FARM CREDIT SERVICES AVAILABLE TO FARMERS IN THE SERVICE AREA OF JAMESTOWN HIGH SCHOOL, MISSOURI

By

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Introduction

The increased capital investment required to start in modern farming has intensified the need of farm credit. Most farmers just starting to farm and many of those already operating farms find it necessary to use credit to finance the purchase of real estate, feed, seed, livestock, and equipment required in the farming business. Most authorities agree that credit used for a sound, constructive purpose is a good tool, but when in the hands of inexperienced persons it can be a dangerous one.

Most farmers begin by using credit, but the wise use of credit is not the same as the efficient management of land, livestock, and machinery. Many young farmers fail to realize that the only way credit can be helpful is to use it in a way that will insure an income which is more than the amount of the loan and its costs. To do this requires a great amount of planning by all members of the family and selection of credit which will meet their special needs. However, if a farmer and his family have learned to manage a farm and home efficiently, they have the basic understanding necessary for the wise use of credit.

There is at the present time, in almost every farming community some kind of educational agency ready to serve farm people in helping them get established in farming. Some of the agencies which offer help in securing farm credit, as well as farm and home management, include vocational agriculture programs of the local schools, veterans on-the-farm training programs, county extension services, and vocational home economic programs of the local schools. Through these educational agencies farmers are gradually becoming better acquainted with the policies and practices of the various lending agencies. Studies such as this indicate there is still a great need for further training in farm credit. In the past more stress has been placed on the efficient management of livestock and crop enterprises. With credit occupying an important part in the operation of our modern farms and in selling farm products, it would seem that it should receive as careful consideration in the teaching programs as any of the enterprises in livestock, crop production, or farm management.

Most students of vocational agriculture in reality are using credit in some form for carrying out their supervised farming programs. Even when a boy secures his first animal there is usually an agreement which, in effect, is an extension of credit. This agreement can be recorded through legal credit instruments that will provide experience and stimulate study in the phase of production that has to do with credit. "Learning to do by doing" is just as sound a principle on the business side of farming as for growing crops and livestock.

The shift of agriculture from the self-sustaining farm unit with small cash income and expense of only a few years ago, to a commercial farm business with much larger cash incomes and expenses, requires a better knowledge of farm credit. A modern commercial farm business has more need of farm credit than the self-sustaining farm of our fathers. Due to the increased investment in machinery and equipment on the average farm in recent years, farmers cannot hold their farms as long in a period of falling prices as they once could. This, with the peculiar characteristics of farming, has made it necessary for the organization of our present Farm Credit Administration.

One of the characteristics which cause farmers to have special credit needs is the cyclical return of the seasons combined with the life cycles of crops and animals.[1] The length of time to harvest, and the developing period for livestock are largely fixed for the farmer. Once a farmer starts an enterprise he has to wait for its maturity period, which in the case of livestock or orchards may be years in the future before any return can be realized.

The slow turnover on his investment is another characteristic of farming which requires a different kind of credit from that of commercial and industrial.[2] Since land has come into such great demand, the price of it has raised to a high value relative to its return. Farmers are desperately trying to meet the production requirements brought about by the chaos found in the world today. With the advancement of modern machinery it is possible for a farmer to efficiently handle several times as much land as he did only a few years ago. The result is that land is in much more demand.

Another characteristic of farming which requires special credit needs is the highly speculative aspect of it.[3] The production is dependent on weather, disease and insect pests, and the market for the product. Only through a knowledge of the policies and practices of the various lending agencies can the farmer be assured that he will be dealt with fairly in the event of a crop failure.

Because farming is mostly composed of small units, the kind of credit needed will vary with the type of farming.[4] The size in acres will vary

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[1]Farm Credit Administration, Circular E-26. Farmers Need Special Credit Facilities, U. S. Printing Office 1940, p. 3.

[2]*Ibid.*, p. 17.

[3]*Ibid.*, p. 5.

[4]Ibid., p. 8.

more than the size measured in number of persons employed on the farm. The trend to larger acreages is increasing in some parts of the country while in others the smaller unit operated by part-time farmers is also increasing.

Purpose of the Study

All farmers some time or another need credit to purchase a farm, for production purposes, or to make needed home improvements. The writer felt that a more complete study of farm credit should be offered for high school students, young farmer, and adult classes in agriculture. In selecting and organizing teaching materials it is advisable to become familiar with sources of information and to discover the needs of the community.

A study of farm credit in the Jamestown High School service area was made for the following purposes: (1) to determine the sources of credit available to farmers and to compare the fundamental characteristics, policies, and practices of each lending agency; (2) to determine the use made of lending agencies by farmers, their preference of lending agencies in making loans, and the advantages and disadvantages of the different lending agencies; and (3) to plan a unit of instruction on farm credit to meet the needs of all-day students, young farmers, and adults.

Method of Procedure

The data for this study was collected during the 1951-52 school term by personally interviewing 50 farmers in the Jamestown High School service area. Approximately 25 of the farmers were enrolled in the veterans on-the-farm training program and 25 were enrolled either in adult classes in agriculture or were adult farmers in the county.

Information pertaining to the characteristics, policies, and practices of the various lending agencies was obtained by personally interviewing representatives of each lending agency in the county. The interview, added to the information obtained from sources found in the bibliography, was adequate for the purposes of this study.

Some farmers are reluctant to discuss financial matters with persons other than those affiliated with lending agencies. The writer planned the questionnaire so that no specific mention of money or names were given. Personal contact with the farmers eliminated error and gave an assurance of the desired information.

It is felt that the conditions which were found to exist in the service area surveyed are typical of conditions which you would expect to find in other areas of Missouri. The questionnaires which were used in the survey are found in the following six pages.

FARM CREDIT QUESTIONNAIRE

(To be secured from farmers
through personal contact)

I. GENERAL INFORMATION

1. Name ______________________________
2. Address ______________________________
3. Do you know the lending policies and practices of the various lending agencies in this county? ______________________________

II. VARIOUS REASONS FOR BORROWING MONEY

1. Production purposes. (Check those which are applicable.)

   ______ (a) Livestock
   ______ (b) Seed
   ______ (c) Feed
   ______ (d) Fertilizers
   ______ (e) Others

X 2. Buying land.

   ______ (a) Land added to farm
   ______ (b) Buy out heirs
   ______ (c) Others

3. Machinery and equipment.

   ______ (a) Tractor
   ______ (b) Combine
   ______ (c) Haybaler
   ______ (d) Working tools
   ______ (e) Others

4. Farm and home improvements.

   ______ (a) Fences
   ______ (b) Barn
   ______ (c) Hay shed
   ______ (d) Garage
   ______ (e) Chicken house
   ______ (f) Home
   ______ (g) Running water
   ______ (h) Electricity
   ______ (i) Home freezer
   ______ (j) Others

5. Other Reasons.

   ______ (a) Automobile
   ______ (b) Truck

III. SOURCES OF CREDIT

1. If you need money to buy a farm, from which of the following lending agencies do you borrow? (Check only one.)

   _____ (a) Individuals
   _____ (b) Local Banks
   _____ (c) National Farm Loan Association
   _____ (d) Farmers Home Administration (If qualified for the loan.)

2. Do you consider the lending agencies of this county sufficient to meet the needs of farmers? __________

3. Do you know where the local National Farm Loan Association office is located? __________

4. Do you know where the local Production Credit Association office is located? __________

5. Where do you borrow money to operate your farming business if you need a loan? (Check only one.)

   _____ (a) Individual
   _____ (b) Local Bank
   _____ (c) Merchant or dealer
   _____ (d) Production Credit Association
   _____ (e) Farmers Home Administration

IV. ADVANTAGES AND DISADVANTAGES OF LENDING AGENCIES

1. What do you consider the advantages and disadvantages of borrowing from individuals? (Check those which are applicable.)

   A. Advantages

   _____ (1) Knows lender
   _____ (2) Convenience in obtaining loan
   _____ (3) Convenience in repaying loan
   _____ (4) Cheaper interest
   _____ (5) Understanding and lenient
   Others ______________________________

   B. Disadvantages

   _____ (1) High interest
   _____ (2) Not lenient and understanding
   _____ (3) Inconvenience in obtaining loan
   _____ (4) Inconvenience in repaying the loan
   _____ (5) Insecure and unreliable
   _____ (6) May close you out in periods of distress
   Others ______________________________

2. What do you consider the advantages and disadvantages of borrowing from local banks? (Check those which are applicable.)

