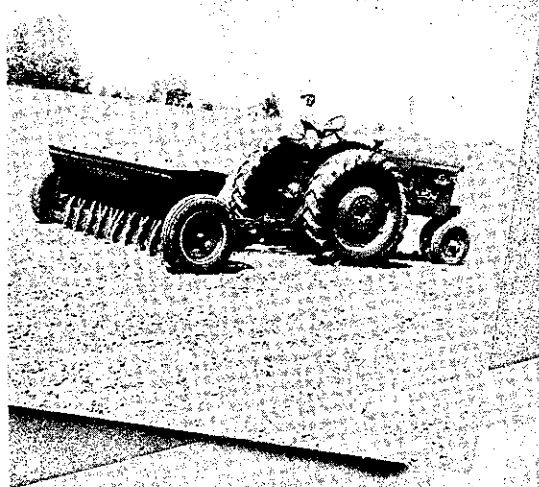
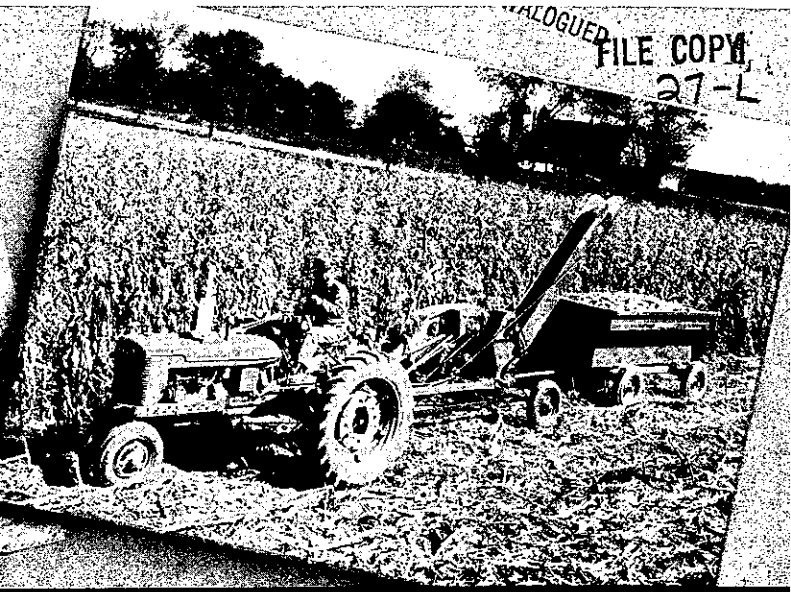
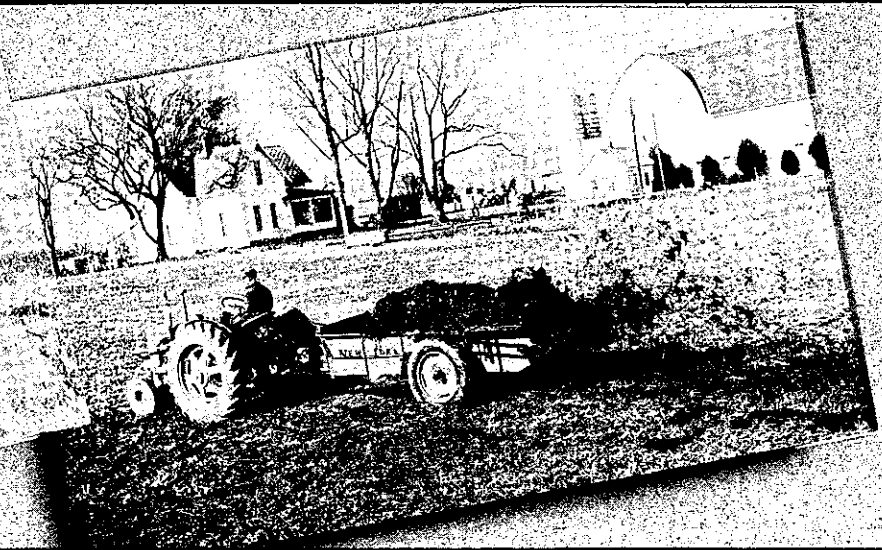
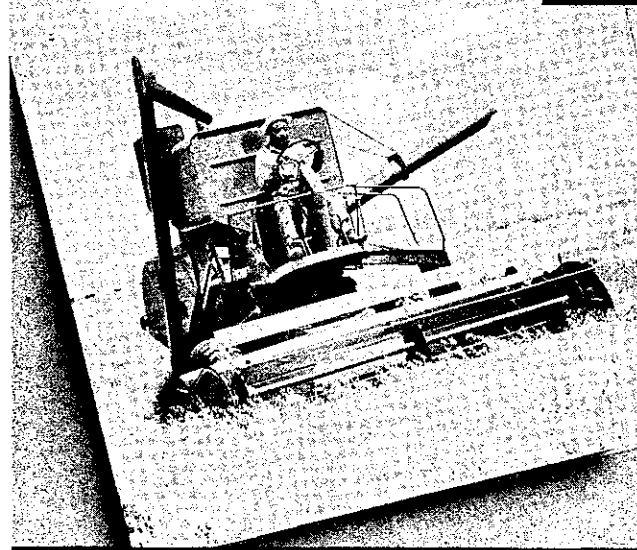


