

FINANCING THE PURCHASE AND OPERATION OF AN AVOCADO ORCHARD

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The following information was presented by a panel of speakers at an Avocado-Citrus Farm Management Short Course in January, 1965. The article deals with farm financing, and includes the type of credit, types of loans by each of these lending institutions, the philosophy and policy of loans, charter requirements, legal requirements, and production and purchase loans. The panel consisted of Mr. Al Bosch, Vice-President, Bank of America, Escondido; Colley Jeffers, Manager, Federal Land Bank, Escondido; George Ramstead, Manager, Production Credit Association, San Diego; Dan Mulvihill, Percy Goodwin Company, San Diego; Jim Moon, District Manager, California State Department of Veterans Affairs, San Diego; and Donald O. Rosedale, substituting for Paul Conn. U.S.D.A. Farmers Home Administration.

INTRODUCTION

Financing an agricultural enterprise is an important part of the overall management of the operation. There are many types of loans that a grower can avail himself of which are peculiar to his special situation. The following resume of the types of loans available and the organizations giving these loans will assist the grower in determining what type of loan is best for his specific situation.

FARMERS HOME ADMINISTRATION

The Farmers Home Administration, an agency of the U.S. Department of Agriculture, serves eligible farmers with credit and needed technical help on farm and money management problems. Loans are made only to applicants unable to obtain adequate credit from other sources at reasonable rates and terms. Types of loans of particular interest to avocado growers are:

1. Operating Loans

Operating loans are made to eligible operators of not larger than family farms, to assist them in making improved use of their land and labor resources, and make adjustments necessary for successful farming. Funds may be advanced to pay for equipment, livestock, feed, seed, fertilizer, for other farm and home operating needs, to refinance chattel debts, provide operating credit to fish farmers, carry out forestry purposes, and develop income-producing recreation enterprises.

Each loan is scheduled for repayment in accordance with the borrower's ability to repay,

over a period not exceeding seven years. The interest rate is five per cent.

Loans average around \$3,800 and vary considerably in size depending upon the type of farming operation and needs of the applicants. A borrower's total principal indebtedness for operating loans may not exceed \$35,000.

2. Farm Ownership Loans

Farm ownership loans are made to buy farms or land to enlarge farms; construct or repair buildings and facilities; improve land; develop water resources; and refinance debts. Loans may be made only to eligible farmers who operate not larger than family farms.

Each loan is scheduled for repayment in accordance with the borrower's ability to repay, over a period not exceeding 40 years. The interest rate is five per cent.

Loans average around \$15,000 and vary considerably in size depending upon the needs of the applicants. A borrower's total principal indebtedness on the farm at the time the loan is made may not exceed \$60,000, or the normal value of the security, whichever is less.

3. General Information

Most loans made by Farmers Home Administration are to farmers who carry on farming operations on a scale large enough to support their family. However, loans are also made to farmers on small farms to obtain some income from off-farm employment.

Each loan is based on a plan that when followed will provide enough income from the farm and other sources to enable the family to have a reasonable standard of living and make payments when due on their debts.

Applications from veterans with farm experience receive preference by the county supervisors of the Farmers Home Administration.

Loans supplement and in no case compete with credit provided by other lenders. Borrowers must agree to refinance loans with other lenders when they can do so. Assistance is provided applicants in determining their credit needs, working out debt repayment schedules, and solving other financial problems even though they may not be eligible for a loan.

Real estate loans are made from funds advanced by private lenders on an insured basis.

CAL-VET FARM LOAN PROGRAM

Cal-Vet farm loans are for purchasing, refinancing, or improving farms by California war veterans. A veteran, to qualify, must be a native Californian, or have been a resident at the time he entered wartime service, and have at least 90 days of honorable service in World War II or the Korean War. Less time is required for World War I service, or if discharged because of a service-connected disability. In addition, an applicant must show management and farming ability through past experience or background and have sufficient finances to enable him to succeed in his farming operation. Cal-Vet farm loans

are made up to \$80,000 at an interest rate of 3¾%. The term is for 23 years; loan payments either annual or monthly.

Farm loans may be used in four ways: (1) to purchase a farm: (2) to refinance a farm loan; (3) to add new land to a farm, and (4) to improve a farm.

The farms must be appraised by the Department of Veterans Affairs and found able to produce a reasonable net income for the operator. The Cal-Vet must plan to live on the farm. Applications may be made at the nearest district office of the Department of Veterans Affairs.

PRODUCTION CREDIT ASSOCIATION

The Production Credit Association is a local cooperative association, owned by local farmers and ranchers, organized to provide for themselves a permanent source of dependable short and intermediate term credit at reasonable interest rates. It makes loans in a specified territory and is a part of a nationwide system chartered under an act of Congress. It is well known locally and referred to as the "PCA."

In the past there have been times when other credit sources have not been readily available or have been curtailed to farmers and ranchers even though they were in sound financial condition and able to repay their loans. Also, there have been times when interest rates on agricultural loans were higher than on other types of credit. The Production Credit Associations were organized to supply the credit need of farmers and ranchers at all times, whether good or bad, at reasonable interest rates.

Individuals, partnerships, and corporations whose principal source of income is from farming or ranching are eligible to borrow. You become a member by purchasing one \$5 share of stock for each \$100 borrowed. This stock may be included as a part of the loan and used for future loans. The stock is well protected by association reserves and is non-assessable. The farmers and ranchers who own the association elect from their membership a board of directors, which in turn determines the policies of the association and employs the necessary help to run the business.

