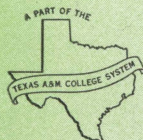


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The Ranch Credit Situation
In Texas during the 1950-57 Drouth
And the Early Recovery Period

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THE AGRICULTURAL AND MECHANICAL COLLEGE OF TEXAS
TEXAS AGRICULTURAL EXPERIMENT STATION
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SUMMARY

Texas ranchmen sustained heavy financial losses during the 1950-57 drouth. Reduced incomes caused a gradual depletion of their financial assets and borrowing for necessary production outlays and living expenses impaired their operating and investment capital.

The records obtained from one group of ranch operators showed they lost 21 percent of their assets, increased their liabilities 46 percent and lost 38 percent of their net worth during the 7 drouth years. By early 1958, the net worth position of these ranchmen improved 19 percent above the previous drouth year, but still was 27 percent below the 1950 level. These ranchmen have been able to obtain the necessary credit for expansion and financial recovery with the improved relationship between debt and assets which began in 1957.

Nonoperating owners of ranch lands in the area studied were not materially hurt financially during the drouth years because of the income from leasing for ranching and mineral purposes and because land values rose despite the drouth. Credit was no problem to this group.

Full owner-operators were in much the same position as nonoperating owners except for heavy losses in their livestock operations. Those with good equities in their land easily could finance their livestock operations with real estate credit. Part owner-operators were in a more unfavorable income and credit position depending on the proportion of owned land to leased land and their equity in the owned acreage operated.

Ranchmen who leased all of the land they operated were hurt badly by the drouth, with probably one-fourth going out of the ranching business. Many of the lease operators soon were placed in deficit net worth positions because they borrowed on their livestock to meet lease payments, to buy feed and to pay for other operating and living expenses. Many operators exhausted all normal sources of credit and resorted to emergency credit to remain in business. Some lease operators, especially the smaller ones, remained in business by finding off-ranch employment. Credit was difficult for the full lease operators to obtain even after the drouth ended.

Most ranch owners went into the drouth period with high equities in their real estate. The equities served as excellent reserves and provided the security for much operating credit during the emergency and recovery periods. Owner-operators shifted much of their accumulated short-term drouth credit to longer-term, lower-cost real estate credit. Delinquency in repaying real estate loans was not serious during the drouth.

The credit requirements of ranchmen for operating purposes may be expected to exceed the value of the available livestock collateral for many operators during long drouths. Declining livestock prices that coincided with the drouth hastened the unfavorable relationship between the amount of loan and collateral during the drouth of the 1950's.

This quickly added to the risk of both the ranchman borrower and the lender. The experience of lenders indicates that they safely can continue to furnish needed credit to good livestock operators under drouth or adverse price conditions although the size of the loan may exceed the market value of their livestock.

Commercial banks provided most of the operating credit to ranchmen during the drouth and post-drouth years of the 1950's. The dollar volume of credit to the operators increased about one-third and the banks cooperated fully with the emergency loan program when the loans reached the maximum size for that bank. Banks generally were able to take care of their regular borrowers through the drouth years and for restocking purposes following the drouth. Loans were based more on the soundness of the ranchman's operation under normal conditions than on a strict security basis.

Most banks serving the drouth areas were able to increase their deposits, capital accounts and reserves during the drouth years because of unusually high nonranch business activity. These factors, together with the experience gained during the drouth, place the banks in a better position to meet the credit needs of their ranchmen borrowers during future emergencies.

Special livestock loans made to ranchmen through the Farmers Home Administration were valuable to hundreds of operators who otherwise might have been forced out of business during the drouth. Little if any loss will be sustained on these loans. Experience has proved that even extremely high-risk loans will work out with time and efficient ranch operations.

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The Ranch Credit Situation in Texas during the 1950-57 Drouth and the Early Recovery Period

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THE MOST SEVERE AND PROLONGED DROUTH in Texas history extended from 1950-57. This also was true in many other sections of the United States.

The entire State was a critical drouth area during this period although the intensity of the drouth varied in different sections. Rainfall, the principal limiting factor in agricultural production, normally varies widely in different areas of the State. However, it ranged from 20 to 50 percent below normal at more than 20 recording stations and as much as 80 percent below normal at some stations in certain years of the drouth.

Further seriousness of the drouth was recognized as early as 1953, when practically all Texas counties had been classified by the United States Department of Agriculture as disaster counties with 160 of them receiving aid under the drouth relief program.

