of lenders who did (Table 2). Only three of the PCA's made land loans; and one of the three granted land loans on a limited basis only. At least 15 of the 18 commercial banks granted all the types of loans specified, with the exception of "other production loans" (e.g., rental loans). Only 13 of the 18 banks made these types of loans.

Age Distribution of Agricultural Loan Volume

One method of evaluating the attitudes of lenders toward entrants into production agriculture was to determine the relative borrower age distribution of the outstanding loan volume of each lender. Respondents were asked to estimate the percentage of their total agricultural loan volume which fell within selected borrower age groups. These distributions were then averaged for all lenders in each county and for each lender in all counties, and expressed as a percentage of the total (Table 3). Most respondents believed their loan volume fell into a normal distribution by age. Differences, however, were identified. Assuming that borrowers ages 20-30 constitute low resource, beginning farmers, Atoka County and Garvin County lenders estimated that 19 percent and 17 percent, respectively, of their loan volume fell into this category. Texas County lenders had the least loan volume in this age group, approximately 11 percent. By lender, FmHA's and PCA's estimates were highest, 23 percent and 18 percent, respectively. Of the major lenders commercial banks had the smallest proportion of their agricultural loan volume in the age category. Private lenders reported an average age of 37 for their creditors.

Interest Rates

A primary concern of any potential borrower, and especially beginning farmers, is the interest rate. Because the interest rates charged by various lenders are determined by several factors, the rational credit seeker needs to be aware of existing rates when selecting from financial alternatives. The interest rate may be the deciding factor when making a selection and warrants an objective investigation. The borrower should be careful to consider all costs of borrowing money, including interest, certain closing and application fees, stock purchases and special terms of the loan.

Table 2. Number of Production Credit Associations and Commercial Banks Interviewed Who Grant Selected Types of Agricultural Loans[1]

Loan Type	Production Credit Associations	Commercial Banks
	Number of Respondents	
Machinery	5	18
Livestock Breeding	5	17
Livestock Stockers	5	18
Livestock Fattening	5	15
Seed and Fertilizer, Etc.	5	17
Land	3	15
Buildings and other Improvements	5	15
Other Prod. Loans (e.g. Rental)	5	13
Pasture Establishment	4	15
Total Number of Respondents	5	18

[1]All the private lenders interviewed, but one, loaned 100 percent of their funds on real estate. Insurance companies also only made real estate loans.

Table 3. Approximate Distribution of Total Agricultural Loan Volume to Borrower Age Groups, Five Selected Counties of Oklahoma

Respondents	Age Groups						
	20-25	26-30	31-35	36-50	51-60	Over 60	Total
	Percent						
Atoka County (all lenders)[1]	9	10	15	33	24	9	100
Garvin County (all lenders)	5	12	13	48	17	5	100
Texas County (all lenders)	4	7	20	43	19	7	100
Wagoner County (all lenders)	5	10	19	37	20	9	100
Woodward County (all lenders)	6	8	14	40	27	5	100
Banks (all counties)[2]	4	9	16	46	19	8	100
FLBA's (all counties)	5	8	19	39	22	7	100
FmHA's (all counties)	10	13	16	31	26	4	100
PCA's (all counties)	6	12	15	35	23	9	100
Insurance Companies	4	7	20	38	23	8	100

[1]Lenders consist of commercial banks, Federal Land Bank Associations, Farmers Home Administration, and Production Credit Associations.

[2]Counties include Atoka, Garvin, Texas, Wagoner, and Woodward counties.

Federal Land Bank Associations, being primarily long-term, farm real estate lenders, have not typically undertaken rapid or drastic changes in their interest rates. Similarly, the FmHA has not characteristically made significant alterations in its rates in past years. This is due primarily to its objectives and

Table 4. Normal and Current Interest Rates Charged for Selected Types of Loans by Commercial Banks, Five Counties of Oklahoma, 1974

Loan Type	Atoka County	Garvin County	Texas County	Wagoner County	Woodward County	All Banks
			Percent			
Machinery						
Normal Rate	9.0	8.8	8.6	9.3	9.4	9.0
Current Rate	11.4	10.2	9.9	11.8	9.5	10.6
Livestock Breeding						
Normal Rate	9.0	8.7	8.6	9.3	9.4	8.9
Current Rate	11.4	10.2	9.7	11.8	9.7	10.6
Livestock Fattening						
Normal Rate	9.0	9.3	8.6	9.6	9.4	9.2
Current Rate	11.4	10.3	9.7	12.0	9.7	10.7
Livestock Stockers						
Normal Rate	9.0	8.7	8.6	9.3	9.4	8.9
Current Rate	11.4	10.2	9.7	11.8	9.7	10.6
Seed, Fertilizer, Etc.						
Normal Rate	9.0	9.5	8.6	9.3	9.4	9.1
Current Rate	11.4	10.5	9.7	11.8	9.7	10.7
Land						
Normal Rate	9.3	8.7	8.6	8.9	9.0	8.8
Current Rate	11.4	10.2	9.7	10.1	9.5	10.2
Buildings and Improvements						
Normal Rate	9.3	9.3	8.6	8.9	9.0	8.9
Current Rate	11.4	10.5	9.7	10.4	9.7	10.3
Pasture Establishment						
Normal Rate	9.3	9.4	8.6	9.3	9.4	9.2
Current Rate	11.4	10.5	9.7	11.8	9.7	10.8
Other Production Loans (e.g. Rental)						
Normal Rate	9.3	9.7	8.7	9.1	9.5	9.2
Current Rate	11.4	10.5	9.8	11.7	9.7	10.7

the requisite of congressional approval to initiate changes. At the time of this study, Federal Land Bank Associations were charging 8.5 percent annually for all types of loans. FmHA's charges were 8.75 percent for operating capital and five percent for long-term land loans.

