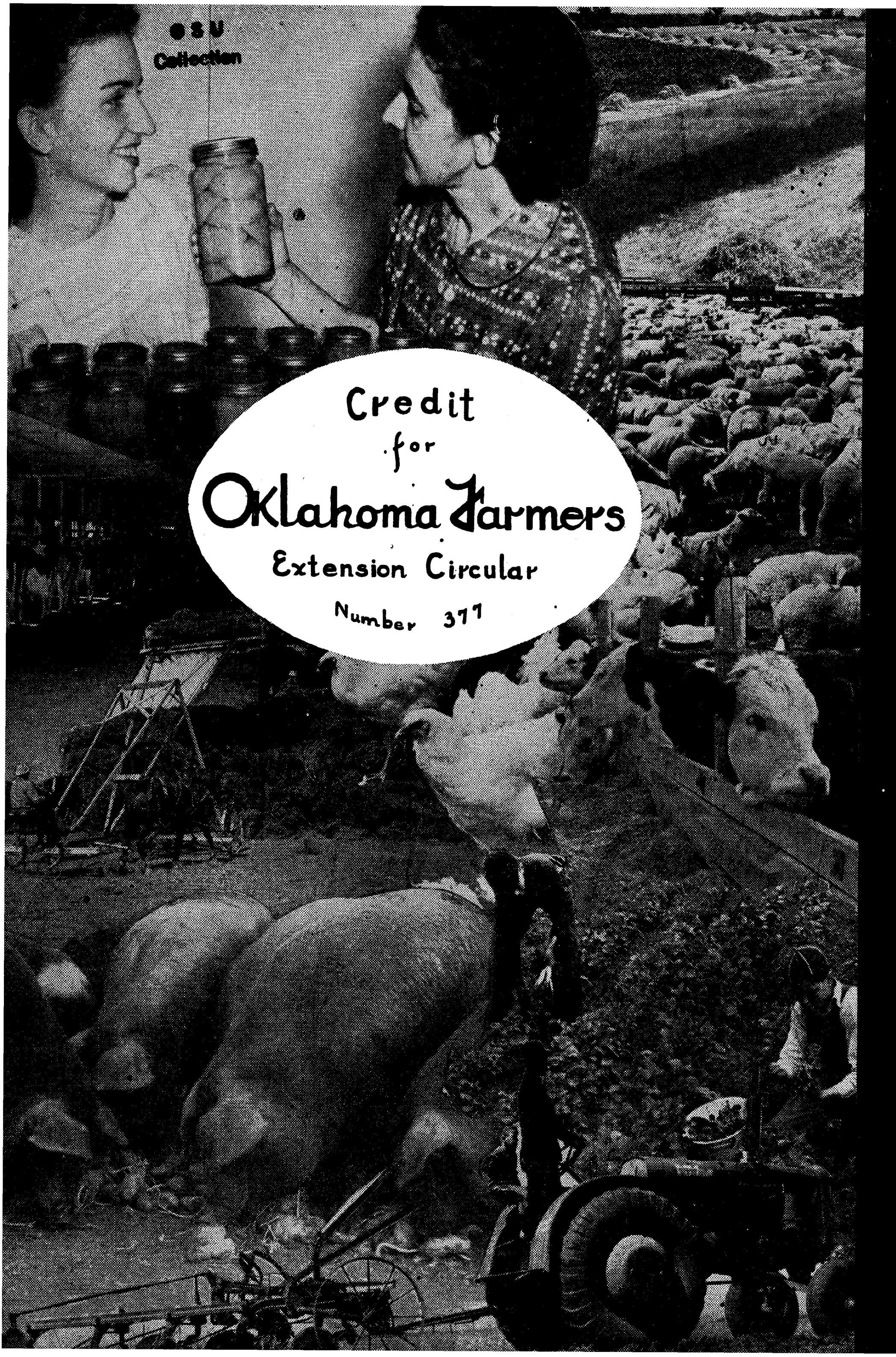

Credit for Oklahoma Farmers

Extension Circular

Number 377

CREDIT FOR OKLAHOMA FARMERS[1]

By ERROL D. HUNTER and G. P. COLLINS[2]

"Credit is the thing that debts are made of,"[3] but wise use of credit seldom results in burdensome debt. A working knowledge of sources of credit and its proper use is a practical first step toward sound financing.