ECONOMIC EFFECTS OF THE DROUTH ON TEXAS FARMERS AND RANCHMEN

Farmers and ranchmen sustained heavy financial losses during the drouth years. Many farmers who depended on rainfall to make a crop had little or greatly reduced incomes resulting in a rapid depletion of their financial assets. Necessary borrowing for production outlays and living expenses impaired their operating and investment capital. Many farmers depending wholly on crop production were forced to seek off-farm employment or give up farming. Ranchmen were forced to sell their livestock or buy feed. Most ranchmen drastically reduced the size of their herds and flocks and in many areas fed them all year. Many were forced to sell in years of low prices after absorbing heavy feed bills and other operating expenses. Most ranchmen who depended entirely on livestock, wool and mohair sales for income, borrowed heavily on their assets and in many instances beyond the total value of their assets. Ranchmen generally relied on the emergency feed and transportation subsidies, when available, during the drouth.

The total farm cash income in Texas declined only moderately despite more than 6 years of drouth and averaged about the same as during the predrouth period. However, a majority of Texas farmers and ranchmen still suffered severe financial losses. Texas farmers and ranchmen

probably lost 3 billion dollars in income as a result of the drouth. Cash farm income for the State declined only about 13 percent during 1951-56. Further decline in incomes were offset during the drouth years by the expansion of irrigation and fairly stable prices for most products. The majority of farmers and ranchmen had relatively low net cash income as compared with the predrouth years due to increased costs and low production in most of the State. In the vast ranching areas of Texas, most operators took heavy losses in their ranching operations.

Remarkable recovery was made by farmers and ranchmen who survived the drouth, following the end of the drouth in 1957. Farm and ranch income rose almost 30 percent between the drouth year low of 1956 and the end of 1959. While part of this increase was due to higher livestock prices, the principal reason was the above normal rainfall in most areas of the State during 1957-59. Favorable weather and grazing conditions brought rapid rebuilding of livestock herds. Farmers and ranchmen recovered part of their drouth losses and strengthened their financial position and borrowing capacity necessary to recovery.

PURPOSE OF STUDY

This study was made to develop information on the effects of drouth on the ranchman's financial condition and his drouth and postdrouth credit requirements to assist him with credit management problems during future drouths.

Another major objective was to show how the lending operations of credit agencies are affected by drouth conditions and to develop information useful to them in meeting credit needs and formulating credit policies in future drouth emergencies.

SOURCES OF INFORMATION

Most of the information and credit data for this study were obtained from the Texas Production Credit Association (TPAC), the San Angelo Federal Land Bank Association, the Farmers Home Administration office at San Angelo, The Ozona National Bank and the National Finance Credit Corporation (NFCC) of Fort Worth.

These lending institutions provide much of the credit to ranchmen on the Edwards Plateau, which was a critical drouth area from 1950-57.

Ranches in this area are large, with sheep comprising 80 percent of the total livestock population.

Loan data supplied by the NFCC presents a broader picture of the ranch credit situation during and following the drouth since it operates on a statewide basis with all of its lending on livestock operations, mostly to cattlemen.

Conclusions drawn from the analysis of the information obtained generally apply in all areas of the State.

EFFECTS OF DROUTH ON FINANCIAL RESOURCES AND CREDIT POSITION OF RANCHMEN

The changes which occurred in the financial and credit position of the typical ranch operator within the ten-county area served by the TPCA at San Angelo are shown by a summary of the individual records obtained from 22 borrowing operators, Table 1.

These ranchmen were continuous borrowers from the TPCA and records were obtained for January 1, 1950, which show the financial position of the average borrower at the beginning of the drouth. Records also were obtained for January 1, 1957, revealing the financial position of this group of ranchmen near the end of the drouth. Records again were obtained for January 1, 1958, showing the improved financial position of the group for the first year after the drouth. January 1 is an approximate date since all borrowers do not make their annual financing arrangements on this date. Actually, renewals are spread over several months.

The average size of the 22 ranches was 14,730 acres in 1950 and changed little during the 8-year period. Only two of the ranchmen owned all of the land that they operated and twelve owned part of the land they operated. Eight of the 22 did not own any land. The 22 ranchmen owned 38 percent of the land that they operated and leased 62 percent. There was little change in the proportion owned or operated during the drouth period. The average cost of leases in 1950 was about 60 cents per acre with few reductions made during the drouth period. Operators wanted to keep their leases for the recovery years to come and many went in debt to do so.