In contrast to the long-term lenders, short-term lending rates are more frequently subjected to changes. As a result each commercial bank interviewed was asked to specify normal and current interest rate charges for various types of agricultural loans (Table 4). Current interest rates were those typically being assessed at the time of the study. Interest and inflation rates were very high at the time the survey was made in the summer of 1974. Because of the unusual state of the national economy at the time of the study, the respondents were asked to specify an interest rate for each type of loan which they felt to be representative of more normal conditions. This followed the assumption that the relatively high prime interest rates and unusually high inflation rates prevalent at the time of the study were of a temporary nature.

Cursory observation of the resulting information reveals one predominant aspect of commercial bank lending. The variation in interest rates charged for various types of loans in each county is very low. The interest charges for land loans were lower than those charged for loans of other types in three of the five counties, but only by a small amount. The rates currently charged for various types of loans ranged from 9.5 percent to 12 percent, while the average of all the banks ranged from 10.2 to 10.8 percent. It is noteworthy that commercial bank respondents generally felt that current rates were 1.5 to 2.0 percent higher than interest rates they considered normal.

Production Credit Associations were also asked to specify normal and current interest rates for the same types of loans presented in Table 4. The results are not shown in detail by county to protect the confidential nature of the interviews. Similar to commercial banks, PCA's charged virtually the same interest rates for all types of loans. The average current interest rate was 9.36 percent. The average normal interest rate specified by the five PCA's was 7.06 percent. PCA respondents considered current interest rates to be an average of 2.3 percent higher than normal. The average current and average normal interest rates reported by insurance companies were 10.35 and 9.05 percent, respectively. Private lenders reported an average normal rate of 7.09 percent.

Percent of Appraised Value Loaned

Agricultural lenders seldom grant loans which amount to 100 percent of the appraised (or market) value of the asset being purchased. As a result the borrower is expected to provide a certain amount of equity capital. The asset is used to secure a proportion of the value loaned and protect the lender against losses. Especially in the case of low resource, beginning farmers who control little or no equity, it is important to consider this aspect of borrowing funds.

Production Credit Associations and commercial banks were asked to specify the percentage of appraised value typically loaned for the purchase of selected types of assets. The information was then averaged for all banks in each county, all banks as a group, and all PCA's (Table 5). A distinction was made in Table 5 between those lenders who loan 100 percent of the value of an asset and those who typically loan a lesser amount. This was done because of the circumstances which may induce a lender to provide 100 percent financing.[5]

Commercial banks loaned relatively less on land loans than for other types of assets. With the notable exception of pasture establishment loans, banks typically loaned more on short-term assets than intermediate or long-term assets. That is, the shorter the expected repayment period of a loan, the greater the amount of money loaned for its purchase. Prior to adjusting these loan limits by excluding those who supplied 100 percent financing, the average amounts loaned for various assets by all banks ranged from 73.0 to 91.0 percent. After the adjustment, the variation decreased to range from 71.0 to 76.0 percent of the appraised value loaned.

The responses of Production Credit Associtations exhibited no uniform patterns or associated consistency. Before adjusting the averages to exclude those who extend 100 percent financing, the financing ranged from 70.0 to 83.0 percent. Subsequent to the adjustment, the averages of all PCA's ranged from 64.0 to 74.0 percent. Life insurance respondents reported loans up to 75 percent of the appraised value of real estate with an average of 65 percent. Private lenders averaged 72.1 percent of the land value.

Length of Repayment

The relative fixity of various farm assets dictates that the length of time required to retire debt capital borrowed for their acquisiton should also vary. That is, the longer the useful life of an asset, the longer the expected repayment period.

Production Credit Associations and commercial bank respondents were asked to specify the length of repayment typically established for selected types of loans. The resulting information was averaged for all banks in each county, all banks as a group, and all PCA's (Table 6). The data were further adjusted to exclude those respondents who practice annual or semi-annual refinancing. The results were expressed to the nearest hundredth of a year.

As a whole, the data reinforce the concept of longer repayment lengths for loans on assets typically considered to have a relatively longer useful life. Land loans were granted by banks for an average length of 9.25 years. After adjusting for those respondents who required annual or shorter period re-

[5]For example, many banks loan 100 percent of the value of livestock stockers providing the borrower can supply the wheat pasture, hay, and other items. Also, one bank loaned 100 percent on land loans which were 90-day interim loans only.

