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Agricultural Production Financing

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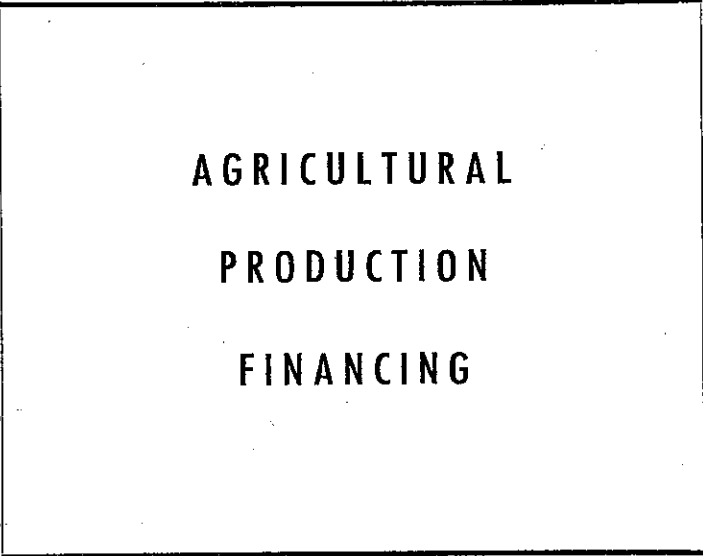
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**AGRICULTURAL
PRODUCTION
FINANCING**

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THE AMERICAN BANKERS ASSOCIATION

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Foreword

The American farmer is a modern business man in the finest sense of the term. He uses a variety of equipment and skills in producing crops, livestock, livestock products, and in the care of his land. Because of great progress in recent years, the successful farmer today must have more knowledge and a greater degree of skill than ever before to apply the results of research to his farm business.

Agriculture has its credit needs just as do other modern-day businesses. This manual will discuss non-real estate types of credit. These differ from credit used for the purchase of a farm or for major capital improvements. Usually capital credit needs are financed by a real estate mortgage or a deed of trust.

Non-real estate (or production) credit is not accurately described by such terms as "seasonal," or "short-term," or "intermediate." Production credit may range all the way from very short term loans for harvesting crops to loans running over a period of two or three years for financing the purchase of breeding stock, installing modern equipment, or carrying out soil improvement practices.

Changes in operations, necessitated by improved production and modern marketing methods, make it increasingly important for farmers to have credit available which is properly adapted to their needs. Lenders realize that production loans are paid out of the income from the farm project being financed.

This manual is designed to assist country banks which are extending sound credit to farmers.

HAROLD STONIER
Executive Manager
American Bankers Association

All forms contained in this manual have been furnished by banks and are intended for illustrative purposes only. In using numerous forms in this manner, there necessarily results a certain amount of duplication of information. The basic forms required should be reviewed by the bank's counsel. Statutory requirements should be fully considered, and the forms should be drawn to cover all possible contingencies.

Banks Are the Largest Institutional Lenders to Agriculture

Banks are the largest institutional lenders to farmers in every state. Of the more than 14,000 banks in the United States, approximately 13,000 make loans to farmers. Banks are concerned with the problems of the business of farming in order that they may lend to agriculture in a more understanding manner.

Agricultural Production Credit

The real function of credit is to assist in placing the tools and materials of production in the hands of those who can make effective and profitable use of them. Banks serve their *communities* when they extend *sound* credit to farmers. Many farmers need credit to produce things people need and use. Thus, agricultural production loans benefit not only the borrower and the bank, but the community as well.

Farming is becoming more and more a specialized business. Soil management programs designed to improve soil fertility, reduce erosion, and increase yields are proving profitable to farmers who participate in them. In order to carry out a soil management program efficiently, farmers find it profitable to increase their use of fertilizer and lime and to use costly machinery and equipment. Often a reasonable period of time will elapse before a farmer will realize a return on his additional investment.

The farmer should have a debt repayment plan adjusted to the particular requirements of his own farm operation. Thus, the amount and terms of credit extended to him by his bank should be based on his type of farming and on his over-all farm plan. A farmer's entire program could well be defeated if his bank were to require repayment of his loans at a rate inconsistent with the expected income. Ninety-day or other short-maturity loans do not coincide with the time required to grow and harvest a crop, feed cattle until ready for market, or raise dairy calves to production age.

It is sometimes difficult to draw a sharply defined line between production credit and credit extended for capital improvements. As farms become more mechanized and the need develops for essential equipment, increased capital investments are necessary. Banks know that loans for soil improvement practices or the purchase of operating equipment can be amortized normally only out of the larger resulting income.

More About Production Loans

Agricultural production loans are classified by most bank supervisory authorities as "other loans to farmers." Often they are referred to as "non-real estate farm loans." These loans finance the growing and marketing of crops; the breeding, raising, fattening, and marketing of livestock; minor farm improvements; purchases of equipment; and all other purposes asso-

ciated with the maintenance or operation of farms.

Crop production loans are considered short-term since they are made for the production of specific crops, and repayment is expected when the crops are marketed. On the other hand, livestock loans and loans for improvements often require repayments extending for more than one year. An example of production financing, repayment of which will often extend over several years, is the purchase of a dairy herd.

Production loans must of necessity be tailor-made to fit each individual situation. Both the bank and the farmer should have a clear understanding of what the loan proceeds will be used for and how and when the loan will be repaid out of resulting income.

Quite often an initial loan scheduled to be repaid over several years may need to be modified as loan adjustments are made for various operating reasons, new loan advances, or changed farm operating plans.

