

## Sources of Credit



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## Avenues of Credit

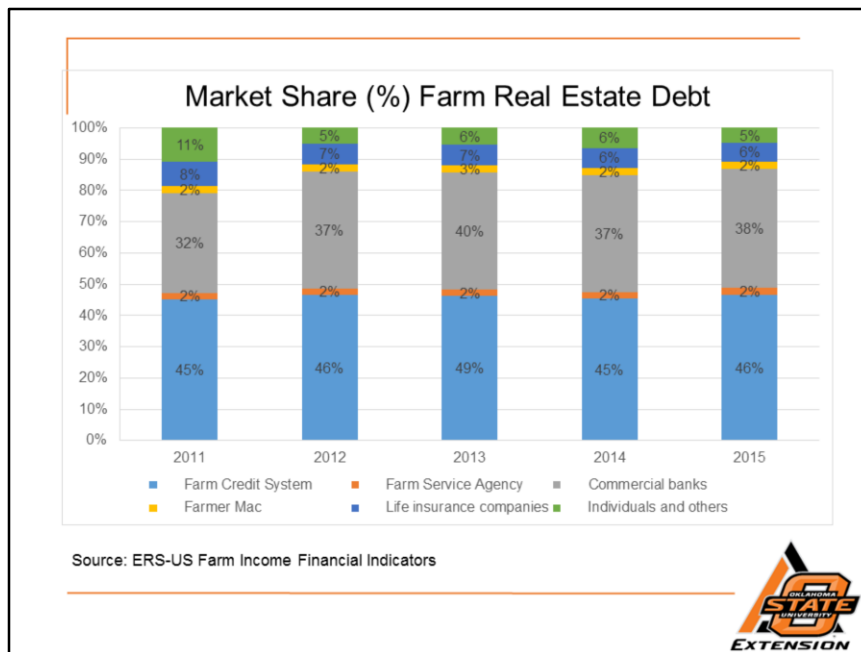


### ■ Who can provide financing for agricultural ventures?

- ☐ Commercial Banks
- ☐ Credit Unions
- ☐ Farm Credit Associations
- ☐ Farm Service Agency
- ☐ Life Insurance Company



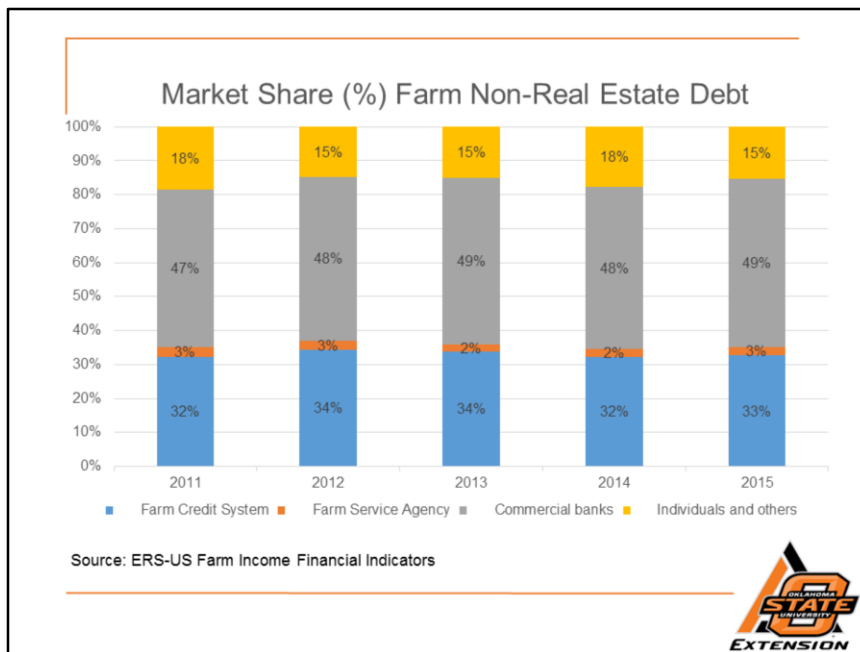
There are multiple avenues of credit available to agricultural producers. Let's begin by identifying who can provide financing for your agricultural venture. Local commercial banks and credit unions may provide agricultural loans for asset purchases or operating expenses. In rural communities, this may be an emphasis for the local bank or credit union; however, in urban areas, fewer commercial banks and credit unions may provide agricultural loans. Farm Credit Service institutions throughout the U.S. are also a source of funds for both large and small agricultural enterprises. Another important provider of agricultural credit is the USDA's Farm Service Agency (FSA). The FSA has historically been referred to as the "lender of last resort" as it makes loans to applicants who have been turned down by commercial sources of credit. FSA loan programs include farm operating loans, farm ownership loans, emergency farm loans, guaranteed farm loans, microloans and youth loans.



Source:

<https://www.ers.usda.gov/media/9052/farmsectorindicatorsfebruary2017revised.xls>  
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Data shows that from 2011 to 2015 the Farm Credit System and Commercial Banks have consistently provided the largest share of farm real estate debt financing. Combined they have had more than 75% of the market for farm real estate debt over this time.



Source:

<https://www.ers.usda.gov/media/9052/farmsectorindicatorsfebruary2017revised.xls>  
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Likewise, data also shows that from 2011 to 2015 the Farm Credit System and Commercial Banks have consistently had the largest share of farm non-real estate debt. Combined they have had more than 78% of the market for farm non-real estate debt over this time.