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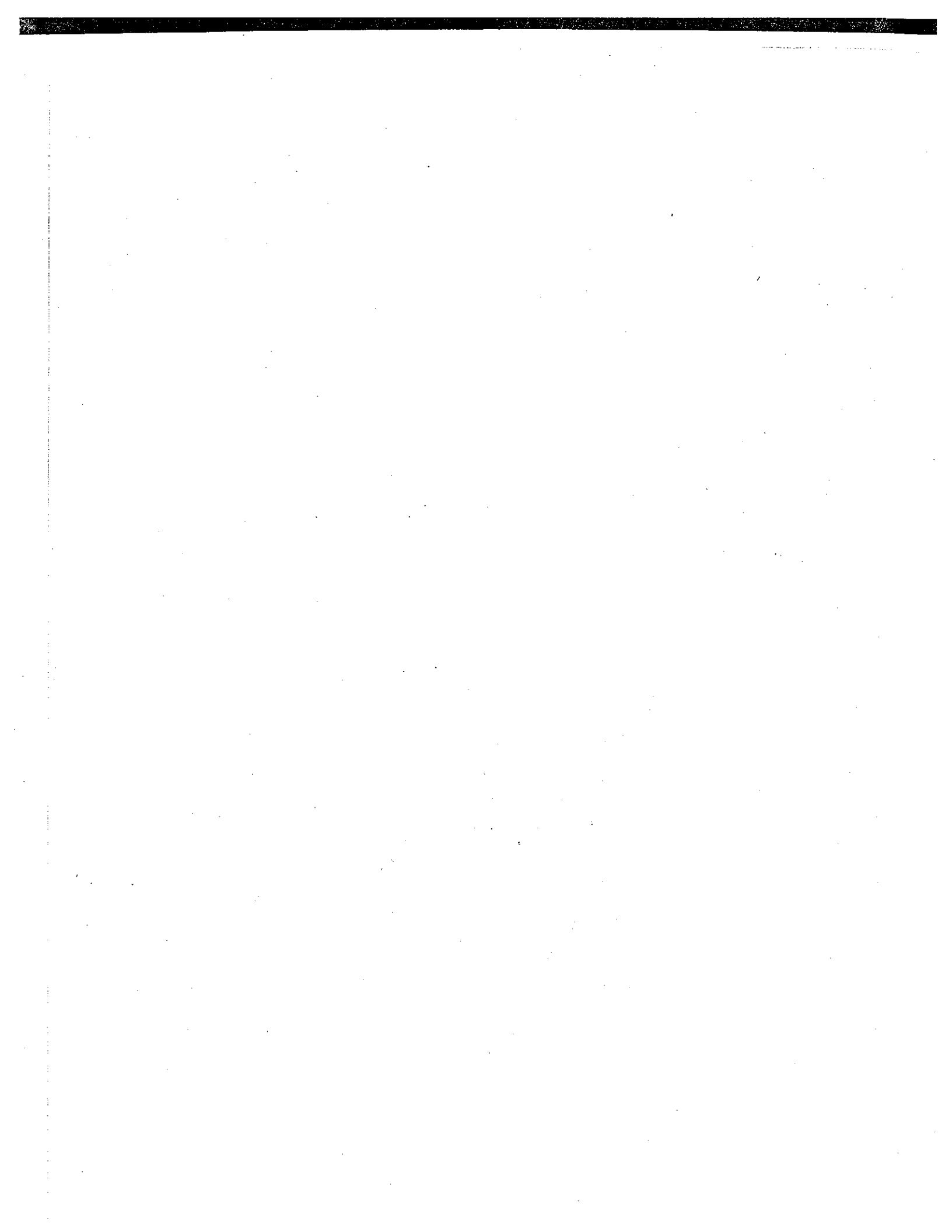
# *Farm Equipment Financing By Banks*



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*Prepared by*

INSTALMENT CREDIT COMMISSION  
AGRICULTURAL COMMISSION



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# *Farm Equipment Financing By Banks*

Credit Requirements and Operating Procedure

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THE AMERICAN BANKERS ASSOCIATION

New York, New York

1956

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# *Introduction*

SINCE 1940, farmers' total investment in machinery has been second only to the value of their real estate. During the last 15 years, prices of farm machinery have doubled and farm wages have quadrupled. Farmers are going to continue to invest in labor-saving equipment.

Mechanized farms are the counterparts of the highly advanced industrial and business establishments of the community. Mechanization brought about a higher output per farm worker over the past few decades and, in recent years, an increasing investment in agricultural equipment has substantially increased each worker's production.

Farm equipment financing is an important and permanent part of sound agricultural credit. Commercial banks in many sections of the country have had satisfactory experience with this type of instalment credit. There is a continued need for broader credit coverage to the end that useful and economic manufacturers' products reach productive users on a sound and well-financed basis.

This type of financing provides the means by which both the farmer and the equipment dealer contribute to the growth and prosperity of their community.

The nature of farm equipment makes it readily adaptable to purchase on the instalment plan. It is an income-producing asset, and usually can pay for itself as it is being used. It is relatively standard in character, is repossessible, and resalable.

With these thoughts in mind, the Instalment Credit Commission and the Agricultural Commission of the American Bankers Association conducted an up-to-date study—which forms the basis for this manual—of the most practical methods and operating procedures for financing farm equipment. The study covers the principles involved in the financing of farm equipment and represents in broad outline some of the methods successfully used by banks. An attempt has been made to cover completely direct equipment loans to farmers as well as the financing of the dealer's inventory requirements and the purchase of notes and contracts resulting from his retail credit sales.

This manual is intended as a guide to assist those banks not now engaged in this banking function to understand it better. To the many banks already extending this type of credit, the manual may present some helpful ideas. In either event, this material should be supplemented by sound, sensible lending policies and standards of practice. Above all, these policies and standards must be tailored to meet the needs of the individual community if they are to benefit banks and widen the services now rendered to the farmer, the dealer, and the manufacturer.

All forms, charts, and figures contained in this manual are intended for illustration purposes only. The basic forms required should be carefully prepared by your counsel. Statutory requirements should be fully considered, and the forms should be drawn to cover every possible contingency.

# *Retail Financing*

## **GENERAL**

Two broad types of bank credit are used to finance the purchase of farm equipment. Under the first, the bank deals directly with the farmer who plans to purchase equipment. This type of transaction becomes a single direct loan which may be secured by the pledge of the equipment and other chattel property or may be made unsecured on the financial statement and earning capacity of the borrower. Under the second, the purchase of the equipment may be financed through a dealer who has discounting arrangements with the local bank.

Farm equipment financing is another form of time sales financing, whether it is done on a direct lending basis or by purchasing contracts from dealers. The obligation is the result of a purchase by the farmer and a sale by the dealer of merchandise which will be paid for on an instalment basis. The purchaser and the dealer agree on terms providing for a cash down-payment with the balance to be payable in monthly or other periodic instalments at a later date.

## **DIRECT EQUIPMENT LOANS TO PURCHASERS**

Under the direct loan method, only two parties are involved—the farmer-borrower and the bank. Such direct loans are mainly governed by the usual credit factors: the borrower's or purchaser's responsibility and reputation; the need for the equipment; the ability of the obligor to liquidate the indebtedness satisfactorily; and, finally, the type and quality of the equipment securing the loan.

Direct farm equipment financing has certain advantages for both the lender and purchaser. The banker and the farmer have concurred that the loan will be a good investment for both the borrower and the lender. If a farmer has his credit lined up, he can buy machinery on its merits rather than on the credit terms available through a dealer. Many times, the cash purchaser is in a much better bargaining position to trade in old equipment or to purchase items from several dealers. When the farmer gets his credit direct from a bank, a closer credit relationship is established. This often leads to a better understanding of the farmer-borrower's problems and a better evaluation of the creditworthiness of the farmer's present and future needs.

In direct bank lending, repossession and disposal of farm equipment in case of delinquency and default is the lending bank's problem. The retail dealer has been paid and is under no obligation to repossess, recondition, or resell the equipment. However, this need be no problem if the loans are sensibly made on the basis of the borrower's credit characteristics. When repossession appears to be a possibility, the bank should reexamine all the factors involved; then, if a situation appears hopeless and there is no other solution, the bank should proceed immediately to repossess and sell the asset pledged.

## **FINANCING DEALER RETAIL SALES**

Instalment-sales financing may be defined as the advance of funds against paper arising from instalment sales. The obligations resulting from the transaction are sold to the financ-

ing institution. This is commonly referred to as indirect financing.