A. Advantages

______ (1) Knows lender
______ (2) Convenience in obtaining loan
______ (3) Convenience in repaying loan
______ (4) Cheaper interest
______ (5) Understanding and lenient
Others ______________________________

B. Disadvantages

______ (1) High interest
______ (2) Not lenient and understanding
______ (3) Inconvenience on obtaining loan
______ (4) Inconvenience in repaying loan
______ (5) Insecure and unreliable
Others ______________________________

3. What do you consider the advantages and disadvantages of borrowing from National Farm Loan Associations? (Check those which are applicable.)

A. Advantages

______ (1) Knows lender
______ (2) Convenience in obtaining loan
______ (3) Convenience in repaying loan
______ (4) Cheaper interest
______ (5) Understanding and lenient
______ (6) Length or term of loan
Others ______________________________

B. Disadvantages

______ (1) High interest
______ (2) Not familiar with source
______ (3) Inconvenience in obtaining loan
______ (4) Inconvenience in repaying loan
______ (5) Not lenient and understanding
______ (6) Insecure and unreliable
______ (7) Required to own stock
______ (8) Cost of appraisal
Others ______________________________

4. What do you consider the advantages and disadvantages of borrowing from Production Credit Associations?

A. Advantages

_____ (1) Knows lender
_____ (2) Convenience in obtaining loans
_____ (3) Convenience in repaying loans
_____ (4) Cheaper interest
_____ (5) Understanding and lenient
_____ (6) Ownership of stock required
Others _____________________________

B. Disadvantages

_____ (1) High interest
_____ (2) Not familiar with source
_____ (3) Inconvenience in obtaining loan
_____ (4) Inconvenience in repaying loan
_____ (5) Not lenient and understanding
_____ (6) Insecure and unreliable
_____ (7) Ownership of stock required
Others _____________________________

5. What do you consider the advantages and disadvantages of borrowing from the Farmers Home Administration? (Check those which are applicable.)

A. Advantages

_____ (1) Knows lender
_____ (2) Convenience in obtaining loans
_____ (3) Convenience in repaying loans
_____ (4) Cheaper interest
_____ (5) Understanding and lenient
_____ (6) Provides supervision
_____ (7) Requires record keeping
Others _____________________________

B. Disadvantages

_____ (1) High interest
_____ (2) Inconvenience in obtaining loan
_____ (3) Not familiar with source
_____ (4) Inconvenience in repaying loan
_____ (5) Not lenient and understanding
_____ (6) Insecure and unreliable
_____ (7) Provides supervision
_____ (8) Requires record keeping
Others _____________________________

V. REPAYMENT OF LOANS

1. How would you prefer to repay a loan secured to buy a farm? (Check only one.)

    ______ (a) Payment at end of term of loan
    ______ (b) Equal and regular installments or full amortization
    ______ (c) Indefinite principal payments
    ______ (d) Use of renewed short term loans

VI. SUPERVISION OF LOANS

1. Do you think it would be of any value for a lending agency to have available a farm loan specialist, trained in farm management, with whom the borrower could talk over the use of borrowed funds? ____________

2. Do you ask for advice from others on financial matters, such as borrowing money and making investments? ____________
   If so, from whom do you seek advice? ______________________________
   ____

FARM CREDIT QUESTIONNAIRE

(To be secured from lending agencies through personal contact.)

I. GENERAL INFORMATION

1. Name of lending agency or individual ______________________________ ______________________________

2. Address ______________________________

II. TYPE OF LOANS MADE

1. Do you make short-term loans? ____________
2. Do you make long-term loans? ____________
3. Purposes for which loans are made. (Check those which are applicable.)

   ______ (a) To buy land for agricultural uses
   ______ (b) To repair or construct buildings
   ______ (c) To buy equipment
   ______ (d) To buy fertilizers
   ______ (e) To buy livestock
   ______ (f) To refinance indebtedness of the borrower incurred for agricultural purposes

4. What is your loan limit on long-term loans? ______________________

III. INTEREST AND REPAYMENT OF LOANS

1. What rate of interest is charged on short-term loans? __________ __________

2. What rate of interest is charged on long-term loans? __________ __________

3. Are the long-term loans amortized? ____________
4. What plan of repayment is generally used? ______________________

IV. COLLATERAL OR SECURITY REQUIRED

1. What collateral is required on short-term loans?
____

2. What collateral is required on long-term loans?
____

3. How are foreclosures disposed of? ______________________________
____

SOURCES OF CREDIT

(Characteristics, Policies, and Practices)

National Farm Loan Association

The Federal Farm Loan Act of 1916, provided for a credit system designed especially to meet the long-term credit needs of agriculture. Before Congress passed this act, farm mortgage loans were difficult to obtain. Interest rates were high and the average term of the loan was three to five years.

In 1917 the Federal land banks were organized to relieve the farmers who were in need of farm mortgage loans. The twelve Federal land banks and the national farm loan associations form a cooperative credit system through which farmers may obtain long-term mortgage loans at low cost.

National farm loan associations are local organizations of farmers which endorse notes of members to obtain loans from the Federal land banks. The Federal land banks sell land bank bonds to the investing public to obtain their funds. These bonds are secured by the mortgages which farmers give as security for their loans. The local national farm loan association sells stock equal to 5 percent of his loan to each borrower. The association then buys an equal amount of Federal land bank stock.

Any person who is farming or raising livestock or is trying to become engaged in farming or livestock operations is eligible to borrow through the national farm loan associations. Under certain conditions livestock corporations may also be eligible.

Land bank loans may be made by farmers for one or more of the following purposes: (1) to buy land for agricultural uses; (2) for buildings and for the improvement of farm land; (3) to buy equipment, fertilizers, and livestock necessary for the proper operation of the mortgaged farm; (4) to refinance indebtedness of the borrower incurred for agricultural purposes, or incurred at least two years prior to the date of the application; and (5) to provide funds for general agricultural uses.[1]

The maximum land bank loan to any one individual is $100,000 but not more than 65 percent of the appraised normal value of the farm to be mortgaged. The minimum amount for which a loan may be made is $100. Land bank loans are made on the security of first mortgages on farm land, including buildings and other improvements.

The present rate of interest on Federal land bank loans made through the national farm loan association is 4 percent in all districts except Springfield, Massachusetts and Columbia, South Carolina where the rate is 4½ percent. The contract rate of interest cannot be raised during the life of the loan.

Loans are made for a term long enough to meet most farmers needs, ranging from 20 to 30 odd years. Some loans are made for shorter periods in cases where it seems practicable.

All loans are made on an amortized repayment plan. By making small regular payments annually or semi-annually, the farmer or rancher completely repays his loan with interest by the end of the loan period. The borrower has the right to pay all or any part of his loan at any time with funds from any source and stop interest on principal paid on the date of payment. The land banks will also accept payments to be set aside and applied to future payments as the farmer wishes.

After an application has been accepted by the national farm loan

[1]Farm Credit Administration, Circular E-16, Using Your National Farm Loan Association, Revised 1949, p. 4.

association, a land bank appraiser will appraise the property to be offered as security for the loan. The appraisal is based on normal value of the farm and permits the loan to be made on a sound basis for the borrower as well as the association.

When the farm has been appraised, the committee consisting of the secretary-treasurer and two members from the board of directors, will either reject the application or recommend the loan to the Federal land bank. The Federal land bank will in turn issue a note which is signed and returned. Then the land bank may use the mortgage as collateral for the farm loan bonds it sells to investors for funds to make more loans.

The central office of the national farm loan association for Moniteau County is located in Sedalia, Missouri with Mr. H. L. Shirley as its secretary-treasurer. An outlying office is located at California, Missouri, the county seat of Moniteau County, where a representative may be contacted one day each week.

Map 1. Location of National Farm Loan Associations in Missouri

Production Credit Associations

The Farm Credit Act of 1933 provided for the establishment of 12 Production Credit Corporations and as many production credit associations as were needed to serve the country adequately.[2] That same year farmers began to organize associations and by 1934 had organized enough associations to serve every agricultural area in the United States.

A Production Credit Corporation is located in each of the 12 Farm Credit Administration districts. The duty of the corporation is to organize, make rules and regulations governing production credit associations, and to provide part of their capital stock. Farmers and stockmen should eventually own the capital stock in all of the associations. Quite a few are already completely owned by farmers.

