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FARM REAL ESTATE FINANCING

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and

Country Bank Operations Commission

THE AMERICAN BANKERS ASSOCIATION
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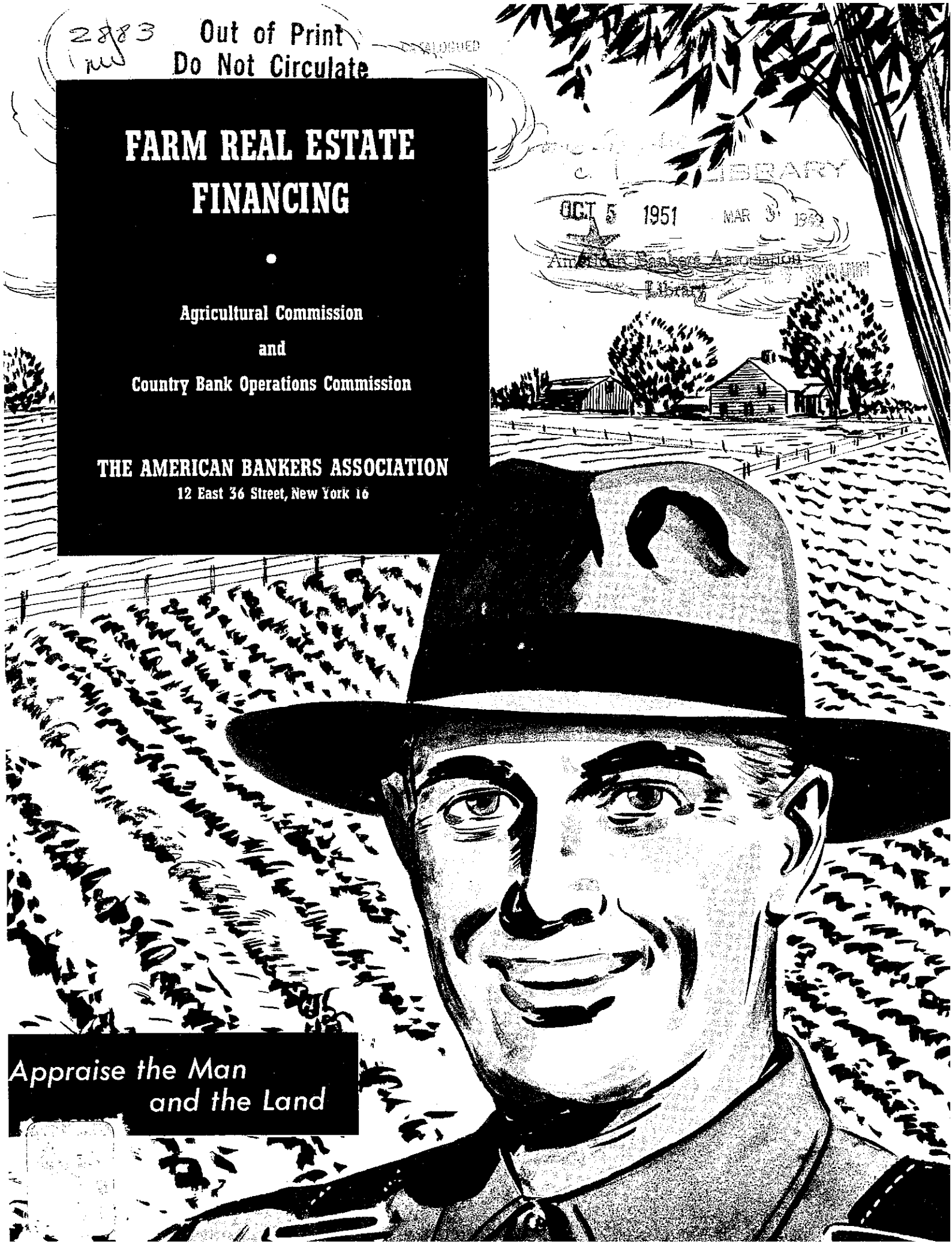

Appraise the Man and the Land

FARM REAL ESTATE FINANCING

THE AMERICAN BANKERS ASSOCIATION

New York, New York

1949

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To: Members of the American Bankers Association

Re: "Farm Real Estate Financing"

This manual spells out a procedure for country banks to follow in the making of long term farm mortgage loans. It is written as a guide for bankers who should become familiar with its provisions that acceptable farm mortgage loans have good records to support them.

"Farm Real Estate Financing" emphasizes the importance of following a specified plan in the making of farm mortgage loans, including the taking of an application, the making of a sound appraisal, and the compiling of full credit information about the man and the land. This all adds up to having bank action properly supported so that officers and directors will have backing for their approval of the mortgage loan.

In the development of this publication much assistance was received from banks that are doing a good farm mortgage lending job. Valuable aid was also given by leaders in the farm mortgage field in certain phases of procedure and in the selection of forms. In addition, suggestions were given by Federal and state supervisory authorities.

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It is hoped that this manual will be of practical value to the banks of the nation. The American Bankers Association is fully aware of the responsibility that is placed upon country banks--responsibility to adequately finance their farmer-customers.

ɔcedure that country
ʒ up the essentials of
aking farm mortgage

Harold Stonier

Harold Stonier
Executive Manager

banks to make more
loans.

institutional lenders.
se good techniques,
ith sufficient credit

The suggestions for farm mortgage lending in this booklet represent the combined thinking of representative country bankers from every section of the nation. They are offered as a guide to help bankers follow constructive farm mortgage loan practices.