In indirect dealer-bank financing, the credit arrangement is between the farm equipment dealer and the equipment purchaser. The dealer originates the transaction and creates a time sales financing contract which, if acceptable, is subsequently sold by assignment to the financing bank. The initial cost of the equipment less the value of a trade-in or a cash down-payment plus the carrying charges is generally referred to as the "time sales price."

The indirect method of financing demands specialized treatment and knowledge; therefore, special attention should be given to the dealer and the part he plays in the transaction. Any indirect financing must consider all factors and all parties involved. Such financing must be good for the purchaser or borrower, the bank, and the dealer. With full consideration given to these important factors, the financing arrangements are likely to meet with reasonable success. The banker must do a good credit job in the first place and not rely on the dealer's endorsement to "bail out." If a bank obtains a finance charge, it has a responsibility to the dealer and to the purchaser to do an efficient collection job in order to protect the dealer and also the community from adverse conditions.

When a bank engages in indirect financing, proper evaluation of the following factors is important:

1. Character or moral risk of dealer
2. Ability of the dealer to conduct his business on a profitable basis
3. His financial responsibility
4. Dealer's sales methods
5. Dealer's service policy
6. Predication of sales in terms of productive use:
  - (a) Does the equipment fit the farm?
  - (b) Does the purchaser have the ability to pay?
  - (c) Will the equipment pay for itself as it is used?

A thorough understanding of this dealer-bank relationship is of utmost importance if it is to last.

#### THE APPLICANT

Regardless of which financing approach is developed—direct or indirect—the following basic credit factors should be considered by a bank in order to arrive at a proper decision to extend credit: (1) a thorough knowledge of the farmer, his business ability, past record, and integrity; (2) the efficiency of his farm operations; (3) family unity, integrity, and industry; (4) size of farm business; (5) diversification of production; (6) labor efficiency; (7) crop yields and soil fertility; and (8) production per animal.

In considering an equipment-purchase transaction, the bank should give careful consideration to the potential value of the equipment to the purchaser. If it can be reasonably determined that he needs it, the evaluation of the following factors will assist in arriving at the credit decisions: (1) ability of the purchaser as a farmer; (2) initial investment in the equipment; (3) probable increase in income or decrease in operating expenses through its use; (4) financial support through other assets; and (5) the assurance of a crop.

Many farm equipment loans cannot be amortized on a regular monthly basis, as instalment loans are generally amortized. All farm loans should be arranged so that payments coincide with the time income is received. Match payments with income periods. In dairy sections, farm machinery loans are frequently set up on a monthly repayment schedule, with payments of a fixed amount per month or, in some instances, with the understanding that a fixed percentage of the milk check will be applied each month. Delinquencies and losses are much lower when loans are amortized since periodic payments materially reduce the chance that income will be spent for the purchase of other items. Repayments should be realistic and geared to farm income. Remember the farmer and his family will take their living out of the farm income **first**.



## **THE CREDIT STATEMENT**

An application form similar to Form No. 1 on page 8 may be used. Any application form must be brief and complete, yet easy to prepare and understand. This type of form can be used advantageously when a bank is approached directly by the farmer-customer and when the local equipment dealers offer their customers' paper to the bank. This form provides a complete detail of the transaction and, when properly filled out, enables a bank to conduct its investigation, evaluate the borrower's or purchaser's credit and financial responsibility, and arrive at a credit decision with minimum delay.

A bank is justified in obtaining full knowledge of the borrower or purchaser in order to appraise properly a request for credit. The policy of the lender should permit handling any application on its merits. In the majority of instances, the bank can evaluate the risk and credit with little difficulty; if not, adequate information should be obtained.

When a loan is solely for the purchase of farm equipment, certain other considerations must be taken into account. Assuming that the equipment being purchased is the only asset pledged, careful consideration must be given to down-payment provisions, type of lien, terms and length of contract, repayment provisions, insurance, and interest or finance charges. With certain exceptions, the provisions apply to a direct loan to a farmer as well as to his note purchased from a retail dealer.

## **CREDIT STANDARDS**

### **DOWN-PAYMENT PROVISIONS**

Financing a farm business is essentially similar to financing any other type of business. The down-payment philosophy does not apply in those instances in which a bank finances the overall business of a farmer. When this is the case they will not develop very much business if they always expect the borrower to pay a standard down-payment. Rather, farmers' requests should be con-

sidered on an overall credit basis and should be judged on the basis of need, debt picture, and ability to pay.

However, when the bank is not well acquainted with the borrower or is not doing a general financing job for him, it is more justified in taking an instalment credit viewpoint and in relying partly on repayments and partly on the salvage value of the asset pledged.

When the purchase of equipment is the only purpose of the loan, the borrower or the purchaser is expected to pay part of the purchase price from his own resources. In an equipment loan of this type, the borrower's equity is established through a down-payment. The stated down-payment may not always indicate equity, therefore, more attention should be given to the dealer's wholesale cost and the amount being financed compared to it. This procedure will assure equity, particularly when the amount financed is less than the dealer's laid-down cost. When purchasing retail notes from dealers, the lenders must know that a real down-payment has been made and not established through a second lien on the equipment or through credit on the dealer's books.

Terms may vary somewhat depending on the type of equipment sold, whether it is new or used, the hazards involved, and the purpose for which the equipment is to be used. In all cases, except when the bank is doing general financing, the terms should be based on a down-payment sufficient to establish a reasonable equity at the time of purchase. A standard monthly repayment plan, as in the financing of other types of consumer durable goods, should be used where monthly income is available. When income is received on another basis, then payments should be so scheduled.

A farmer buys equipment expecting to pay for it through the increase in income or decrease in expenses made possible by the use of the equipment. Repayment must be geared to a productivity-return basis—that is, to periods when income is available. As-

**PURCHASER'S STATEMENT**

(date) \_\_\_\_\_ 19\_\_

For the purpose of obtaining credit in the purchase of \_\_\_\_\_  
 I make the following statement in writing as to my financial condition as of this date:

I OWN		I OWE	
Cash in Bank	\$ _____	To _____ Bank	\$ _____
Government Bonds	\$ _____	Due _____ 19__	
Milk Cows	\$ _____	On Livestock; Due _____ 19__	\$ _____
Other Cattle	\$ _____	On Machinery	\$ _____
Hogs	\$ _____	Due _____ 19__	
Sheep	\$ _____	On Autos and Trucks	\$ _____
Horses	\$ _____	Due _____ 19__	
Farm Machinery	\$ _____	Mortgage on Crops	\$ _____
Motor Trucks	\$ _____	Due _____ 19__	
Automobiles	\$ _____	Cash Rent	\$ _____
Harvested Crops on Hand	\$ _____	Due _____ 19__	
Other Personal Property	\$ _____	Taxes	\$ _____
Real Estate (listed below)	\$ _____	Other Debts	\$ _____
Total Assets	\$ _____	Real Estate Mortgages (Total)	\$ _____
		Total Indebtedness	\$ _____