Production credit associations provide short-term credit for all types of farm and ranch operations. Farmers may borrow money to buy feed, seed, fertilizer, farm and home equipment, livestock and poultry, to pay harvesting expenses, to make repairs, to pay rent, taxes, interest, insurance or any other operating expense. If a farmer or stockman can present a plan for repayment of the loan he is eligible.

Loans are made for any amount over $50. The amount any one individual may borrow is determined by his needs to properly carry on his farming business, his ability to pay off the loan from farm income, his financial condition, and his experience in farming.

Production credit association loans are generally made to mature within one year. Repayments are planned to fit the individual's particular situation. Loans on crops, livestock, or livestock products are repaid when they

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[2]Farm Credit Administration, Circular E-17, Using Your Production Credit Association, Revised 1949, p. 1.

are sold. On larger loans, such as machinery, any unpaid balance at the end of one year may be renewed if satisfactory progress has been made toward repaying the loan.

Every farmer and rancher who uses a production credit association is a member. A farmer or rancher must purchase voting stock in the association equal to $5 for each $100 or part of $100 borrowed. Each member has one vote at the annual business meeting, regardless of the amount of stock he owns. The association is governed by a board of directors elected from the membership. The board of directors chooses a secretary-treasurer who is the executive officer of the association.

Loan applications are passed on by two members elected from the board of directors and the secretary-treasurer.[3] Funds for making loans are obtained from the Federal Intermediate Credit Bank. When the loan is made the association endorses the note, draft, or other security and sends them to the Federal Intermediate Credit Bank for discount. The Intermediate Credit Bank in turn sells short term bonds or debentures to the investing public.

The aim of production credit associations is to provide credit to farmers at the lowest possible cost. The rate of interest varies among associations but the local rate is 4½ percent. In addition to interest, most associations charge a loan service fee for setting up loan papers, searching records, and recording mortgages. Usually a loan can be made one day to a week after the application has been made if the farmer has established a good credit rating.

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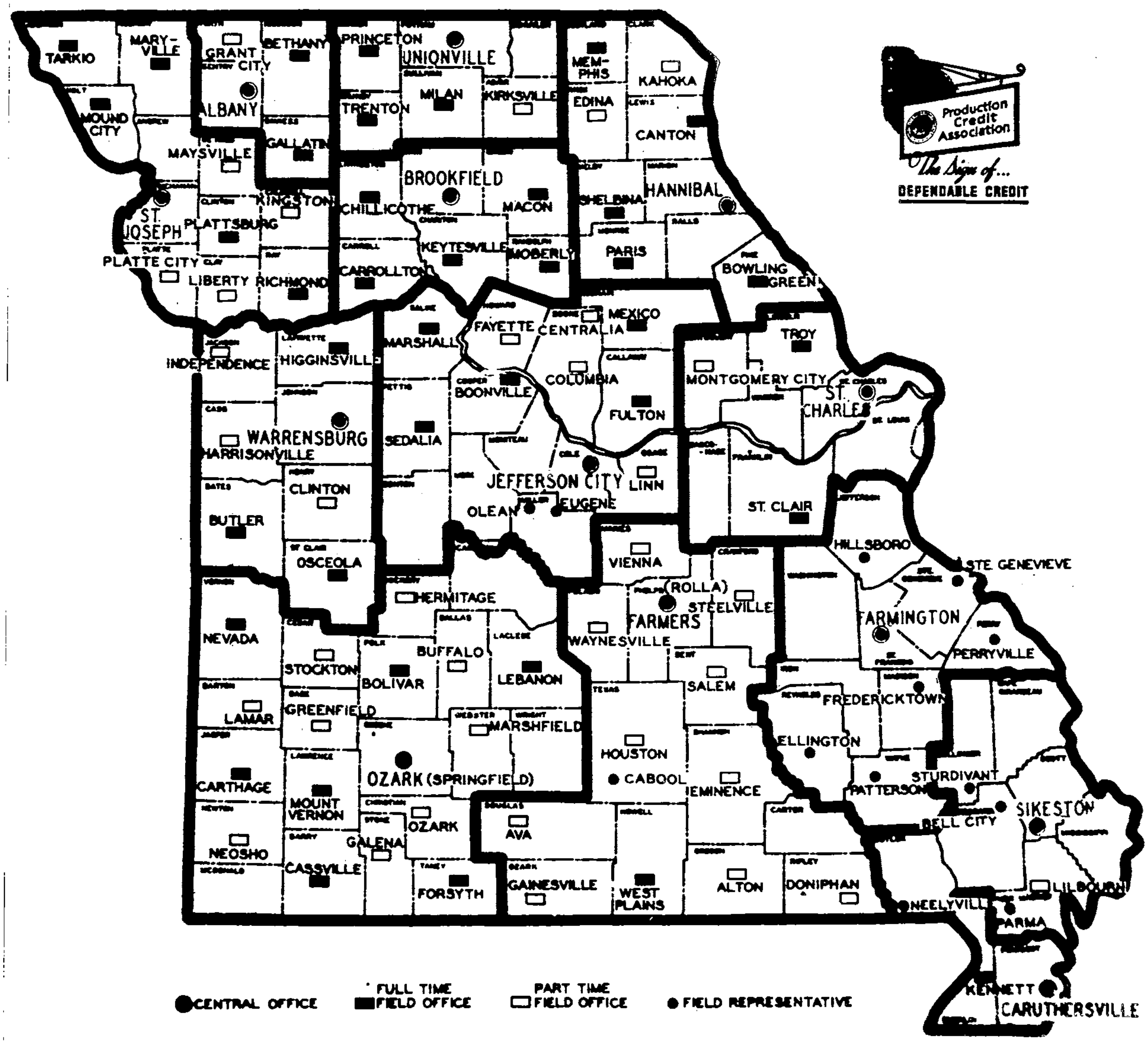
[3]Farm Credit Administration, Circular No. 3, Loans by Production Credit Associations, Revised 1948, p. 3.

Special plans have been made to provide credit for boys and girls of 4-H clubs and Future Farmers of America chapters. They may secure a loan as a group to finance their supervised farm training programs or they may organize a junior production credit association and operate under the same rules set up for the regular associations. Under some circumstances individual junior farmers may also secure production credit loans.

The central office of the production credit association for Moniteau County is located in Jefferson City, Missouri with Mr. George C. Hill as its secretary-treasurer. A full time field office is located at Booneville, Missouri, a town only 25 miles from our school.

Map 2. Location of Production Credit Associations in Missouri



Farmers Home Administration

The Bankhead-Jones Farm Tenant Act was passed in 1937 to help tenants, sharecroppers, and farm laborers to become farm owners.[4] This law provides for loans at low interest rates for a long term to those who are unable to obtain credit from other sources. In 1946 Congress felt the need to enlarge the program to help owners whose farms were too small or insufficiently developed to provide a family living so the original law was amended.

The Farmers Home Administration makes several different types of loans. The farm ownership loans are made for the purchase, enlargement, or development of family type farms. The farm housing loans are made to owners to help them build or repair farm homes and other farm buildings. The operating loans are made to help farmers of family type farms to improve their farming program.

All of the farm ownership loans are made for a term of 40 years. The amount that can be borrowed cannot be more than the normal value of the farm as determined by the county committee. Investment limits have been established for each county and is based on land values of the county. The Farmers Home Administration may lend money appropriated by Congress or they may insure loans made from money advanced by banks, insurance companies, or individuals. The insured loans may not exceed 90 percent of the normal value of the farm.[5] If it is possible to have the loan refinanced at any time after the loan is made, the borrower is required to do so.

The interest rate on direct loans from money appropriated by Congress is 4 percent. On the insured loans the rate is 3 percent plus 1 percent annual mortgage insurance charge.

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[4]U.S.D.A., Farmers' Home Administration, Farm Ownership Loans, 1950, p. 3.

[5]Ibid., p. 6.

The Housing Act of 1949 authorized the Farmers Home Administration to make loans to farm owners to build, improve, or repair farm homes and other buildings which are essential to the operation of the farm. As in the other types of loans, the borrower must be unable to secure the loan from other lending agencies. In addition, the farm must produce agricultural commodities equal in value to $400 based on 1944 commodity prices.

Since October, 1950, governmental controls limit the amount that can be loaned for the purpose of building homes. The limit is based on a percentage of the estimated cost. Veterans may borrow a larger proportion of the amount needed than other farm owners. The term of the loan is also restricted under these controls. The maximum term of loan is 25 years. The rate of interest is not affected by these controls and at the present time is 4 percent.

