Getting started in farming

Fourth in a series of six articles on how to get started in farming

NEWARK, Del. — Several kinds of loans are available to farmers. If you plan to go into farming, it pays to know what financing options are available.

The repayment period and type of security required depend on the purpose of the loan. The amount and terms of the loan that institutional lenders will make are controlled by government and institutional regulations, as well as by experienced-based guidelines. "Knowing the terms available will help you prepare a better management plan to support your loan requests," says University of Delaware extension farm management specialist Dr. Don Tilmon.

Operating or "short-term" farm loans are made for such seasonal needs as seeds, fertilizer, chemicals, feed, hired labor, fuel and feeder cattle. These loans are usually made for one year or less because they're used for annual expenditures associated with the production of crops and animal products. You're expected to pay the loan back out of your production proceeds.

Working capital or "intermediate-term" loans are made for such assets as machinery, equipment, and breeding livestock, or for major remodeling or additions to buildings. Amounts borrowed under this type of loan are usually larger than for operating loans, says Tilmon. Because they're made for capital items which have a useful life of a number of years, the repayment period may be five to seven years. Usually a chattel mortgage is required as security.

Real estate or "long-term" loans are used most often to buy land and buildings. They can also be used to finance major real estate improvements or consolidate short and intermediate-term loans through a refinancing of your debt load. A mortgage on the real estate involved serves as security. Because of the large amount of money involved, the repayment period may be as long as 35 years or more. In most cases, these loans are amortized — that is, the principal and interest are paid in uniform monthly, semi-annual or annual payments.

To get the credit required to start a farm business, you need to know who the possible lenders are, as well as the types of loans and terms they offer. Terms will vary with the source, says the specialist. Some of the differences are dictated by law or the regulations under which certain lenders operate.

There are a number of possible credit sources including the Farm Credit Service, Farmers Home Administration, commercial banks, insurance companies, as well as individuals and dealers. Loans are also available for some purposes from the Commodity Credit Corporation and the Small Business Administration.

The Farm Credit Service makes loans to farmers through local cooperative associations. These associations are chartered by the federal government and are subject to its supervision through an independent government agency — the Farm Credit Administration. Each farmer borrower becomes a member of the local association and must hold stock in it equal to 5% of the loan. The cost of the stock can be added to the amount of your loan if you don't already own adequate stock. A board of directors elected by the farmer membership governs each local association.

The Farm Credit Service provides short, intermediate, and long-term credit. Security for short-term production loans ranges from a lien of the crop produced or a chattel mortgage, to a signature note. Security for intermediate-term loans normally consists of a chattel note. There are also some cases where a mortgage is required.

The Farmers Home Administration is a lending agency that operates within the U.S. Department of Agriculture. According to Tilmon, it was created to extend credit to farmers and ranchers who weren't able to get credit from other institutional lenders, generally because they didn't have enough equity.

"Once a farmer or rancher reaches a financial position which makes him eligible to borrow from these other lenders, he's expected to 'graduate' from FmHA and obtain credit through regular commercial sources," explains the specialist.

Loans from FmHA are available to single farm proprietorships, farm partnerships and farm corporations. One member of a family partnership must be a farmer. However, all non-blood-related partners and all corporate stockholders must be farmers to qualify.

Total loan funds available from this source in each county are limited by ceilings established by Congress. In many areas, the amounts authorized are less than the total requested by farmers in the county.

"Of all financial institutions, commercial banks provide farmers with the broadest range of financial services," says Tilmon. They're widely available and are a convenient source of loans.

Banks provide short, intermediate, and long-term credit for operating, working, and real estate loans. They also provide consumer loans for such things as cars, household furnishings, and home remodeling. They provide checking-account services, savings accounts, and other interest-bearing investments. Some banks provide services for investing in government securities and operate trust departments to settle estates and manage investments.

Life insurance companies are another source of farm real estate loans. Nationally they accounted for about 14% of farm real estate loans on January 1, 1978. But these loans were more or less concentrated in the major agricultural areas of the country. They provide only about 2% of the total farm real estate loans in the northeast.

The major life insurance companies which make agricultural loans have regional offices and representatives in the field. Some companies work through commercial banks, attorneys, mortgage brokers, or real estate agencies.

Private lenders provide some short- and intermediate-term credit, but they're most important in extending long-term credit to farmers for real estate purposes. Thirty-five percent of the national farm real estate debt load on January 1, 1978, was held by individuals and nonreporting lenders. This was slightly more than the debt load of the Farm Credit Service, which at the time held 2½ times more real estate loans than any other institutional lender.

Most dealers and merchants who supply farmers with production supplies and maintenance services provide open-account credit. When a farmer buys supplies, the dealer or merchant generally grants a period of time for the bill to be paid, even though the supplies have already been delivered.

Farmers can obtain Commodity Credit Corporation (CCC) loans to install grain-drying equipment and to build dry grain, high-moisture grain and silage storage units. This agency also finances remodeling of existing structures. Eligible producers may borrow up to 85% of the cost of buying and installing facilities and equipment, including concrete and wiring costs. The current limit is $50,000 for 8 years at an interest rate of 10.5%. You can apply for these loans through your county agricultural Stabilization and Conservation service office.

The Small Business Administration has become another source of agricultural loans in recent years. But the loan activity of this agency has been aimed primarily at agriculturally related businesses, rather than farm production itself.

If you're serious about going into farming and have developed a realistic management plan for doing so, it should be possible to obtain credit from one of these sources. For the most part, the funds available should be adequate to meet the needs of most farmers. Wisely used, credit is beneficial to both the lender and the borrower.