Basic Farm Management Factors

Certain basic farm management factors influence the ability of a farm business to produce income and thereby contribute to good repayment ability on the part of the farmer. Among the more important are:

1. **Adequate Size of Business**—The farm business should be of sufficient size to make efficient use of labor and equipment. It should enable the farmer to obtain a living for his family, pay his overhead costs, repay his production loans, and add to his net worth each year.
2. **High Production and Good Yields**—A good farmer will keep abreast of improved operating methods and use good seed, new plant varieties, properly balanced fertilizers, improved breeding stock, and labor-saving machinery and methods.
3. **Low Production Costs**—Increased costs of labor, machinery, and other items require a farmer to be cost-conscious.
4. **Labor Efficiency**—The increased cost of labor makes it necessary for the farmer to utilize his manpower efficiently. Labor-saving and better planning of farm operations are musts.
5. **Complete Farm Plan**—A successful farm operation calls for a well-rounded plan that will use every acre for its best adapted purpose. Often-

times the plan will be tied in with a farm program outlined by the county agricultural agent and by the soil conservation supervisor.

6. **Managerial Ability**—Good management calls for business planning on the part of the farmer. Labor and equipment must be used with maximum efficiency.
7. **Diversity or Balance of Business**—It pays to have a properly diversified or well-balanced farm business. This usually means from two to four important products to sell and enough of each one to allow efficient operation and production.
8. **Prices for Products Sold**—Keeping up to date on agricultural outlook information and careful planning of the farm operations in line with prospective prices of farm products and farm supplies is important.
9. **Marketing**—Careful attention should be given to market reports. The condition and preparation of products, to conform to market demands, influence the prices received.

Production Loans and Public Relations

Since agricultural production loans are an important part of the business of a bank, the bank can afford to give considerable time and thought to serving its farmer-customers well. Intelligent public relations demand that banks merchandise their services aggressively and cultivate new business sources. In the field of farm lending it is essential that a bank contact farmers on the farm. For this purpose many banks use officers, directors, or other members of their staff while others have outside farm representatives trained in agriculture. There are many advantages to be gained by the bank with an outside-the-bank farm program. Information, important to the bank in properly extending credit to farmers, can best be obtained at the farm—not at a desk in the bank.

The identity of some of the banks now conducting successful farm programs, and suggestions on how to start or improve an outside-the-bank farm program may be obtained by writing the Agricultural Commission of the American Bankers Association at 12 East 36 Street, New York 16, New York.

The Need for Adequate Agricultural Production Credit Information

A sound lending policy calls for full information about the borrower and his business. Banks having adequate data will turn down fewer good loans and make fewer bad ones and thus avoid much trouble with loan collection. Complete individual credit information will be of real value if economic conditions ever make it necessary for banks to discount or borrow on their farm paper.

For Loaning Officers and Directors

The bank's officers and directors should know all about the farmer, his farm, and his ability to operate profitably. Accurate records are basic in a high-quality farm loan portfolio. The bank should have in its credit file information regarding the three C's of credit; namely, the character, capacity, and capital of the farmer. In addition, the bank should have information about the state of health of the applicant and members of his family, the contemplated use of farm income for outside purposes such as the education of children and support of parents, and similar facts. A photograph is often good credit information as it will tell at a glance if the farmer is a good "housekeeper." All such information should be organized so as to be available immediately when needed.

For Examiners

Adequate credit information is also important to the bank examiner. Full information about a loan is an indication that the officers and directors have carefully investigated the borrower and his business before granting the loan. The examiner can evaluate the

individual loans only if complete information is maintained in the credit files. Sound loans may be criticized due to a lack of sufficient credit information in the files. Much time can be saved during the examination if the examiner can find the facts in the credit file.

Advantages to Farmers

Financial and operating data help the farmer obtain the credit he requests. These facts are a history of how well he conducts his business. Farmers need such records for income tax and Social Security returns and to provide a basis for analyzing their business. They are growing more record-conscious and will welcome any assistance their bank can provide to help improve their records.

County agricultural agents and others in the extension field are encouraging farmers to keep better records of their farm operations. Farm account books have been developed by nearly all state colleges of agriculture. Many banks are making these farm account books available to their farmers free of charge. Bankers should not only urge their farmer-customers to use these farm account books, but first make sure they themselves are thoroughly familiar with what is inside them so as to be able to both explain the book to the farmer and to know what information to look for and where to find it when a farmer brings in his account book. Improved farmers' records will ultimately build up better and more accurate credit files in the bank. In this connection it is worthwhile to show the farmer how he can use his checking account to complement the farm account book.

When a Farmer-Customer Seeks Credit

When a farmer comes into the bank seeking credit, he should sense that the bank is interested in his business and is equipped to provide the service he needs. Once he is assured that the bank's officers or its farm representative understand and are sympathetic to his problem, it will be easy to follow the other procedures essential in advancing sound credit.

Procedure in Making Agricultural Loans

1. As the farmer is making known his credit needs, many banks find it desirable to fill out an application form or the application section of a financial statement.
2. If initial conversation and application information indicate the possibility of closing a loan, then obtain a credit statement and at least a listing of his more important receipts and expenses.
3. Become thoroughly acquainted with the farmer's plans for the coming year.
4. Help the farmer prepare a budget of anticipated expenses and income and a schedule of advancing the credit as needed.
5. Develop a repayment plan for the loan.
6. After analysis, three alternatives are available:
 - a. If collateral descriptions are available, secured as well as unsecured loans can be closed promptly.
 - b. If necessary, submit available data to the loan committee for its action.
 - c. Investigate further.
 1. Visit the farm.
 2. Check his reputation for paying debts.
 3. Check the public records for all liens.
7. Close the loan or submit it to the loan committee for its final action.
8. Final action.
 - a. Arrange insurance coverage.
 - b. Promptly file or record lien instruments (if any).
 - c. Organize and complete the credit file.

If a loan is declined, the farmer should be advised why his application was not acceptable to the bank.

Loan Application

Good public relations require that banks give sincere consideration to the applications of all prospective borrowers. If the applicant has borrowed before, the permanent credit file containing information about the farmer, the farm, and the farm production program should be consulted. A new application for a loan is simply a continuation of the records about the farmer and his farm and it should be placed in a permanent credit file. If the application is from a farmer not previously a customer of the bank, a new

credit file for reference should be established regardless of whether or not the request is approved.

If the loan applied for is reasonable and for a sound purpose and if the application can be approved, then a loan designed to fit the particular case should be closed without delay.