The operating loans are based on the amount required to meet the needs of farming operations. Loans are made to purchase farm and home equipment, livestock, feed, seed, fertilizer, and other farm operating expenses. The maximum that can be borrowed in any one year is $3,500 and can never exceed $5,000. The interest on all operating loans is 5 percent and extend for a period up to 5 years.

All loans contracted through the Farmers Home Administration are supervised. The person making the loan is required to keep accurate records of receipts and expenses and to follow as closely as possible a plan worked out by the farmer and the supervisor. Any changes in the plan of operation must first meet the approval of the supervisor and should not be altered unless changing conditions demand it.

The farm ownership loans require a first mortgage on the farm for which the loan is made for either the direct or insured loan. Operating loans are made with the expectation that they will be repaid out of the income derived from the loan. A definite agreement is made with the borrower usually consisting of a first mortgage on crops, livestock, and equipment purchased with the loan funds. The agreement may be a mortgage on other chattel property. A farm housing loan is secured by a first mortgage on the farm.

Payment on loans may be made at any time. Interest is charged only on the unpaid balance. The Farmers Home Administration encourages farmers to make larger payments in years of good income and build up a reserve so that the loan is kept in good standing during years of low income. On the operating loans, the repayment schedule is then based on the income to be received. Generally the loan becomes due at the time the crops or livestock are sold when funds were used for that purpose.

The state office of the Farmers Home Administration for Missouri is located in Columbia. The district office is located in Jefferson City, Missouri with Mr. W. D. Keller as their representative. Mr. Keller makes regular trips one day each week to California, Missouri where farmers of Moniteau County may contact him for information concerning their financial needs and to make application for loans.

Local Banks

The local bank in this county continues to be the main source of credit to farmers. At present the bank at Jamestown, Missouri has over $220,000 loaned to farmers. The farmers feel that the convenience in obtaining and repaying the loan is the main advantage of borrowing from the local bank.

Any person who is known or can supply a good credit rating is eligible to borrow money from the local bank. Applications for loans are made with the cashier at the bank and approval of the loan is made by the board of directors. The board of directors meet once a month and the time required to process the loan depends upon how soon the monthly meeting is held.

Loans may be made by farmers for one or more of the following purposes: (1) to buy land for agricultural uses; (2) to repair or construct buildings; (3) to buy equipment; (4) to buy fertilizers; (5) to buy livestock; and (5) to refinance indebtedness incurred for other purposes. At the present time they have no loans being made to refinance other farm loans.

The maximum loan to any one individual is $60,000 but not more than 60 percent of the current value of the farm. The farm is appraised by members of the board of directors but no extra charge is made for the appraisal. The term of loan varies from 5 to 10 years. Veterans with the guaranty provisions of the G. I. Bill of Rights can get the maximum term. Preference is given to veterans on all types of loans.

The interest rate on short-term loans is 7 percent. The rate on regular long-term loans is 6 percent and on guaranteed veterans' loans is 4 percent.

Long-term loans are secured by the first mortgage on real estate, including buildings and other improvements. On the short-term loans a chattel mortgage is required where possible and others are unsecured.

All loans are made on an amortized repayment plan. The payments may be made monthly, annually, or semi-annually as the borrower desires. Most farmers make annual payments which come due at the time of an expected annual income. The time of year will depend upon the type of farming in which he is engaged.

The local bank holds the right to foreclose on a farm if payments are not met. Since the bank was reorganized in 1940 no foreclosures have been made at the bank in Jamestown. They have extended the loan in several cases when failure to meet payments was due to flood disaster.

Individuals

Individuals who have accumulated sums of money have been making loans to farmers ever since farming began. Before Congress passed the Federal Farm Loan Act of 1916 and the Farm Credit Act of 1933, individuals who had money were making unreasonable loans at rates of interest which were much too high in comparison with the prices received by farmers for their products. Many farmers were closed out and had to forfeit payments which they had made on their loans. It was this situation which Congress was trying to correct when the national farm loan associations and the production credit associations were formed.

Farmers are usually considered by individuals who lend money as a good risk. Loans are made to farmers and ranchers who have been established in the community or who through personal acquaintance have proven their need of a loan. Quite often you will find the father, grandfather, or other relative supplying the cash to set up a young farmer in a farming business. This may be considered a sound financial policy by some but to others it has proven very unsatisfactory.

Loans from individuals may be made for numerous purposes so long as sufficient security can be given. Loans from individuals may include buying a farm, adding land to a farm, buying feed, seed, fertilizers, farm and home equipment, livestock, and machinery; or any operating expense which may occur.

The amount of the loan and the term of loan is usually determined by the purpose for which it is made. To the individual lending the money the term is not important as long as the interest payments are made. Many times the term of the loan is written, "one day after date", which implies that the loan is due the following day. Usually indefinite payments on the principal accompany such a loan and no plan of repayment is accomplished. The uncertainty of such a loan many times causes ill feeling between the parties involved.

Interest rates charged by individual lenders are usually higher than most sources of loans. The rate of interest varies in different communities and is slower in going up and down than with other lending agencies. The prevailing rate in the community surveyed is 5 percent. Interest is charged only for the exact number of days each dollar is used.

Most individuals are in no position to provide supervision to the borrower. Occasionally when a close relative is supplying the money some sort of informal advice may be given. Generally speaking farmers feel that if they keep the interest paid on the loan any supervision from the lender is unwarranted. When farmers contract a loan they feel as fully qualified to handle their farming business as the individual lending the money. Even though they may seek advice from farm management specialists, county extension agents, or vocational agriculture instructors, they feel reluctant to accept advice from individual lenders.

Security required on a loan depends upon the loan and situation of the person borrowing the money. A first lien on crops, livestock, or equipment is the usual security for most loans. If no security is given sometimes one or two other persons will sign the note and may be held responsible in case of failure. Persons with a good record of debt payment and who own property frequently make short term loans of small amounts without giving security of any kind.

Individual lenders are popular because there are no fees connected with the loan. There is no appraisal of the farm or property to be purchased. The convenience in obtaining and repaying the loan is considered by many to justify the higher interest rate; therefore, individual lenders hold a large percentage of the loans in this area.

INFORMATION SECURED FROM FARMERS IN THE JAMESTOWN SERVICE AREA

Reasons for Borrowing Money

The data secured in this survey were collected through personal interview from 50 average farmers of Moniteau County, Missouri. Approximately half of the farmers were enrolled in the veterans on-the-farm training program and the other half were adult farmers enrolled in adult classes in agriculture or were adults farming in Moniteau County.

It was noted that as few as 8 per cent of the farmers surveyed had never borrowed money for any purpose. However, farm people have been very cautious about going into debt. Still, only 24 per cent of the farmers were acquainted with the lending policies and practices of the various lending agencies in the county. This would indicate the need of study in all-day, young farmer, and adult classes. It was from this information that the lesson plans found in this report were prepared.

The various reasons for borrowing money are shown in Table 1. Short-term loans for production purposes were by far the most important. Eighty-eight per cent of the farmers have borrowed money to buy livestock.

It is significant to note that 82 per cent of the farmers have borrowed money to buy tractors and 36 per cent to buy combines, while only 40 per cent have borrowed money to buy automobiles and only 20 per cent to buy trucks. In general, more farmers have borrowed money to improve production enterprises than for the purchase of land or farm and home improvements.

Table 1. Reasons for Borrowing Money given by 50 Farmers in the Service Area of Jamestown High School, Missouri

PURPOSES	Number of Farmers	Percentage of Farmers
Production purposes		
Livestock	44	88
Seed	20	40
Feed	23	46
Fertilizer	30	60
Buying land		
Land added to farm	28	56
Buy out heirs	12	24
Machinery and equipment		
Purchase tractor	41	82
Purchase combine	18	36
Purchase haybaler	4	8
Purchase working tools	10	20
Farm and home improvement		
Fences	10	20
Barn	10	20
Hay shed	3	6
Garage	4	8
Chicken house	8	16
Home improvement	10	20
Running water	7	14
Electricity	2	4
Home freezer	4	8
Other reasons		
Purchase automobile	20	40
Purchase truck	10	20

<u>Sources of Credit on Real Estate</u>

Table 2 shows that sixty-two per cent of the farmers indicated they preferred to borrow money from the local bank on real estate mortgages. The national farm loan association was second in preference with only 16 per cent of the total number of farmers. Individuals who make loans on real estate were preferred by only 10 per cent of the farmers surveyed. It is interesting to note that none of the farmers surveyed preferred to borrow money from the Farmers' Home Administration on real estate mortgages.