Table 5. Average Percentage of Appraised Value Loaned for Selected Types of Loans, by Commercial Banks in Each County, All Banks, and All Production Credit Associations; Five Counties of Oklahoma

Loan Type	Commercial Banks					All Banks	All PCA's
	Atoka Co.	Garvin Co.	Texas Co.	Wagoner Co.	Woodward Co.		
				Percent			
Machinery							
Average of All Responses	85	76	81	75	83	80	70
Excluding Those Loaning 100%	70	76	74	75	83	76	70
Number Who Loaned 100%	1	0	1	0	0	2	0
Livestock Breeding							
Average of All Responses	87	75	83	84	77	81	80
Excluding Those Loaning 100%	75	75	77	73	77	76	72
Number Who Loaned 100%	1	0	1	2	0	4	1
Livestock Fattening							
Average of All Responses	87	75	77	80	87	81	80
Excluding Those Loaning 100%	75	75	69	73	75	73	74
Number Who Loaned 100%	1	0	1	1	1	4	1
Livestocker Stockers							
Average of All Responses	87	75	82	84	77	81	80
Excluding Those Loaning 100%	75	75	76	73	77	75	67
Number Who Loaned 100%	1	0	1	2	0	4	2
Seed, Fertilizer, Etc.							
Average of All Responses	100	81	92	80	90	89	81
Excluding Those Loaning 100%	0	75	67	75	80	74	69
Number Who Loaned 100%	1	1	3	1	1	7	2
Land							
Average of All Responses	70	68	76	64	75	73	81
Excluding Those Loaning 100%	70	68	68	64	75	71	69
Number Who Loaned 100%	0	0	1	0	0	1	1
Buildings and Improvements							
Average of All Responses	100	79	66	73	90	82	77
Excluding Those Loaning 100%	0	79	55	73	80	72	71
Number Who Loaned 100%	2	0	1	0	1	4	1
Pasture Establishment							
Average of All Responses	100	81	100	80	90	90	83
Excluding Those Loaning 100%	0	75	0	74	80	76	66
Number Who Loaned 100%	2	1	2	1	1	7	2
Other Production Loans (e.g. Rental)							
Average of All Responses	100	83	100	83	90	91	80
Excluding Those Loaning 100%	0	67	0	77	80	75	69
Number Who Loaned 100%	2	1	3	1	1	8	2

Table 6. Average Number of Years Allowed for Repayment of Selected Types of Loans by Commercial Banks in Each County, All Commercial Banks, and All Production Credit Associations; Five Selected Counties of Oklahoma

Loan Type	Atoka County Banks	Garvin County Banks	Texas County Banks	Wagoner County Banks	Woodward County Banks	All Banks	All PCA's
Machinery							
A	2.0	1.7	2.12	2.45	0.75	1.93	3.6
B	3.0	5.0	2.67	3.5		3.3	4.25
C	1	4	1	2	2	10	1
Livestock Breeding							
A	1.5	0.9	1.25	0.85	0.75	1.15	1.6
B	2.0		2.37			2.25	4.0
C	1	5	2	5	2	14	4
Livestock Fattening							
A	1.0	1.0	0.63	0.81	0.75	0.80	0.9
B							
C	2	3	4	4	2	15	5
Livestock Stockers							
A	1.0	0.9	0.69	0.85	0.75	0.84	1.0
B							
C	2	5	4	5	2	18	5
Seed, Fertilizer, Etc.							
A	1.0	1.0	0.56	0.85	0.75	0.84	1.0
B							
C	2	4	4	5	2	17	5
Land							
A	10.0	4.9	6.44	14.38	5.5	9.25	7.0
B	10.0	7.5	12.5	14.38	10.0	11.25	7.0
C		1	1	0	1	5	0
Buildings and Improvements							
A	1.0	2.5	1.69	10.6	0.75	5.18	2.8
B		7.0	5.0	10.6		9.29	5.5
C	2	3	3	0	1	9	3
Pasture Establishment							
A	1.0	1.0	1.0	0.95	0.75	0.95	1.25
B							2.0
C	2	4	2	5	2	15	3
Other Production Loans (e.g. Rental)							
A	1.0	1.0	0.83	0.69	0.70	0.90	1.0
B							
C	2	2	2	3	4	13	5

A = Average of all responses, in years
B = Average of all responses excluding those by respondents who required annual or shorter term refinancing
C = Number of respondents who required annual or shorter term refinancing

financing, the average increased to 11.25 years. Machinery, livestock breeding and farm building loans were also made for time periods relatively greater in length than loans granted for the purchase of livestock stockers, seed and fertilizer, and other similar items. A high proportion of banks required annual or shorter term financing on all loans. All reporting banks granted loans for the purchase of short-term assets to be repaid in one year or less.

The pattern of responses by Production Credit Associations was analogous to those of commercial banks with the exception of pasture establishment loans. These were granted for an average of 1.25 years prior to adjustment, and an average of 2.0 years subsequent to the exclusion of those who refinance each 12 months or less. Although longer in repayment terms than for the other short-term assets, pasture establishment loans made by Production Credit Associations were relatively shorter in length than loans made for items which characteristically exhibited longer useful lives.

Private lenders reported an average of 12.26 years for loans (mostly land loans). Insurance company loans ranged from 10 to 30 years and averaged 19.5 years.

Required Frequency of Payments

FLBA's and FmHA offices typically required that interest and principal payments be made on an annual basis. There are, however, exceptions, depending upon the circumstances which surround the loan agreement. Some lenders and/or borrowers favor a payment frequency commensurate with production sales or off-farm income. This section is concerned specifically with the required payment frequencies of the primarily short and intermediate term lenders, PCA's and commercial banks.

