YOUNG FARMER AND HOMEMAKER SERIES

YMW Circular 1

When You Borrow Money

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Have a plan to present to the lender.

finally realized. It is well to consider what your income would be if, for example, crop yields were cut in half or the number of pigs farrowed were reduced drastically. Prices might also be less than anticipated. Selling your breeding stock and operating property to settle a loan is poor business.

What About Your Farm?

That you have a farm operation of sufficient size and the equipment to run it is important to the lender. He should also know the terms of your lease or agreement. Your landlord's or partner's cooperation may be needed.

Do You Have Insurance?

The protection you provide for your family in the form of insurance will be of interest to the lender as well. He doesn't want to foreclose the mortgage in case of an emergency. Money in a sound loan must be safe for the lender as well as profitable for you.

When you sign a note or contract, be sure you understand:

1. **When and how the loan is to be repaid.**
2. **The specific property you have pledged as security.**
3. **The interest rate and how it is computed.**
4. **The charges other than interest.**

stock, a household appliance, or any number of other items. The decision as to how each dollar will be spent calls for good judgment and discpline on the part of the entire family. To invest for future income may mean postponing conveniences in the farm operation or pleasures in personal living. But it will also mean financial progress.

Repayment Ability Necessary

By promptness, honesty, and attention to your obligations you establish a **repayment record.** A lender also looks for **repayment ability.** He wants to lend money to a young farmer who has "know-how" and who is a good manager. To get the job done in the right way at the right time is a vital part of farming success. Sound decisions and hard work will help produce income to pay off debts. A farm business of sufficient volume is also necessary.

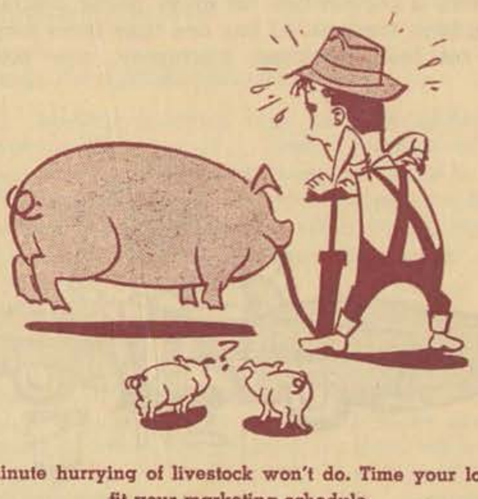
A large part of the lender's security should be found in the investment you are making. How successful that investment will be, however, depends on you, the borrower. Therefore, the lender is interested in your record.

Start Early

Many young people demonstrate their management abilities through 4-H Club and FFA projects. Both the experience gained and the capital accumulated are very often helpful when credit is needed later in larger amounts.

Do You Pay Your Bills When Due?

Sometimes loan payments are a bit troublesome. If it becomes apparent that a payment cannot be



Last minute hurrying of livestock won't do. Time your loans to fit your marketing schedule.

made as scheduled, see the lender about it. It is preferable to do this before the due date. You then have time to talk it over and make other arrangements.

Consolidate Your Debts

With scattered debts it is difficult for you or the lender to size up your credit position. When you find a lender who gives good service, do all your business with him. Avoid accumulating other obligations. Work out a plan with the lender for financing your operation and keep him informed of needed changes in it.

Get To Know the Lender

Talk over your credit needs before they become urgent. Lenders like to know young people who have a keen interest in the highly technical business of farming and are proud to be farmers. They also deem it important that a borrower is ready to consider suggestions and advice.

Present Your Case to the Lender

When you have determined through careful study of your operation that it would be profitable to borrow money, present your plan to the lender. "Lay the cards on the table." Have available in an organized manner as much information as possible about your farming program.

What Do You Own?

The lender will want to know the value of what you own and the amount of your debts. He may call this a financial statement, balance sheet, or net worth statement. Previous records that show what financial progress has been made are valuable even if they represent only one or two years. A lender wants to know something about the business with which he is dealing.

What Income Do You Anticipate?

Will it be sufficient to retire your debts? Income or operating statements are important. They are an indication of your earning power and make it possible to more accurately schedule your repayments and advances. Records from previous years can be used as guides.