The 22 operators lost \$1,146,041 or 21 percent of their assets from 1950 until shortly before the drouth ended in 1957. These losses of assets were largely a result of a decrease in the number of livestock, a decline in the value per head of livestock and the loss of other assets.

Liabilities in this period increased \$490,830 or 46 percent which reflect increased borrowing principally against a smaller number of livestock and against land to finance drouth operating losses. The total decrease in net worth at the end of the drouth was \$1,636,877 for the 22 borrowers and represented a loss of 38 percent during the 7 drouth years.

Although land values continued to rise during this period, the rise was not reflected in the financial statements of these borrowers. TPCA loans usually are not based on real estate security and the reflected changes in the financial and credit position of the borrowers largely are related directly to the drouth.

This group of borrowers increased the size of their chattel loans 32 percent, their real estate mortgage loans 70 percent and their other liabilities 68 percent during the 1950-57 drouth. The average total indebtedness per borrower increased 46 percent. These increased loans during the drouth resulted from increased purchase of feed for livestock, lease payments on land, interest on real estate loans and operating and living expenses. The loan size in some cases was greater than the value of the security. These borrowers' debts increased from 20 to 36 percent of their assets during the drouth years. The average ranchman in this group lost \$52,000 in assets and increased his debts more than \$22,000 during this period.

During the first year of recovery, beginning in 1957, the assets of this same group of borrowers increased \$509,123 or 12 percent, while liabilities decreased only \$12,404 or less than 1 percent. Net worth during this period increased \$521,527 or 19 percent more than the previous year. However, the net worth position of the average ranchman was still 27 percent below his 1950 net worth, but his position was 11 percent higher than his lowest point during the drouth.

The remarkable increase in assets and net worth in this first year of recovery was due to

TABLE 1. FINANCIAL CONDITION OF 22 RANCH OPERATORS, JANUARY 1, 1950, 1957 AND 1958

Date	Total assets	Liabilities				Net worth	Percentage change			Debt as a percentage of assets
		Chattel	Land	Other	Total		1950-57 and 1957-58			
							Assets	Liabilities	Net worth	
1-1-50	\$5,402,892	\$663,026	\$282,487	\$114,923	\$1,060,436	\$4,342,456				20%
1-1-57	4,256,851	878,783	479,986	192,503	1,551,272	2,705,579	-21	+46	-38	36%
1-1-58	4,765,974	868,263	473,645	196,960	1,538,868	3,227,106	+12	-.8	+19	33%

good income from high production, some early restocking and higher prices for livestock. The average operator had paid off a considerable amount of his indebtedness by early 1958, but it was reborrowed for restocking purposes. This left his liability position practically unchanged but placed him in a good position for increasing his borrowings for more restocking during and after 1958.

These data reflect the drastic changes which took place in the financial and credit position of this group of TPCA borrowers during this period. They were relatively large operators and were in good financial condition at the beginning of the drouth which enabled them to use many of their own resources and to obtain necessary credit to carry them through the drouth.

About 10 percent of the ranchmen borrowing from the TPCA voluntarily discontinued their operations during the drouth years. Most of these men could have continued their operations by going deeper in debt but were unwilling to assume the added risk and the possibility of having to use emergency credit. The association did not force any of its borrowers into liquidation and continued to supply the needed credit during and following the critical years.

EFFECTS OF DROUTH ON INCOME, FINANCIAL AND CREDIT POSITION OF DIFFERENT TYPES OF RANCH OPERATORS

The effects of the drouth on the income, financial and credit position of ranchmen depended largely on their position as owners, owner-operators or lease operators.

The owners of ranch lands in the San Angelo area that were not operating for themselves were not materially hurt financially by the drouth. The owners generally received a cash lease income of 50 cents to \$1 per acre from lease operators who could pay or borrow on their livestock to meet the obligation because they did not want to lose their leases. Leases generally did not decline in price during the drouth, and few lease adjustments were made.

Most of the owners in this area received mineral lease income of around \$1 per acre in addition to the regular ranch lease income. Some received income from oil and gas production.

Land values in this area continued to rise despite the drouth and with these increasing equities, credit generally was obtained easily by ranch landowners.