In considering these data, it should be kept in mind that certain of these agencies are governed by regulations on the amount that may be loaned. The Farmers Home Administration can hardly be compared with other sources of credit because such loans are available only to farmers who cannot obtain the necessary credit from other sources.

Eighty-two per cent of the farmers surveyed felt that the lending agencies of Moniteau County were sufficient to meet the needs of the farmers. Only 30 farmers knew where the local office of the national farm loan association is located.

Table 2. Sources of Loans on Real Estate Mortgages reported by 50 Farmers in the Service Area of Jamestown High School, Missouri.

SOURCES	Number of Farmers	Percentage of Farmers
Individuals	5	10
Local Banks	31	62
National Farm Loan Association	8	16
Farmers' Home Administration	0	0
Farmers Not Answering Question	6	12

Sources of Loans for Operating Expenses

Table 3 shows local banks were again first in the preference of farmers as a source of short-term credit. Eighty-six per cent of the farmers indicated a preference of borrowing money from the local bank. The Farmers Home Administration and individuals each were preferred by 4 per cent of the farmers. The production credit association was preferred by only 2 per cent of the farmers and credit from merchants or dealers was not considered a desirable source of credit by anyone.

Table 3. Sources of Loans for Operating Expenses Reported by 50 Farmers in the Service Area of Jamestown High School, Missouri.

SOURCES	Number of Farmers	Percentage of Farmers
Individuals	2	4
Local banks	43	86
Merchants of dealers	0	0
Production Credit Association	1	2
Farmers' Home Administration	2	4
Farmers Not Answering Question	2	4

The fact that most farmers preferred to borrow money for operating expenses from the local bank is not definite assurance that these farmers would not wish to borrow elsewhere if they knew more about other credit agencies. Only 31 of the farmers knew where the local office of the production credit association is located.

Advantages and Disadvantages in Obtaining Loans

Farmers were asked what advantages and disadvantages they observed in borrowing from the various lending agencies. Many farmers would rather borrow from the local bank because they know the banker and the convenience in obtaining the loan. High interest rate was the most commonly mentioned disadvantage.

Feeling of insecurity and being closed out in periods of distress were the most commonly mentioned disadvantages of borrowing from individuals. These observations are tabulated in Table 4.

More farmers felt that the requirement of record keeping for loans with the Farmers Home Administration was an advantage than those who considered it a disadvantage. It was also noted that 26 per cent of the farmers considered the supervision provided by the Farmers Home Administration an advantage while only 20 per cent considered it a disadvantage.

Table 4. Advantages and Disadvantages in Obtaining Loans from Various Agencies Mentioned by 50 Farmers in the Service Area of Jamestown High School, Missouri.

	Number of times mentioned				
ADVANTAGES	Individuals	Local Bank	N.F.L.A.	P.C.A.	F.H.A.
Knows lender	25	38	1	—	2
Convenience in obtaining	19	28	—	1	1
Convenience in repaying	17	26	1	1	2
Cheaper interest	18	1	35	21	20
Understanding and lenient	12	17	6	7	6
Length of term of loan	—	—	36	—	—
Ownership of stock required	—	—	—	5	—
Provides supervision	—	—	—	—	14
Requires record keeping	—	—	—	—	13

	Number of times mentioned				
DISADVANTAGES	Individuals	Local Bank	N.F.L.A.	P.C.A.	F.H.A.
High interest	18	41	1	3	1
Not lenient and understanding	3	1	4	1	2
Inconvenience in obtaining	5	1	27	17	21
Inconvenience in repaying	3	—	11	10	9
Insecure and unreliable	12	5	2	—	—
May close you out in periods of distress	22	—	—	—	—
Not familiar with source	—	—	16	16	12
Required to own stock	—	—	21	13	—
Cost of appraisal	—	—	21	—	—
Provides supervision	—	—	—	—	10
Requires record keeping	—	—	—	—	8

It is quite evident from Table 4 that many of the farmers are not familiar with the policies and practices of the national farm loan association and the production credit association. Farmers that were familiar with these sources of credit feel that their interest rates are lower and that they were more understanding and lenient. However, there was some feeling of inconvenience in obtaining and repaying the loan.

When the farmers were asked how they would prefer to repay a loan secured to buy a farm, 60 per cent indicated a preference for equal and regular installments or full amortization. Twenty-four per cent indicated a preference of indefinite payments on the principal. Only 8 per cent favored payment at the end of term of loan, and the rest favored the use of renewed short-term loans.

Since some of the lending agencies provide supervision, the farmers were asked if they felt a person trained in farm management, with whom they could talk over the use of borrowed funds, would be of any value. Eighty-two per cent thought a man with proper training and experience would be very valuable. The remaining 18 per cent felt that they could manage their own affairs and that there are too many specialists in the field of agriculture now.

The farmers were asked if they tried to seek advice from others on financial matters such as borrowing money and making investments. Seventy-four per cent indicated they asked for advice. Of those who asked for advice, 84 per cent trusted the local banker for the needed information. Only one person had conferred with the secretaries of the national farm loan association and production credit association.

Five persons or 14 per cent had consulted either the vocational agriculture teacher or the veterans on-the-farm training agriculture teacher for advice.

These data which are compiled and tabulated in this study were used to complete units of instruction for all-day students, young farmer, and adult classes in agriculture. They were planned especially for use in Jamestown High School, Consolidated District No. 1, Jamestown, Missouri but may be valuable to any vocational agriculture department.

UNITS OF INSTRUCTION FOR ALL-DAY STUDENTS

Introduction

The investment necessary to become established in farming at the present time is much greater than it has been in the past. Students getting ready to start farming on their own should thoroughly understand the advantages, as well as the obligations in using farm credit.

Table 5 indicates that the average farm in Moniteau County has increased in size approximately 25 acres since 1900. In many areas over the state the increase has been considerably more. On larger farms the trend toward mechanized farming has substantially increased the total investment per farm.

Students in vocational agriculture quite often find it necessary to borrow money in conducting their supervised farming program. Local banks frequently make special provisions for lending money to boys who are interested in agriculture and need financial assistance. During the later part of their high school work boys should become familiar with other sources of credit and the basic principles in using credit.

Only a very few people have become established in farming without using credit. The boy who has had training in the use of credit is more likely to succeed when expanding into a full-time farming business than one who has had no previous training.

By the time a boy reaches his 4th year in vocational agriculture he should be familiar with the use farmers make of credit, the use of credit instruments, the characteristics of the various lending agencies, and the value of farm appraisals. These problems have been used in planning units of instruction for the all-day students.

Table 5. Average Value of Farm Investment in Moniteau County, Missouri, 1900-1950

Year	Avg. Acres Per Farm	Avg. Value of Land and Bldgs. Per Farm (Dollars)	Avg. Investment in Mach. and Equipment (Dollars)	Avg. Investment in Livestock (Dollars)	Value of Specified Crops (Dollars)	Total Investment Per Farm (Dollars)
1900	119.2	2,935	126	517	569	4,147
1910	122.8	5,518	238	1,170	864	7,790
1920	129.7	11,145	661	1,639	1,544	14,989
1925	128.1	7,101	282	797	947	9,127
1930	135.3	6,490	401	1,082	654	8,627
1935	133.6	3,759	*	*	*	*
1940	142.1	3,519	305	753	603	5,180
1945	146.6	5,027	459	1,307	1,422	8,215
1950	144.9	7,917	*	*	*	*

*Census data for the years 1935 and 1950 were not compiled so that the average investments in machinery and equipment, livestock, and specified crops could be calculated. Therefore, the total investment per farm during those years is incomplete.

This table shows that the average value of land and buildings per farm raised to a peak following World War I. The value of land and buildings have not reached that level since World War II, suggesting that the value may continue to rise beyond that of the present time.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Credit Needs of the Farmer

PROBLEM: To Determine the Use Farmers Make of Credit

SITUATION: There are a lot of things a farmer must have before he can farm. To start farming he needs land, machinery, livestock, seed, feed, fertilizers, and something to live on until his products can be sold. A farmer can oftentimes increase his farm income by use of credit. How is he going to get started unless he can borrow money to meet obligations? Will he be able to make more money by using credit when needed?