**DESCRIPTION OF REAL ESTATE**

NO. ACRES	COUNTY	STATE	SECTION	TOWNSHIP	RANGE	MORTGAGE	MORTGAGE	TITLE IN THE NAME OF

IS ANY INTEREST IN PERSONAL PROPERTY LISTED CLAIMED BY OTHERS? \_\_\_\_\_ IF SO, DESCRIBE \_\_\_\_\_

IS CROP CONSISTS OF \_\_\_\_\_ A. WINTER WHEAT, \_\_\_\_\_ A. SPRING WHEAT, \_\_\_\_\_ A. CORN, \_\_\_\_\_ A. RYE, \_\_\_\_\_ A. FLAX, \_\_\_\_\_  
 \_\_\_\_\_ A. OATS, \_\_\_\_\_ A. COTTON, \_\_\_\_\_ A. RICE, \_\_\_\_\_ A. SOYBEANS, \_\_\_\_\_ A. CROP INSURANCE YES  NO

ACRES RENTED \_\_\_\_\_ CASH OR GRAIN \_\_\_\_\_ WHEN DUE \_\_\_\_\_ NAME AND ADDRESS OF LANDLORD \_\_\_\_\_

AGE \_\_\_\_\_ MARRIED \_\_\_\_\_ NO. OF DEPENDENTS—OVER 12 \_\_\_\_\_ UNDER 12 \_\_\_\_\_ HAVE YOU EVER HAD ANY GOODS REPOSSESSED FROM YOU \_\_\_\_\_ IF SO, BY WHOM \_\_\_\_\_ HAVE YOU EVER TAKEN BANKRUPTCY \_\_\_\_\_

BANK WITH \_\_\_\_\_ ADDRESS \_\_\_\_\_

REFERENCES: (NAMES OF RELIABLE BUSINESS FIRMS FROM WHOM RECENT PURCHASES HAVE BEEN MADE ON CREDIT) \_\_\_\_\_ POST OFFICE ADDRESS \_\_\_\_\_

**WORKING SPACE FOR MATCHING PAYMENTS WITH INCOME**

INCOME AND PAYMENTS	JAN.	FEB.	MAR.	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
SOURCE												
ESTIMATED GROSS INCOME												
19__ PAYMENTS												
SOURCE												
ESTIMATED GROSS INCOME												
19__ PAYMENTS												

I live in \_\_\_\_\_ County and \_\_\_\_\_ Township; I have lived here \_\_\_\_\_ years. My post office address is \_\_\_\_\_  
 I hereby affirm that the above is an accurate and complete statement of my affairs as of this date.  
 (Signed) \_\_\_\_\_

Dealer completes below this line

**DESCRIPTION OF GOODS TO BE FINANCED**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**STATEMENT OF TRANSACTION**

Total cash selling price, including sales tax	\$ _____	\$ _____
Less cash down payment	\$ _____	\$ _____
Less trade-in allowance	\$ _____	\$ _____
Net unpaid balance to be financed	\$ _____	\$ _____
Add carrying charges	\$ _____	\$ _____
Gross amount of contract	\$ _____	\$ _____
Payable as follows: _____		
Other information: _____		

(Signed) \_\_\_\_\_ (Dealer) \_\_\_\_\_

suming a reasonable down-payment has been made, this planning of payments to coincide with availability of income is one of the keys to successful farm equipment financing. Terms will vary in certain sections of the country, particularly in areas dependent principally upon a single crop. It is recommended that each bank arrange its requirements to terms and conditions that reflect local conditions.

Banks and equipment manufacturers which have had many years of experience with this type of credit recommend a minimum down-payment of 33 1/3 per cent with a tendency toward higher down-payments in certain areas. In the case of heavier, more specialized equipment, down-payments from 33 1/3 per cent to 50 per cent appear justifiable. Machinery values decline rather rapidly during the first few years of use; therefore, down-payment provisions must be sufficiently high to maintain equity well above resale value.

#### **LENGTH OF CONTRACT — TERMS**

There are no fixed rules regarding the maximum liquidation period on farm equipment loans. Frequently one-fourth of the estimated productive life of the equipment establishes the maximum period. For example, if a tractor is expected to last approximately 10 years, some banks may set up the loan to run for 24 to 30 months. If obsolescence or rapid depreciation, resulting from unusual wear and tear, is a problem for a particular machine, the repayment period should be somewhat shorter. Banks once tended to make repayment terms on farm equipment credit too short; now they believe unduly short repayment terms are not advantageous to either the lender or the borrower. While terms of repayment running from 24 to 30 months appear sound, each request should be considered upon its own merits and be tailor-made to fit the individual circumstances and situation. It may not always be possible to follow a set standard policy; therefore, to be realistic, a credit

policy must be flexible to give weight to the factors involved.

#### **INTEREST OR FINANCE CHARGE**

Some bankers believe that interest or discount charges on direct equipment loans should be no different from those on other farm production loans. Other lenders believe that farm equipment is no different than the farmer's automobile or truck which is generally financed on a flat-rate basis and not on a simple-interest arrangement. Careful scrutiny of the farm operator's financial position, the farm operation, and the farmer's ability to pay is considered more important than the overall rate of interest.

In most instances, interest charges are somewhat higher on indirect loans through dealers. Contracts purchased from the dealer may be carried by the bank either for a finance charge which is included in the total time price, or on a simple-interest basis. Rates are agreed upon with the dealer and made a part of the bank-dealer agreement. Interest rates on new equipment vary from 5 to 8 per cent simple interest to from \$4 to \$6 per hundred per year depending on territory and circumstances. Generally, new equipment will carry a lower rate than used. A minimum charge on dealer contracts and, where statutes permit, also on direct loans, is usually provided on smaller transactions which might be unprofitable to handle otherwise. The general practice has also been to add filing fees to the charges.

#### **TYPE OF LIEN**

Where the borrower or purchaser meets the terms agreed upon, a chattel mortgage on the equipment itself should provide sufficient security. When credit is below usual quality standards, most lenders obtain a pledge of additional assets.

In some states, banks may choose between the use of a chattel mortgage (Form No. 2 on pages 10, 11) and a conditional sale contract (Form No. 3 on page 13), depending on the nature of the transaction. A conditional

## MORTGAGE OF CHATTELS

Know All Men by These Presents, that \_\_\_\_\_  
of the Township of \_\_\_\_\_ County of \_\_\_\_\_ State of \_\_\_\_\_  
hereinafter called the Mortgagor, being justly indebted to \_\_\_\_\_  
of \_\_\_\_\_ hereinafter called the Mortgagee, in the sum of  
\_\_\_\_\_ Dollars, \$ \_\_\_\_\_, has, for the purpose of securing  
the payment of said debt, bargained, sold, assigned and set over, and by these presents does bargain, sell, assign and  
set over unto the Mortgagee, its successors, assigns and legal representatives forever, all that certain personal property  
located in the Twp. of \_\_\_\_\_ County of \_\_\_\_\_ State of \_\_\_\_\_  
described as follows, to wit:

QUANTITY	MAKE AND KIND	MODEL	SERIAL No.	MOTOR No.

together with all added and substituted parts, equipment and repairs placed upon the property during the life of this mortgage, whether because  
of necessary repairs or otherwise, to have and hold, all and singular, the goods and chattels above bargained and sold, or intended to be bargained  
and sold, unto the said Mortgagee.