This circular is divided into two parts: The first part has to do with sound use of agricultural credit; and the second part beginning on page 5 deals with credit sources and their description.

SOUND USE OF AGRICULTURAL CREDIT

Farmers regard credit as one of their most useful and necessary tools. Many of them, however, have found it to be one of their most dangerous pitfalls. Out of the experience of both borrowers and lenders sound principles for credit use have been developed. Some of these are discussed below.

1. Borrow for Productive Purposes

Experience indicates that under ordinary conditions borrowing is not justified unless it will add enough to the farm income to repay the loan with interest and increase farm earnings. Sound borrowing involves the most careful possible planning and forecasting. For instance, if a cattle loan is being considered, even though plans and forecasts may be imperfect, it is considerably safer to study cattle price prospects for the future than merely to assume that cattle will be high when the loan comes due.

Borrowing for *consumption* purposes such as groceries or doctors' bills is sometimes necessary. However, such borrowing should be made only after careful consideration because it does not add directly to the farm's earnings.

2. Base Borrowings on Probable Earnings Rather Than Available Security

Credit may be dangerously easy to get. Too often farm operators find that they have overborrowed because their security permitted a larger loan than was justified by the repayment capacity of their farms. Debt paying capacity is

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[1] This circular is based on an article, "Sources and Use of Credit for Oklahoma Farmers," in Current Farm Economics, Oklahoma Agricultural Experiment Station, Series 49, Vol. 14, No. 4 pp. 115-127, by G. P. Collins and Errol D. Hunter.

[2] Errol D. Hunter, formerly Extension Economist, Farm Management, Oklahoma Agricultural Extension Service, and G. P. Collins, Assistant Agricultural Economist, Oklahoma Agricultural Experiment Station.

[3] A statement often made by Roy Greene, formerly General Agent, Farm Credit Administration, Wichita, Kansas.

limited by farm earnings; therefore the amount of money borrowed can be more safely based upon farm earnings than upon adequacy of collateral.

Loans based upon security rather than probable earnings of the enterprise being financed may result in overborrowing. Overborrowing is a greater hazard for the borrower than for the lender because in case of default the lender can always salvage something by foreclosing, while the borrower's loss of property through foreclosure may seriously cripple his farm plant.

3. Do Not Underborrow

It is almost as dangerous to borrow too little as too much. If the enterprise or property being financed cannot support a loan large enough to properly care for its needs, the likelihood of failure is great. Repayment history of loans indicates that such enterprises may well be postponed until they can be sufficiently financed to give promise of satisfactory earnings.

4. Anticipate Credit Needs and Arrange Ahead of Time to Meet Them

Good farm-operators know that at the beginning of the year it is desirable to estimate credit needs so that a well balanced credit program can be worked out ahead of time with the appropriate lending agencies. Then, for example, the harvesting of wheat or buying of livestock will not be held back by lack of proper financing. Most last minute, enforced borrowings, which give little chance for well considered decisions, can be avoided.

5. Arrange for Repayment Programs to Fit the Farm Income

On a cotton farm a debt payment of $250 which would be easy to meet in November might be hard to meet during July; on a wheat farm the reverse might be true. Loan repayments are more easily met if they are fitted to the farm's seasonal income. Repayment of dairy loans or loans on other enterprises from which the income is not seasonal might well be arranged on a monthly basis.

6. Borrow Only for the Productive Life of the Security

Repayment plans can be successful only if the term of the loan does not exceed the productive life of the security. If a tractor is bought with borrowed money, this debt can most easily be paid while the tractor is still in service. If, for any reason, repayment plans do not work out, the borrower's credit standing is improved if he meets with the lender to replan the loan before it comes due.

7. SELECT A LENDING AGENCY SUITED TO YOUR NEEDS

While the farm operator improves his opportunity for successful borrowing by following sound principles of credit use there are still some hazards that lie beyond his control. The hazard of unpredictable low income years is reduced if the lending agency is adapted to the borrower's needs so that it can "go along" with him during periods when normal repayment is difficult.