If the application is not acceptable, it should be declined promptly but courteously. If the borrower's problem is one that might be solved by means other than bank credit, it is good public relations to refer him elsewhere. If loans are declined, or are submitted to the loan committee or board of directors for approval and then declined, be sure that the borrower understands the reasons for whatever action was taken.

Occasionally every bank receives applications which, for one reason or another, must be held "pending" before final action is taken. An alphabetical pending file should be the central holding place for all such papers in order that any one in the bank can quickly locate them should the applicant come in at a time when the original interviewer is out of the bank. An applicant will get a poor impression of the bank's efficiency if he watches some one fumble over papers on several desks.

Application Form

The application form itself need not be complicated or involved. (See Application Forms Nos. 1 and 2 on pages 8 to 10.) In every case it should state the amount of credit requested, the purpose for which funds are needed, the proposed plan of repayment (see discussion of Repayment Plan on page 11), and what security, if any, the prospective borrower offers. This information constitutes the application and should become a permanent part of the credit file. For simplicity, the application can also be a part of the financial statement.

Types of Loans

Budget Loans. A farmer's loan application will provide an opportunity to discuss with him the type of loan best suited to his needs. If the loan is for producing, harvesting, and marketing a crop, a budget-type loan is usually advisable.

In budget-type loans, advance commitments are made by the bank which assure the borrower that funds in specific amounts will be available as needed. Borrowers are thus assured of a supply of credit in advance and pay interest on the outstanding balance. Repayment terms, collateral (if any), and other conditions are agreed upon before the loan is approved. Such loans are tailored to the business of farming and permit the bank to review the borrower's credit needs for the entire season before any commitment is approved. The loan funds are disbursed as needed and are repaid as crops and livestock are marketed. (See Budget-Plan Note Forms Nos. 3 and 4 on pages 12 and 13.) The budget-type loan review or analysis should become a part of the credit file.

Form No. 1—Application for a Loan (front)

APPLICATION FOR A LOAN

1. The undersigned, JOHN BORROWER Address SHELBYVILLE R. R. No. 3
 2. Age 23 Married YES Name of wife JULIA No. of dependents _____ Help available for farm work _____
 To NATIONAL STATE Bank SHELBYVILLE, INDIANA City and State

For the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named bank, for claims and demands against the undersigned, the undersigned submits the following as being a true and accurate statement of the financial condition of the undersigned on the following date, and agree that if any change occurs that materially reduces the means or ability of the undersigned to pay all such claims or demands, the undersigned will immediately and without delay notify the Bank; and unless the Bank is so notified, it may continue to rely upon the statement herein as a true and accurate statement of the financial condition of the undersigned on this date, and in case of failure to so notify the Bank, or if this statement is false in any material respect, the Bank may declare due and payable all obligations of the undersigned to the Bank.

ASSETS			LIABILITIES		
	Dollars	Cts.		Dollars	Cts.
Cash on hand and in bank		150 00	Personal Notes		
Loans due me, secured			Holder <u>UNION BANK</u> Due <u>Now</u>	3 500	00
Loans due me, unsecured			Orig. Amt. \$ <u>3,500</u> Date Contracted <u>1949</u>		
Accounts due me	100	00	Holder _____ Due _____		
Cash value of insurance policies			Orig. Amt. \$ _____ Date Contracted _____		
Stocks and Bonds			Title Retention Notes <u>AUTO</u>		
Live stock (see schedule)	3 500	00	Holder <u>UNION BANK</u> Due <u>2900</u>		
Grain and farm products (see schedule)	375	00	Orig. Amt. \$ <u>1,400</u> Date Contracted <u>1949</u>	780	00
Growing Crops (see schedule)			Holder <u>UNION BANK</u> Due <u>600</u>	600	00
			Orig. Amt. \$ <u>700</u> Date Contracted <u>2/49</u>		
Total Quick Assets	4 125	00	Chattel Mortgages		
Tractor No. _____ \$ _____			Holder _____ Due _____		
Implements (see schedule)			Orig. Amt. \$ _____ Date Contracted _____		
Truck No. <u>1</u> \$ <u>JEEP</u>	600	00	Holder _____ Due _____		
Auto No. <u>1</u> \$ <u>BUICK</u>	1 900	00	Orig. Amt. \$ _____ Date Contracted _____		
Farm Real Estate—Tract I—Acres <u>131</u>	39 300	00	Judgments, Attachments and Legal Proceedings		
Title In <u>JOINT WIFE</u>			Store and Open Accounts		
Farm Real Estate—Tract II—Acres _____			Past due Income Taxes (Federal and State)	952	00
Title In _____			Past due taxes (Property)		
Farm Real Estate—Tract III—Acres _____			Past due Cash Rent		
Title In _____			Past due Real Estate Interest	5 832	00
Other Real Estate—Kind _____			TOTAL CURRENT LIABILITIES		
Title In _____			Real Estate Mortgages		
(Indicate Life Estates, R. E. Purch'd under contract, etc.)			Holder <u>EMMA HOLY</u> Due <u>1954</u> Rate <u>4</u>		
Total Value Real Estate			Tract(s) Orig. Amt. <u>17,500</u> Contr'd <u>10/49</u>	17 500	00
TOTAL ALL ASSETS	45 925	00	Holder _____ Due _____ Rate _____		
			Tract(s) Orig. Amt. _____ Contr'd _____		
			Holder _____ Due _____ Rate _____		
			Tract(s) Orig. Amt. _____ Contr'd _____		
			Total Real Estate Indebtedness	23 332	00
			TOTAL ALL LIABILITIES	22 593	00
			NET WORTH	45 925	00
			TOTAL	45 925	00
Totals - - - - - \$ _____			Notes Endorsed for Others <u>SON TRUCK</u> Total Amt. \$ <u>1,250.00</u>		

LIFE INSURANCE			
Name of Company	Beneficiary	Amount	Cash Value
<u>FARM BUREAU</u>	<u>WIFE</u>	<u>5000.</u>	