PIVOTAL POINTS:

1. What things do farmers need to purchase when starting to farm?
2. Why do young farmers tend to settle on farms near their parents?
3. How may the use of credit help farmers increase their income? Give examples.
4. For what purpose do farmers borrow money?
5. Why do most farmers hesitate to borrow money?
6. When would it be wise to use credit in your farming operations?
7. When should your credit needs be planned?
8. How can credit be considered a means of saving?
9. For what purposes would a farmer secure a long-term loan? Short-term loan?
10. How does installment buying differ from cash purchasing?

METHODS: Supervised study and class discussion of type cases.

Many times a farmer will need credit to buy a piece of machinery or equipment that will help him in planting a crop at the right time and will assure better production. Examples: A combine may be necessary to harvest a crop at the right time, where if the farmer depended upon custom harvesting he might lose his crop. A milking machine might enable a farmer who doesn't have a family to increase the scope of his dairy enterprise, as well as income. Other cases such as credit to purchase fertilizer, breeding stock, education, and additional land may be cited as further examples.

REFERENCES: F.C.A. Cir. E-31, "Using Credit to Farm", pp. 4-8.
F.C.A. Cir. E-4, "The Profitable Use of Farm Credit", pp. 5-8.
F.C.A. of New Orleans, "Agricultural Credit", p. 7.
F.C.A. Film, "The Land - To Have and To Hold".

TEACHING ACCOMPLISHMENTS:

The students should realize the many uses for which farmers have need of farm credit.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Use of Credit Instruments

PROBLEM: Use of Credit Instruments

SITUATION: Students usually have had little opportunity to use credit or legal instruments. Because of this lack of experiences, students sometimes do not understand the responsibility assumed in signing credit instruments or the benefits derived by having them.

PIVOTAL POINTS:

1. What credit instruments are used in making a long-term farm loan?
2. What is a mortgage? What is its relation to a note?
3. What credit instrument gives the lending agency the right to sell property providing payments are not met?
4. What is an abstract of title and what is the purpose of it?
5. When a debt is paid in full, what should the borrower require of the holder of the note and mortgage?
6. What credit instruments are used when a boy borrows money to buy a calf for his supervised farming program?
7. What is meant by an unsecured loan?
8. What obligations are taken when livestock is mortgaged?
9. What steps may be taken by the lender if the borrower does not meet his obligations?
10. What is the difference in a first and second mortgage?

METHODS: Supervised study and class discussion. Have each student complete the instruments necessary in making long-term and short-term loans.

REFERENCES: F.C.A. Cir. 15, "The ABC's of Credit for the Farm Family", pp. 9-12.
F.C.A. Cir. 16, "Using Credit Instruments", pp. 13-16.
F.C.A. Cir. E-4, "The Profitable Use of Credit", pp. 30-37.

SUPPLIES: Illustrative materials such as deeds, notes, mortgages, contracts, and other credit instruments which may be secured from local lending agencies.

TEACHING ACCOMPLISHMENTS:

Each student should have an understanding of credit instruments and legal papers commonly used in the credit field.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Short-term Loans

PROBLEM: Determining the Characteristics, Policies, and Practices of the Production Credit Association.

SITUATION: Many farmers need money to finance production of crops and livestock enterprises but are not familiar with their local production credit association. There is available to every farmer an association which offers short-term production loans. High school boys may borrow from the Production Credit Association.

PIVOTAL POINTS:

1. Who may borrow from a production credit association?
2. What are the purposes for which loans are made?
3. How much money may be borrowed from the production credit association?
4. What rate of interest is charged?
5. What repayment privileges are offered by the production credit credit association?
6. What security is required on loans?
7. What steps are necessary in obtaining a production credit association loan?
8. What information does the production credit association need in approving a loan?
9. What costs or fees are charged in making a loan?
10. Explain the organization of the production credit association.
11. Where do you go to apply for a loan?

METHODS: Supervised study and class discussion of a typical case. Visit the local production credit association and actually go through the procedure of making a short-term loan. This problem may be taught at a time when one or more of the boys are in need of credit for purchasing livestock or making home improvements.

REFERENCES: F.C.A. Cir. E-17, "Using Your Production Credit Association", pp. 1-8.
F.C.A. Cir. 3, "Loans by Production Credit Associations", pp. 1-7.
F.C.A. of New Orleans, "Agricultural Credit", pp. 37-47.

TEACHING ACCOMPLISHMENTS:

Each student should understand how the production credit association is organized and the procedure to follow in obtaining a loan.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Long-term Loans

PROBLEM: Determining the Characteristics, Policies, and Practices of the National Farm Loan Association.

SITUATION: Many boys after completing 4 years of vocational agriculture start looking for farms they would like to own. Many times they are not familiar with the sources of credit available. The national farm loan association offers a good plan for financing long-term loans.

PIVOTAL POINTS:

1. For what purposes does the national farm loan association make loans?
2. What fees are involved in obtaining a loan?
3. What factors are considered in determining the amount of money that can be borrowed?
4. What rate of interest is charged?
5. Explain the organization of the national farm loan association.
6. What procedure is followed in obtaining a Federal land bank loan?
7. What security is required on a loan?
8. What repayment privileges are offered by the national farm loan association?
9. What information is needed by the Federal land bank in granting a loan?
10. What per cent of your credit needs can you get from the national farm loan association?
11. Where can you go to apply for a Federal land bank loan?

METHODS: Supervised study and class discussion of a typical case. Consider a young farmer who has just returned from the services; he wants to buy a farm and has enough capital to make a down payment but cannot meet the payments of a loan from the local bank. Show how he can secure a loan through the national farm loan association at a lower rate of interest, for a longer period of time, and with lower annual payments on the loan.

REFERENCES: F.C.A. Cir. No. 1, "Federal Land Bank Loan", pp. 2-5.
F.C.A. Cir. No. 5, "Agricultural Financing through the Farm Credit Administration", pp. 3-5.
F.C.A. Cir. E-16, "Using Your National Farm Loan Association", pp. 1-9.
F.C.A. of New Orleans, "Agricultural Credit", pp. 21-31.

TEACHING ACCOMPLISHMENTS:

Each student should understand the policies of the national farm loan association and should understand the procedure for obtaining a Federal land bank loan.

PROBLEM PLAN

ENTERPRISE: Farm Credit

JOB: Securing a Loan through the Farmers Home Administration

PROBLEM: Determining the Types of Loans Made by the Farmers Home Administration and the Characteristics, Policies, and Practices of Each Type.

SITUATION: Most lending agencies will not make a loan for the full value of the property you wish to buy. Sometimes farmers do not have the needed capital to supply the difference between the amount of the loan and the price of the property.

PIVOTAL POINTS:

1. What types of loans does the Farmers Home Administration make?
2. Who is eligible for the farm ownership loans?
3. What is the term of loan, what is the rate of interest, and what repayment privileges are offered on farm ownership loans?
4. Who approves an application for a farm ownership loan and what security is required?
5. Who is eligible for the farm housing loans?
6. What federal controls apply to farm housing loans?
7. How large must a farm be to qualify the owner for a farm housing loan?
8. Who is eligible for operating loans?
9. What is the rate of interest on operating loans and what security is required?
10. What kind of supervision does the Farmers Home Administration provide?
11. Why does the Farmers Home Administration require that farm records be kept?

METHODS: Class discussion of a typical case. Invite the supervisor of the Farmers Home Administration to discuss the purpose for which loans are made and who can qualify for a loan. There may be a boy in the class who cannot get credit from other sources and could qualify through the Farmers Home Administration.

REFERENCES: Farmers Home Administration Pamphlet-183, "Farm Housing Loans".
Farmers Home Administration Pamphlet-144, "Operating Loans for Better Farming and Better Living".
Farmers Home Administration Pamphlet-62, "Farm Ownership Loans".

TEACHING ACCOMPLISHMENTS:

Each student should be familiar with the types of loans made by the Farmers Home Administration and the characteristics, practices, and policies involved in each type.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Loans through the Local Bank

PROBLEM: Determine the Characteristics, Policies, and Practices of the Local Bank.

SITUATION: More farmers borrow money from the local bank than from any other source of credit. Your local banker is probably better acquainted with farming conditions in your community than representatives of other lending agencies.

PIVOTAL POINTS:

1. For what purposes will the local bank make loans?
2. What rate of interest is charged on long-term loans? Short-term loans?
3. What might be considered the advantages of borrowing from the local bank?
4. Who approves an application for a loan from the local bank?
5. What repayment privileges are offered by the local bank?
6. What security is required on long-term loans?
7. What is the term on real estate loans?
8. What might be considered disadvantages of borrowing from the local bank?
9. What service fees are charged in making a loan from the bank?
10. Why don't local banks require a farm appraisal before making the loan?