TO HAVE AND TO HOLD the same unto the said mortgagee, its executors, administrators, heirs, successors,  
and assigns forever.

PROVIDED ALWAYS, that if the said mortgagor shall well and truly pay or cause to be paid at maturity, a  
certain promissory note of even date herewith for the sum of \$ \_\_\_\_\_, in \_\_\_\_\_ monthly instalments  
of \$ \_\_\_\_\_ each, followed by one instalment of \$ \_\_\_\_\_, the first instalment to be paid on  
the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and one instalment on the \_\_\_\_\_ day of each month  
thereafter; or in instalments as follows:

AMOUNT OF INSTALMENT	DUE DATE OF INSTALMENT	AMOUNT OF INSTALMENT	DUE DATE OF INSTALMENT

until the entire sum is paid, together with interest on any of said instalments after maturity at the highest legal contract rate per annum per-  
mitted by law, all according to the tenor and effect of said note, then this conveyance shall be void, otherwise to remain in full force.  
The mortgagor further covenants that failure to adequately insure, default of payment, misuse, sale or attempt to sell, or to remove from  
county, or where now located, or his bankruptcy, shall constitute a condition broken and that said mortgagee or order may take said property into  
said possession and dispose of same at private or public sale, and deduct from the proceeds the expense of such sale, and the amount then due upon  
said claim with interest and costs thereon, rendering the surplus money, if any, to said mortgagor or assigns. Otherwise the property is to  
remain in the peaceable possession of said mortgagor until conditions are broken as aforesaid.

All pronouns used herein, shall be deemed and construed as masculine, feminine or neuter gender, and as singular or plural persons, accord-  
ing to the gender or number of person or persons to whom they respectively apply.

IN WITNESS WHEREOF, the said Mortgagor has hereunto set his hand this \_\_\_\_\_

day of \_\_\_\_\_ 19\_\_\_\_

\_\_\_\_\_  
(Mortgagor) (Buyer) Signs above

Witness \_\_\_\_\_

Witness \_\_\_\_\_

### NOTE

No. \_\_\_\_\_ Due \_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ Ohio, \_\_\_\_\_ 19\_\_\_\_  
(City)

For value received I promise to pay to the order of \_\_\_\_\_  
the sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_),  
at the office of \_\_\_\_\_  
in \_\_\_\_\_ monthly instalments of \$ \_\_\_\_\_ each, followed by one instalment of \$ \_\_\_\_\_,  
the first instalment to be paid on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and one instalment on the  
\_\_\_\_\_ day of each month thereafter; or in instalments as follows:

AMOUNT OF INSTALMENT	DUE DATE OF INSTALMENT	AMOUNT OF INSTALMENT	DUE DATE OF INSTALMENT

until the entire sum is paid, together with interest, on any of said instalments after maturity at the highest legal contract rate per annum per-  
mitted by law.

If any of said instalments be not paid when due then all unpaid instalments hereof shall, at the option of the holder hereof, immediately  
become due and payable, without notice or demand. All of the parties hereto, including sureties, endorser and guarantors hereby severally waive  
presentment for payment, notice of non-payment, protest, notice of protest and diligence in bringing suit on any party hereto, and all endorsers  
and guarantors hereon consent that the time of payment may be extended from time to time after maturity without notice to them.

The holder hereof, and if there be more than one, each makes authorize any Attorney-at-Law to appear for such holder in any Court of  
Record in the State of Ohio or in any other state or territory of the United States after this note becomes due and waive for such holder the laying  
and service of process and confess judgment against such holder or against such holder and any one or more of the other parties liable on this  
note for whom appearance has so been entered in favor of the holder hereof for the amount then appearing due, together with costs of suit, and  
thereupon to waive all errors and all rights of appeal and stay of execution, but no such judgment or judgments against less than all said parties  
shall be a bar to a subsequent judgment or judgments against any one or more of said parties against whom judgment has not been obtained herein  
and this warrant of attorney to confess judgment is a joint and several warrant of attorney.

This note is secured by Chattel Mortgage of even date herewith.

\_\_\_\_\_  
(Mortgagor) (Buyer) Signs above

Witness \_\_\_\_\_

Witness \_\_\_\_\_

**AFFIDAVIT OF MORTGAGEE**

STATE OF \_\_\_\_\_ }  
 COUNTY OF \_\_\_\_\_ } ss.

THE UNDERSIGNED, being first duly sworn, says that he is the \_\_\_\_\_ of \_\_\_\_\_ (agent, partner, officer), the within named Mortgagee, that the amount of the claim which said mortgage is given to secure \$ \_\_\_\_\_ and that it is just and unpaid; and that said mortgage has been given in good faith to secure the same.

SWORN TO before me and subscribed in my presence, this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

Notary Public

---

**MORTGAGE OF CHATTELS**

From \_\_\_\_\_

To \_\_\_\_\_ Dealer

**DEALER'S ASSIGNMENT AND WARRANTY**

For value received, the undersigned does hereby sell, assign and transfer to \_\_\_\_\_

(Name of Bank)  
 hereinafter referred to as "Bank" or "the Bank," his, its or their right, title and interest in and to the within mortgage, herewith submitted for purchase by the Bank, and the property covered thereby and authorizes said Bank to do every act and thing necessary to collect and discharge the same.

The undersigned certifies that said mortgage arose from the sale of the within described property, warranting that the title to said property is now vested in the undersigned free of all liens and encumbrances and that the undersigned has the right to assign such title; that the said property is as represented to the mortgagee of said property by the undersigned and that the statements made by the mortgagee of said property on the Purchase Statement form attached hereto are true to the best of his knowledge and belief of the undersigned.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

By \_\_\_\_\_  
(Dealer Firm Name)

sale contract is used only when there is an actual sale of the farm equipment and the transaction originates with the dealer. It is a conditional contract between the purchaser and the seller. The bank can purchase it only when it is assigned by the seller. The assignment form usually is printed on the reverse side of the conditional sale contract.

Some banks prefer to handle equipment transactions on a conditional sale contract basis because repossession of equipment is much simpler with this type of instrument than with a chattel mortgage. When the bank has concluded its direct loan arrangements with the farmer-applicant, it calls the equipment dealer, informs him of the terms and

arrangements agreed upon, asks him to prepare the contract form, and assures him that the bank will purchase the contract when it is so presented. If the dealer is not a bank customer, the bank prepares the sales contract papers, arranges for their execution by the dealer and the purchaser, and then buys the paper from the dealer, usually on a non-recourse basis.