PURPOSE OF LOAN AND PLAN OF LIQUIDATION

Date	Purpose of Loan and Sources of Receipts	Amounts of Advance	Estimated Receipts	Outstanding Balance
<u>Now</u>	<u>PAY UNION BANK \$3,500. PLUS INT. \$105.</u>	3 605 00		
<u>"</u>	<u>OPEN ACCOUNTS</u>	957 00		4 562 00
<u>"</u>	<u>SPRING OPERATING EXPENSES</u>	300 00		4 862 00
<u>DEC. 1, 1951</u>	<u>SALE OF CORN & BEANS</u>		2 900 00	1,662 00
	<u>BAL. RENEWED</u>			

PROPERTY TO BE GIVEN AS SECURITY FOR THIS LOAN

WIFE TO SIGN
PREFER OPEN; WOULD GIVE CHATTEL ON IMPLEMENTS

10. The information set forth in the financial statement and other representations are full, true and correct. I am in peaceful possession of the above property and am the sole and absolute owner thereof except as indicated.

Date JAN. 10, 1951 Signed John Borrower
 Form 10-A Copyright © Chafee Supply Co., Shelbyville, Ind. 1950 Signed _____

Reverse Side of Form No. 1

X INCLUDE IN MORTGAGE

LIVE STOCK				GRAIN AND FARM PRODUCTS					
X No.	Implements	Make	Condition	Full Value	X No.	Implements	Make	Condition	Full Value
10	Milk Cows	JERSEY	@	350.					
	Calves	@			45	acres corn			75 Bu.
	Heifers	@				acres barley			
	Heifers	@			15	acres wheat			23 Bu.
	Bulls	@			15	acres oats			40 Bu.
	Beef Cattle	@				acres meadow			
	Feeding Cattle	@			30	acres clover			
	Stockers	@				acres alfalfa			
	Brood Sows	@			10	acres soy beans			20 Bu.
	Pigs with Sows	@				acres			
	Feeding Pigs	@				Totals			
	Shoats	@				On Hand			
	Boars	@			100	bus. corn	@ 1.25		125 00
	Hens	Turkeys	@			bus. barley	@		
	Ewes	@				bus. wheat	@		
	Lambs with ewes	@				bus. oats	@		
	Bucks	@				tons hay	@		
	Feeding Lambs	@			10	tons clover	@ 25.00		250 00
	Totals			3,500 00		tons alfalfa	@		
						tons soy beans	@		
						Totals			375 00

FARM MACHINERY AND EQUIPMENT

X No.	Implements	Make	Condition	Full Value	X No.	Implements	Make	Condition	Full Value
	Truck—Motor No.								
	Auto—Motor No.								
1	Tractor—Motor No.	SILVER KING	Good	1,800 00	1	Combine	GLEENER, 10 FT.		1,600 00
1	Tractor—Motor No.	COOP.	"	1,000 00	1	Corn Binder			
2	Tractor Plow	2-14 IN BOT.		250 00	1	Corn Picker	WOODS		4,000 00
2	Tractor Cultivator	S. KING & COOP.		250 00		Ensilage Cutter			
	Breaking Plow(s)				1	Manure Spreader	TRACTOR, BRADLEY		350 00
1	Disc	COOP.		150 00	1	Mower	TRACTOR, BRADLEY		250 00
1	Corn Planter	D. BRADLEY		100 00	1	Rake	SIDE DEL., BRADLEY		250 00
1	Drill	WOODS BROS.		300 00		Miscellaneous	TOOLS		300 00
	Cultivators				1	GRAIN ELEVATOR	HOLTZ		500 00
1	Rotary Hoe	SOIL FITTER		125 00	1	FEED MILL & MOTOR ELEC.			150 00
1	Cultipacker	DUNHAM		50 00		MILK EQUIPMENT			200 00
	Harrows								
2	Wagon	STEEL BEDS & RUB. TIRES		400 00					
	Carried Forward			4,225 00		Total Farm Machinery and Equipment			9,025 00

Insurance carried on buildings - - - - \$ 10,000. I rent _____ acres from _____ Basis.

Insurance carried on Live Stock - - - - \$ 3,000. My Farm Lease terminates _____

Insurance carried on Machinery, Implements - \$ 5,000. I rent _____ acres from _____ Basis.

Liability Insurance on Automobiles, etc. - - \$ 10-70 My Farm Lease terminates _____

Employed By DIRECTOR FARM BUREAU No. years 5 Salary 280 YR.

Wife Employed By _____ No. years _____ Salary _____

ADDITIONAL INFORMATION

References

SEE ANALYSIS

ACTION OF LOAN COMMITTEE

Approved for \$ _____ Additional Advance \$ _____ Date _____

Remarks _____

NATIONAL STATE BANK OF MIAMISBURG, OHIO

APPLICATION FOR LOAN

Name John Doe Date January 19, 1951

Address R. R. #1, Miamisburg, Ohio Telephone 6-3746

Business Farmer

Products Live Stock and Grain

Amount \$ 1000.00 Time 6 Months Rate 5½ %

Collateral or Security _____

Chattel Mortgage on Live Stock and
Farm Equipment

Reason for Borrowing _____

To purchase grain for feeding program
now in progress

To be Paid _____

To be paid in full from sale of Live Stock

Past Experience Good

Recent Loans 2-15-50 & 6-10-50

Remarks _____

Applicant is a good operator, rents farm
of 150 acres on a 50-50 basis on Live Stock
and Grain

Reasons for failure to carry out Original Loan Agreement—Officer's Comment _____

Last Financial Statement To date

Officer E L R

Number _____

(Use reverse side for additional information, if necessary)

Estimated Advances and Anticipated Returns for a Budget-Type Loan

The following plan was submitted to a bank by a farmer in connection with an application for a budget-type loan.