Full owner-operators were in much the same position as nonoperating owners with respect to nonoperating income; however, they lost heavily on their livestock operations because of heavy outlays for feed and operating expenses. This group of ranchmen, as a whole, were able to

maintain their net worth position. Those with larger equities in their land easily could finance their operating losses with real estate credit. Part owner-operators were in a more unfavorable income and credit position than full owners, depending upon the proportion of acres owned to acres leased and their equity in the owned acreage operated.

The ranchmen leasing all of the land that they operated were badly hurt as a result of the drouth. Year after year they received little feed returns from their leased lands and were forced to sell much of their livestock and to buy feed to retain their remaining livestock. In addition, they had to pay for their leases. These operators had no income from minerals and could not participate in the rise in land value. Many were forced to borrow on their remaining livestock to the extent that they reached a deficit net worth position and exhausted all normal credit sources. Emergency credit was the only alternative. Reliable estimates show that one-fourth of the lease operators gave up ranching during the drouth period.

REAL ESTATE EQUITIES AS SECURITY FOR FINANCING DURING DROUTH AND RECOVERY

A study of the real estate credit extended by the Federal Land Bank in the five-county area served by the San Angelo Federal Land Bank Association reveals the increased use of real estate equities as security for financing farm and ranch operations during the drouth, Table 2. Most of the farmers and ranchmen went into the drouth with high equities in their land which served as reserves when needed for the drouth and postdrouth years.

The area served by the San Angelo Federal Land Bank Association, essentially a ranch country in total acres, had a greater number of farms. The large number of loans made by this real estate credit agency were farm loans that accounted for the relatively smaller sized average loan. However, the greater dollar volume of the total lending was made to the ranchmen borrowers who comprised less than one-third in number but borrowed over one-half of the total amount loaned. These ranch borrowers represented, on an average, a cross section of the smaller operators.

From January 1, 1951 to January 1, 1958, the total number of loans outstanding increased approximately 23 percent while the amount outstanding increased approximately 152 percent. This increase is attributed mainly to increased credit needs to meet drouth conditions rather than to finance land purchases or for other purposes. The total loan volume has continued to increase since the drouth ended in 1957 because of the continued need to refinance real estate and to obtain more capital for operating purposes. Optimism following the drouth also added to the

amount loaned for land purchase and improvement purposes.

Further analysis of the loans made during this period shows that 45 percent of the amount loaned was for operating purposes, 37 percent for refinancing, 13 percent for land purchase and 5 percent for improvements. The large amount loaned for operating purposes through 1956 was for carrying livestock and to pay short-term debts accumulated during the drouth. The lesser amount loaned for operating purposes was mostly for restocking ranches during 1957-58. A relatively large amount of money was loaned for refinancing when new borrowers refinanced and increased the size of their land loans to obtain operating capital on real estate security at a lower rate. Refinancing of land on a longer term basis was made necessary by the drouth.

Thirteen percent of the total amount loaned for land purchase was borrowed mostly by owner-operators for enlargement of their farms and ranches. Few entered the farming and ranching business during the drouth period. The small percentage loaned for improvement purposes during the 7-year period reflects good judgment on the part of borrowers in using their real estate equities for necessary operating credit needs. Borrowing for improvement purposes has increased during the postdrouth years.

The number of loans and the amount of the accumulated interest and amortization delinquency on the loans, while above normal, was not serious in any of the drouth years, Table 2. In relation to the number of loans and the dollar volume outstanding this is a remarkable record of repayment by borrowers whose incomes were reduced drastically by the drouth. Loan repayment delinquency was not a serious problem to the association which continued to supply farmers and ranchmen with needed credit during the drouth and subsequent years.

CREDIT REQUIREMENTS IN RELATION TO LIVESTOCK COLLATERAL DURING DROUTH AND POSTDROUTH PERIODS

The loan information that the NFCC provided for this study presents an excellent picture of the effects the drouth had on the average ranchman borrower's credit requirements in relation to the value of the available livestock collateral. It also shows the ability and willingness of the lender to continue financing many of its ranchmen borrowers even after the amount of their loans exceeded the value of their collateral. Table 3.

During the drouth years, the loan per head on cattle increased 80 percent, sheep, 44 percent and on goats, 183 percent. The value of the livestock on which these loans were based declined after 1952 until the end of the drouth, adding to the risk of the ranchman borrower and the lender. This risk is shown even more clearly during 1951-57 when the average size loan increased while the average value of the collateral per borrower decreased. The average percent loaned on the livestock collateral increased from 42 percent to 103 percent.