FOREWORD

The test of a good farm mortgage loan is whether the farm offered as security will produce sufficient income to provide a living for an average family, pay operating expenses including taxes and insurance, and leave enough margin to pay interest and principal on the loan.

THE PURPOSE OF THIS MANUAL is to "spell out" a plan of procedure that country banks may follow in making farm mortgage loans. In setting up the essentials of such a plan the forms and procedures of banks that have been making farm mortgage loans successfully were studied.

This manual is not primarily intended to encourage country banks to make more farm mortgage loans. It is intended to help them make *sounder* loans.

Commercial banks make more farm mortgages than any other institutional lenders. Having a position of leadership in this field, they should use good techniques, follow sound procedures and have each loan supported with sufficient credit information.

The suggestions for farm mortgage lending in this booklet represent the combined thinking of representative country bankers from every section of the nation. They are offered as a guide to help bankers follow constructive farm mortgage loan practices.

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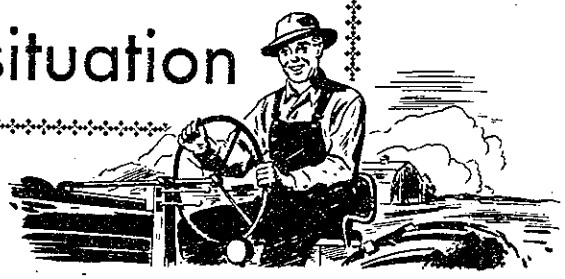
One copy of this publication was mailed to each A.B.A. member bank without charge. Additional copies at $1.00 each may be obtained by writing to the

AMERICAN BANKERS ASSOCIATION
12 EAST 36 STREET
NEW YORK 16, N. Y.

The farm mortgage situation



Indications are that farmers will need and will continue to use more credit in the future than they have in the past. The reasons for this are:

(1) The average size of the typical family farm is increasing. With more modern labor-saving machinery, one family now can and should handle a larger business than formerly. This means a larger investment of capital in the typical family-sized farm.

(2) Because of technical developments, the average farmer has larger capital requirements for equipment to handle a larger farming operation, to carry on conservation, insect and disease control, and for other sound farming practices.

(3) Most farmers who buy U. S. Savings Bonds do not cash them. They want to hold them until they come due. Instead they borrow for their needs and use the banks as a source of credit.

(4) A large number of farms are being operated by men well past normal retirement age, and it will require a large amount of credit to transfer these farms to younger men.

Farm Family Has First Claim on Farm Income

Regardless of how a farm mortgage loan is secured, the first claim on the income of a farm business will always be a living for the farm family that operates it. After this first claim come taxes and operating expenses. The farm must also be properly maintained. This means that repairs and improvements must be paid for out of the farmer's income before interest and principal are paid on the mortgage. In reality, the income of the farm business is subject to three or four claims before interest and principal can be paid.

The basic test of a good farm mortgage will always be whether or not the farm and the farm family operating it will produce sufficient income to pay living and other expenses, and have enough left over to cover interest and principal payments on the mortgage in accordance with the terms under which the mortgage was made.

The primary security back of a farm mortgage loan is the income-producing capacity of the farm itself, under average management. Of great importance are the ability, integrity, and personal qualifications of the farm owner who obtains the mortgage loan. The sale value of the farm under adverse conditions is residual security. Making sound farm mortgage loans depends more on a knowledge of the factors affecting farm income than merely on the ability to appraise farm real estate.

Effect of Price Changes on Farm Income

Over the years the most important single factor affecting incomes of farmers and their ability to repay mortgage loans has been the general price level of the country. (See Chart A below). Violent changes in the general price level have "made" and "broken" more farm families than any other factor. Over the years, the prices of farm products do not stay long out of line with the general price level of the country. Prices of farm products may fluctuate from year to year with surpluses and shortages, but aside from long term changes in the trend of supply or demand of particular products, such prices tend to follow the general price level.

A farm mortgage is a long time investment. Much can happen to prices that will affect the repayment ability of the borrower. The problem the farmer faces in paying off a mortgage under varying prices for farm products is shown in Table No. 1 on page 6.

The data shown in the table should be made up on a state basis for local use. Data on average prices received by farmers can be secured from the colleges of agriculture.

CHART A

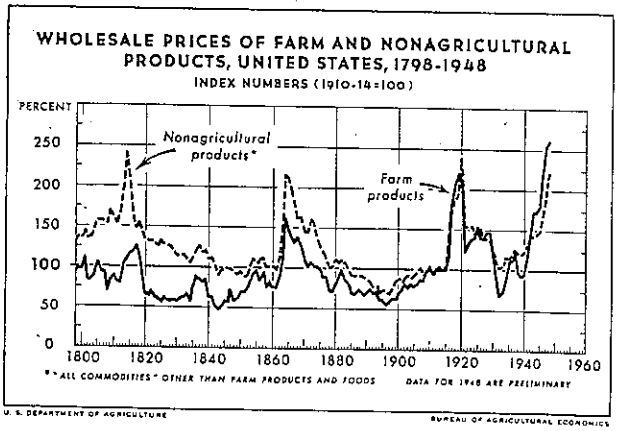


Table No. 1—Amounts of Various Agricultural Products Required to Pay $1,000 of Debt, U. S. 1919-48