TYPES OF CREDIT

Credit may be divided into three general types: Short term and intermediate term loans which are usually borrowed for about three years or less, and long term loans which are borrowed for a period of several years and are adapted for buying land and constructing major farm improvements. Short term or intermediate credit, is adapted for such things as the purchase of livestock or machinery; financing production, harvesting and marketing; purchase of feed or fertilizer; construction of minor farm improvements, and for general operating expenses.

For each type of credit there are appropriate lending agencies. Some have private or corporate funds available to loan for normal conditions while others have government funds that have been appropriated directly for them to loan for special conditions. The following pages present a brief description of each of the more common credit agencies.

SHORT AND INTERMEDIATE TERM CREDIT AGENCIES[4]

A. AGENCIES LENDING PRIVATE FUNDS FOR NORMAL CONDITIONS

1. Commercial Banks

Commercial banks, most of which are in country towns, handle a larger volume of short term credit business than any other agency in Oklahoma. One of their most favorable characteristics is flexibility in loan requirements. Local bankers know the people with whom they deal and may permit a wide variation in qualifications required of borrowers. This may be true of other local credit agencies. On the other hand, during periods of depression the falling off of bank deposits and reduction of outside borrowings may restrict bankers' lending operations. Bank loans are made to good risks for almost any

[4] The information on the several lending agencies has been gathered either from completed questionnaires or printed material supplied to the Oklahoma Agricultural Experiment Station by the lending agencies in question. These agencies have also read and commented on the summaries of credit sources. Grateful acknowledgment is made to these agencies.

farm use. They are made at from 5 to 10 percent interest and may or may not carry additional fees. They are usually made on chattel or crop mortgage security and may represent from 50 to 75 percent of the value of security. Loans can be obtained quickly without great formality for periods up to two years. Repayments within legal limits may be arranged to suit the individual borrower.

2. Production Credit Associations

With each applicant, P. C. A. attempts to plan a well rounded financing program to meet all his operating credit needs. Loans are made for terms up to one year to good risks, on chattel or crop mortgage security at 4½ percent interest. The interest rate on new loans is subject to change depending upon the cost to P. C. A. of loan funds. They are made for financing the production, harvesting, and marketing of crops; the breeding, fattening, raising, and marketing of livestock; and the repair, improvement, and alteration of farm buildings, to refinance indebtedness, buy household equipment and for general farm expenses. Borrowers become members of these cooperative credit associations by purchasing $5 worth of stock in the local P. C. A. for each $100, or fraction thereof, borrowed but the cost of stock may be included in the loan. When the loan is repaid, the borrower may keep his stock in the local P. C. A. or sell it to another borrower. Loans may be renewed if satisfactory progress has been made. Loans, based on the personal qualifications and probable earnings of the applicant, can be closed in a few days in amounts running upward from $50. Loan service fees and inspection fees are charged on each loan. Borrowers indicate at the time that the application is made when and from what source they should be able to repay the loan, and repayments are arranged accordingly.

3. Livestock Loan Companies

Livestock credit companies, usually associated with livestock marketing agencies, make loans from $50 up for livestock operations and for any item to keep the borrower's plant going. Security is usually livestock but real estate or other security may be required in the case of extra large loans. One company in Oklahoma usually lends up to 70 percent of the value of the security but may lend up to 100 percent. Loans run from 30 days to one year and repayment is fitted to the particular characteristics of the loan. Renewals may be obtained if the loan is in good condition. Interest is 4½ percent and recording, abstract and inspection fees are charged.

4. Machinery and Equipment Companies

Most of the larger machinery, equipment, and automobile companies have loans available in connection with the purchase of their products. These are fairly well standardized at interest rates of 6-7 percent on about two-thirds of the purchase price of any particular machine. They are usually made for periods up to 18 months and borrowers must make payments on both principal and interest during that period. Loans are secured by chattel mortgage and can usually be closed in from one to 10 days.

5. Merchants and Individuals

Credit from merchants and individuals is an important, but costly, source of credit for farmers. However, such a wide variation exists as to interest rates, terms, repayment plans, etc., that a general statement about them would be misleading. Merchants are not primarily credit agencies. Many are unwilling creditors and are forced to charge high interest rates and carrying charges in order to avoid heavy losses. In most cases, both customers and merchants would gain if the purchasers could borrow money from regular credit agencies and pay cash for merchandise.

