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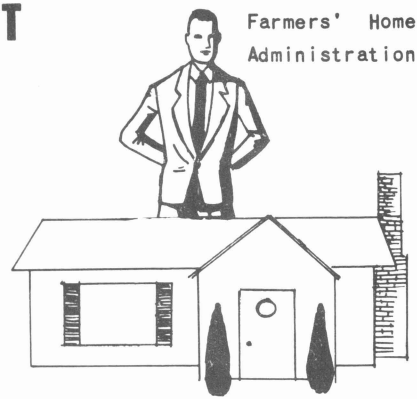
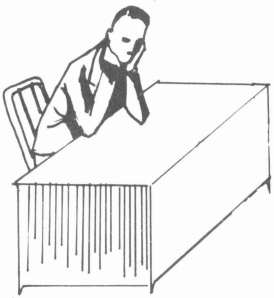
SOURCES OF FARM CREDIT IN TEXAS



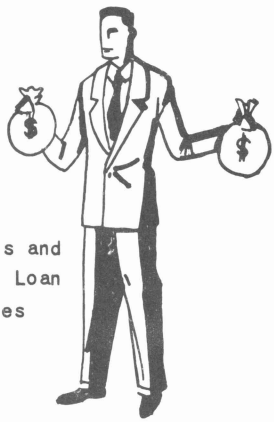
Farmers' Home Administration

Federal Land Banks



Life Insurance Companies

Commercial Banks



Individuals and Commercial Loan Companies

TEXAS AGRICULTURAL EXTENSION SERVICE

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SOURCES OF FARM CREDIT IN TEXAS

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FARM CREDIT is a necessary tool of modern agriculture, and its importance is certain to increase as agriculture becomes more commercialized.

Farm credit can be divided into two general types, according to the length and purpose of the loan. Loans secured by real estate mortgages are referred to as *long-term loans*, while those secured by other collateral are known as *short-term loans*.

A farmer just starting in business or one who is increasing his operations substantially probably will need both long and short-term credit. He will need long-term mortgage credit to purchase land and may need short-term loans to buy equipment, livestock, feed, seed and fertilizer.

Intermediate-term loans often are considered a third type. These loans are used to finance equipment, machinery and other production items with their use extending over more than one production period. In discussing sources of farm credit in this leaflet, however, all loans not covered by real estate will be designated short-term loans.

SOURCES OF LONG-TERM LOANS

Life insurance companies have increased their volume of loans on Texas real estate in recent years. These loans provide for amortization payments and usually are made for 10 to 20 years. Loan

limits ordinarily are set at 60 percent of the appraised value of the farm. Insurance companies are relatively liberal in their evaluations. They held 42.1 percent of the farm mortgage debt outstanding in Texas in 1954.

Individuals and commercial loan companies ranked as the second largest source of long-term credit holding 27.1 percent of the farm mortgage debt outstanding in Texas in 1954. Those who sell their farms often take first or second mortgages for part of the purchase price.

Federal land banks make loans on farm land through national farm loan associations. These associations are farmer-owned cooperative credit agencies. They make loans on an amortized repayment plan, usually for 20 years or longer with provision for optional advance payments without penalty. Loans are made up to 65 percent of the appraised long-term agricultural value of the land. Land banks are relatively conservative in their evaluations.

Borrowers become members of the local national farm loan association and buy stock in them equal to 5 percent of their loan. This is, however, the borrower's money and is returned when the loan is paid or is used to cancel the last 5 percent of the debt. The Federal Land Bank of Houston held 21.9 percent of the farm mortgage debt outstanding in Texas in 1954.

Commercial banks are a convenient source of long-term loans to farmers. The farmers' local bank can provide fast and personal loan service. The interest rate and length of loan vary considerably among banks, depending on the policy that each bank follows. Long-term loans are available on an amortized basis. The usual limit placed on the amount loaned on real estate

is 50 to 70 percent of its appraised value. Commercial banks held 5.5 percent of the farm mortgage debt outstanding in Texas in 1954.

The Farmer's Home Administration is a federal agency with funds appropriated annually by Congress. Loans are available only to farmers who cannot obtain credit from the usual sources. Borrowers are expected to refinance with some other credit agency when debts decrease sufficiently to enable them to do so.