Year	200 lb. hogs	1000 lb. cattle	90-lb. lambs	100 lbs. milk	Cases eggs	Bushels wheat	Bushels corn	Pounds tobacco	Bales cotton	2000 lbs. peanuts	Bushels soybeans	Bushels apples	Boxes oranges[1]	Bushels potatoes
1919	30	10	87	304	81	462	661	3,205	6	5	283	562	339	517
1920	39	11	95	311	77	548	1,567	5,780	13	11	375	806	599	798
1921	66	18	156	435	118	971	1,931	5,128	12	13	463	610	362	883
1922	60	17	112	474	133	1,035	1,366	4,386	9	9	498	1,010	559	1,517
1923	72	17	106	402	126	1,080	1,229	5,263	7	8	439	909	806	1,081
1924	68	17	103	450	125	802	941	5,263	9	9	407	813	376	1,458
1925	46	15	89	420	110	696	1,427	5,952	10	12	427	794	410	587
1926	42	15	95	420	115	822	1,351	5,587	16	10	498	1,136	429	761
1927	52	13	97	398	133	840	1,181	4,831	10	10	552	676	280	981
1928	59	10	91	397	119	1,002	1,190	5,000	11	10	532	917	690	1,880
1929	53	11	94	395	112	965	1,252	5,464	12	13	532	719	292	760
1930	57	13	143	452	141	1,490	1,672	7,812	21	14	730	971	847	1,096
1931	87	18	197	592	189	2,558	3,115	12,195	35	31	2,000	1,562	943	2,174
1932	150	24	249	781	235	2,618	3,165	9,524	31	32	1,852	1,639	1,333	2,632
1933	142	27	220	769	242	1,344	1,923	7,692	20	18	1,064	1,266	800	1,214
1934	121	24	188	645	196	1,179	1,227	4,695	16	15	1,010	1,136	990	2,242
1935	58	17	153	575	142	1,203	1,527	5,435	18	16	1,370	1,389	741	1,686
1936	53	17	138	518	153	976	958	4,237	16	13	787	962	629	876
1937	53	14	125	508	156	1,040	1,930	4,902	24	15	1,176	1,562	1,471	1,890
1938	65	15	158	581	164	1,779	2,058	5,102	23	15	1,493	1,220	1,587	1,795
1939	80	14	144	595	192	1,447	1,761	6,494	22	15	1,235	1,562	1,235	1,435
1940	93	13	137	549	185	1,466	1,618	6,211	20	15	1,111	1,250	962	1,848
1941	55	11	116	459	142	1,059	1,332	3,788	12	11	645	1,042	730	1,239
1942	38	9	95	389	111	909	1,091	2,710	10	8	621	730	455	855
1943	36	8	85	321	90	735	893	2,469	10	7	552	418	426	763
1944	38	9	89	312	103	709	917	2,381	10	6	488	463	420	671
1945	36	8	85	313	88	667	787	2,353	9	6	481	332	385	699
1946	29	7	71	253	89	524	641	2,217	6	5	389	407	806	806
1947[2]	21	5	54	235	74	437	463	2,309	6	5	300	448	1,176	617
1948[2, 3]	21	4	49	206	69	488	735	——	6	5	418	——	——	654

U. S. Average prices received by farmers, weighted crop year averages for crops and weighted calendar year averages for livestock items

1 *Equivalent on-tree returns for all methods of sale.*

2 *Preliminary.*

3 *Calendar year simple averages for hogs, cattle, lambs, milk, eggs, all other items estimated season weighted average.*

Source: Bureau of Agricultural Economics.

Taking applications for farm mortgage loans

The manner in which a bank carries on its farm mortgage lending business has a very important bearing on the over-all public relations of the bank.

The circumstances under which applications for farm mortgage loans are taken or received by banks vary greatly. In some instances they are received directly at the bank; in others, they may be received through the bank's representative in the field.

Good public relations depends on the intelligence and understanding of the bank officer as he talks to the farmer-applicant and decides whether it is worthwhile for the farmer to spend the time needed for filling out a detailed mortgage application.

Much time can be saved for both the bank and the prospective borrower if a general evaluation of the proposed loan is made at the first interview with the applicant. Many times a bank customer will not have a very clear idea of the total amount he wants to borrow, or the total amount that he can borrow. His first interview with the bank representative serves to orient him with regard to his need for credit. The plan of repayment is also an important factor to consider at the time of the first interview.

Many inquiries received about farm mortgage loans do not result in a mortgage. Often the farmer is only exploring possibilities of credit in connection with his planning. If a particular loan cannot be made, the sooner the bank and the applicant know it, the better it is for both.

Many applications for farm mortgage credit cannot be granted, and can be eliminated during the first interview for such obvious reasons as the applicant's lack of experience or operating capital, the quality of the farm, or the fact that the prosposed loan is too large in relation to the value of the farm. When a loan cannot be made, it is highly important that the banker explain fully the reasons that the loan would be improper not only for the bank, but for the borrower as well. In declining the loan, the bank may be able to provide the farmer with sound business advice and assistance in other ways.

Sometimes when a mortgage loan cannot be made on one basis, the circumstances may be such that the application can be changed to make it acceptable to the bank. For example, if the bank cannot make a large enough loan to enable an experienced and reliable young man to buy a good farm, it may be able to assist him in getting located as a tenant on a good farm.

In preparing this manual, many application forms now in use were studied, and it was found that they reflect a variety of practices. Some are brief memoranda and contain little information other than name and address of the borrower and the farm, and the amount of loan applied for. Others are more comprehensive. It has been found that forms of the brief memorandum type have usually been abandoned for the more comprehensive ones which include more details about the borrower, his farm, and how he expects to pay the loan.