B. SHORT TERM AND INTERMEDIATE CREDIT AGENCIES LENDING PUBLIC FUNDS FOR SPECIAL CONDITIONS

1. Rural Rehabilitation Division of Farm Security Administration

The Farm Security Administration makes loans at 5 percent interest, for periods of one to five years, to low income farm families who are unable to secure adequate credit at reasonable cost elsewhere. Credit is available for any legitimate farm or home use including such things as buying livestock, machinery, raising and harvesting crops, and household equipment. Loans, which can be made up to the full value of the things purchased, are repaid in installments from farm earnings. These loans can be closed in 7 to 60 days, range in size from $50 to $10,000, and are secured by chattel or crop mortgages. Fees for acknowledging and recording mortgage are paid by the borrower.

2. Emergency Crop Loan Office of the Farm Credit Administration

This agency makes loans for such uses as the purchase of seed, feed for stock, fuel, oil, minor repairs, and growing of gardens for home use. Funds are available to bona fide farmers having the necessary equipment to operate a farm but who cannot, due to emergencies, get credit elsewhere at reasonable rates. Loans are made on the basis of chattel or crop mortgage security at 4 percent interest for periods to suit the enterprise which is being financed, but usually not to exceed one year. The size of the loan varies from $10 to $400. Within these limits loans are made based on the needs in each particular case with no set ratio between the value of security and the amount loaned. Borrowers pay mortgage recording fees. Loans can usually be closed in from 7 to 30 days.

These are emergency loans which no private agency could make except at very high rates.

3. The Commodity Credit Corporation

This agency is operated by the United States Department of Agriculture in connection with the Agricultural Adjustment and Ever-Normal Granary programs. *Usually loans are made in the first instance by private agencies* but in case of default they are taken over by the Commodity Credit Corporation. Loans are made without recourse on wheat, barley, and cotton. That is, the borrower may deliver the commodity regardless of its market value and completely satisfy the debt, provided the collateral is of the same quality as when the loan was made. If the commodity is delivered in place of repayment of the loan no interest is paid. If the loan is repaid and the commodity is redeemed, 3 percent interest is charged. Information on wheat and barley loans may be had from the County Agricultural Adjustment Administration, local elevator, or banker, and on cotton loans from a local lending agency or from the Commodity Credit Corporation, Oklahoma City.

4. Rural Electrification Administration, U. S. D. A.

The R. E. A. makes loans to re-lending agencies rather than to individuals for the installation of wiring and electrical equipment and plumbing. Loans are made on reasonably adequate security for periods up to 5 years. Repayment is made in installments arranged to suit the borrower and fees in addition to interest are charged.

5. U. S. Indian Service

Agricultural loans may be made in Oklahoma by the United States Indian Service of the Department of Interior to persons of one-fourth or more Indian blood domiciled in and resident of the State of Oklahoma, exclusive of Osage county. The interest rate is 3 percent and repayments on the loan may be extended over a six-year period. Those interested may obtain further details from their local Indian Agency.

LONG TERM CREDIT AGENCIES

A. Agencies Lending Private Funds for Normal Conditions

For a summary of long term credit sources see page 13.

1. Life Insurance Companies

Life Insurance Companies are not primarily lending agencies, but many of them do invest funds in real estate mortgages. Since safety is essential in life insurance, the companies attempt to concentrate in low risk areas. Detailed information was reported by one of the larger companies and is probably representative of life insurance loans. Loans which usually do not exceed 50 percent of the value of the security are made to good risks to refinance present indebtedness, buy land, make farm improvements, and for other desirable agricultural purposes. Loans are made for periods of 5 to 25 years with interest varying from 4½ to 6 percent. Five and 10-year loans require some annual principal reductions, whereas the 25-year loans are amortized. That is, they are repaid by regular installments of both interest and principal so arranged that the loan is repaid during its 25-year period. Provisions have been made to make payments more flexible when desired. Loans are not usually made for less than $1,000. They can be closed in a few days if the title is clear. Fees in addition to interest may or may not be charged.