Month	Advance Purpose or Repayment Source	Amount Advanced	Anticipated Returns	Balance Outstanding
March	Operating expense	\$ 500	\$	\$ 500
April	Fertilizer	100		600
June	Sale of hogs		300	300
July	Harvesting expense	150		450
Sept.	Steers	700		1,150
October	Sale of wheat		200	950
January	Sale of steers		1,000
TOTAL		\$1,450	\$1,500	

In the above illustration the credit was advanced as the funds were needed, and repayments were made from the sale of farm products. Total interest charges were considerably less than if the entire \$1,450 had been borrowed for the ten-month period. (See Form No. 5 on page 14 for a sample budget-plan schedule of advances for a specialized operation.)

Monthly Payment Loans. A farmer may need a loan for the purchase of equipment to be used in a dairy operation or other farm enterprise from which a regular monthly income is derived. The most suitable type of loan then would be an amortized loan with monthly payments. Many times a farmer buying a tractor or other equipment needs a combination payment plan—monthly payments from dairy income and payments from salable crops at harvest time.

Wide-awake banks find ways and means of modifying their usual types of loans to meet the needs of good farmers with special problems. Banks should have several types of loans available which can be adjusted to meet the particular needs of the individual farmer. There are, of course, many specialized types of loans, but no attempt has been made to discuss them here.

Repayment Plan

Operating loans should be paid out of operating income. Every loan should have a pay day.

A definite plan of repayment should be agreed to by the lender and the borrower. Certain basic principles of sound lending policy should be given consideration. They are as follows:

- (1) Since every loan is for a specific purpose, the repayment terms of each loan should be in line with operating income and the time when it will be available.

If loans are made for crop purposes, the proceeds from the sale of the crop should be applied to retire the loan. Many banks finance equipment such as tractors, combines, balers, etc., for periods ranging to

thirty-six months, or three harvest seasons, even though the equipment might be serviceable over a much longer period of time.

- (2) Loan plans should take into consideration seasonal variation in the borrower's income.

Many times it is impossible for a borrower to adhere to a fixed or rigid repayment schedule. It is much better to vary the size of monthly payments on a loan than to obligate the borrower to a repayment schedule which will necessitate his asking for extensions or deferments.

- (3) Installments and maturities should be arranged to conform to periods of expected income.

In dairy areas, notes should provide for payment soon after the date on which the monthly check will be received. Notes made to comply with identical standards may be unreasonable in many instances. Such requirements usually produce a loss in loan volume and a dissatisfied and disgruntled farm population when borrowers discover other competing sources of credit offering terms more in conformity with their business needs.

- (4) Loans should be amortized on a plan adapted to the borrower's ability to repay.

The loan contract should permit the borrower to repay faster than is called for in the contract. Loans made during periods of high income should provide for rapid repayment until reduced to an amount that can safely be carried during times of lower farm income. In setting up any special payments, there should be reasonable assurance that the borrower can meet them.

- (5) Written terms of the note should conform to the repayment schedule agreed upon.

A farmer borrowing \$1,000 to be repaid in 12 monthly installments of \$100 should sign a twelve-month installment note to conform with the repayment agreement.

Form No. 3—Budget-Loan Note (front)

Form 166 1M 2-51 FH
 \$ 2,500.00 Greensboro, North Carolina, FEBRUARY 15, 1950 No. 301

This note is to be repaid as follows:
 \$ 1,000.00 NOVEMBER 1 1950,
 \$ 1,500.00 NOVEMBER 15 1950,
 \$ _____ 19____, \$ _____ 19____.

The undersigned, hereinafter called the Borrower (whether one or more), jointly and severally promise to pay, in accordance with the schedule of repayments above stated, to the order of NATIONAL STATE BANK, hereinafter referred to as the Bank, at its principal office in Greensboro, North Carolina, for value received, the sum of TWENTY-FIVE HUNDRED Dollars (\$ 2,500.00), with interest on each advance until paid at the rate of 11 1/2 per cent (11 1/2%) per annum.

Such sum shall be advanced to the Borrower in accordance with the schedule of advances stated on the reverse side hereof. Upon default in the payment of any installment, or interest thereon, at the maturity date thereof, all of such installments shall, at the option of the Bank, become immediately due and payable without notice.

This note is secured by a crop lien, mortgage, deed of trust, or other instrument, dated _____, executed and delivered by the Borrower to the Bank.

The Borrower and all sureties, indorsers, and guarantors hereof hereby jointly and severally waive presentment for payment, demand, notice of non-payment, notice of protest, and protest of this note, and consent to any and all extensions of time, renewals, waivers, or modifications that may be granted or allowed by the Bank with respect to the payment or other provisions hereof.

Witness the hand and seal of the Borrower.
 Witness: John Borrower (SEAL)
 _____ (SEAL)
 _____ (SEAL)
R# 9 - Greensboro, N.C. (SEAL)
 Address of Borrower

No. _____ Date _____
 \$ _____
 Address _____
 Address _____
 Phone _____
 Phone _____
 \$ _____
 Original Amount

Size 4" x 11"

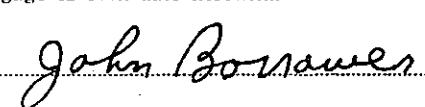
Reverse Side of Form No. 3

JOHN BORROWER R# 9 - GREENSBORO, N.C. Note No. 301
 Name of Borrower (Type) Address of Borrower (Type)

SCHEDULE OF ADVANCES				REPAYMENTS		
(1) DATE TO BE MADE	(2) AMOUNT	(3) DATE MADE	(4) DATE	(5) AMOUNT	(6) BALANCE	
<u>IMMEDIATELY</u>	<u>\$ 900.00</u>	<u>2-16-50</u>			<u>900.00</u>	
<u>3-1-50</u>	<u>250.00</u>	<u>3-1-50</u>			<u>1,150.00</u>	
<u>3-15-50</u>	<u>500.00</u>	<u>3-15-50</u>			<u>1,650.00</u>	
<u>4-15-50</u>	<u>300.00</u>	<u>4-15-50</u>			<u>1,850.00</u>	
<u>6-1-50</u>	<u>550.00</u>	<u>6-1-50</u>			<u>2,500.00</u>	
			<u>9-20-50</u>	<u>400.00</u>	<u>2,100.00</u>	
			<u>10-2-50</u>	<u>650.00</u>	<u>1,450.00</u>	
			<u>10-16-50</u>	<u>875.00</u>	<u>675.00</u>	
			<u>11-1-50</u>	<u>500.00</u>	<u>175.00</u>	
			<u>11-12-50</u>	<u>175.00</u>	<u>0.00</u>	
CHATELLE	\$ 1875.00					
TRACTOR AND EQUIPMENT	\$ 1650.00					
REAL ESTATE	\$ 1475.00					
CROPS (✓)	\$ _____					
	<u>\$ 4950.00</u>					