The suggested form illustrated in this chapter was prepared after examination of a large number of forms in use by banks of different sizes and operating in widely scattered areas. It is so arranged that it can be concluded at several different points as it is being written, if it appears that the loan cannot be made.

For purposes of simplicity, and also to avoid the use of too many forms, the suggested application includes a financial statement, personal data statement, closing statement, and loan committee action report.

Remember that the loan application is the borrower's written representation about the farm he offers as security, the income he expects to produce, and how he is going to pay the loan. The bank's representative should assist the farmer in making out the application so as to provide accurate information. This should be subsequently verified by the bank's appraiser.

Factors entering into the appraisal will be discussed in the chapter, "Sound Appraisal—The Foundation of Farm Mortgage Lending."

The purpose of this manual is not to set forth any forms as being "ideal." They will vary with the many different types of farming conducted in the various sections of the country. The suggested form (see Form No. 1 on pages 8 to 11) must necessarily be modified to fit local conditions and types of farming.

Banks are urged to adapt application forms to their own needs and are given permission to reproduce Form No. 1. In the event that a bank needs only a few forms and would not find it practical to have one printed, Form No. 1 will be furnished, without charge, upon request.

FORM NO. 1—Farm Mortgage Application (four sections)—Section 1

National State Bank, Hometown, U. S. A.

FARM MORTGAGE APPLICATION

(Name) (Address) (Tel. No.)

To The ..... Bank of ..... Date .....
Application is made for a loan of $..... on a ..... acre farm
Known as the ..... Place
Located ..... adjoining lands of (or legal description) .....
.....
.....
The title to which is in the name of .....
The funds will be used to .....
Will repay $..... monthly, quarterly, semi-annually, annually, including interest at the rate of ..... per cent. Payments will begin on ....., 19.....
Amount of present loan (if any), $.....
From what source of income is loan to be repaid? .....
.....
.....
References .....
.....

FINANCIAL STATEMENT
PROPERTY OWNED

Present Value

Farm of ..... acres, of which ..... acres are tillable,
..... acres are pasture, and ..... acres are woodland ..... $.....
Other real estate: ..... $.....
..... $.....

Schedule of Livestock and Poultry Owned: (Itemize below)

..... horses	$.....	..... hogs	$.....
..... dairy cows	$.....	..... sheep	$.....
..... dairy heifers	$.....	..... chickens	$.....
..... steers	$.....	..... turkeys	$.....
..... beef cows	$.....	.....	$.....
..... beef heifers	$.....	.....	$.....
..... calves	$.....	.....	$.....

Total value of livestock and poultry ..... $.....
Machinery, tractors, and equipment ..... $.....
Trucks and automobiles ..... $.....
Farm produce on hand to be sold (Describe) ..... $.....
..... $.....
..... $.....
Harvested crops for farm use ..... $.....
Cash outlay on growing crops ..... $.....
Notes and accounts due me (good) ..... $.....
Cash on hand and in banks ..... $.....
U. S. Government Bonds ..... $.....
Cash value of life insurance on $..... maturity value $.....
Other assets ..... $.....
..... $.....

Total Property Owned $.....

SIZE—8½" x 11"

Section 2 of FORM NO. 1

DEBTS OWED

To Whom Money Is Owed	Property Covered		Present Amount
Real estate mortgages on this farm			$
			$
Other real estate mortgages			$
Drainage and irrigation indebtedness (District name)			$
Annual payment on this farm: Bonds and interest		$	
Operation and maintenance		$	
Unpaid taxes			$
Mortgage interest past due			$
Mortgage principal past due			$
Chattel mortgages and conditional		Monthly payment	
sales contracts		$	$
		$	$
		$	$
Loans secured by life insurance			$
Unsecured notes			$
			$
			$
Open accounts and other debts (Hardware, garage, gasoline,			
veterinarian, hospital, medical, grocery, etc.)			$
			$
			$
		Total debts owed	$
Notes endorsed for others		Total property owned	$
$		Total debts owed	$
$		Present net worth	$

For the purpose of procuring credit, the undersigned make(s) the foregoing statement appearing on both sides of this application with intent that it shall be relied upon as a full and true statement of all the facts therein set forth and of the financial condition of the undersigned as of the date of said statement. I (we) agree to notify you promptly of any change affecting my (our) ability to pay, as agreed.

Signature_____

Date .....

BUILDINGS ON THE FARM

Building	Age	Material	Size	Condition	Cost to Replace	Insurance
Dwelling					$	$
Tenant house					$	$
Tenant house					$	$
Tenant house					$	$
Barn					$	$
Barn					$	$
Granary					$	$
Machine shed					$	$
Poultry house					$	$
Silo					$	$
Silo					$	$
					$	$
					$	$
				Total		$

SIZE—8½" x 11"

Section 3 of FORM NO. 1

OTHER FARM INFORMATION

	Last Year Acres	Last Year Yield	Last Year Gross Income	Now In Acres
Corn			$	
Wheat			$	
Oats			$	
Barley			$	
Rye			$	
Alfalfa			$	
Other hay			$	
			$	
			$	
			$	
Pasture			$	
Woodland			$	
Wasteland			$	
Total				
Dairy products			$	
Livestock			$	
Poultry products			$	
Other farm income			$	
Outside income			$	
Total gross income			$	

Age of applicant .....
Condition of health .....
Wife's maiden name .....
Ages of boys ..... girls .....
Other dependents .....
How long farming? ..... On this farm .....
Where is applicant from? .....
How was farm acquired? ..... Cost .....
Cash paid .....
When was farm acquired? .....
Assessed value of farm $.....
Assessed real estate taxes $.....
Does applicant live on farm? .....
If not, occupation? ..... Salary .....
Does applicant own all personal property? .....
Type of farming .....
Additional machinery needed .....
Additional livestock needed .....
Additional buildings needed .....
Does applicant have a farm plan? .....
Types of soil .....
Labor supply .....