The respondents were asked to specify the typical payment frequency required for selected types of loans. The resulting information fell into one of three categories: (1) a payment frequency of each six months or less, (2) a payment frequency greater than six months and up to and including 12 months, or (3) a payment frequency commensurate with actual cash flows (Table 7). A majority of the commercial banks required that payments be made each 12 months or more frequently, usually falling into category (1) or (2). Relatively less emphasis was placed on payments associated with cash flow income. Few relationships were evident which associated loan length or the useful life of an asset with required frequency of payments. Banks typically required more frequent payments for land and farm building loans; and a variety of responses were obtained for the remaining types of loans. PCA respondents usually required that payments be made annually or commensurate with cash flows. Relative to the other payment frequency categories, cash flow payments were required more often for all types of loans made by PCA's. Private lender payment frequencies tended to fall into category (2), as did life insurance company loan payments.

Table 7. Frequency of Payments Required by Commercial Banks in Each County, All Commercial Banks, and All Production Credit Associations; for Selected Types of Loans, Five Counties of Oklahoma

Loan Type	Atoka County Banks	Garvin County Banks	Texas County Banks	Wagoner County Banks	Woodward County Banks	All Banks	All PCA's
Machinery							
6 Months or Less		1	3		1	5	
6 to 12 Months	2	2	1	4		9	2
Commensurate with Cash Flows		2		1	1	4	3
Livestock Breeding							
6 Months or Less		1	3	1	1	5	
6 to 12 Months	1	2		4		7	1
Commensurate with Cash Flows	1	2	1		1	5	4
Livestock Fattening							
6 Months or Less		3	1	1	5	1	
6 to 12 Months	1	1		3		5	
Commensurate with Cash Flows	1	2	1	1	5	3	
Livestock Stockers							
6 Months or Less		1	3	1	1	6	
6 to 12 Months	1	2		4		7	1
Commensurate with Cash Flows	1	2	1		1	4	3
Seed, Fertilizer, etc.							
6 Months or Less		1	3	1	1	6	
6 to 12 Months	1	1		4		6	1
Commensurate with Cash Flows	1	2	1		1	5	4
Land							
6 Months or Less		2	4	3	1	10	
6 to 12 Months	2	3		1		6	3
Commensurate with Cash Flows					1	1	
Buildings and Improvements							
6 Months or Less		1	4	3	1	9	
6 to 12 Months	2	3		2		7	2
Commensurate with Cash Flows					1	1	3
Pasture Establishment							
6 Months or Less			2	1	1	4	
6 to 12 Months	2	3		4		9	1
Commensurate with Cash Flows		1			1	2	3
Other Production Loans (e.g. Rental)							
6 Months and Less			3	1	1	5	
6 to 12 Months	2	2		3		7	2
Commensurate with Cash Flows					1	1	3

Table 8. Number of Respondents Requiring Selected Types of Information for Evaluating and Analyzing Loan Applications by All Lenders in Each County and Each Lender in All Counties, for Five Selected Counties in Oklahoma

Respondents	Cash Flows (Prepared Forms)	Cash Flows (Other Forms)	Net Worth Statement	Operating Statement	Total Respondents
			(Number of Respondents)		
Atoka County (all lenders)[1]	1 (2)[3]	1	5	4	5
Garvin County (all lenders)	3 (1)	1	7	7	8
Texas County (all lenders)	2	0	7	7	7
Wagoner County (all lenders)	4	2	8	7	8
Woodward County (all lenders)	1 (2)	0 (1)	5	3 (1)	5
Banks (all counties)[2]	5	4	18	15 (1)	18
FLBA's (all counties)	1 (3)	0 (1)	5	4	5
FmHA's (all counties)	3	0	5	5	5
PCA's (all counties)	3 (2)	0	5	4	5
Life Insurance Companies	0	2	4	4	5

[1]Lenders consist of commercial banks, Federal Land Bank Associations, Farmers Home Administration, and Production Credit Associations.
[2]Counties include Atoka, Garvin, Texas, Wagoner, and Woodward counties.
[3]Numbers in parentheses indicate number of lenders in each group who require this type of information only occasionally.

Types of Information Required by Lenders

Prior to approving or denying a loan application, all lenders require certain types of information upon which to base their decisions. All institutional lenders interviewed were asked whether or not they required selected types of information (Table 8) and to include any other items they considered prerequisites for proper loan application evaluation.

As a group, less than half the respondents required some type of cash flow statement. A cash flow statement is a prepared form or an informal procedure to project monthly expenditures and receipts for the year ahead. A distinction was made in the questionnaire between prepared forms and other informational forms because of the different types of information required by different lending institutions. Virtually all of the lenders in each of the counties required a net worth statement in order to properly evaluate a loan application. Operating statements were required less frequently than net worth statements but more frequently than both types of cash flow statements. Twenty-eight of the 33 institutional respondents required operating statements, and one of the remaining five required an operating statement on an occasional basis only.

The respondents were also asked to estimate the percentage of their borrowers who voluntarily supplied cash flow statements even though they were not required. Two of the respondents maintained that as many as five to ten percent of their borrowers supplied cash flow statements voluntarily, while three respondents estimated the proportion to be one to two percent. Other items which were required by the institutional lenders interviewed included income tax returns for past years, verification of off-farm employment, land appraisals, credit ratings, and personal background information.

Services Provided by Institutional Lenders

Table 9 summarizes the number of respondents by all lenders in each county and each lender in all counties who provided selected services. Items such as legal advice and insurance planning related to the lender more on an informal basis because of the absence of qualified personnel in the fulltime employ of any of the institutions interviewed.