When financing farm equipment through notes secured by a chattel mortgage, care is taken to see that the title to the equipment is in the name of the borrower. Usually, in such cases, the check to the dealer contains a special endorsement similar to the following:

In full payment of the balance due on a 19 \_\_\_\_\_, model \_\_\_\_\_, serial number \_\_\_\_\_, motor number \_\_\_\_\_, sold to \_\_\_\_\_ (purchaser), subject only to chattel mortgage in the amount of \$ \_\_\_\_\_ in favor of the \_\_\_\_\_ (name of bank).

A chattel mortgage and lien search of the proper public records is advisable to determine whether any prior lien exists on the equipment. Usually, a copy of the conditional sale contract or chattel mortgage must be filed or recorded if the lender wants the protection the law provides.

In all cases where the purchase of farm equipment is being financed and where registration is required under the state laws, the purchaser should sign an application for the certificate of title, evidence of ownership, or whatever registration is required by law to show that title is vested in him, subject to the lien of conditional sale or chattel mortgage in favor of the bank.

*Because of the differences in the various state laws regarding conditional sale contracts, chattel mortgages, and other forms of lien instruments, it is imperative that the bank's attorney or the state bankers association be consulted and the proper forms adopted. After determining what these requirements are, operations can be geared to the proper procedure. Statutory requirements must be fully understood. By conforming to the law, the bank will have maximum protection.*

### **BANK CONTRACTS WITH FARM EQUIPMENT DEALERS**

Banks usually purchase farmers' notes from dealers under one or a combination of several arrangements. The contract between the dealer and the bank should permit reasonable termination by either. If cancellation involves reduction of the dealer's reserve, care should be taken to insure that the bank has ample protection through retention of adequate re-

serves. All dealers who have agreed on the basis of financing their own and their customers' needs should understand the plan—that is, the rate, down-payment, terms, credit information desired, reserve and repossession arrangements, and other pertinent features. An agreement should be signed covering the finance plan chosen. The most commonly used arrangements are: (1) Full Endorsement Plan, (2) Limited Recourse Plan, (3) Repurchase Plan, (4) Nonrecourse Plan, and (5) Mutual Reserve Plan.

**Full Endorsement Plan.** Under this arrangement, the dealer is fully liable to the bank for all defaulted obligations bearing his endorsement. In some cases, the dealer endorses each contract with full recourse. In other cases, through an executed master agreement, the full responsibility of the dealer is set forth so that he has the same responsibility he would have if he individually endorsed each contract. (See Form No. 4 on page 14.)

When making loans direct to farmers to purchase farm equipment, each loan stands on its own merits. In purchasing conditional sale contracts from dealers, the same sound banking principles should apply. The buyer must have the capacity to pay for the equipment. Even though the paper is fully endorsed by the dealer, a bank should insist that every transaction be sound. Thorough analysis of the ability to repay and the financial condition of the farmer-purchaser is essential.

A full-recourse arrangement makes the dealer the primary creditor. This arrangement can easily lull the lender into a false sense of security—and this sense of security, in turn, can lead to bad credit practices on the part of both the dealer and the lending institution.

It should be noted that representatives of dealers and farm equipment manufacturers handling many millions of dollars of paper over a period of years are convinced it is not sound to buy customers' contracts from dealers on a full-recourse basis. Their theory is

**CONDITIONAL SALE AGREEMENT**

This Agreement, made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, between

(Dealer's Name) of (Dealer's Address)  
 first party, his or its successors, or assigns (hereinafter called "Seller"), and (Buyer's Name)  
 at \_\_\_\_\_ in \_\_\_\_\_ second party (hereinafter called "Buyer")  
 (Buyer's Street Address) (Buyer's Town and State)

WITNESSETH: THAT the Seller in consideration of the payments, agreements, and conditions contained herein which on the part of the Buyer are to be made, done and performed has this day delivered and agreed to sell and the Buyer has this day agreed to buy from the Seller, but upon the conditions hereinafter recited, to the Buyer the following Passenger or Commercial Car, or Tractor (hereinafter called the "Car"):

MAKE	Type of Body	Model Letter or Number	Manufacturer's Serial Number	Motor No.	No. Cylinders	Advertised Horse-Power	If Truck Tons Capacity	Year Model	List Price	Selling Price
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with extra equipment, for the sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_)

The Buyer has this day paid to the Seller \_\_\_\_\_ Dollars (\$\_\_\_\_\_),

and the Buyer agrees to pay to the Seller, or order \_\_\_\_\_ Dollars (\$\_\_\_\_\_),

balance, in installments as follows:

\$_____ One month after date	\$_____ Nine months after date	\$_____ Seventeen months after date
\$_____ Two months after date	\$_____ Ten months after date	\$_____ Eighteen months after date
\$_____ Three months after date	\$_____ Eleven months after date	\$_____ Nineteen months after date
\$_____ Four months after date	\$_____ Twelve months after date	\$_____ Twenty months after date
\$_____ Five months after date	\$_____ Thirteen months after date	\$_____ Twenty-one months after date
\$_____ Six months after date	\$_____ Fourteen months after date	\$_____ Twenty-two months after date
\$_____ Seven months after date	\$_____ Fifteen months after date	\$_____ Twenty-three months after date
\$_____ Eight months after date	\$_____ Sixteen months after date	\$_____ Twenty-four months after date

with interest from \_\_\_\_\_ until paid at the rate of \_\_\_\_\_ per cent per annum, payable \_\_\_\_\_ as evidence by a promissory note (not as payment, but as evidence of the amounts to become due hereunder) made by the Buyer to the order of the Seller, bearing date hereof and maturing on the due dates of said respective installments. Any extensions or assignments of this agreement or said note shall not waive any condition herein contained.

Title to the Car and extra equipment shall not pass by delivery to the Buyer but shall remain vested in and be the property of the Seller or Assigns until the purchase price has been fully paid. Buyer agrees to operate and control said Car in conformity with all laws and Ordinances and to indemnify and save harmless the Seller from any and all loss, or damage to persons or property caused by said Car or by the use and operation thereof to which the Seller might possibly be subjected.

Buyer agrees and acknowledges that the within contract covers all conditions and agreements between the parties, that the loan, injury or destruction of said Car shall not release said Buyer from payment as provided herein. Buyer hereby acknowledges receipt of and accepts the Car, having first examined and tested the same and found same in sound condition, and agrees to keep the Car insured against loss and damage, by insurance companies acceptable to the Seller for not less than the amount owing, and until fully paid, payable to and to protect the interest of the Seller, and the Seller may place, continue and renew said insurance for the Buyer at the Buyer's expense if the Seller so elects.

Buyer agrees to pay all taxes, license fees or charges against said Car and to keep same in good condition, and that any equipment, repairs or accessories placed upon said Car shall be at Buyer's expense and become a component part thereof and included in the terms of this Agreement. Buyer further agrees not to use or permit said Car to be used for passenger hire.