Is other land rented? .....acres .....
cost .....
Noxious weeds? .....
Water supply for family .....
for livestock .....
Proper drainage? .....
Electricity? .....
Condition of fences .....
Condition of buildings .....
Is part of farm rented out? .....
Any judgments against applicant? .....
Are any suits pending? .....
Ever been in bankruptcy? .....
Any mechanics' liens? .....
Bank account with .....
Life insurance carried $.....
Companies .....
Health, Accident Ins., or Hospitalization .....
.....

If Dairyman:
Amount monthly checks $.....
Where is market? .....
Number of cows milking .....

Remarks: .....
.....
.....

SIZE—8½" x 11"

Section 4 of FORM NO. 1

CLOSING STATEMENT

For	Paid To	Amount
Appraiser's Fee		$.....
Title Examination		$.....
Recording Fee		$.....
Fire Insurance Premium		$.....
Survey		$.....
.....		$.....
.....		$.....
.....		$.....
Disposition of balance		$.....
Total amount of loan		$.....

LOAN APPROVED FOR:

$.....

..... years

.....per cent

Insurance Carried		Insurance Required	
Fire	$.....	Fire	$.....
Tornado	$.....	Tornado	$.....
Extended Coverage	$.....	Extended Coverage	$.....

Loan Payable:

( ) Constant Payment Amortized, ...%, ... years, payable ..... annually on the first of .....

( ) Diminishing Payment Amortized, ...%, ... years, payable ..... annually on the first of .....

( ) Straight Term, ...%, ... years, with interest payable ..... annually on the first of ..... and principal payments of $..... payable ..... annually beginning .....

Pre-payment privilege .....

_____

_____

_____

Loan Committee

Dated ....., 19.....

SIZE—8½" x 11"

Plan of repayment

Amortized Loan Is Best for Farmer as Well as Banker

The loan should be amortized on a plan adapted to the borrower's ability to repay. The loan contract should permit the borrower to pay faster than the contract calls for. 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.

Every farm mortgage loan should have a "pay day." Bankers should remember that there is no farm mortgage stock exchange; i.e., a bank that owns listed stocks and bonds can always sell them for some price. A farm mortgage may be good, but in times of stress it cannot be quickly converted into cash. What are regarded as short term loans under very favorable conditions may of necessity become long term loans if economic conditions change.

Experience indicates that the easiest way for an average farm family to pay off a mortgage is on an amortized repayment plan. This does not mean, however, that there should be any standard pattern for amortizing mortgages. Subject to applicable banking laws, both the term of years and the frequency of payments should depend upon (1) the type of farming, (2) the quality of the farm, (3) the size of the loan, and (4) the borrower's ability to meet the payments. In cases where farm income is primarily from the sale of crops, it is usually desirable to have payments made at the time the crops are normally sold. On dairy farm mortgage loans, it may be desirable to have monthly or quarterly payments.

The loan contract should always permit *advance* payments on principal. The amount to be paid periodically on the principal of a farm mortgage loan should depend upon the prospective income and prospective expenses of the borrower. In some cases, this may mean larger payments during periods of high income, in order to reduce the size of the payments during periods of low income. The same principle applies to years of high farm prices; larger payments should be provided for then in order to reduce the size of payments when income may be lower.

Banks generally follow one of two basic amortization plans. In one, the amount of principal payments remains the same, while the amount paid in interest declines with each payment, making each succeeding total payment smaller. This is sometimes described as the Diminishing Payment Plan.

Constant Payment Plan

The other and more commonly used plan, known as the Constant Payment Plan, calls for the same number of dollars to be paid to the bank on each payment date throughout the entire life of the loan. In this type of repayment plan, the interest portion of the loan payment becomes progressively smaller, while the portion applied to principal becomes gradually larger. As the years pass, the unpaid balance of the loan diminishes as a larger part of each payment is applied to principal, and less is applied to interest. Bankers interested in this last-described plan can obtain from various publishers books of tables showing how the plan operates.

Three examples of amortization schedules are shown in Table No. 2 on page 13.

Straight Loan

This manual contains no discussion of a straight loan secured by an unamortized farm mortgage. Banks

TABLE NO. 2—Amortization Schedules

5% SEMI-ANNUAL SCHEDULE 10 YEARS

SEMI-ANNUAL PAYMENT PER $1,000 IS $64.15 (Exact figure $64.147129)

TIME Yrs.	Mos.	Periods	PAYMENT ON Interest	Principal	BALANCE OF LOAN
0	6	1	25.00	39.15	960.85
1	0	2	24.02	40.13	920.72
1	6	3	23.02	41.13	879.59
2	0	4	21.99	42.16	837.43
2	6	5	20.94	43.21	794.22
3	0	6	19.86	44.29	749.93
3	6	7	18.75	45.40	704.53
4	0	8	17.61	46.54	657.99
4	6	9	16.45	47.70	610.29
5	0	10	15.26	48.89	561.40
5	6	11	14.04	50.11	511.29
6	0	12	12.78	51.37	459.92
6	6	13	11.50	52.65	407.27
7	0	14	10.18	53.97	353.30
7	6	15	8.83	55.32	297.98
8	0	16	7.45	56.70	241.28
8	6	17	6.03	58.12	183.16
9	0	18	4.58	59.57	123.59
9	6	19	3.09	61.06	62.53
10	0	20	1.56	62.53	0.00
				Final Payment	64.09