Computerized record-keeping (Agrifax) was provided by two PCA's. Only one of the commercial banks interviewed provided a manual recordkeeping system. Eight of the 18 banks and three of the five FmHA's were the predominant suppliers of insurance planning advice. All five FmHA's provided record analysis while only a modicum of all lenders extended tax guidance to their borrowers. Twenty-six of the 33 institutional lenders interviewed provided financial management assistance to their borrowers. The relatively high frequency of provision of the latter item can be explained by the fact that financial management more closely relates to the structure of the institutions and the knowledge of their personnel.

Table 9. Number of Respondents Providing Selected Types of Services for Borrowers, and Percent of Lenders Who Conducted On-the-farm Visits; by County and by Lender, Five Selected Counties in Oklahoma

Respondents	Record-Keeping		Legal Advice	Insurance Planning	Record Analysis	Tax Guidance	Financial Manage-ment	Total Respondents	Percent Conducting On-Farm Visits
	Computerized	Manual							
					(Respondents)				
Atoka Co. (all lenders)[1]	0	0	2	1	1	2	4	5	63
Garvin Co. (all lenders)	0	1	3	4	1	2	6	8	65
Texas Co. (all lenders)	0	0	1	3	3	2	5	7	60
Wagoner Co. (all lenders)	1	0	1	2	4	1	6	8	80
Woodward Co. (all lenders)	1	0	2	3	2	1	5	5	75
Banks (all counties)[2]	0	1	1	8	3	4	14	18	56
FLBA's (all counties)	0	0	1	1	1	1	2	5	52
FmHA's (all counties)	0	0	4	3	5	1	5	5	100
PCA's (all counties)	2	0	3	1	2	2	5	5	90

[1]Lenders consist of commercial banks, Federal Land Bank Associations, Farmers Home Administration, and Production Credit Associations.

[2]Counties include Atoka, Garvin, Texas, Wagoner, and Woodward counties.

Table 10. Number of Respondents Who Have Used or Witnessed the Use of the Following Lending Tools When Making Loans to Low Resource, Beginning Farmers, by All Lenders in Each County and Each Lender in All Counties

Respondents	Co-Signer	Parent's Collateral	Additional or Conditional Collateral	Cash Gift	Land Gift	Third Party's Machinery	Total Respondents
			Number of Respondents				
Atoka County (all lenders)[1]	4	3	4	2	3	2	5
Garvin County (all lenders)	7	7	5	5	4	2	8
Texas County (all lenders)	6	6	6	1	2	6	7
Wagoner County (all lenders)	7	7	6	2	4	3	8
Woodward County (all lenders)	4	4	4	1	2	3	5
Banks (all counties)[2]	17	17	13	3	7	2	18
FLBA's (all counties)	5	5	4	3	3	4	5
FmHA's (all counties)	0	1	3	2	2	5	5
PCA's (all counties)	5	4	5	3	3	3	5

[1]Lenders consist of commercial banks, Federal Land Bank Associations, Farmers Home Administration, and Production Credit Associations.

[2]Counties include Atoka, Garvin, Texas, Wagoner, and Woodward counties.

Arm-chair vs. arms-reach interest by lenders was investigated by inquiring as to the percentage of borrowers whom on-the-farm visits were conducted following approval of a loan. Many respondents contended that such a service was not necessary as long as the borrower met his repayment obligations. The empirical results obtained were averaged by county and by lender to arrive at the associated column in Table 9. Wagoner County lenders conducted farm visits for 80 percent of their borrowers, while Texas County lenders visited only 60 percent of their borrowers. Of the respective lenders, FmHA respondents visited all of their borrowers while FLBA's provided this service for slightly more than half their borrowers.

Frequency of Use of Alternative Tools to Obtain Adequate Financing

The institutional lenders interviewed were asked to specify whether or not they had used or observed the use of certain lending tools when making loans to low resource, beginning farmers (Table 10). Due to the objectives of FmHA lenders, none of them has used or witnessed the use of a co-signer. If a co-signer had been available then the borrower would not have qualified for financing from FmHA. Virtually all of the other lenders, 27 of the remaining 28, have used co-signing as a means of extending adequate financing to prospective borrowers. Relatively few of the institutional lenders had used or observed the use of additional or conditional collateral, such as the acceptance of a second mortgage by those lenders analyzing the loan applications. Very few of the institutional lenders interviewed specified they had noted the use or had used cash gifts, land gifts, or a third party's machinery in financing a farm operation for low resource, beginning farmers.

Table 11. Incidence of Loan Defaults by Borrowers 20-30 Compared to Defaults by Older Borrowers, and By All Lenders in Each County and Each Lender in All Counties, Five Selected Counties of Oklahoma

Respondents	Default Incidence			Total Respondents
	Lower	Higher	Same	
	Number of Respondents			
Atoka County (all lenders)[1]	0	1	4	5
Garvin County (all lenders)	1	2	5	8
Texas County (all lenders)	1	0	5	6
Wagoner County (all lenders)	1	2	5	8
Woodward County (all lenders)	1	2	2	5
Banks (all counties)[2]	1	5	11	17
FLBA's (all counties)	0	1	4	5
FmHA's (all counties)	0	1	4	5
PCA's (all counties)	3	0	2	5

[1]Lenders consist of commercial banks, Federal Land Bank Associations, Farmers Home Administration, and Production Credit Associations.