The progressive increase in the loan per head and in the average size loan per borrower during most of the drouth years was caused principally by heavy borrowing for purchasing feed and to loss or sale of collateral during the drouth.

The improvement in livestock prices and the income and the credit position of most ranchmen who survived the drouth quickly reversed itself when the drouth ended. The loan per head remained at about the same level as during the latter drouth years and the average loan size increased. This was due to increased capital expenditures including large sums for restocking and higher operating costs. The ranchman's

TABLE 2. TOTAL NUMBER AND AMOUNT OF LOANS OUTSTANDING, NUMBER AND TOTAL AMOUNT OF LOANS MADE DURING YEAR, PURPOSE AND AMOUNT OF LOANS MADE DURING YEAR, NUMBER OF LOANS AND AMOUNT DELINQUENT, DROUTH AND POSTDROUTH PERIOD, 1951-59, SAN ANGELO FEDERAL LAND BANK ASSOCIATION

Date	Total number loans outstanding at beginning of year	Amount outstanding at beginning of year	Number loans made during year	Total amount loans made during year	Purpose and amount of loans made during year				Number loans delinquent at beginning of year	Total amount delinquent at beginning of year
					Refinancing	Improvements	Operating	Land purchasing		
	No.	Dollars	No.		Dollars				No.	Dollars
1-1-51	265	996,000	28	178,500	104,600	11,800	11,300	50,800	7	895
1-1-52	266	1,054,000	44	498,800	217,100	13,400	226,800	41,500	11	1,329
1-1-53	270	1,351,000	42	434,700	155,500	8,000	203,500	67,700	25	3,487
1-1-54	276	1,563,000	38	367,800	80,500	18,200	184,900	84,200	22	3,324
1-1-55	277	1,751,000	53	586,100	176,800	36,200	335,300	37,800	16	4,938
1-1-56	302	2,053,000	55	596,600	242,500	18,200	286,400	49,500	16	2,872
1-1-57	326	2,385,000	27	363,700	174,800	24,300	128,300	36,300	23	4,554
1-1-58	325	2,507,000	44	414,300	133,200	37,500	149,700	93,900	12	4,291
1-1-59	338	2,714,000	35	360,500	74,200	29,800	119,900	136,600	7	2,997
7-1-59	362	3,000,000 (est.)							13	3,939

TABLE 3. APPRAISED VALUE PER HEAD OF LIVESTOCK, AMOUNT LOANED PER HEAD, AVERAGE LOAN PER BORROWER, VALUE OF AVERAGE COLLATERAL PER BORROWER AND AVERAGE PERCENT LOANED ON COLLATERAL, DROUTH AND POSTDROUTH PERIOD, 1950-1959, NATIONAL FINANCE CREDIT CORPORATION

Date	Cattle		Sheep		Goats		Average loan per borrower	Average value collateral per borrower	Average percent loaned on collateral
	Value per head	Loan per head	Value per head	Loan per head	Value per head	Loan per head			
	Dollars								
									Percent
1-1-50	120.59	58.85	16.40	8.00	5.04	2.46	51,742.10	106,050.92	48.80
1-1-51	147.70	62.70	19.62	8.33	7.68	3.26	48,688.38	114,688.65	42.45
1-1-52	186.79	79.52	23.72	10.10	9.71	4.13	57,380.60	134,780.84	42.57
1-1-53	157.18	84.50	15.77	8.48	7.20	3.87	56,030.13	104,221.91	53.76
1-1-54	120.07	100.45	13.69	11.45	6.48	5.42	72,576.32	86,750.28	83.66
1-1-55	109.17	98.04	13.45	12.08	6.67	6.10	78,495.83	87,408.00	89.80
1-1-56	110.93	110.07	13.71	13.60	6.78	6.72	83,314.40	83,965.75	99.22
1-1-57	103.35	106.37	11.23	11.56	6.73	6.97	71,705.80	69,672.63	102.92
1-1-58	108.00	96.26	15.46	13.78	8.13	7.24	77,422.58	86,856.66	89.14
1-1-59	143.60	105.41	18.61	13.66	7.79	5.72	87,021.71	118,551.61	73.40

credit position was much improved with restocked ranches and the rise in the value of his collateral. The average percent loaned on collateral had declined 73 percent by 1959 and 59 percent by mid-1959.