METHODS: Invite your local banker to talk to the class on the characteristics, policies, and practices in making loans.

REFERENCES: Local banker

TEACHING ACCOMPLISHMENTS:

Each student should be familiar with the policies governing loans from the local bank.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Farm Appraisal

PROBLEM: To Determine the Value of Appraising the Farm.

SITUATION: A good farm is easier to pay for than a poor one. Farmers pay off their loans better in good areas because they are able to make more money there. It is easy to get too deeply in debt even on a good farm.

PIVOTAL POINTS:

1. Who benefits from a farm appraisal?
2. What causes the value of a farm to vary from year to year?
3. What is meant by "normal value" of a farm?
4. Why is there a greater risk in buying a poor farm than in buying a good farm?
5. What factors should be considered in determining the value of a farm?
6. Why does the Federal land bank require that a farm be appraised before the loan is made?
7. What are the probable trends in land prices?
8. What is likely to happen if a farm is appraised at a higher value for a loan than it is capable of carrying?
9. What information does the appraiser supply the lending agency?
10. What do statistics show in relation to education and the ability to pay for a farm?

METHODS: Supervised study and class discussion.

REFERENCES: F.C.A. Cir. 13, "Appraising Your Farm", pp. 1-7.
F.C.A. Cir. E-30, "Paying for a Farm", pp. 1-16.
F.C.A. Cir. E-29, "About That Farm You're Going to Buy", pp. 7-10.
F.C.A. Film, "What is a Farm Worth?"

TEACHING ACCOMPLISHMENTS:

Each student should understand the value of a farm appraisal. He should also understand that there is less risk in buying a good farm than a poor one.

UNITS OF INSTRUCTION FOR OUT-OF-SCHOOL GROUPS

Introduction

There are many advantages in using credit if it is used properly. Due to current prices of land and machinery, very few farmers are financially able to buy the land and necessary equipment to start farming. With the use of credit a farmer can get started in farming earlier and pay for the land and machinery over a long period of time.

Since much of our agricultural production is on a credit basis, farmers should become familiar with the characteristics, policies, and practices of the various lending agencies. A farmer should shop for a loan just as he would a piece of machinery. Sometimes the convenience in obtaining a loan is paid for dearly by a higher rate of interest.

Every farmer should be able to estimate the value of a farm before he considers buying it. For this reason a problem on farm appraisal has been prepared to help the farmers in estimating the value of a farm. Many lending agencies have forced foreclosure because the value of a property was overestimated and could not produce enough to meet payments on the loan.

Wise use of credit requires a considerable amount of planning by the farmer and his family. Most lending agencies want to know how the borrowed money is to be used before the loan is made. The problem of family planning for credit should be brought to the attention of the farmer.

Price trends cannot always be predicted but if loans are made on a sound basis there is less chance of losing property or money. Only through an understanding of the various credit services available, farm value, and credit planning can a farmer select a loan that will be suited to his credit needs.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Using Credit

PROBLEM: Wise Use of Credit

SITUATION: If you have to get a loan to start farming, there is no need to feel badly about it. Most farmers need credit to start farming. How can you use credit to bring in an income which is more than the amount of the loan and the interest?

PIVOTAL POINTS:

1. In using credit, why should you consider the purpose, price trends, time, and amount?
2. How can a farmer profit by using credit to purchase machinery and equipment?
3. When should the payments on a loan come due in relation to your farming program?
4. Why do interest rates fluctuate from time to time?
5. Upon what basis does a lending agency figure risk?
6. Why is there more risk involved in making a loan to purchase an automobile than in buying livestock?
7. Why do farmers prefer to pay off a debt by equal and regular installments?
8. What factors cause farmers to lose their farms?
9. Why should a farmer prepare a budget on enterprises that require financing?
10. Why do some farmers borrow money to pay off other minor debts?

METHODS: Class discussion. Show how a farmer could lose his farm by selling off the inventory. Prepare a budget for an enterprise and show how it aids in determining credit needs.

REFERENCES: F.C.A. Cir. E-31, "Using Credit to Farm", pp. 1-6.
F.C.A. Cir. 15, "ABC's of Credit for the Farm Family", pp. 14-16.

TEACHING ACCOMPLISHMENTS:

Each farmer should understand that he should use credit only when he can improve his position by doing so. All loans have to be repaid, therefore the farmer should determine at the time he makes the loan just how and from what source he will pay it.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Obligations of Credit

PROBLEM: Deciding Whether to Buy or Rent

SITUATION: Since the sale value of farm land is normally many times the small amount the farm family can save annually, it ordinarily takes a number of years to pay for a farm out of the income made on it. More people are buying farms than ever before. Is it a good time to buy a farm?

PIVOTAL POINTS:

1. What are some of the factors which cause farmers to lose their farms?
2. Explain why the price of farms went up during and following World War II.
3. What source of income is used to pay off the mortgage on farms?
4. What is the normal value of land based on?
5. Why is it that the best time to buy a farm does not always coincide with the price trends?
6. What are the reasons for farms "coming on the market"?
7. Why is it true that the time to buy a farm is fixed for most farmers by the date of his birth?
8. What are the advantages of owning your farm?
9. When might it be advantageous to rent a farm?

METHODS: Class discussion. Use charts to show that there is a greater margin in prices of farm commodities now than during the base period of 1910-1914. Census data will show that the price of land has not increased proportionally to prices received by farmers. Use the problem on farm appraisal to determine the normal value of a specific farm. The information should suggest that it is better to buy a farm now than to rent.

REFERENCES: F.C.A. Cir. E-4, "The Profitable Use of Farm Credit", pp. 17-21.
F.C.A. Cir. E-29, "About That Farm You're Going to Buy", pp. 1-8.

TEACHING ACCOMPLISHMENTS:

Each farmer should have an understanding of the factors to consider in determining the time to buy land.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Planning for Credit

PROBLEM: Family Planning for the Loan.

SITUATION: The personal factor in farm credit includes more than just the farmer himself. Farming is still very largely a family business and requires planning by every member.

PIVOTAL POINTS:

1. Why should the wife and other members of the family help in planning for a loan?
2. How can other members of the family share the responsibility connected with debts?
3. Do you consider debts incurred by installation of a central heating plant, running water or electrical appliances a sound credit policy?
4. Would a loan ever be refused to a farmer because of the character of his family?
5. How can farm credit improve the standard of living?
6. Why is the wife of a farmer interested in security?
7. How does experience in farming decrease the amount of risk?
8. In what way is the family concerned in borrowing money for field machinery?
9. Who is the responsible member of the family on farm credit?
10. Why do lending agencies require the signature of the wife in making application for a loan?

METHODS: Class discussion of a typical case.
A husband usually brings in most of the cash income from the farm but the wife is likely to handle the greater part of the net income in making purchases for the family and home. Her management will determine largely what is saved for debt payment. Children in the family can increase farm production and the ability to pay debts.

REFERENCES: F.C.A. Cir. E-4, "The Profitable Use of Farm Credit", pp. 12-14.
F.C.A. Cir. 21, "Short-Term Credit A Good Farm Tool", pp. 1-8.

TEACHING ACCOMPLISHMENTS:

Each farmer should realize that every member of the family is responsible for the planning of farm credit. He should understand that his wife can help very much in repaying the loan.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Credit Instruments

PROBLEM: Use of Credit Instruments.

SITUATION: To protect the people carrying on business in farm credit, it is necessary to have and use certain legal credit instruments. Credit instruments and legal papers are necessary to successfully carry on credit transactions.

PIVOTAL POINTS:

1. What are the causes of poor titles?
2. Who does the recording of transactions on land?
3. What is a farm lease and what obligations does it carry?
4. What credit instruments are negotiable?
5. How does an oil or gas lease affect the farm owner?
6. What are "high grade credit risks"?
7. Why do some lenders require a financial statement from the applicant of a loan?
8. What three types of deeds are in general use?
9. What is a release or satisfaction?
10. How may a contract for deed be used in purchasing a farm?

METHODS: Class discussion.

REFERENCES: F.C.A. Cir. 16, "Using Credit Instruments", pp. 16-30.
F.C.A. Cir. 15, "The ABC's of Credit for the Farm Family", pp. 9-12.
Secure the various credit instruments from the local bank to use as illustrative materials.

TEACHING ACCOMPLISHMENTS:

Each farmer should have an understanding of the various credit instruments and their use connected with credit. Each also should realize the benefits obtained by both the lender and the person borrowing the money in holding legal papers.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Farm Appraisal

PROBLEM: Appraising the Value of a Farm.