Precautions Are Necessary

Most people are conservative in their estimates of expenses and often expect greater income than is

When You Borrow Money ---

Keep these principles in mind

- **BORROW TO MAKE MONEY:** A loan should return a profit besides paying for itself and the interest costs. The funds must be spent for the items in farm production that make future income possible. Borrowing for consumption merely uses future income today.

- **KNOW YOUR FARM BUSINESS:** Make a summary of what you own and what you owe. Your lender will ask for it. Give him all the information you can.

- **HAVE A PLAN:** Estimate your expenses and income for the year. By listing these you can determine your credit needs and work out an orderly repayment schedule. Use past records if available.

- **TALK IT OVER:** Gain the confidence of your lender through frank and honest discussions of your finances. Both husband and wife should be familiar with the terms of each loan and what it is to be used for.

- **STICK TO ONE LENDER:** Look for service and dependability in a lender and do all your business with him. Seek his advice.

- **BORROW NO MORE THAN NEEDED:** Extra funds that can't be put to work for you immediately will "Burn a hole in your pocket." At best, they involve added costs.

- **BE PROMPT IN PAYING DEBTS:** Meet obligations when due. If you can't meet payments, talk it over with the lender right away.

- **DISCIPLINE YOUR SPENDING:** The successful borrower distinguishes between his "needs" and his "wants" and spends accordingly. To spend wisely requires cooperation and understanding on the part of the entire family.

- **KEEP RECORDS:** Complete, accurate, meaningful records of your business will help the lender give better service in loaning the money you need.

Are You Abo

If so, you are typical of
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tal of their own at the start.
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production can spell the diff

What to Look for in

What are the terms?

When Do Payments Fall Due?

Every loan must have a payday. Make it as close as possible to the time when farm products are sold. Due dates on certain loans, however, need to be flexible. For example, market prices might favor feeding livestock for longer periods or selling them earlier than planned. Make provision to allow for this variation. Also the privilege of making larger repayments if more income is available can be a convenience to the borrower and reduce his costs. The repayment arrangements agreed upon should be included in the written terms of the note.

Are Funds Available When Needed?

Your farming program may call for additional loans during the year. If a careful analysis of the operation is made at the start, these needs can be met as they arise. A livestock man, for example, needs assurance that he will have funds for sufficient feed to bring his stock to market. The grain farmer may need a loan to cover harvesting costs.

How Is Interest Calculated?

Paying simple interest on the unpaid balance of a note is the least expensive method. In many installment loans, however, the interest is calculated in advance on the entire amount. The conditional sales contract sometimes used by implement, automobile,

out to Borrow Money?

l of most young people getting established in farm-
ness, and many farm families have only limited capi-
tart. Credit becomes a necessity. Sound use of credit
, income, and profit. Effectively used this "tool" of
e difference between success and failure in farming.

in a Production Loan

What Will It Cost?

and appliance dealers is of this type. It is a more expensive form of credit but usually provides a smaller down payment and a longer time to pay. Title to the property is not given to the borrower until payments are completed.

What Does Interest Cost?

In purchasing $3,000 worth of machinery on March 1 a farmer pays $1,000 down and borrows $2,000 at 6 per cent interest. He plans three payments: $500 on August 1 from sale of spring pigs, $1,000 on October 1 from sale of soybeans, $500 on March 1 from sale of fall pigs. Compare his interest costs below.

			Interest if calculated	
Date	Payments	Balance	On unpaid balance	On entire amount in advance
March 1	——	$2,000		
June 1	$ 500	1,500	$30.00	
October 1	1,000	500	30.00	
March 1	500	——	12.50	
Total interest			$72.50	$120.00
Difference			47.50	

Extra Charges Boost Costs

Although interest is the principal cost, other charges must be considered. There may be fees for appraisal and inspection of the loan, filing and releasing the mortgage, or for additional insurance. Carrying or processing charges are common. These all add to the cost of a loan and should be understood before a commitment is made.

Budgeted Loans Advisable

Let's take a look at a budgeted loan. The lender has reviewed this farmer's needs with him and made a commitment on advances and repayments that fit the farmer's anticipated expenses and income. Interest is calculated on the unpaid balance.