Size 4" x 11"

Form No. 4—Budget-Loan Note

BUDGET LOAN		John Borrower R. R. 3 Shelbyville, INDIANA	
Note Number	91693		
Due Date	December 15, 1950		
\$	2,794.00	SHELBYVILLE, INDIANA,	March 7 19 50
On or before <u>December 15</u> 19 <u>50</u> for value received, I (or we, and each of us) promise to pay to the order of The NATIONAL STATE BANK, Shelbyville, Indiana, negotiable and payable at the office of the payee,			
Two Thousand Seven Hundred Ninety-Four and no/100 ----- Dollars, and attorney's fees and without any relief whatever from valuation or appraisal laws of the State of Indiana, with interest at the rate of <u>SIX</u> per cent per annum from date of disbursement until paid.			
In case of failure to perform any of the terms or conditions of any mortgage securing said indebtedness, the entire balance of principal and interest shall, at the option of the holder hereof, be immediately due and payable.			
The makers and endorsers severally waive demand, presentment for payment, protest, notice of protest, and notice of non-payment of this note. This note is secured by a chattel mortgage of even date herewith.			
 _____ _____			

Date	Principal		Balance
	Disbursements	Repayments	
Mar. 7, 1950	1,507.00		1,507.00
APR. 3, 1950		700.00	807.00
MAY 1, 1950	200.00		607.00
MAY 3, 1950	DRAFT 1,087.00		2,094.00
AUG. 24, 1950		200.00	1,894.00
AUG. 29, 1950		200.00	1,694.00
SEPT. 27, 1950		200.00	1,494.00
OCT. 9, 1950		300.00	1,194.00
NOV. 13, 1950		200.00	994.00

Schedule of Payments		
Date Due	Amount	
May 1 '50	500	00
Aug. 1 '50	600	00
Nov. 1 '50	125	00
Dec. 15 '50	300	00
Balance Renewed if approximate schedule made.		

Size 6 3/4" x 8 3/4"

LIBRARY
THE AMERICAN BANKERS ASSOCIATION
815 CONNECTICUT AVE., N. W.
WASHINGTON, D. C.

SCHEDULE OF ADVANCES

ESTIMATED ADVANCES TO PRODUCE CROPS TO BE MORTGAGED FOR SEASON 19 51.

Submitted to NATIONAL STATE BANK by John Borrower April 21, 1951
 In connection with application for Crop Production Loan.

Crop and Variety Tomatoes Number of Acres 110
(Make separate schedule for each crop, summarizing all schedules on Form CR 26)

Land Planted Last Year To 70 acres alfalfa, 40 acres tomatoes, 2nd yr. Age of Planting Years.

MONTHS	April	May	June	July	August	Sept.	Oct.	Nov.	TOTAL
Cover Crop									
Preparing Seed Bed									
Seed and Seeding	550								550.00
Pruning and Thinning		1100							1,100.00
Spraying and Dusting	330	330	330	330					1,320.00
Irrigation—Labor	154	154	154	154	154				770.00
Water	264	264	264	264	264				1,320.00
Cultivation	138	138	137	137					550.00
Hoeing			440	440					880.00
Fertilizer				660					660.00
Living expenses	150	150	150	150	150				750.00
SUBTOTAL	1586	2136	1475	2135	568				7,900.00
Picking and Harvesting						10,000	9,800		19,800.00
Sacks or Containers									
Hauling									
Living expenses						150	150		300.00
SUBTOTAL						10,150	9,950		20,100.00
TOTAL	1586	2136	1475		568	10,150	9,950		28,000.00
Anticipated Crop Returns	80% share					10,000	15,000	Nov. 10,200	35,200.00

Preharvesting Advances - - - Per Acre \$ 65.00

Harvest and Delivery Advances - Per Acre \$ 180.00 Per Unit \$ 9.00

Prod. 20 tons per acre - 2200 tons

NOTE: At top of vertical columns fill in the months in which advances are to be made. The same or similar operations extending over several months may be combined in one column headed with the months included.

CR 26 (2-42)-2M-2-44-(77102)

Credit Investigation

Unless the bank already is well acquainted with the applicant, his credit standing should be checked before a loan is granted. The bank's record of experience with the farmer, or other banks or lending agencies are the best sources of information. Others are machinery dealers, feed merchants, the general storekeeper, garages, and the family doctor. The result of such an investigation is confidential and should be recorded on a comment sheet and filed in the credit file. Such a form should have ample space for comments by the investigator. (See Form No. 6 on page 16.)

Another way of checking on information reported by the borrower is to examine the public lien record. Some banks have developed forms to list unsatisfied liens, thus providing for the information to become a permanent part of the farm credit file for the loaning officer's future use. These abstracts can be supplemented or extended whenever an accurate history of creditor liens is needed. (See Form No. 7 on page 17 for a Certificate of Search.)

Care should be taken when getting credit information from an applicant to explain just what is meant by "lien." Many borrowers have unintentionally made inaccurate statements because they were more familiar with such terms as "property notes," "secured notes," and "chattel mortgages" than the word "lien."

Agricultural Financial Statement

A sound farm lending program cannot be conducted without the use of a periodic farm financial statement from each borrower. A credit statement embodies the basic information on which all requests for credit should and must be predicated. A loaning officer is limited in basing his judgment or opinion in connection with an application for credit if he does not have a financial statement.