## What to Look for in a Lender

- Knows and understands agriculture
- Has experience in agricultural credit
- Is open with lending policy and terms
- Has capacity to meet credit needs
- Is service oriented and honest



Selecting a lender is one of the most critical aspects of financial management. Shop around and investigate many institutions before making a final decision. The lender must be able to demonstrate up-to-date knowledge of problems, trends and modern agricultural practices specific to your enterprise and geographic region. Carefully examine the lender's farm loan experience. Speak with other farmers and assess the institution's commitment to agriculture and service by looking at their track record during periods of adversity. When looking at different credit sources, make sure the lender is willing to discuss lending policies and credit terms and compare those terms of credit with other available sources. Be aware that total credit charges are more important than interest rates alone. Agricultural businesses may need large sums of capital. Be aware that some lenders place limits on the amount of credit they can extend to any one individual or business. Look for a lender skilled in financial and production analysis. Periodic visits enhances the lender's understanding of your business and shows their concern. The lender should explain all services in understandable terms.

# Determining Credit Options



## ■ Evaluation Process

- ☐ What are your goals?
- ☐ What is your financial situation?
- ☐ How much capital do you need to borrow?
- ☐ Do you have a down payment?
- ☐ Do you have farming or ranching experience?
- ☐ How quickly can you pay off a note?



Now that we have identified sources of credit and what to look for in a lender, we need to determine which source is the best fit to meet your goals. To answer that question, let's evaluate. Your specific needs will come into play here. What are your goals? Perhaps you are looking to expand or purchase new property. What is your financial situation? What are your debts and your income? Anything variable month to month that you should be aware of prior to borrowing money? How much capital do you need to borrow? Be mindful not to borrow too much or not enough to meet your needs. Consider working with a lender to determine this amount. Use an online calculator to estimate payments associated with a loan to see if you can realistically make payments. Do you have a down payment? This can reduce your monthly obligations and cut down on the length of your term. Do you have farming or ranching experience? This can be a requirement for certain loans. How quickly can you pay off a note? Be realistic and plan ahead.

## Banks and Credit Unions

- Operating loans
- Livestock loans
- Equipment loans
- Real estate loans
- Home loans
- Agribusiness loans



Banks and Credit Unions often have these types of loans. Be sure to check with your local agricultural lender for availability and terms.

**Operating Loans** –short term loans for day to day operating needs.

**Livestock Loans** –intermediate term loans for purchasing livestock.

**Equipment Loans** -intermediate term loans for the purchase of tractors, farm implements, or any other equipment.

**Real Estate Loans** –long term loans for real estate purchases and improvement.

**Rural Home Loans** –long term loans for the purchase of a home and acreage.

**Agribusiness Loans** –provide capital to help an agribusiness grow.

## Farm Credit Associations

- Operating loans
- Livestock loans
- Equipment loans
- Real estate loans
- Rural home loans
- Agribusiness loans



Farm Credit Associations often offer these types of loans. Be sure to check with your local Farm Credit Associations for availability and terms.

**Operating Loans** for operating inputs and expenses.

**Livestock Loans** for care, and feeding, or purchase of livestock.

**Equipment Loans** for the purchase of tractors, farm implements, or other equipment.

**Real Estate Loans** for the purchase or improvement of farms, ranches, and facilities.

**Home Loans** –for purchase or improvement of a home with acreage.

**Agribusiness Loans** – can provide capital for an agribusiness.



## Farm Service Agency

- Direct operating loans
  - Microloans
- Direct farm ownership loans
- Guaranteed loans
- Targeted loan audiences
- Specialty loans



Farm Service Agency loans include:

Direct Operating Loans that are used for general farm operating expenses.

Microloans are operating loans designed to meet the needs of small and beginning farmers by easing some requirements and offering less paperwork.

Direct Farm Ownership Loans are used to purchase or enlarge a farm or ranch.

Guaranteed Loans enables lenders to extend credit to family farm operators and owners who do not qualify for standard commercial loans. Farmers receive credit at reasonable terms to finance their current operations; financial institutions receive additional loan business and servicing fees, as well as protection from loss.

Targeted loan audiences include: Youth Loans that are used by young people participating in 4-H clubs, FFA , or a similar organization, to finance educational, income-producing, agriculture-related projects.

Minority and Women Farmers and Ranchers loans- is an FSA farm loan program that target a portion of its direct and guaranteed farm ownership and operating loan funds for minority and women farmers to buy and operate a farm or ranch.

Beginning Farmers and Ranchers loans provide credit opportunities to eligible family farm and ranch operators and owners who have been in business less than 10 years.

Specialty loans include: Emergency Loans to help farmers and ranchers recover from production and physical losses due to drought, flooding, other natural disasters or

quarantine.

Native American Tribal Loans help tribes acquire land interests within a tribal reservation or Alaskan community; advance and increase current farming operations; provide financial prospects for Native American communities; increase agricultural productivity; and save cultural farmland for future generations.

## Final Thoughts



- All lending institutions
  - Cash flows
  - Credit history
- Every situation is different
- Plan ahead
- Record keeping
- Ask questions



No matter which lending institution you go through, remember that you will be assessed on your ability to cash flow and on your credit history. There are ways of improving your status so communicate with your lender. Every situation is different. Plan ahead to know your goals and what you can do as far as a monthly payment and a down payment. Record keeping is incredibly important. You will need a balance sheet, cash flow statements, and tax records at a minimum. Some lenders may require additional records to loan money. Continued communication is very important as you assess your borrowing options.

## References

- Farm Service Agency: Loans, Interest Rates & Office Locator  
<https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index>
- Farm Credit Associations of Oklahoma: Services, Rates & Locations  
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- Resource Guide for Beginning Farmers in Oklahoma  
<http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-29817/E-982-2015.pdf>
- Funding for Small-Scale Farms: Tips for Grant and Loan Proposals  
<http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-10044/AGEC-267web.pdf>



For more information on sources of credit visit your local lenders, your local, county FSA office, or a local Farm Credit Association. Their webpages are listed here for your convenience.