SITUATION: During a period of high prices farmers are likely to pay more for a farm than it is worth. Many farms have been foreclosed because they were not capable of carrying the debt.

PIVOTAL POINTS:

1. Determine the factors which would tend to decrease the value of the farm.
2. Determine the factors which would tend to increase the value.
3. Estimate the average annual income from the farm.
4. Estimate the average normal annual expenses on the farm.
5. Determine the soil capability classes.
6. Consider the amount and conditions of fences and buildings.
7. Consider the distance to town, school, and church.
8. Inspect the water supply for livestock and home use.
9. Determine the carrying capacity of pastures in animal units.
10. Determine the degree of erosion and the conservation practices being carried out.
11. Estimate the value of the farm.

METHODS: Visit a farm and complete the appraisal form used by the Federal land banks.

REFERENCES: If possible, secure the help of a land bank appraiser. Make use of information on land characteristics shown by maps available for the area including, (a) land classification, (b) topographic maps, (c) county aerial maps, (d) soil surveys, and (e) soil capability maps.

TEACHING ACCOMPLISHMENTS:

Each farmer should understand the factors to consider in making a farm appraisal. He should also understand the procedure to use in arriving at a value on a farm.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Short-term Loans

PROBLEM: Making Loans through the Production Credit Association.

SITUATION: Quite often interest rates on loans from local agencies are higher than farmers can afford to pay. Due to the cost of using local sources of credit many farmers hesitate to borrow money and therefore do not produce crops and livestock efficiently.

PIVOTAL POINTS:

1. Why did Congress feel it was necessary to pass the Farm Credit Act of 1933?
2. From what source does a production credit association secure funds with which to make loans?
3. What determines the cost of borrowing from the production credit association?
4. Who approves an application for a production credit association loan?
5. Why are production credit associations considered as reliable and dependable sources of short-term credit?
6. What is the procedure in making a loan through the production credit association?
7. What cooperative principles are found in the production credit association?
8. Why is it important to consider age, health, and family position of the individual making the loan?
9. For what purposes can you borrow money through the production credit association?
10. What production credit association serves this area?

METHODS: Invite the secretary of the production credit association to discuss the procedure of making a loan and explain how the association is organized.

REFERENCES: F.C.A. Cir. E-17, "Using Your Production Credit Association".
F.C.A. Cir. E-3, "Farm Production Loans".

TEACHING ACCOMPLISHMENTS:

Each farmer should be acquainted with the organization of the production credit association and the procedure necessary in making a loan.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Long-term Loans

PROBLEM: Making Loans through the National Farm Loan Association.

SITUATION: Many farmers are not acquainted with the characteristics, policies, and practices of the national farm loan association. Good farm incomes have encouraged farmers to buy their own farm instead of renting.

PIVOTAL POINTS:

1. Why was it necessary for Congress to provide for the Federal land bank loans through national farm loan associations?
2. What characteristics would you look for in choosing a lending agency from which to borrow?
3. What principles make the national farm loan association a cooperative?
4. What factors will influence the rate of interest?
5. What procedure is followed in making a Federal land bank loan?
6. Why is it an advantage to have the privilege of paying a loan in advance?
7. Where does the national farm loan association secure funds to make loans?
8. Why does the national farm loan association require a farm appraisal before the loan is granted?
9. Who approves a Federal land bank loan?
10. What national farm loan association serves this area?

METHODS: Invite the secretary-treasurer of the local national farm loan association to discuss the procedure in making a loan and how the association is organized.

REFERENCES: F.C.A. Cir. E-16, "Using Your National Farm Loan Association". F.C.A. Cir. No. 1, "Federal Land Bank Loans through the National Farm Loan Association".

TEACHING ACCOMPLISHMENTS:

Each farmer should understand how the national farm loan association is organized and how to obtain a Federal land bank loan.

PROBLEM PLAN

ENTERPRISE: Farm Credit JOB: Farmers Home Administration Loans

PROBLEM: Making Loans through the Farmers Home Administration.

SITUATION: Many farmers do not have the equity to put into a farm they wish to purchase which some lending agencies require.

PIVOTAL POINTS:

1. What types of loans can be obtained from the Farmers Home Administration?
2. Where does the Farmers Home Administration secure funds to make loans?
3. Who may borrow from the Farmers Home Administration in buying a farm?
4. What are the characteristics of a farm ownership loan?
5. Why does the Farmers Home Administration provide supervision?
6. What determines eligibility for an operating loan?
7. What are the characteristics of an operating loan?
8. Who approves the operating loans?
9. What are the requirements for eligibility of a farm housing loan?
10. What credit controls apply to farm housing loans?
11. What are the characteristics of a farm housing loan?

METHODS: Invite a supervisor of the Farmers Home Administration to discuss the types of loans and the procedure in obtaining a loan.

REFERENCES: F.H.A. Pamphlet-62, "Farm Ownership Loans".
F.H.A. Pamphlet-144, "Operating Loans for Better Farming and Better Living".
F.H.A. Pamphlet-183, "Farm Housing Loans".

TEACHING ACCOMPLISHMENTS:

Each farmer should be familiar with the different types of loans made by the Farmers Home Administration and the procedure in making a loan.

SUMMARY AND CONCLUSIONS

The summary contains the information given by 50 farmers in the service area of Jamestown High School, Missouri, in answer to questions asked them on farm credit. The conclusions are drawn from data presented in this report and are used as a basis for planning units of instruction for all-day students, young farmer, and adult classes in agriculture.

Summary

1. The writer personally contacted 50 farmers in the service area of Jamestown High School.
2. Approximately 25 farmers were enrolled in the veterans on-the-farm training program and the other 25 were enrolled in adult classes in agriculture or were adults farming in the service area of Jamestown High School.
3. Of the 50 farmers surveyed, 92 per cent had borrowed money at one time or another.
4. Only 24 per cent of the farmers surveyed were acquainted with the lending policies and practices of the various lending agencies in the county.
5. Eighty-eight per cent of the farmers have borrowed money to buy livestock.
6. Eighty-two per cent of the farmers have borrowed money to buy tractors and 40 per cent have borrowed money to buy automobiles. Thirty-six per cent have borrowed money to buy combines and 20 per cent to buy trucks.
7. In borrowing money on real estate mortgages, 62 per cent preferred to borrow from the local bank, 16 per cent from the national farm

loan association, 10 per cent from individual lenders, and none felt they could qualify for Farmers Home Administration loans.

8. Eighty-two per cent of the farmers surveyed felt that the lending agencies of Moniteau County were sufficient to meet the needs of farmers.

9. Only 30 of the farmers knew where the local office of the national farm loan association was located.

10. Eighty-eight per cent of the farmers surveyed preferred to borrow from the local bank in making short-term loans. Only 4 per cent preferred to borrow from individuals, 4 per cent from the Farmers Home Administration, and 2 per cent from the production credit association.

11. Only 31 of the farmers knew where the local production credit association is located.

12. Personal factors, such as knowing lender, seemed to be more important in deciding where to borrow than economic factors, such as rate of interest.

13. Farmers consider record keeping an advantage to farmers who borrow money.

14. Eighty-two per cent of the farmers consider supervision offered by lending agencies to be valuable.

15. Sixty per cent of the farmers preferred to pay off a loan by equal and regular installments.

16. Seventy-four per cent of the farmers asked for advice on financial matters, and of those who asked for advice, 84 per cent trusted the local banker for the needed information. Fourteen per cent had consulted the vocational agriculture teacher or the veterans on-the-farm training agriculture teacher for advice.

Conclusions

1. This study indicates that in the opinion of farmers, there are advantages, as well as disadvantages of each lending agency. Farmers should familiarize themselves with the advantages and disadvantages of the various lending agencies and select credit just as they would a piece of machinery.
2. Lending agencies have not sufficiently reached the farmers in promoting their credit policies and practices. Through an educational program carried out by the vocational agriculture department, more farmers would become acquainted with the various agencies.
3. Farmers are interested in loan supervision and lending agencies should make an effort to supply supervision.
4. In making a loan, farmers should place more emphasis on rate of interest, term of loan, and repayment privileges.
5. Rural youth should understand the factors which determine a sound basis for borrowing money and the advantages of establishing a good "credit rating".
6. Lending agencies should be able to give farmers sound financial advice.
7. Every boy in vocational agriculture should receive training in farm credit.

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