2. Federal Land Bank and Land Bank Commissioner Loans

a. Federal Land Bank, Wichita, Kansas

Federal Land Bank loans are made to good risks on farm real estate for either a 20 or a 33-year period in amounts ranging from $100 to $50,000. These loans are usually made through local National Farm Loan Associations at 4 percent interest. However, if the capital stock of the N. F. L. A. is impaired the interest rate is 4¼ percent. Where no association exists, farm operators may borrow direct from the Land Bank at 4½ percent interest. During the agricultural depression Congress enacted that borrowers actually would pay one-half of one percent less than the contract rate on each type of loan. This provision has been extended to June 30, 1942.[4a] The loan rate is subject to change depending upon the cost of loan funds to the Land Bank. Loans are made up to 50 percent of the appraised normal agricultural value of the land plus 20

[4a] At the time of going to press the question of further extending this privilege is before Congress.

percent of the value of permanent insurable improvements. Loans are amortized during the 20 or 33-year period. Modifications in repayment plans have been provided so that during good years borrowers may make additional payments on principal or may build up reserves for future payments.

Borrowers buy $5 worth of stock in their local National Farm Loan Association for each $100 or fraction thereof borrowed. Loans are made to buy land for agricultural purposes, for improvements, equipment, and livestock and to pay off debts incurred for agricultural purposes before January 1, 1937. The time required to close a loan varies widely. Appraisal and mortgage fees, in addition to interest, are charged.

b. Land Bank Commissioner Loans

Until July 1, 1943, loans up to $7,500 may be obtained from the Land Bank Commissioner of the Farm Credit Adminisitration. The Federal Land Bank and National Farm Loan Associations act as his agents. The loan, together with all other indebtedness secured by the property to be mortgaged, may not exceed 75 percent of the appraised normal agricultural value of the farm. Loans can be made on second mortgages if the first mortgage is held by the Federal Land Bank. Commissioner and Federal Land Bank loans may be made jointly. Interest rate is 5 percent but borrowers only pay 3½ percent to June 30, 1942. Loans may run for as long as 20 years and repayment is amortized to pay off the debt by the maturity date. Appraisal and mortgage fees are charged in addition to interest. rate is 5 percent but borrowers only pay 3½ percent to June 30, 1942. Loans may run for as long as 20 years and repayment is amortized to pay off the debt by the maturity date. Appraisal and mortgage fees are charged in addition to interest. The time required to close a loan varies widely. Land Bank Commissioner loans may be made for the same purpose as Federal Land Bank loans but the provision for refinancing old debts is somewhat broader. These are emergency loans designed to assist farmers during a period of unusual credit difficulties.

3. Commissioners of Land Office, State of Oklahoma

The Commissioners of the Land Office loan permanent school funds which are not dependent upon appropriation. In this sense the funds differ from those appropriated annually by the Federal Government. Loans from $300 to $10,000 may be made by this agency. Its loans are available only to citizens and residents of Oklahoma who, except in Osage county, own at least an undivided one-half interest in all minerals of the security offered. Loans are made only on farm units of 20 acres or larger; and, unless the borrower resides on the land, he must have owned it for at least one year. Not more than 50 percent of the appraised value of the land, exclusive of improvements, may be loaned. Loans can usually be closed in 30 to 90 days, bear 3 percent interest, and are for a 25-year period. An application fee is charged on each loan. Semiannual interest and principal payments which extinguish the loan in 25 years, are required.

4. Commercial Banks

Many commercial banks make real estate loans to good risks for periods of 5 to 10 years at interest rates varying from 5 to 10 percent. Fees in addition to interest are usually charged. Loans are commonly made equal to 50 percent of the value of security and usually in amounts of $1,000 or more. Banks that are members of the Federal Reserve System may make 10-year loans equal to 60 percent of the value of security only if at least 40 percent of the loan is amortized during the 10 years. From 2 to 10 days are usually required to close a loan. (See note [4a].)