Buyer further agrees that he will not use or cause or permit to be used the car, truck, or tractor herein mentioned for the transportation of liquor, wines or any other beverage, for personal or commercial use, prohibited by any Federal or State statute to be transported, and it is hereby agreed that should the car, truck or tractor hereinafter described be used for such purpose or any other unlawful purpose, it shall be considered as a default under the agreement, whether or not there shall be a default under any other terms or conditions thereof, which shall entitle the holder hereof to immediate and continued possession of the car, truck or tractor herein described.

Should the Buyer fail to keep and perform any or all his agreements herein contained, and to promptly pay at maturity any and all sums hereunder, or if said Car is removed or attempted to be removed from the State in which the Buyer now resides, or to be otherwise disposed of, or if Buyer shall lend, sell or encumber, or shall attempt to sell or encumber said Car or in case of misuse or abuse thereof, or whenever the Seller or his assigns shall deem the debt insecure, said Seller may without any demand or notice take possession of said Car and equipments, wherever found and without process of law, and all rights of the Buyer hereunder shall cease and terminate thereupon absolutely. Buyer does hereby expressly waive any right of action against the Seller, growing out of the removal, repossession or retention of said Car or otherwise, and hereby consents that upon any default (or in the event that the Buyer, for any reason gives up or loses possession of the Car), all unpaid balance of said purchase price and note representing the same shall forthwith become due and payable. Buyer agrees that all payments made shall be held to and be retained by Seller as liquidated damages for the nonfulfillment of this Agreement, for loss in value of the Car, and for the rental value thereof.

Seller may, by suit or otherwise, enforce payment of said note, and no legal proceedings with respect thereto shall be deemed any waiver of said right of Seller to take possession on default or breach as aforesaid. Upon the Seller so taking possession of the Car, Seller may sell the Car as public or private sale at any time thereafter without any notice to the Buyer, and said Seller may become the purchaser thereof, and if the proceeds thereof are insufficient to pay all sums remaining unpaid hereunder and the expense caused by such repossession, removal, transportation, storage, title and sale, including a reasonable attorney's fee, incurred in taking possession of said Car, or in or about the sale thereof, or in collecting in any manner any sums which may be due and owing hereunder, Buyer agrees to pay any deficiency as damages for use of said property. The waiver or indulgence of any default shall not operate as a waiver of subsequent default. Time is of the essence of this agreement.

This agreement shall apply to and bind the heirs, executors, administrators and assigns of the Buyer, and shall inure to the benefit of the Seller, Seller's heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF the parties hereto have set their hands and affixed their seals to this Agreement in triplicate, the day and year first above written and the buyer hereby acknowledges the receipt of a full and true copy hereof.

Witness: \_\_\_\_\_ (Buyer Sign Here) (Seal)

Address: \_\_\_\_\_ (Seal)

Witness: \_\_\_\_\_ (Dealer Sign Here) (Seal)

Address: \_\_\_\_\_ By \_\_\_\_\_ (Owner, Officer or Firm Member) (Seal)

**Schedule of Payments:**

MONTHS AFTER DATE		Date
\$_____ 1 mo.	\$_____ 13 mos.	_____ 10 _____
\$_____ 2 mos.	\$_____ 14 mos.	
\$_____ 3 mos.	\$_____ 15 mos.	
\$_____ 4 mos.	\$_____ 16 mos.	
\$_____ 5 mos.	\$_____ 17 mos.	
\$_____ 6 mos.	\$_____ 18 mos.	
\$_____ 7 mos.	\$_____ 19 mos.	
\$_____ 8 mos.	\$_____ 20 mos.	
\$_____ 9 mos.	\$_____ 21 mos.	
\$_____ 10 mos.	\$_____ 22 mos.	
\$_____ 11 mos.	\$_____ 23 mos.	
\$_____ 12 mos.	\$_____ 24 mos.	

For Value Received at the time or times stated in Schedule of Payments hereon, \_\_\_\_\_ promise to pay to the order of \_\_\_\_\_

\_\_\_\_\_ (Dealer's Name Here)  
 \_\_\_\_\_ DOLLARS (\$\_\_\_\_\_) (Total balance to be paid)

at \_\_\_\_\_

With interest from \_\_\_\_\_ until paid at the rate of \_\_\_\_\_ per cent per annum, payable \_\_\_\_\_

I, we, do hereby authorize, irrevocably, any attorney to appear for me, us, after maturity of the whole or any part hereof in any court of record in the United States, in term time or vacation, and to waive the issue and service of process and to contest a judgment against me, us, in favor of the payee or any subsequent holder hereof, for such amount as may appear to be unpaid hereon, together with costs, collection expense and attorney's fees, which we agree to pay, and to release all error and waive all right of appeal. I, we, hereby waive presentment, protest, notice of protest and all benefit of valuation, appraisal and exemption laws. This note becomes immediately due and payable (less any payments made hereon) in event of nonpayment at maturity of any payment scheduled hereon.

Signed \_\_\_\_\_ (Buyer) (Seal)

No. \_\_\_\_\_ (Seal)

FULL INDORSEMENT DEALER AGREEMENT

TO:

The undersigned proposes to sell to you conditional sale contracts, chattel mortgages and leases, together with any notes accompanying the same, and other documents representing deferred payment purchases of merchandise sold by the undersigned (all of which instruments are hereinafter referred to as "Contracts"), as the undersigned may obtain and as may be acceptable to you. In order to induce you to purchase the Contracts, the undersigned hereby makes the following representations, warranties, agreements and covenants to and with you for the purpose of your reliance thereon.

1. You will pay the undersigned for each Contract purchased from the undersigned an amount equal to the time balance of the Contract, less your finance charges as set forth in the rate chart in effect at the time of your purchase of any Contract, less any holdback, such holdback, if any, to be payable in accordance with the terms of a supplementary agreement executed by the parties hereto. Each Contract shall be assigned to you with recourse against the undersigned, and you may execute such assignment in the name of the undersigned, if the undersigned omits in any case to execute the same in connection with any Contract delivered to you. If there shall be default in the payment by the purchaser of any two installments on any Contract assigned to you, or if the equipment covered by said Contract may be repossessed under terms of said Contract, the undersigned agrees to repurchase such Contract from you, and will pay therefore in cash an amount equal to the unpaid balance on the Contract, less the unearned finance charge.

2. The undersigned agrees to provide and maintain service in accordance with standard practices and policies as established by the manufacturers of any equipment covered by Contracts assigned by the undersigned to you.

3. The undersigned hereby warrants, represents and agrees that each Contract offered by the undersigned to you in accordance with the terms hereof will be a valid deferred payment obligation for the amount or amounts therein stated, covering equipment free and clear of all encumbrances which the undersigned has a legal right to select, and that no dispute, offset or counterclaim exists between the undersigned and the purchaser of such equipment, and that the equipment so sold, delivered and installed in accordance with the terms of the Contract assigned to you and the description or descriptions therein contained is in all respects true and correct and the purchaser or purchasers therein named are bona fide and have legal capacity to make such Contract. The undersigned agrees that no part of any installment payable under said Contract shall be loaned directly or indirectly by the undersigned to the purchaser or purchasers.