The amount loaned is liberal in relation to the normally appraised value; it may be as high as 90 to 100 percent. The maximum period for which loans are made is 40 years. The Farmers' Home Administration held 3.4 percent of the farm mortgage debt outstanding in Texas in 1954.

Relatives or friends are another class of individual lenders. Persons with money to invest sometimes make personal loans on farm real estate mortgage security. The period of the loans and other terms vary greatly.

SOURCES OF SHORT-TERM LOANS

Short-term farm credit normally is needed to buy necessary equipment, livestock, seed, feed and fertilizer. These loans often are called *production loans* and are important because they furnish the operating capital so vital to a successful farm enterprise.

Local banks are the largest source of short-term farm credit. They know the particular needs for farm credit in their community and can act promptly on applications for short-term farm credit.

Production credit associations are farmer-owned credit cooperatives usually making loans for 1 year with possibilities for renewal or extension. Repayments are budgeted to the time of the expected income. Borrowers become members and must buy stock equal to 5 percent of their loan.

The Farmers' Home Administration makes loans up to 7 years for the purchase of livestock and equipment, for land improvements and for repairs and improvements to the farm buildings and within the home. These loans are available to farmers who cannot finance by other means at reasonable rates.

Merchants and dealers are entering the farm-credit field more and more as sources of credit covering periods from 1 to 3 years. Much machinery and other farm supplies are sold on the installment plan. Time or installment purchases sometimes are necessary but they should be avoided if credit is available from the usual sources. The cost to the merchant in handling accounts may be reflected in a higher price on the products he sells or a higher interest or carrying charge.

REQUIREMENTS FOR PROPER FINANCING

I. You should have some money or property of your own; probably, one-third of the required investment.

II. Your own money enables you to establish an equity, and it will be difficult, if not impossible, to borrow without this equity.

III. You will need to provide security even though your business plans indicate ability to repay the loan.

IV. Know your total credit needs for essential purchases during, at least, the first year of operation, as well as your original expenses.

V. Consider the future and do not assume a debt load that could become burdensome and dangerous under less favorable farming conditions.

VI. You should be able to show that with the loan you can make enough income, above living and farm operating expenses, with which to repay it.

ESTABLISHING A SOUND FINANCING PROGRAM

I. Contact your county agricultural agent and discuss your plans with him. He can help you locate representatives of the various credit organizations in your area.

II. Get acquainted with the lending officials and let them know your plans. They are in the business of selling credit and you are a prospective customer who expects to pay a fee for the use of the money borrowed. You have no reason to feel apologetic in asking for an interview.

III. Show the lending official how the loan will enable you to make enough above living and operating expenses to repay it during the time for which it is requested. If it seems sound for you, chances are it will be for the lender; but he's the one to determine this.

IV. Shop for credit the same as you would in buying a farm or a piece of farm equipment. Look for the following features in borrowing money.

A. In short-term or production loans:

Dependable source--credit in bad times as well as good.

Interest payable on unpaid balance rather than original amount of loan.

Repayment schedule geared to the time of receiving and the amount of your farm income.

Loans based on repayment ability and not on security alone.

A lender who understands your business and is available for prompt service.

B. In long-term real estate loans:

Low interest rate for a long period.

An amortized repayment schedule.

A lender who can give quick service and will be in business for the life of the loan.

A sympathetic lender who understands farming and the hazards of a period of economic depression.

Permission to make extra payments in good times and to pay in full any time.

V. Keep your credit rating good after you have obtained the loan or if you already are farming on borrowed money:

A. Meet payments promptly. If you cannot meet a payment on time inform the lender in advance and tell him the circumstances that prevent it.

B. Use the loan only for the purpose for which it was borrow-

ed unless you get approval from your creditor for other use.

C. Take an annual inventory and keep a yearly record of farm receipts and expenses. A book for this purpose, with provision for an annual inventory, is available from your county agricultural agent. Ask for *B-239 Texas Farm and Home Record Book*.

D. Make a "credit statement" at the end of each year showing your resources, liabilities and net worth. Forms for this also are available in the farm account book.

E. Use your credit statement to keep your creditor informed of financial progress. A comparison of net worth one year with the next indicates this.

F. Use your receipt and expense records in preparing budgets to show the effect of proposed changes in operation for which a loan may be needed.

G. Work out a repayment plan for every loan and do not commit yourself to a schedule you cannot meet.

H. Get your credit from one source when possible.

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