Date	Purpose of advance or source of repayment	Amount advanced	Expected repayments	Outstanding balance	Interest at 6 per cent
February 1	Machine repairs and seed	$ 200	—	$200	—
April 1	Fertilizer and fuel	300	—	500	$ 2.00
May 1	Sale of hogs	—	$ 300	200	2.50
July 1	Combining	250	—	450	2.00
October 1	Feeder hogs	500	—	950	6.75
November 1	Sale of beans	—	250	700	4.75
February 1	Sale of hogs	—	700	—	10.50
	Totals	$1,250	$1,250	—	$28.50

Take a Look at the Lender

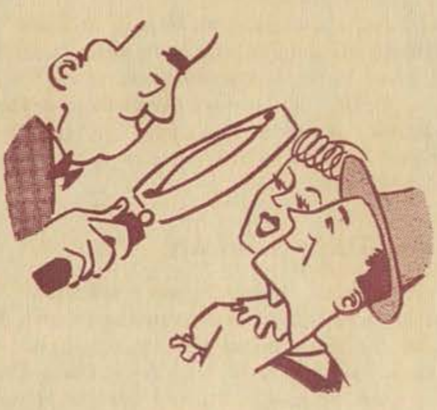
A dependable lender is one who is well established in the community and who makes loans to many other successful farmers. He will be ready to make further loans to you another year. He can handle your total credit needs.

It is often important that the lender has experience in your particular type of loan. If you are feeding beef cattle, for example, the local banker or Production Credit Association representative who is financing other beef men can give much helpful advice. He will recognize a good investment for both you and him—and a poor one as well. He understands when you will have income available to make repayments.

The lender's business is money management. He is not interested in taking over your property as payment for a debt. Avoid a lender who, during less prosperous periods, has a record of quick foreclosures.

While a low interest rate saves money, look also at the service and consideration you get from the lender. It may be worth more than a small saving on rate.

In turn the lender may be looking at you. He is "sizing you up" as a credit risk. Let him know who you are.



The Lender Takes a Look at You and Your Credit Rating

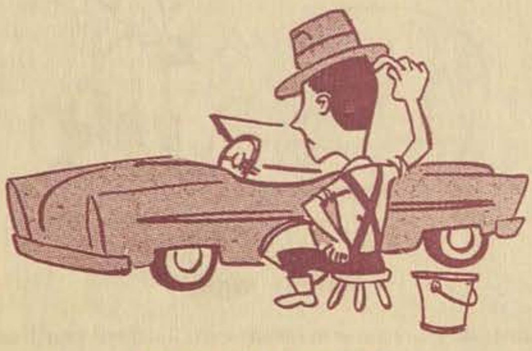
Do You Always Do What You Say You Are Going To Do?

It's that type of dependability and honesty the lender is looking for. Use the proceeds of a loan for the purpose agreed upon and turn in all income from the sale of mortgaged property without exception. In this way you keep your part of the bargain.

Are You Living Within Your Income?

That's important. It demonstrates a willingness to sacrifice some things you want in favor of your farming needs.

There is competition for every dollar available to young farm families. At any one time there may be a need for feed, fertilizer, machinery, new breeding



You can't milk a convertible.

Sources of Production Credit

Commercial banks are an important source of farm production loans. The local banker knows his borrowers personally and is an established member of the community. An increasing number of banks are employing men trained in agriculture to serve farmers. Interest rates vary but are reasonable.

Production Credit Associations are cooperatives, owned and run by farmers. Borrowers buy 5 per cent of the amount of their loan in stock which is refunded when the loan is paid.

The Farmers' Home Administration is an agency of the federal government. Loans are made only to those farmers who are unable to get money from other sources. A large share of FHA's borrowers are young people getting started farming.

Merchants and dealers provide credit through selling "on time." The cost varies widely. In most cases it is profitable to borrow from a regular lending agency and pay cash at the store.

Individuals supply a large share of credit for young farm families. This source may not be dependable in case the lender dies or his financial situation changes. Loan arrangements should be on a strict business basis, especially with relatives.

Consult Your County Extension Agents . . .

. . . They will be glad to work with you on problems like those discussed in this brief circular. Visit them in the county Extension office or invite them to stop at your home or farm when in the vicinity. If you know of a few other couples in your community with similar interests, suggest that they, too, get in touch with your county Extension office.

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