[2]Counties include Atoka, Garvin, Texas, Wagoner, and Woodward.

Comparative Incidence of Loan Defaults by Borrowers Age 20-30

Thirty-two institutional lenders responded to the question concerning the extent of defaults by young borrowers. Of the 32, four lenders cited the incidence of loan defaults as being lower among young borrowers than older borrowers. Seven of the 32 respondents claimed that the incidence of loan defaults in this age category (20-30 years) was higher than the incidence of loan defaults by older borrowers. The remaining 23 lenders cited the incidence of loan defaults as being the same as those for older borrowers. Banks constituted five of the seven responses claiming a higher default incidence for borrowers age 20 to 30 (Table 11). Production Credit Associations constituted three of the four institutional lenders citing loan defaults as being lower in this age category compared to older borrowers.

Hierarchy of Borrower Characteristics

One of the primary missions of the survey portion of this study was to obtain information regarding lenders attitudes and opinions relative to low resource, beginning farmers. This was accomplished by asking each respondent to rank each of nine selected borrower characteristics as to their relative importance when analyzing and evaluating loan applications by prospective entrants. The rankings were based on a scale of 0 to 100 and are presented for all lenders interviewed except insurance companies (Table 12).

The nine characteristics were: (1) character, (2) education, (3) farming experience, (4) net worth, (5) desire to farm, (6) credit rating, (7) personality, (8) managerial ability, and (9) the financial situation of the applicant's parents or relatives. Each of these items related solely to the applicant. Two of the characteristics deserve further clarification. Character refers to the applicant's honesty, integrity, and reliability. This distinction was pointed out to each respondent to avoid confusion with item (7), personality. Item (2), education, was defined to the level of formal education attained by the applicant.

Means and standard deviations were computed for each of the nine characteristics and are presented in descending order by lender in Table 12. Character, credit rating, managerial ability, and desire to farm were items typically considered most important by each of the five lender groups. Conversely, personality, education, net worth, and the financial situation of parents or relatives were considered least important. The applicant's character was considered most important and the financial situation of parents or relatives considered least important by three of the five lenders.

In order to determine whether the nine characteristics differed significantly from each other as indicated by the responses, a mulitple range test was performed on the means obtained for each item by lender (Table13). No consistent differences or relationships were noted as revealed by the overlapping interconnections of the items. Specific groups of characteristics were

Table 12. Computed Means and Standard Deviations of Responses for Selected Borrower Characteristics, Five Agricultural Lenders in Five Counties of Oklahoma

	Banks			FLBA's			FmHA			PCA's			Private Lenders		
Rank Order	Item	Mean	Standard Deviation	Item	Mean	Standard Deviation	Item	Mean	Standard Deviation	Item	Mean	Standard Deviation	Item	Mean	Standard Deviation
1	CHAR	89	20	CHAR	93	11	DEFM	84	15	CHAR	90	17	CDRTG	88	24
2	CDRTG	84	19	MANG	93	11	CDRTG	83	21	DEFM	88	18	DEFM	88	24
3	MANG	83	16	DEFM	86	13	FMEX	74	18	FSIT	87	29	CHAR	85	20
4	FMEX	81	10	FMEX	81	21	MANG	70	27	CDRTG	67	25	MANG	80	30
5	DEFM	74	30	CDRTG	75	25	CHAR	66	42	FMEX	57	20	FMEX	67	29
6	FSIT	63	29	NWTH	60	23	PERS	60	29	EDUC	45	7	NWTH	60	24
7	NWTH	62	22	PERS	50	31	EDUC	37	24	MANG	39	34	PERS	55	31
8	EDUC	60	23	EDUC	49	23	NWTH	35	20	PERS	38	39	EDUC	46	21
9	PERS	50	34	FSIT	43	45	FSIT	28	14	NWTH	30	25	FSIT	35	31

[1]CHAR = Character, CDRTG = Credit Rating, MANG = Managerial Ability, FMEX = Farming Experience, DEFM = Desire to Farm, FSIT = Financial Situation of Parents or Relatives, NWTH = Net Worth, EDUC = Education, PERS = Personality

Table 13. Computed Relationships for Selected Borrower Characteristics, Obtained Via the Multiple Range Test, Five Agricultural Lenders in Five Counties of Oklahoma

Rank Order	Banks Relationships Item[1]	FLBA's Relationships Item	FmHA Relationships Item	PCA's Relationships Item	Private Lenders Relationships Item
1	CHAR	CHAR	DEFM	CHAR	CDRTG
2	CDRTG	MANG	CDRTG	DEFM	DEFM
3	MANG	DEFM	FMEX	FSIT	CHAR
4	FMEX	FMEX	MANG	CDRTG	MANG
5	DEFM	CDRTG	CHAR	FMEX	FMEX
6	FSIT	NWTH	PERS	EDUC	NWTH
7	NWTH	PERS	EDUC	MANG	PERS
8	EDUC	EDUC	NWTH	PERS	EDUC
9	PERS	FSIT	FSIT	NWTH	FSIT

[1]CHAR = Character, CDRTG = Credit Rating, MANG = Managerial Ability, FMEX = Farming Experience, DEFM = Desire to Farm, FSIT = Financial Situation of Parents or Relatives, NWTH = Net Worth, EDUC = Education, PERS = Personality.

found to be different from other specific groups for each of the lenders. However, specific items in each of these groups were interrelated with items in other groups.[6] Application of the Duncan Multiple Range Test,[7] therefore, resulted in no consistent differences across all the lender groups. This leads to the conclusion that the relative importance of these items is dependent upon each respondent and his personal subjectivity.