5% SEMI-ANNUAL SCHEDULE 15 YEARS

SEMI-ANNUAL PAYMENT PER $1,000 IS $47.78 (Exact figure $47.777641)

TIME Yrs.	Mos.	Periods	PAYMENT ON Interest	Principal	BALANCE OF LOAN
0	6	1	25.00	22.78	977.22
1	0	2	24.43	23.35	953.87
1	6	3	23.85	23.93	929.94
2	0	4	23.25	24.53	905.41
2	6	5	22.64	25.14	880.27
3	0	6	22.01	25.77	854.50
3	6	7	21.36	26.42	828.08
4	0	8	20.70	27.08	801.00
4	6	9	20.03	27.75	773.25
5	0	10	19.33	28.45	744.80
5	6	11	18.62	29.16	715.64
6	0	12	17.89	29.89	685.75
6	6	13	17.14	30.64	655.11
7	0	14	16.38	31.40	623.71
7	6	15	15.59	32.19	591.52
8	0	16	14.79	32.99	558.53
8	6	17	13.96	33.82	524.71
9	0	18	13.12	34.66	490.05
9	6	19	12.25	35.53	454.52
10	0	20	11.36	36.42	418.10
10	6	21	10.45	37.33	380.77
11	0	22	9.52	38.26	342.51
11	6	23	8.56	39.22	303.29
12	0	24	7.58	40.20	263.09
12	6	25	6.58	41.20	221.89
13	0	26	5.55	42.23	179.66
13	6	27	4.49	43.29	136.37
14	0	28	3.41	44.37	92.00
14	6	29	2.30	45.48	46.52
15	0	30	1.16	46.52	0.00
				Final Payment	47.68

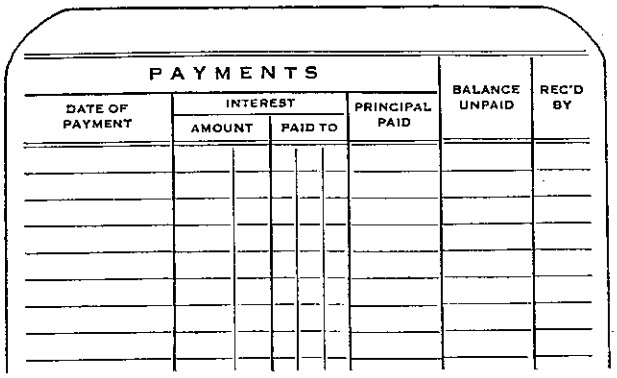
5% SEMI-ANNUAL SCHEDULE 20 YEARS

SEMI-ANNUAL PAYMENT PER $1,000 IS $39.84 (Exact figure $39.836233)

TIME Yrs.	Mos.	Periods	PAYMENT ON Interest	Principal	BALANCE OF LOAN
0	6	1	25.00	14.84	985.16
1	0	2	24.63	15.21	969.95
1	6	3	24.25	15.59	954.36
2	0	4	23.86	15.98	938.38
2	6	5	23.46	16.38	922.00
3	0	6	23.05	16.79	905.21
3	6	7	22.63	17.21	888.00
4	0	8	22.20	17.64	870.36
4	6	9	21.76	18.08	852.28
5	0	10	21.31	18.53	833.75
5	6	11	20.84	19.00	814.75
6	0	12	20.37	19.47	795.28
6	6	13	19.88	19.96	775.32
7	0	14	19.38	20.46	754.86
7	6	15	18.87	20.97	733.89
8	0	16	18.35	21.49	712.40
8	6	17	17.81	22.03	690.37
9	0	18	17.26	22.58	667.79
9	6	19	16.69	23.15	644.64
10	0	20	16.12	23.72	620.92
10	6	21	15.52	24.32	596.60
11	0	22	14.92	24.92	571.68
11	6	23	14.29	25.55	546.13
12	0	24	13.65	26.19	519.94
12	6	25	13.00	26.84	493.10
13	0	26	12.33	27.51	465.59
13	6	27	11.64	28.20	437.39
14	0	28	10.93	28.91	408.48
14	6	29	10.21	29.63	378.85
15	0	30	9.47	30.37	348.48
15	6	31	8.71	31.13	317.35
16	0	32	7.93	31.91	285.44
16	6	33	7.14	32.70	252.74
17	0	34	6.32	33.52	219.22
17	6	35	5.48	34.36	184.86
18	0	36	4.62	35.22	149.64
18	6	37	3.74	36.10	113.54
19	0	38	2.84	37.00	76.54
19	6	39	1.91	37.93	38.61
20	0	40	.97	38.61	0.00
				Final Payment	39.58

SOURCE: *Direct Reduction Loan Amortization Schedules* · Financial Publishing Company, Boston, Mass.

FORM NO. 2—Payment Card



SIZE—4¼" x 6¼"

have found this type of loan undesirable from the standpoint of both the borrower and the bank, except when made in a very conservative amount, on desirable property, to a borrower who has good reasons for not making instalment payments on principal.

Payment Record

The use of a payment card or receipt book to record payments for the borrower is a matter of bank policy. Receipt books have been used successfully by many banks while others have used payment cards to advantage. (See Form No. 2 on this page.)

What Some Country Bankers Say

"Our farm mortgage loans came through the depression years without loss. We had plenty of records to support them and they confirmed our judgment to give the borrowers time and to grant them extensions of both interest and principal. It was the good appraisal records about the man and the land that helped our directors to decide to go along with our mortgage borrowers."

