

Industrial finance companies may provide some farm loans

NEW YORK, N.Y. — For farmers, the ever-present problem of securing credit needs is particularly pressing this year. As Washington attempts to dampen inflation through monetary policy, the availability of funds is tightening across the country.

What does this mean to farmers? Simply that their usual sources of credit may be pulling in many cases. Their ability or willingness to lend may not be what it was in prior years.

For many growers, this has meant sharpening their pencils and sitting down to some careful financial planning, looking at all the options that are open to them.

One such option: adding an industrial sales finance company — often also referred to as a commercial finance company — to their normal sources of credit for financing and leasing of new equipment.

How does an industrial sales finance company differ from other lenders? What does it look for before it decides to provide equipment financing for a farmer? What should you look for in such a finance company? Peter McSherry, National Marketing Manager - Agriculture, at C.I.T. Corporation, a leading nationwide industrial credit concern, provides the answers.

First, an industrial finance company is in business to finance and lease equipment and to do so profitably, according to McSherry. One chief characteristic of a commercial finance company is that it is a secured lender. According to McSherry, this means that it will provide funds for acquiring new farm machinery based, in great part, on the fact that it has reliable collateral.

While all financing sources naturally take a prudent approach to credit, each varies somewhat in the emphasis it places on the different credit factors. For example, one financing source might look un-

favorably on a credit request because it feels the farmer is carrying about as much debt as he can handle at the time. Or, it may perceive his working capital — the funds he uses to buy supplies and pay for other immediate needs — as being light or inadequate as the planting season approaches. Then too, a spell of bad weather in the previous year may have lowered crop yields and hence, profits, and this may be a deterrent.

Sales finance companies on the other hand, are primarily interested in intermediate-term loans which average from three to ten years. Consequently, they tend to look beyond any temporary setbacks the farmer has had and, instead, analyze his longer-term prospects, McSherry explains.

Most important, however, is the fact that any risk in the transaction will be minimized due to the security afforded by the equipment, the value of which the company has carefully determined. This security can be responsible for a "yes" rather than a "no" on a loan request.

Where do commercial finance companies get the funds they lend to farmers and other borrowers? Unlike banks, which get a major portion of their funds from deposits, major industrial finance companies raise their money primarily by selling commercial paper, or by selling notes to the public, as well as by borrowing or private placements, McSherry explains.

Of course, above and beyond the value of the collateral, a funding source will also want reasonable assurances that a farmer will be responsible in meeting his obligation, and in this regard it will take a close look at the "man factor," he says. Honesty, integrity, proven management ability, and a demonstrated record of meeting past credit obligations are factors that weigh heavily in the applicant's favor.

If the farmer is experienced, runs a profitable operation, and has shown good management ability — as demonstrated by crop yields or livestock production that compares favorably with county averages — chances are he is a candidate for a positive decision on his application. The case for his getting the financing, however, also depends heavily on the farmer's cash flow.

The expected cash flow must be adequate under normal conditions and sufficient to meet operating expenses as well as family living expenses and prior loan obligations.

But, being profitable depends on many factors including a good number that are beyond the farmer's ability to control. Weather and prevailing market prices are the two obvious ones.

For this reason, a commercial lender will also want to know if the grower has enough equity in his operation to sustain a temporary downturn. Looking at the farm's debt-to-worth ratio, for example, will help give the lender an insight in this question.

All things being equal, however, the industrial financing source will place important emphasis on the collateral. For him, this is the "safety valve" in the transaction. Not only must it provide security for the finance company in the event of default, but it must also add appreciably to the

farm's productivity, and hence "pay for itself," McSherry comments.

Does he understand farming? How much does he know about the equipment I'll be buying? Is he represented locally? These are all questions a farmer should ask in evaluating a prospective credit source.

"A credit decision works both ways, just as the finance source evaluates the farmer, so should the farmer size up the finance source," McSherry suggests.

Much in the same way an industrial finance company looks to stability and a good, consistent record in a farm operator, the grower is advised to do the same with a prospective creditor.

"An important piece of advice that I would give to a farmer is to find out whether he will be dealing with the same company right through the full term of the transaction," he stresses. That means being wary of the possibility that the financial source will sell or otherwise transfer the contract to another company or individual.

"The problems that can develop when a financing commitment is assigned by the original source can be substantial," McSherry contends.

"Dealing with a well-established company is one way to avoid that possibility and assure that your transaction will be handled by the same company you started off with," he says.

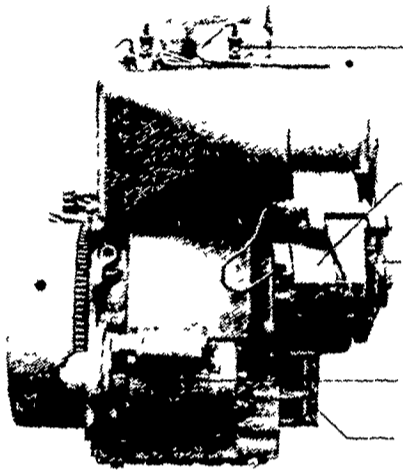
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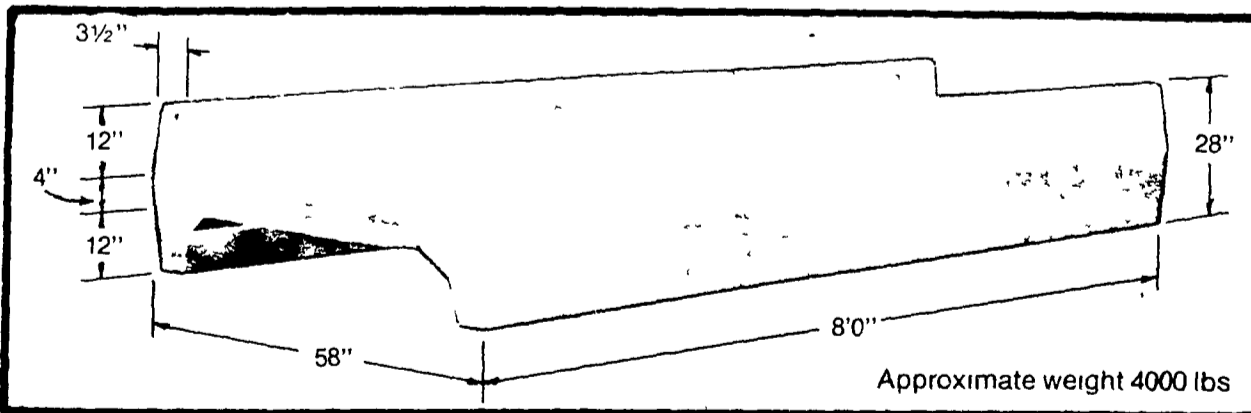


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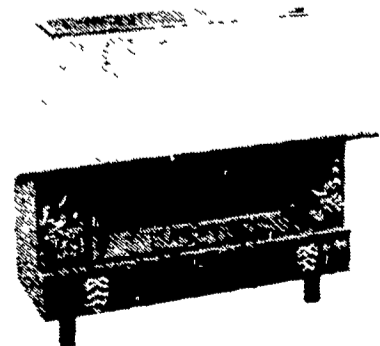
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