The number of loans and total dollar volume of loans carried by this company declined slightly from 1952-57. Since 1957, both are more than predrouth levels. Some of its borrowers shifted their debt to lower cost land loans before 1957, while some used participating emergency FHA drouth loans. A few ranchmen sold land and cut the size of their operations. The liberal lending policy of this agency during the drouth emergency and the decline in livestock values is shown by the high percentage loans which it made. Lenders probably can safely continue with good livestock operators during drouth emergencies, even when their loans exceed 100 percent.

COMMERCIAL BANKS SERVE RANCHMEN WELL DURING DROUTH AND RECOVERY

Commercial banks which previously supplied most of the operating credit to ranchmen continued to do so during the drouth and postdrouth periods. Bank credit to ranchmen increased by more than one-third even in the areas where the drouth was most severe during 1950-57. Bankers generally accepted their responsibility to these borrowers by making excess loans as long as banking regulations permitted. They also arranged loans with outside credit agencies and participated in them to keep their customers in business. Ranchmen who wanted to continue operations generally could secure the necessary credit, if the repayment capacity looked favorable when normal conditions returned. Many ranchmen, mostly lease operators, voluntarily liquidated and some salvaged part of their assets, but few were forced to liquidate in the ranching areas covered by this study.

Ranchmen and their bankers again became optimistic when the drouth ended in 1957. While

the equities of borrowers were reduced greatly through the sale of livestock and heavy borrowing on the livestock was retained, additional credit demands for restocking purposes immediately arose.

The banks serving the ranching areas, although already carrying excessive ranch loans, were in a stronger position to supply the financial requirements for restocking than they were before the drouth. Deposits in drouth area banks increased about 25 percent during the drouth years due to nonranch business activity. Banks generally were able to increase their capital accounts and reserves. These factors made it possible for the banks to supply most of the needed postdrouth credit for rebuilding livestock herds.

The factors affecting the financial needs of ranchmen during the drouth are substantiated by information from the Ozona National Bank. There was only a small decline in the number of ranch loans carried by the bank during the drouth and postdrouth years, 1950-59. This shows that the bank was able and willing to provide the needed credit to most of their ranchmen customers.

Only about half of the bank's ranch borrowers were continuous borrowers during this period because in some years outside sources of income made it unnecessary to borrow for feed and other operating and living expenses. Also a few, mostly ranch owners, were in and out of livestock operations. Seventy percent of the ranchmen borrowers at this bank own most of the land that they operate, but the bank had to take real estate security in only a few cases.

Dollar loan volume to ranchmen during the drouth increased about 10 percent with an additional 10-percent increase for restocking purposes during the 1957-59 recovery years.

Out of 120 ranchmen borrowers at this bank, 22 had received emergency loans from the FHA on a participating basis with the bank. By 1959, eight of these had paid off their FHA loans in

full, and the bank again was supplying all of their credit requirements. The remaining 14 FHA borrowers had reduced appreciably their debt to both the FHA and the bank. Several more expected to repay the FHA in full in 1960 and with good range conditions continuing, all of these borrowers again would become 100 percent bank borrowers.

SPECIAL LIVESTOCK LOANS

Special livestock loans made available to ranchmen through the FHA were valuable to hundreds of operators who otherwise might have been forced or elected to go out of business during the drouth. The ranchmen who were unable to obtain the necessary credit to continue operation from normal credit sources and who had successful past records of livestock operations were eligible for special livestock loans. These loans were not made for expansion or to pay existing debts. Most of them were made to ranchmen who had existing loans with banks or other lending agencies that did not have to subordinate their liens to FHA.

The banks and other lending agencies which participated with FHA and thus enabled customers to continue ranching through the drouth were rewarded because they did not have to sustain losses that liquidation could have caused. They retained most of their regular customers by doing this. Some ranchmen's total credit needs went beyond the lending limits of their banks so the additional credit supplied by special livestock loans was helpful in enabling the banks to keep good loans during the drouth.

In seven of the counties served by the San Angelo FHA office, 93 special livestock loans were made. Most of these loans were made in 1953 shortly after authority was granted for making them. A few were made in the latter years of the drouth until authority for making new loans expired in 1957. Additional advances were made on most of these loans during the drouth years.