The association makes two kinds of loans: (1) *Production loans* to finance the production, harvesting, and marketing of crops or of breeding, raising, and fattening of livestock, and (2) *Intermediate term loans* for the purposes of financing capital outlays and improvements.

Funds loaned to members are borrowed by the association from the Federal Intermediate Credit Bank which in turn obtains such funds from our country's large investment markets. The Credit Bank, like the association, is operated for the sole purpose of obtaining funds for agricultural loans, and will eventually be owned by the production credit associations. The interest paid to the Credit Bank plus the association's operating costs determines the rate of interest the member pays on the loan.

Loans are made for the amount needed for the profitable and efficient operation of the farm or ranch. Production loans are usually made on a one-year term; however, certain types of loans, if kept on a sound basis, may be renewed from year to year.

Intermediate term loans may be made for any term up to five years.

You repay your loan as you sell the products being financed. Repayments are specifically planned to fit each particular farm or ranch operation.

The time required to complete a loan varies from a few minutes to a few days. You may plan the financing of your farming and ranching operation in advance so that the money will be available at the exact time it is needed. Interest is charged only upon the funds in actual use.

Eligible loan purposes:

Production Loans—livestock purchases, feed, seed, fertilizer, pest control, fuel, farm, ranch supplies, labor, repairs, other farm and ranch operating expenses, interest, taxes, insurance, cash living expenses.

Intermediate Term Loans—tractors, machinery, trucks, water systems, irrigation equipment, land improvements, fences, storage bins, farm and ranch equipment, home improvements, automobiles.

FEDERAL LAND BANK ASSOCIATION

The Federal Land Bank Associations are corporations completely owned by their member-borrowers. The Land Bank, in turn, is owned entirely by the associations. Thus, farmers and ranchers are owners of a business which is a source of constant and dependable long-term credit.

The Land Bank obtains funds for lending through sales of land bank bonds to investors, including individuals, commercial and savings banks, insurance companies, pension and trust funds, and corporations.

Loans are made to farmers for purchase of land; refinance debts, build or modernize farm homes; construct other needed buildings; purchase livestock and equipment; pay educational, medical, and other family living expenses; purchase feed, seed, and fertilizer; drill and equip wells; clear and level land; pay taxes, including income, real estate, personal property, and inheritance; and provide capital for off-farm business controlled by the owner-operator of the farm.

Loans are made only on farm or ranch property and must be secured by a first lien on the land and buildings. The term of years is determined by the type of property and in accordance with sound business practice.

The objective of the farmer-owned bank is to furnish long term credit "at cost," and the loan interest rate, therefore, is maintained at the lowest possible level.

There are no application or appraisal fees and no commissions. Customary recording fees and title expenses are the only costs.

Payments become due once or twice a year or may be made more frequently, depending on the plan you select at the time your loan is closed. Each installment ordinarily includes a payment on principal, as well as interest, so that the loan is paid in full at the end of the term of years for which it was written.

Since loans are written for a long period of years, the value used in determining the amount loanable is the "normal agricultural value," rather than the present market value of the farm. One of the principal factors considered in establishing values is the normal earning power of the property. Each borrower purchases stock in the local Federal Land Bank association in the amount of \$5 for every \$100 of his loan and becomes a member of the association. Loan funds may be used for this purpose. The stock is retired at par when the loan is paid in full.

Growers may take the first step in obtaining a loan by calling at the local Federal Land Bank association office serving the area in which the grower lives. The manager will discuss money needs with the grower. He will know the local farming and ranching conditions, and will assist in every way possible.

Finally, a note about the Federal Land Bank of Berkeley. It is located in the Farm Credit Building, Berkeley, California. It is one of the twelve land banks in the United States which were chartered under the previous of the Federal Farm Loan Act of 1916, to make long-term real estate loans to farmers and ranchers at the lowest possible cost. This bank's chartered territory includes California, Arizona, Nevada, Utah, and Hawaii.

BANK OF AMERICA

The Bank of America makes loans on farms that are an economic unit. The loan policy is that they will pay two-thirds of the appraised loan value. Repayment is a 15-year period with monthly, quarterly, or semi-annual payments. The interest charged for loans less than \$15,000 is 7%, and for loans greater than \$15,000, 6½%.

A second type of loan is given for five acres and under. This is considered a residential loan and not a farm loan. They will loan 75% of the loan appraised value with a repayment period of 20 years. Installments are made monthly.

PERCY H. GOODWIN COMPANY

Percy H. Goodwin Company designs Farm, Grove, Ranch and Country Home Loans on an individual basis doing the utmost to meet individual needs and requirements of the borrower. Terms are 20 to 25 years with principal plus interest payments on an annual or semiannual basis or on a fully amortized repayment schedule. Interest rate is determined by the quality of the security.

Farm and Grove Loans—Loan amounts are determined from the ability of the individual grove to liquidate the loan pay operating expenses and leave sufficient funds so that the borrower can maintain a reasonable standard of living. We also make development loans which include the planting of new citrus and avocado orchards.

County Home Loans—The Country Home Loan is a specialty loan made on a five acre grove, or larger, which has a residence affording comfortable living conditions. In this type of specialty loan a considerable percentage of the loan is attributed to the residence. Income from the grove and the residence, if rented should be able to liquidate the loan and pay taxes and insurance.