Special Policies for Beginning Farmers

Each of the institutional lenders (excluding insurance companies) was asked to delineate any special policies used to provide financing for low resource, beginning farmers (Appendix A). Some respondents required lower margins of collateral while others utilized the typical participation loans with other lenders. One PCA attempted to make 5 to 10 loans annually to beginning farmers. Whether or not preferential treatment was given a beginning farmer applicant largely depended upon the individual lender representative.

Suggestions to Beginning Farmers

Commercial banks, FLBA's FmHA, PCA's, and private lenders were asked to specify any suggestions they had for a prospective entrant into agriculture.

A summary of the responses is presented in Appendix B; however, most of the suggestions fell within four general categories:

1. Accumulate savings through off-farm employment and/or start small by gradually building equities in cattle, machinery, and other non-land capital items.

2. Keep an excellent set of records.

3. Be adequately prepared when visiting a lender to apply for agricultural loans.

4. Seek the assistance of an established operator or attempt to move into an existing operation with an older farmer who will soon retire.

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[6]For example, there was a significant difference in the first and last item, but concrete differences between adjacent characteristics were not recognizable.

[7]A prewritten computer program.

Appendix A

Summary of Responses Regarding Special Policies Provided for Beginning Farmers By Institutional Lenders

Commercial Banks

1. No special policies - 10 respondents.
2. Require less margin of collateral.
3. Treat as anyone else unless his father is a good customer.
4. Refer to FHA - 3 respondents.
5. Take a security interest on growing crops which includes a pledge of sale proceeds.
6. Keep closer contact with them and work closer with them.
7. Young lenders in the bank will usually go a little farther than normal.
8. Initially require a co-signature on the first loan. After a time of activity with adequate repayment capacity, a more liberal loan is made.

Federal Land Bank Associations

1. No special policies - 2 respondents.
2. Participate with FHA and other lenders, especially private lenders.
3. Will go farther with a young promising farmer.

Farmers Home Administration

1. No special policies - 2 respondents.
2. Participate with other lenders.
3. Guaranteed loan program, if banks will cooperate.
4. Will assume a second mortgage on land to cover 100% operation loan.
5. Visit beginning farmers regularly and provide close supervision.

Production Credit Association

1. No special policies - 3 respondents.
2. Require less equity with a beginning farmer.
3. "We try to make 5-10 loans annually to beginning farmers."
4. Make complete budgets for beginning farmers and adhere to them as nearly as possible. Visit them 2 or 3 times per year and make quarterly dispersals for proper control.

Appendix B

Summary of Responses Regarding Suggestions For Beginning Farmers Who Are Attempting To Overcome Financial Barriers To Entry By All Lenders

Commercial Banks

1. Get lined-up with FmHA because banks are under such strict regulations.
2. Acquire adequate financing through local banker or from you family.
3. Must possess large amounts of patience, a strong desire and an intense devotion to tillage of the land.
4. Establish long pay-off periods to avoid becoming over-extended on financial obligations.
5. Expect long hours and short compensation.
6. Lease land and equipment to cut down capital needs.
7. If you are purchasing land strive for long-term land loans from FmHA or FLBA.
8. Show lender you are not going overboard. Be conservative and of strong character.
9. Express an earnest desire to engage in agriculture.
10. Get with older farmer, do most of the work, and set up the deal with the land-owner. Move in gradually as the older man moves out.
11. Work with county extension director.
12. Get to know local bankers.
13. Prepare a detailed plan of operation both for the present and future, including cash flows.
14. Be prepared with an explanation of your experience before visiting with lender.
15. Have a detailed credit application prepared.
16. Prepare a list of references.
17. Need parent's or relative's backing.
18. Young man needs established farmer to help him be competitive in land-leasing.
19. Use another's farm machinery if possible.
20. Do not tie up all operating money in capital such as fancy corrals, new machinery, and other unnecessary items.
21. Realize that the perfect set-up will require several years to build. Add something each year—as much as allowable. Realize the better things are several years in coming.

Farmers Home Administration

1. Build equity in cattle.
2. Build equity through off-farm employment and saving.
3. Use long-term loans and low interest rates to begin farming.
4. Be cautious about over-investment.
5. Use services of SCS and ASCS in order to attain the maximum land production capable.
6. Needs backing from dad or needs equipment.
7. Needs credit from other places besides FmHA (e.g., feed, seed, fuel, credit lines).
8. Needs off-farm income.
9. Be honest, trustworthy, and be a good worker.
10. Use as few credit sources as possible. Don't get too spread out.
11. Keep a good set of records.
12. Visit with a successful farmer. Watch him closely to find out how he made his operation work.
13. Try to become associated with a successful farmer.
14. Need guidance from a financial institution.
15. Use minimum five-year leases and renewal options. For example, one-third share rent.