5. Federal Housing Administration

F. H. A.-Insured Mortage Loans may be used to refinance farm property, to buy new farms which involve building improvement, or to construct, improve, or repair farm buildings. The money is loaned by banks, building and loan associations, life insurance companies, or any other lending agency approved by the Federal Housing Administration. The F. H. A. does not lend money; it simply insures approved lending institutions against loss on approved loans. To be eligible for F. H. A. insurance, the loan must involve construction or repair of buildings and comply with F. H. A. requirements. These loans, which are amortized over a period of 20 years, may be made up to 80 percent[5] of the appraised value of the property in question but may not exceed 16,000. The charges include a maximum interest rate of 4½ percent, one-half of one percent for mortgage insurance plus appraisal and service fees as approved by the F. H. A.

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[5] Under some conditions up to 90 percent of the value and for 25 years.

B. Long Term Credit Agencies Lending Public Funds for Special Conditions

1. Tenant Purchase Division of the Farm Security Administration

At present the F. S. A. can make a limited number of 3 percent loans, amortized over a 40-year period to tenant farmers, sharecroppers, and farm laborers for the purchase of family type farms. Loans may be made up to 100 percent of the appraised value of the farm but usually represent 80 to 90 percent. However, for the purchase of any one farm, the F. S. A. may not loan an amount greater than the average census value of all farms of 30 acres or larger in the county. Loans may be made only to those who are unable to obtain adequate credit from other sources at reasonable cost. Those interested may consult their local Farm Security supervisors.

SUMMARY OF CREDIT SOURCES AND THEIR DESCRIPTION

Organization and Its Oklahoma Headquarters	Purpose of Loan	Who is Eligible	Largest Percent Loaned on Security	Smallest and Largest Loans Made	How Long to Close Loan	Length of Loan	Interest Rate	Any Other Fees?	Repayment Plan
Short and Intermediate-Chattel and Crop Mortgage Credit									
Commercial Banks—most towns	Any farm use	Good Risks	75%	Varies	1-3 days	To 2 yrs.	5-10%	Varies	Varies
Production Credit Associations[1]	Any farm use	Good Risks	None set	$50 up	"a few days"	To 1 yr.	4½%	Yes	Installments
Farm Security Adm. [2] R. R. Div.	Farm or home uses	Low Income Families	100%	to $10,000	7-60 days	1-5 yrs.	5%	Yes	Installments
Emergency Crop Loan Office[1]	Crops, feed	Farmers in Distress	None set	$10-$400	7-30 days	To 1 yr.	4%	Yes	Sale of Security
Machinery Companies—most towns	Machinery—purchase	Good Risks	About 67%	Varies	Varies	1-1½ yrs.	6-7%	No	Installments
Long Term-Real Estate Mortgage Credit									
Federal[1] Land Bank	Refinance; Buy	Good Risks	50%	$100 $50,000	Varies	20 or 33 yrs.	4%[3]	Yes	Amortized
Land Bank Comm.	Land; Buildings	Good Risks	75%	up to $7,500	Varies	To 20 yrs.	5%[4]	Yes	Amortized
Life Ins. Companies; most towns	Same as above	Good Risks	50%	$1,000 up	5 days up	5-25 yrs.	4½%-6%	Varies	Annual Reduction
Comm. of the Land Office[2]	Same as above	Okla. Owners	50% land	$300-$10,000	30-90 days	25 yrs.	3%	Yes	Amortized
Commercial Banks—most towns	Same as above	Good Risks	50-75%	$100 up	2-10 days	6 mos.-10 yrs.	5-10%	Varies	Varies

Headquarters of Organizations: [1] Farm Credit Administration, Wichita, Kansas. [2] Oklahoma City.
[3] 3½% until June 30, 1942.
[4] 3½ until June 30, 1942. May be made on second mortage if Federal Land Bank holds first mortgage.

COOPERATIVE EXTENSION WORK
IN
AGRICULTURE AND HOME ECONOMICS
STATE OF OKLAHOMA
ERNEST E. SCHOLL, Director

OKLAHOMA AGRICULTURAL AND MECHANICAL COLLEGE AND UNITED STATES DEPARTMENT OF AGRICULTURE, COOPERATING

EXTENSION SERVICE
COUNTY AGENT WORK
STILLWATER, OKLAHOMA

Distributed in Furtherance of the Acts of Congress of May 8 and June 30, 1914