A complete financial statement can usually be obtained when the application is being discussed with the farmer in the bank. Sometimes, however, it may be necessary or desirable to ask the farmer to bring in his farm account book or other financial records. (See Form No. 8 on pages 18 and 19. The agricultural financial statement shown has been designed by the A.B.A. Agricultural Commission after studying numerous statements now in use by banks. Copies of this form may be obtained by writing the A.B.A. Agricultural Commission, 12 East 36 Street, New York 16, N. Y.)

Subsequent financial statements should be required annually. The best time to obtain an annual statement is at the end of the farm year. Such statements are usually more informative if completed by the farmer.

Farmers often need assistance in making and in using financial statements in connection with their request for credit. Once they become aware of the value of an annual financial statement, not only for the bank but for their own use, the task of obtaining a periodic statement becomes progressively easier.

Operating Statement

Banks should obtain operating statements as often and as regularly as they request financial statements. Many banks think that income and expense statements of farm operations for credit file purposes are difficult to obtain. Operating statements can be obtained readily, however, if farm borrowers are assisted by the bank in preparing such information. Many banks are providing farmers with forms on which such information can be submitted easily. (See Forms Nos. 8 and 9 on pages 19 and 20.)

Since operating loans are made to farmers with the expectation that such loans will be repaid out of farm income, a determination of anticipated income should appear in the credit file. When available periodically, such information becomes fully as important and useful in credit analysis as the information given on a statement of financial condition.

Comparison Statement

Comparison statements completed from information given in annual financial and operating statements submitted by individual borrowers are an important part of the credit file. (See Comparison Statement Form No. 10 on page 21.)

Credit extended to farmers is sometimes criticized by bank directors and bank supervisory officials when loan balances show no lasting reductions. This criticism is often directed against sound loans that are being reduced regularly, but whose reductions are offset by new and justifiable loans.

An analysis of a farmer's credit line may show that he is retiring each loan in accordance with the original agreement, but that he is borrowing for needed repairs or business expansion, or to purchase additional equipment or livestock. The quality of such a credit line cannot be measured accurately by the net loan reduction, but should be measured by the changes in net worth and potential income-producing ability as shown by the comparison statement.

A comparison statement indicates the financial trend of the individual. It can show where the greatest or least progress is being made, and help to provide answers for the reasons behind each change. Trends are often more important than the current financial position.

Z-6-9

COMMENT SHEET

NATIONAL STATE BANK
AUSTIN, MINN.

JOHN DOE
NW $\frac{1}{4}$ - 30-160-75
Route 2, Four Corners, Minnesota

COMMENTS

8-25-47 \$342.00	<u>CSP</u> The subject is a young man 23 years old, eldest son of James Doe. He lives on his father's farm and is renting it on a share basis. His father is a very substantial and outstanding farmer in the community and a valuable customer of this bank. We financed the subject for the purchase of a manure spreader and a 16" plow. His statement showed a net worth of \$16,000.00 with no liabilities.
9-30-47 \$200.00	<u>KML</u> The subject applied \$142.00 on his note. Said his hogs were not heavy enough to sell yet - weight about 175 pounds. He will pay balance of note in thirty days.
10-27-47 0	<u>CSP</u> Subject paid balance of his loan in full.
5-18-48 0	<u>CSP</u> I stopped at the subject's place for a visit. He is farming 245 acres belonging to his father. He has 51 head of spring pigs, 16 milk cows and a nice line of new machinery. He impressed me as being an up-to-date and coming young farmer and I think he is worthy of credit for reasonable amounts. He stated that if his corn crop is good, he plans to buy twenty head of feeder cattle to finish this winter. I am sure if he needs money to finance these cattle we should take care of him.
7-18-48 \$250.00	<u>KML</u> Loaned the subject \$250. for ninety days for the purchase of four Holstein heifers.
10-18-48 0	<u>KML</u> Subject paid the above note as agreed.
10-18-48 \$1500.00	<u>KML</u> The subject purchased twenty head of Hereford steers weighing 600 pounds at eighteen cents. He had \$560.00 of his own money and we loaned him \$1500.00 for 180 days taking as security a chattel on the cattle and enough feed to finish them.
4-20-49 \$1500.00	<u>CSP</u> The subject's feeding operation is doing well. I stopped at his place about three weeks ago and was very pleased at the progress he is making. However, he will probably need another sixty days to finish them. We today renewed his note for that length of time.
6-15-49 0	<u>KML</u> The subject sold his cattle today. Retired his note. He made about a two pound a day gain and had very good success considering this is his first experience in a feeding operation. He advised us that he was contemplating purchasing this farm from his father on a contract and he is now in a position to make him a down payment.
1-29-50 \$1200.00	<u>KML</u> The subject purchased a late model tractor. In order to make complete payment we loaned him \$1200. for five months. He will be able to retire this out of the sale of livestock and his cream checks. He is milking thirty head of Guernsey cows. He has twenty-three hogs that he is fattening.
6-29-50 \$600.00	<u>CSP</u> The subject paid \$600.00 on his tractor note and the balance was renewed for 180 days.

NATIONAL STATE BANK, ROANOKE, VA.