Federal Land Bank Associations

1. Borrow money and establish credit rating.
2. Build cattle and machinery equity before buying land.
3. Get your parents to help you get started.
4. Seek participation loans with FmHA. You need to be loaned 100%.
5. Get with an older man who is retiring.
6. Get some experience in farming.
7. Maintian good record-keeping.
8. Get with a reputable lender.
9. Avoid getting in debt too quick.
10. When visiting lenders, prepare financial records and a plan as to proposed operation.
11. Be able to differentiate between the long-term and the short-term and try to keep both under one lender.
12. Attempt to establish a good track record.

Production Credit Associations

1. Start at bottom and grow—don't start too big.
2. Acquire outside employment, save, and start small.
3. Must be able to sacrifice.
4. Must have patience and determination.

5. Must have an absolute desire to farm.
6. Must go to a lender with a definite plan (e.g., cash flows, etc.)
7. Know what you want, what it will cost, where you are going to get it, how you plan to finance it, and how you plan to repay the loan.
8. Prepare a written plan of goals and objectives.
9. Attempt to lease or farm an economic unit that has the potential to recover the funds required.
10. If possible, convince a financially responsible co-signer that your plan is sound and have his support in person, when making original application.
11. Have completed credit information available as to past doings, regardless of how insignificant they may seem to you.
12. Have a list of references of people who know your experience and qualifications.
13. Must be married to a woman who will sacrifice.
14. Must keep excellent records.
15. Frequently consult lender about important or semi-important decisions.
16. Work hard and spend little.

Private Individuals

1. Get in a good producing county.
2. Need to live within your means.
3. Need to work off-farm and save.
4. Build up equity to get adequate financial backing.
5. Keep up with new technical information and change with the times.
6. Look for cheap land—unimproved.
7. Do not over-step financial budgets.
8. Gradually work up—buy small piece of property and improve it.
9. Build a relationship with a leading agency.
10. Accept advice from agriculturally oriented agencies.
11. Keep good records.
12. Seek financial assistance of FmHA.
13. Never buy anything on credit you can do without.
14. Work out a partnership with parents with the understanding of complete take-over after five years if you have proven yourself.
15. Begin by leasing and renting land.
16. Use professional assistance to set up a sound operation.
17. Use a good real estate attorney to set up contracts and land purchases.
18. Must have necessary background, ability, and character.
19. Seek the experiences of other farmers.
20. Be able to sacrifice in early years.
21. Work with father or relative. Move slowly and cautiously. Rent as much equipment and land as you can rather than buying.
22. Must have a strong desire to farm.

23. Stay with one lender and don't over-extend credit.
24. Prove ablility and sincerity to private owner and work out a long-term incentive farmer-employee relationship following a period of 3 to 10 years.
25. Be able to communicate progress to your creditors.
26. Set goals and objectives.
27. Demonstrate to the lender you can operate with a minimum of expense, place more importance on efficiency, and remain well-informed.
28. Start with a small operation.
29. Have a good job so you don't have to depend completely on the farm for your income.
30. Find a good job, try to save and invest toward this end.
31. Seek the support of an experienced man with faith in your abilities and one who has machinery and cattle.

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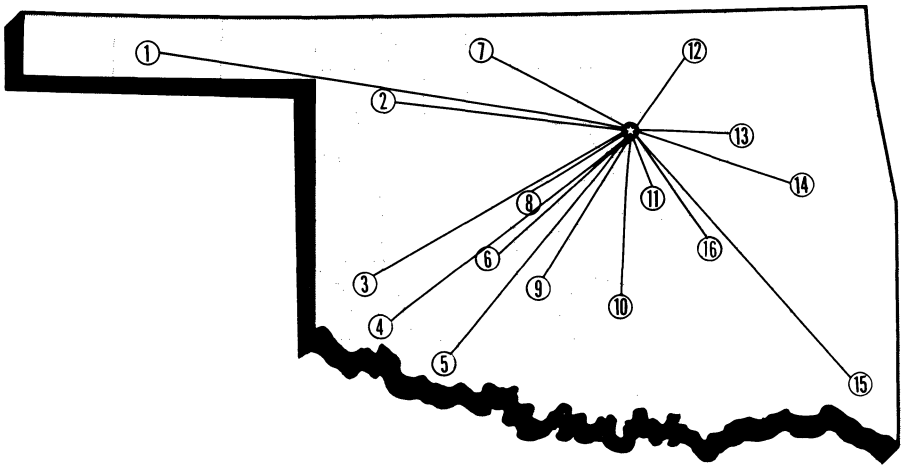
OKLAHOMA

Agricultural Experiment Station

System Covers the State



Main Station — *Stillwater, Perkins and Lake Carl Blackwell*

1. **Panhandle Research Station — *Goodwell***
2. **Southern Great Plains Field Station — *Woodward***
3. **Sandyland Research Station — *Mangum***
4. **Irrigation Research Station — *Altus***
5. **Southwest Agronomy Research Station — *Tipton***
6. **Caddo Research Station — *Ft. Cobb***
7. **North Central Research Station — *Lahoma***
8. **Southwestern Livestock and Forage Research Station — *El Reno***
9. **South Central Research Station — *Chickasha***
10. **Agronomy Research Station — *Stratford***
11. **Pecan Research Station — *Sparks***
12. **Veterinary Research Station — *Pawhuska***
13. **Vegetable Research Station — *Bixby***
14. **Eastern Pasture Research Station — *Muskogee***
15. **Kiamichi Field Station — *Idabel***
16. **Sarkeys Research and Demonstration Project—*Lamar***

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