4. The undersigned hereby waives presentment, demand for payment and notice of nonpayment, protest, notice of dishonor, notice of default, or any other demand or notice whatsoever in connection with any contract, negotiable instrument, agreement or document of whatsoever nature, transferred, assigned or endorsed by the undersigned to you, and consents to any and all extensions of time in connection with any and all payments to be made under and pursuant to any of the aforementioned documents without in any way affecting or limiting the liability of the undersigned as herein provided. Where the undersigned is obligated under the terms hereof to repurchase any Contract, no formal tender for repurchase shall be necessary, and until we shall pay the repurchase price as herein provided you may continue to make collection of the amounts due or to become due under such Contract. The waiver of any default by you shall not operate in any way as a waiver of any other or subsequent defaults.

5. You shall have the sole right to make collections on all Contracts assigned to you, and the undersigned will not solicit or make any collections except pursuant to your written request or written instruments to make such collections. Where any repossession is made by the undersigned for you, the undersigned will hold such repossessed equipment or the proceeds thereof, in the event of sale thereof, in trust for your benefit, and will deliver or pay the same to you on demand without charge. The undersigned will forward to you promptly all communications, inquiries or remittances which the undersigned may receive in reference to any of the Contracts assigned to you, and you may audit the books and records of the undersigned relating to the Contracts assigned to you. If the undersigned shall fail to pay to you any sum due from the undersigned within ten (10) days after your demand therefor, or if the undersigned ceases to do business as a going concern, or makes an assignment for the benefit of its creditors, or shall be adjudged a bankrupt, or a receiver be appointed for the undersigned or of the property of the undersigned, or a petition or answer asking for the reorganization of the undersigned is approved by any court, the undersigned, on the happening of any of said events will forthwith become obligated to repurchase from you all of the Contracts theretofore purchased and assigned to you by the undersigned, including any paper purchased under any other agreement, and will pay you an amount equal to the aggregate unpaid balance due thereon, less the unearned finance charges. If the undersigned shall fail to repurchase any or all of the Contracts as in this paragraph provided for the period of ten (10) days after receiving written demand for such purchase from you, then you are hereby authorized to sell at any time thereafter on at least five (5) days' written notice to the undersigned, at either public or private sale, any or all of the Contracts hereinbefore referred to, and you may be a purchaser thereof at any such public sale. The net proceeds realized upon any such sale or sales, after deducting all expenses in connection therewith, including reasonable attorney fees, if any are incurred, shall be applied against the repurchase price, which the undersigned is obligated to pay under and by virtue of the terms of this paragraph. If, in connection with such sale the amount realized thereon should not be sufficient to repay such purchase price, then the undersigned shall pay any such deficiency, and if a surplus should result from any such sale or sales, the surplus shall be paid to the undersigned. The undersigned hereby irrevocably authorizes you to supply any omissions in any documents executed by the undersigned in connection herewith. Either party hereto may terminate this agreement at any time by written notice to the other of such termination, but such termination shall not affect any obligations or transactions hereunder which arose prior to the receipt of notice of such termination.

6. This agreement shall be binding upon the undersigned, and the successors, heirs, executors, administrators or assigns of the undersigned, and shall inure to the benefit of you and your successors and assigns.

7. This application is made to you in duplicate, and will become the Contract between you and the undersigned upon your executing the acceptance at the foot hereof.

8. No provision hereof shall be modified or altered except in writing executed by both of the parties hereto.

ACCEPTED: (Dealer).....  
(Corporate, Individual or Firm Name)

By..... By.....  
(Owner, Officer or Partner — state which)

At:....., 194..... (Address of Dealer)



that the dealer should be relieved largely from the credit aspects of the business and should concentrate on selling and servicing. They believe that banks may tend to lean too heavily on the recourse crutch rather than on the quality of the credit. Good credit will always be the prime requisite for making a time sale.

**Limited-Recourse Plan.** The limited - recourse plan is an arrangement whereby the liability of the dealer is limited as to time or amount on individual or aggregate contracts bought by the bank. (See Form No. 5 on page 16.)

Under this plan, the dealer as well as the lender has a responsibility for the quality of the credits granted. This type of agreement usually provides for a reserve or holdback of a certain percentage of the face amount of the note (commonly 3 to 5 per cent). This amount is credited to a dealer's reserve account and is accumulated until it equals, say, 5 to 7 per cent of the outstanding balance of all contracts. When this holdback reserve account exceeds the agreed percentage of the dealer's outstanding obligations, the bank can then pay out at periodic intervals the amount of the excess reserves.

Generally, under a limited-recourse arrangement, the bank—to be assured that the dealer has made a sound sale—makes an agreement with the dealer whereby he has full liability on a contract until a certain percentage of the time price has been paid by the buyer. After the stipulated amount has been paid, the dealer is released from his liability on the transaction. The number of payments normally equals about 25 to 30 per cent of the contract. Some banks have arranged an equipment tie-in agreement with the dealer in which the dealer agrees to repossess, make necessary repairs at cost, and exert an effort to resell the merchandise. Most banks, under such an agreement, also charge the reserve account for any deficiencies that may be incurred after the sale of the equipment.

Limited recourse may be applied on seasonal payments on the basis that the dealer

is relieved after the first payment is made. The agreement may provide that the aggregate of liability on paper sold to the bank will not exceed a certain dollar amount or a percentage of the aggregate. In some instances, 5 to 10 per cent has been worked out between the parties. Under a limited-recourse arrangement, the dealer may agree to purchase repossessed farm equipment from the bank for the unpaid balance of the contract or for a certain percentage thereof. There should be agreement on who assumes the responsibility to pay the cost of any necessary legal action.

**Repurchase Plan.** Under this arrangement, the dealer agrees to repurchase repossessed farm equipment for the unpaid balance of the contract. Certain legal and technical objections of the full endorsement plan are avoided. Different types of arrangements may be made under this plan. The bank can assume the responsibility for any legal action necessary. The dealer can agree to make the actual physical repossession (See Form No. 6 on page 17). Also, either a portion (a holdback) can be retained from the proceeds of the balance financed, as previously mentioned under limited recourse, or a reserve set up out of the finance charge. The accumulation and distribution of this latter reserve is accomplished in a manner similar to that explained under the limited recourse plan. The great advantage in both the limited recourse and repurchase plans is the moral effect upon the dealer as these plans put the dealer on a participation basis with the bank and make it to the dealer's advantage to reveal to the bank all the true facts, good or bad.

**Nonrecourse Agreements.** On nonrecourse arrangements, lenders naturally must be more selective in their purchases of paper than when they rely partly or entirely on endorsement arrangements. Under a nonrecourse agreement, there is no recourse to the dealer if the purchaser defaults. He is absolutely discharged from any liability the moment the