"We feel that it is a duty of the bank to help our customers get out of debt, and therefore, we provide in all of our mortgages a prepayment privilege, in whole or in part. Our bank is of the opinion that it will be most helpful to our customers and to banking as a whole if we provide this feature in our mortgages."

"The bank's directors or its loan committee should review all farm mortgages regularly. An inspection report that is completed by a bank representative on his periodic visits to the farm will assist the bank directors materially in reviewing farm mortgages."

"We keep all papers supporting a mortgage in a 9½ x 15 heavy cardboard folder. They are placed flat and clamped in the folder at one end. In this form the papers are made easily available for inspection by bank examiners as well as bank directors and officers."

"We employ the services of a full-time agricultural adviser who also does our appraisal work on real estate and farm personal property. His services are available for consultation at the farm on matters of breeding, soil conservation, crops, etc."

"We have a map of our county showing all of the primary and secondary roads. On this map, we have located the farms on which we have loans. We have found this very helpful to our 'outside farm man,' as well as to the bank's officers and directors."

Sound appraisal—the foundation of farm mortgage lending

Appraise the Man and the Land

Sound appraisal of farm enterprises is the very foundation of satisfactory farm lending. It includes appraisal of the farmer as well as of the farm. It recognizes that the value of the farm is determined by its prospective net income. This in turn depends on its productivity and on probable farm prices and expenses during the life of the loan.

A sound appraisal of a farm enterprise includes: (1) Inspection of the soil, topography of the land, and farm buildings, to secure an accurate idea of their physical productivity; (2) consideration of the equipment and the managerial ability of the farmer himself, to get some idea of how well the soil is likely to be employed; and (3) checking roads, churches, schools, and availability to markets, because they affect the salability of the farm.

The appraisal of farms is not a science. It is an expression of the judgment of an appraiser selected by the bank, arrived at after consideration of all important factors pertaining to an individual farm.

The appraiser is chosen by the bank because it has confidence in his judgment of farms and farmers and in his ability to analyze the farm operation and to estimate the income-producing ability of the farm. The appraiser may be a director of the bank, a man in the real estate business, a farmer himself, the bank's agricultural representative, or a professional appraiser. The requisites are that the bank have confidence in him and that he has a good pair of eyes, a lively curiosity, and good judgment. This good judgment will show itself in a dependable forecast of the farm's income-producing capacity over a period of years.

A farm loan should be mutually advantageous to the bank and the borrower, and should be geared to the debt-paying capacity of the farm and the farmer.

The history of farm mortgage credit emphasizes the fact that current market prices of farm land and of farm products are not a proper basis for extending long term mortgage credit. Market prices fluctuate greatly over a period of years, and if they are used as a basis for mortgage loans in boom times, this may cause loss both to the borrower and the lender.

Costs of operation, taxes, and the availability of markets for farm products increase during periods of inflation. They are slower to readjust themselves than market prices, when deflation sets in. This produces an inevitable squeeze during down-swings in economic cycles. Where there is too much indebtedness, heavy liquidation may be required in the years of falling prices, with loss to both lender and borrower.

Normal Values

Farmers with moderate indebtedness, who are good managers, can weather a period of squeeze between income and costs without serious results. In farm mortgage lending, banks should adhere to values based on the farm commodity prices which appear likely to prevail over a period of future years. Basing loans on normal value of lands and commodity prices will avoid many headaches for both farmers and lenders.

Normal values of farm real estate are values based upon farm commodity prices that are expected to prevail when economic conditions are reasonably well balanced and free from serious inflation or depression. In times of depression, forecasts of values are generally very conservative and in times of inflation, optimism is in the air. Careful bankers will take an intermediate point of view and make an effort to forecast farm values consistently, so that their extensions of credit will be helpful in the long run.

Some lenders who formerly relied upon the 1909-14 period for farm commodity values are now leaning more to the later periods since they reflect more recent conditions, recent trends in supply and demand factors, and differentials between competing commodities and between regions.[1] It is quite as necessary to forecast costs, because they are an important factor in net farm income. They vary greatly with the general price level. When net incomes are very favorable due to prices out-running costs, it must be borne in mind that when conditions are reversed, the cost level will make debt repayment difficult.

In the long run, land values and debt-paying ability are likely to approximate more closely those prevailing during times of reasonable stability, such as characterized the periods for which prices are given on page 16,

[1] The forecast prices as used by The Equitable Life Assurance Society of the United States are given in its manual, *Appraising Farms for Loans — 1948,* The Equitable Life Assurance Society of the United States, 393 Seventh Avenue, New York 1, New York.