CERTIFICATE OF SEARCH

Date February 9, 1951

Town of Salem County of Roanoke

I certify that I have searched the records for a period of 5 years from the above date and find the following unsatisfied liens against:

Name John Doe Address Salem, Virginia

Kind of Lien	In Favor of	Amount	Description of Property Covered	Date of Lien	Date of Filing
Chattel	First Nat'l Bank	\$ 1,600.00	dairy cattle	5/27/48	5/29/48
C/S/C	Brown Motor Co.	800.00	Farmall A tractor	4/1/50	4/3/50
Judgment	ABC Company	300.00	(J.L.D. 7, Page 35)	6/2/49	6/2/49
Taxes	County of Roanoke, Va.	125.00	150 acres, Salem District	1950	

Search made by John Brown in the office of the Clerk of the Circuit Court of Roanoke County. Search completed—Time 10:00 ~~PM~~ ^{A. M.}

CONTINUED SEARCH

This is to certify that since the above search was made the following personal property liens or encumbrances have been filed or recorded:

Kind of Lien	In Favor of	Amount	Description of Property Covered	Date of Lien	Date of Filing
Chattel	This Bank	\$ 1,200.00	dairy cattle refinancing	2/12/51	2/14/51

Search made by John Brown in the office of the Clerk of the Circuit Court of Roanoke County. Search completed—Time 1:00 ~~PM~~ ^{PM} Date February 14, 1951

Reverse Side of Form No. 8

D LIVESTOCK HELD FOR SALE (Itemize):		E. HARVESTED CROPS HELD FOR SALE (Itemize):	
10 heifers @ \$ 400	\$ 4,000		\$
to be sold fall of 1951			
TOTAL	\$ 4,000	TOTAL	\$

	LAST YEAR			THIS YEAR			MY SHARE THIS YEAR
	ACREAGE	YIELD	GROSS INCOME	ACREAGE	YIELD	GROSS INCOME	
CORN	20	2,000 bu.	Used on farm	20	2,000	Used on farm	
WHEAT							
COTTON							
TOBACCO							
ALFALFA	50	150 T.		50	150 T.		
OTHER HAY							
POTATOES	10	4,000 bu.	\$4,000.-	10	4,000 bu.	\$5,000.-	
FRUIT							
Oats	20		Used on farm	20	Used on farm		
Sweet Corn	2		500	4		\$1,000	100%
DAIRY PRODUCTS			25,000			27,000	
LIVESTOCK			4,500			4,000	
POULTRY PRODUCTS			15,000			15,000	
WOOD PRODUCTS							
LAND RENTAL							
GOVERNMENT PAYMENTS			260			200	
CUSTOM AND OTHER WORK							
OTHER FARM INCOME							
TOTAL			\$ 49,260			\$ 52,200	\$

ESTIMATED EXPENSES					
HIRED LABOR	\$ 12,000	HAY, SILAGE, STRAW	\$	FEEDER LIVESTOCK	\$
FEED	4,000	SPRAY MATERIAL		OTHER LIVESTOCK	
GRAIN		PACKAGES AND WRAPPINGS	600	VETERINARIAN	300
FERTILIZER AND LIME	2,600	NEW MACHINERY & EQUIPMENT	1,500	TELEPHONE & ELECTRICITY	600
FUEL AND OIL	1,200	MACHINERY REPAIRS	1,500	OTHER FARM EXPENSES	5,000
REAL ESTATE TAXES	540	CUSTOM WORK	500		
OTHER TAXES & LICENSES	1,000	NEW BUILDINGS			35,040
SEEDS AND PLANTS	1,200	BUILDING REPAIRS	2,500		

GENERAL STATEMENTS AND INFORMATION	
TITLE TO REAL ESTATE IS IN THE NAME OF <u>Joint with wife</u>	DO YOU KEEP A RECORD OF CASH FARM RECEIPTS AND EXPENSES? YES <input checked="" type="checkbox"/> NO
FARM (OR LEASE) WAS ACQUIRED <u>1940</u>	WIFE'S FULL NAME IS <u>Mary A.</u>
ASSESSED VALUE OF FARM <u>\$ 20,000</u>	WE HAVE <u>3</u> CHILDREN AGED <u>6-11-16</u>
ANNUAL TOTAL TAXES (EXCEPT INCOME TAXES) <u>\$ 540</u>	MY SOIL IS PREDOMINATELY <u>Wooster silt loam</u>
INSURANCE ON BUILDINGS. YES <input checked="" type="checkbox"/> NO <input type="checkbox"/> COVERAGE \$ <u>25,000</u>	I OWN ALL PERSONAL PROPERTY. (IF NOT, EXPLAIN) YES <input checked="" type="checkbox"/> NO
INSURANCE ON LIVESTOCK, EQUIPMENT, & MOTOR VEHICLES. YES <input checked="" type="checkbox"/> NO <input type="checkbox"/> COVERAGE \$ <u>35,000</u>	HAVE YOU PLEDGED FUTURE INCOME? (IF SO, EXPLAIN) YES <input checked="" type="checkbox"/> NO
AUTO LIABILITY INSURANCE. YES <input checked="" type="checkbox"/> NO <input type="checkbox"/> COVERAGE \$ <u>50-100 M</u>	<u>To bank only</u>
HEALTH-ACCIDENT-HOSP. INSURANCE. YES <input checked="" type="checkbox"/> NO <input type="checkbox"/> COVERAGE \$	ARE YOU NOW OR HAVE YOU EVER BEEN IN BANKRUPTCY? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
DO YOU TAKE AN ANNUAL FARM INVENTORY? YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	ARE ANY SUITS PENDING AGAINST YOU? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>

FOR THE PURPOSE OF PROCURING AND MAINTAINING CREDIT FROM TIME TO TIME IN ANY FORM WHATSOEVER WITH THE ABOVE NAMED BANK, THE UNDERSIGNED SUBMIT(S) THE ABOVE AS BEING A TRUE, COMPLETE, AND ACCURATE STATEMENT OF his FINANCIAL CONDITION ON THE FOLLOWING DATE, AND AGREE(S) THAT IF ANY CHANGE OCCURS THAT MATERIALLY REDUCES THE MEANS OR ABILITY OF THE UNDERSIGNED TO PAY ALL CLAIMS OR DEMANDS AGAINST him, THE UNDERSIGNED WILL IMMEDIATELY NOTIFY THE BANK IN WRITING; AND UNLESS THE BANK IS SO NOTIFIED, IT MAY CONTINUE TO RELY UPON THE STATEMENT HEREIN AS A TRUE, COMPLETE, AND ACCURATE STATEMENT OF THE FINANCIAL CONDITION OF THE UNDERSIGNED.

SIGNED AT Smithville SIGNED John Borrower
 ON Jan. 11 19 51 SIGNED