By the middle of 1957, \$4,638,222 had been advanced to these 93 ranchmen for an average of \$49,873 per ranch. Relatively little repayment was made on the loans until the drouth ended in 1957. These 93 ranchmen had repaid \$3,877,415 or 83.6 percent of the amount borrowed by July 1959. Fifty-one borrowers had repaid their loans in full to the FHA. Of the 51 borrowers who had repaid in full, 10 had voluntarily elected to liquidate by selling their livestock before 1959. The remaining 41 fully paid FHA borrowers had improved their financial position sufficiently to obtain all credit needs from their banks. Of the remaining 42 FHA borrowers, 38 had reduced the size of their loans to both the FHA and to their banks. They expected to completely repay their FHA loans within 2 to 3 years and go back to their banks for all future credit needs. Only

four of the 93 special livestock loans made were classified as doubtful in 1959. These ranchmen had sold all of their livestock with some unpaid balance remaining. In the final analysis, there will be little if any loss on the special livestock loans made in this area. Although these were extremely high risk loans, experience proves that they will work out with time and with good operators.

IMPLICATIONS OF FINDINGS FOR LENDERS AND BORROWERS

Credit agencies serving ranchmen in high risk drouth areas should be aware that drouth is likely to occur at any time, that its duration cannot be predicted and that they will have to carry heavier credit burdens during these emergency periods and even for short periods following drouths.

The loan size generally will increase and in many cases credit requirements will exceed the value of the available collateral without basic livestock herd liquidation. Repayment on loans will be slow and delinquency high, with most loans requiring renewal and with the final repayment date uncertain. These factors, in addition to the risk of lenders, may justify the slightly higher interest rates existing in these areas.

Lenders should be prepared to supply either directly or indirectly the credit needed for as many years as the drouth may last and for adjusting back to normal operations following drouth periods.

Drouth loans should be made on the basis of integrity, management ability and longtime repayment prospects, with less emphasis on the value of present collateral.

Lenders may prepare to meet drouth credit demands by increasing their capital and reserves during normal periods, allowing for larger and heavier risk loans. They may make advance arrangements with other institutions for loan participation in cases of excess loans or shortage of funds.

Some banks might consider setting up a separate corporation for handling livestock loans by the discounting method. This method could be used if there is a temporary shortage of local funds or if good loans exceed the banks' lending limits.

While current credit sources are ample to finance any likely future drouth emergency, government lending programs again might become necessary with which present, private and cooperative lending agencies will need to cooperate.

Ranchmen, when borrowing, should choose a credit agency that is historically suited to the type of enterprise being financed.

Adequate capital is necessary for profitable ranch operation and the borrower should expand

to a unit of profitable size as quickly as possible to be prepared for drouth emergencies. This will require the selection of a credit agency which is capable and willing to supply the necessary amount of borrowed capital, as needed.

The selection of a credit agency whose financial structure and history show it to be capable and willing to stay with them in bad times as well as in good is important to a borrower. While interest rates and other credit costs should be considered by borrowers, these are not as important as complete credit services and other considerations. Borrowers should recognize that credit costs generally are competitive and should be commensurate with risks.

Financial management, as well as good ranch management, is essential to the ranchman in preparing for drouth years. Ranchmen should build reserves in good years for use in bad years by building, as rapidly as possible, high equities in their short term higher risk loans on livestock. If possible, they should have some cash or near cash reserves in readily available investments. Ranch landowners may build reserves by making advance payments on their real estate loans during good income years.

Good financial management includes making full credit arrangements in advance of need, arranging to receive loan proceeds in the amount and on the date needed and applying proceeds of sales immediately to the repayment of the loan. When possible, lower cost real estate credit should be used to secure operating capital for longer use, such as restocking. These practices will reduce total credit cost.

Credit should be used primarily for production purposes with conservative credit use for unnecessary expenditures until a safe equity position is attained. Speculation should be avoided unless reserves are adequate to cover losses.

Ranchmen will find it advantageous to obtain all of their operating credit needs from one lending agency. This provides the best use of collateral since split lines of credit generally are unsatisfactory to lenders as well as to borrowers. Borrowers should work closely with their lending

agencies, keeping them fully informed of their plans and future credit needs.

Small ranch operators may consider some diversification or off-ranch employment to supplement income and lessen their credit needs during drouth emergencies.

If using an emergency credit agency becomes necessary, the borrower should work with the first credit supplier as well as the new, with the idea of returning to the former as quickly as possible.

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