Table No. 3—Farm Commodity Prices Received by Farmers

Commodity	Unit	Actual 1909–14 Average Price	Actual 1935–39 Average Price	Actual 1937–41 Average Price
CROPS:				
Food grains				
Wheat	bu.	$ .88	$ .84	$ .79
Rye	bu.	.72	.55	.52
Rice	bu.	.81	.74	.78
Feed grains & hay				
Corn	bu.	.64	.69	.63
Oats	bu.	.40	.34	.33
Barley	bu.	.62	.53	.48
Hay, mixed	ton	11.87	8.87	8.11
Cotton	lb.	.124	.1033	.1028
Sugar Beets	ton	5.50[2]	6.83[1]	7.14[1]
Tobacco[3]				
Dark fire-cured	lb.	n.a.[4]	.10	.106
Dark air-cured	lb.	"	.093	.086
Flue-cured	lb.	"	.20	.21
Burley	lb.	"	.22	.20
Maryland, type 32	lb.	"	.20	.24
Cigar filler	lb.	"	.109	.12
Cigar binder	lb.	"	.134	.14
Cigar wrapper	lb.	"	.77	.80
Oil-bearing crops				
Cottonseed	ton	22.55	27.52	26.44
Soybeans	bu.	n.a.[4]	.95	.98
Peanuts	cwt.	4.80	3.55	3.62
Flaxseed	bu.	1.69	1.69	1.69
Vegetables				
Potatoes (U.S. #1 & #2)	bu.	.70	.72	.69
Sweet potatoes	bu.	.88	.81	.85
Beans, dry edible	cwt.	3.37	3.52	3.49
LIVESTOCK:				
Beef Cattle	cwt.	5.42	6.56	7.39
Lambs	cwt.	5.88[5]	7.79[5]	8.28[5]
Hogs	cwt.	7.27	8.39	7.68
Livestock Products				
Milk, wholesale	cwt.	1.60	1.81	1.90
Butterfat	lb.	.26	.29	.29
Chickens	lb.	.11	.15	.15
Eggs	doz.	.22	.22	.21
Wool	lb.	.18	.24	.27

[1] *Includes all Government payments, except those for crop deficiency and crop abandonment.*
[2] *Base period or 1909–13 average; 1909–14 average is $5.49.*
[3] *Data reflect crop year rather than calendar year average prices.*
[4] *Not available.*
[5] *Includes slaughter grades.*
Source: Bureau of Agricultural Economics.

than those which prevailed during times of inflation or during periods of depression. Forecasts of both prices and costs must be changed with the changes in the long term outlook.

It is not the intent of this manual to make long term forecasts of prices but rather to present the averages for various stable periods. These may be helpful to bankers in arriving at a level of prices for use in their appraisals.

Table No. 3 [1] shows the average United States farm prices for some principal commodities for three periods that are often referred to as base periods; namely, 1909-14, 1935-39, and 1937-41.

RECORDS THAT MAKE UP A SOUND APPRAISAL

A bank's appraisal report should be supported by adequate records that can be made available to the bank officers and directors to support the appraisal. Such records will guide them in making a loan.

Appraisal Aids

Records such as land classification maps, soil maps, and aerial photographs should be obtained and used to help determine the quality and productivity of the land in the territory and of the farm offered as security.

In many states, colleges of agriculture, experiment stations, and the Soil Conservation Service have classified much of the farm land according to its value for agricultural purposes. The experience of farmers, as indicated by a large number of farm income surveys, shows that in general, the higher the quality of the land, the higher the net farm income. The spread between farm incomes made on the higher and lower land classes is being steadily widened. Soil maps, land-capability maps, and aerial photographs are available for a large part of the farm land in the country.

One of the first things that should be done in considering any application for a farm mortgage loan is to locate the farm on the local land classification, soil, and aerial photographic maps, if available.

The basic evaluation of farm land for loan purposes should be its earning power. In order to arrive at the earning power, many factors must be kept in mind. Of prime importance is the ability of the land to produce the crops adapted to the area. This requires a knowledge of the soil, its susceptibility to erosion, slope of the land, drainage condition, flooding hazards, amount of alkali, and related physical factors. This kind of physical information is recorded on land-capability maps now being made by the Soil Conservation Service in all states throughout the nation, principally in farmer-organized and farmer-managed soil conservation districts.

Land Classification Maps

A great deal of the nation's farming area already has been classified by technicians as to what it can do and what it needs to make it produce more; that is, land has been classified in accordance with its capabilities.

Local farmers, soil conservationists, soil scientists, and agricultural specialists have worked out a plan of proper land use. They have recommended practices they think are safe and sound for each land class. The fertility of the soil, its depth and workability, its behavior on different slopes, and its changes as erosion becomes more severe, all are taken into consideration. Each combination of soil, slope, and erosion has been assigned to a capability class.

Research findings and all technical information are blended with practical farm experience in determining the capabilities of the land and in working out the right combination of practices to make full use of it without waste of land resources. In other words, farm land is classified according to its ability to produce net income.

Land classification and land-capability maps are designed to show:

1. Areas eroded or subject to erosion.
2. Wet lands and their suitability for use if drained.
3. Areas particularly needing manure, fertilizers, and lime.
4. Fields that should be changed from cropland to grassland or trees.
5. Areas subject to frequent flooding.
6. Patches of otherwise good bottomland covered with erosion debris.
7. Areas too steep or shallow to cultivate on which trees or grass should be planted.
8. Peculiar soil areas not suitable for terracing.
9. Rock and gravel outcropping that interferes with farming operations.
10. Location of soils best suited for particular crops such as alfalfa, tobacco, peanuts.

In all states, land suitable for regular cultivation, or the best land, is called Class I; the next best, Class II; etc. Following are brief descriptions of each of the land-capability classes:

Class I. Very good land that is easy to work and can be cultivated safely with ordinary good farming methods. Soils are deep and productive. The land is nearly level and there is little or no erosion.

Class II. Good land that can be cultivated safely with easily applied practices. Soils are deep and productive but need liming and fertilizing. Gentle slopes need contouring. Bottomland needs improved drainage.

Class III. Moderately good land; can be cultivated safely with intensive treatments. Soils are good; slopes are from 4 to 14 per cent. It has moderate to severe erosion and washes easily. Needs contour strip cropping, a rotation with not more than one clean-tilled

[1] These prices are from data of the United States Department of Agriculture.