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**Getting Established in  
FARMING  
with Special Reference to  
CREDIT**

**Agricultural Experiment Station  
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# Getting Established in Farming with Special Reference to Credit\*

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MARRY OR INHERIT IT is the commonly described way to get started in farming. No doubt this phrase is generally true in today's "big business" farming that requires a higher investment in land, livestock, and machinery, combined with greater amounts for operating expenses, than was true just 10 years ago.

Average acreage per farm is increasing, thus reducing both the number of farms and the number of new farm operators needed as replacements. This situation leaves potential farmers with the problem of fewer opportunities becoming available each year for getting started in farming. Larger capital requirements make it even more difficult for individuals wanting to establish themselves in full-time farming.

There are those who believe there should be easier access into farming for those who have the desire and managerial capacity to farm.<sup>1</sup> However, the current institutional setting is characterized by inequities in the distribution of opportunities. Unfortunately, potential farm operators who can expect little or no family assistance are facing an uphill battle.

Capital is probably the most limiting factor in becoming established in farming. Since risks and uncertainties vary directly with volume of capital, emphasis has been placed more on management, which in turn further restricts the beginning farmer's chance of success. Nevertheless, it is essential that a limited number of young men become satisfactorily established in farming,

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<sup>1</sup> VAN VLIET, H. 1958. Increased Capital Requirements and the Problem of Getting Started in Farming. *J. Farm Econ.* 40:1613. p. 1619.

and some avenues of approach other than marriage or inheritance are needed.

## OBJECTIVES AND METHODS OF STUDY

### Objectives

The study reported here was designed to determine ways of overcoming obstacles that inhibit farm entry by low-equity potential farmers. It was expected that credit would be of primary importance to beginning farmers; therefore, the study was oriented largely toward credit as a means to getting established in farming.

Specific objectives of this study were:

1. To determine through the case study technique how beginning farmers are financing their farms.
2. To ascertain lending institutions' policies concerning beginning farmers.
3. To develop alternative solutions that will assist low-equity potential farmers to finance a farm.

### Method and Procedure

The problem was studied from both the standpoint of farmers as borrowers and the view of lenders. The case study technique was used in the farmer aspect of the study for an in-depth analysis to determine factors involved in successful farm entry and how obstacles were overcome. In the lender aspect of the study, the mail survey method was used to ascertain lending institutional policies concerning the beginning farmer.

Two questionnaires were developed and used in the study: (1) a detailed questionnaire as a guideline in obtaining information from selected cases, and (2) a short questionnaire to obtain information concerning credit policies of various lending institutions.

**SELECTION OF CASES.** A letter was sent to all County Extension Chairmen in the State in an effort to locate farmers who had been farming only a short time. They were asked to select two such farmers from each county, one who had started without family help and one who had started with family help, using the following criteria:

1. began farming approximately 5 years ago,
2. is now a full-time farmer, and
3. may rent or own land.

From nominations sent in by the Extension Chairmen, 15 cases were chosen for interview. After interviewing these 15, 8 were selected for detailed analysis.

**MAIL SURVEY SAMPLE.** A short questionnaire was sent to all Alabama banks, production credit associations (PCA), and the State office of the Farmers Home Administration (FHA) to determine lending policies concerning the beginning farmer. Data from the 153 questionnaires that were completed and returned were used in the analysis of lending institution policies with respect to the beginning farmer.

### **AGRICULTURAL LENDING INSTITUTION POLICY**

As a consequence of the difference in information received from the FHA and the other lending institutions, data obtained from the FHA in most instances were studied separately from that supplied by the other lending institutions.

#### **Lending Institution Policy**

Of 153 respondents, 69 per cent made loans to beginning farmers. Managers of all PCAs and supervisors of all local FHA offices reported making loans to beginning farmers in some capacity. Of those not making such loans, 50 per cent implied they had no requests for loans from beginning farmers. In some instances this was because of locality of the bank since many were located in predominantly industrialized areas.

Loans made to beginning farmers were categorized into three types: real estate, machinery, and livestock. Real estate and livestock loans were reported by 61 per cent of the respondents, while 58 per cent reported machinery loans.

In evaluating applicants for all three types of loans, lenders used one or more of the following criteria: collateral, reputation, projected repayment ability, education, experience, and time. Collateral included the financial standing of the prospective farmer or an acceptable co-signer, such as the applicant's father. Reputation covered the prospective farmer's character, diligence, and credit rating, or his family's character and credit rating, or both. Projected repayment ability was based on the lender's ability to anticipate some profit from the endeavor. Education as a criterion referred to formal education or training. Experience considered was a farm background relating to specific farm enter-

TABLE 1. PERCENTAGE OF LENDERS CONSIDERING SELECTED CRITERIA FOR MAKING LOANS TO BEGINNING FARMERS, BY TYPE OF LOAN, ALABAMA<sup>1</sup>

Criteria	Lenders reporting, by type of loan		
	Real estate <sup>2</sup>	Machinery <sup>2</sup>	Livestock <sup>2</sup>
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Collateral.....	97	89	89
Reputation.....	79	52	58
Repayment ability.....	30	28	36
Education.....	30	20	29
Experience.....	29	16	29
Time.....	24	31	16

<sup>1</sup> Several lenders reported more than one criterion.

<sup>2</sup> Based on lenders reporting such loans.

prises under consideration. Time as a criterion referred to the period allowed for repayment of a loan.

Collateral was given most often as a criterion for making loans to beginning farmers, Table 1, and this indicated little change or relief from the capital barrier facing beginning farmers. Reputation was the next most frequently mentioned criterion for all three types of loans. There were no significant statistical differences among the three types of loans for the criteria reported as a basis for making loans.

The sample, excluding FHA, was divided into two groups of lending institutions, banks and PCAs. Chi-square test to determine whether criteria reported for making loans were different between loan types for banks and PCAs showed no difference at the .10 level of significance.

Some lenders who reported collateral as a criterion listed per cent loaned on collateral for all three types of loans, Table 2. The most frequently reported per cent loaned on collateral was 60 to 70 per cent for real estate and machinery loans and 50 to 60 per

TABLE 2. PERCENTAGE DISTRIBUTION OF AMOUNTS LOANED ON COLLATERAL TO BEGINNING FARMERS, BY TYPE OF LOAN, BANKS AND PCAs, ALABAMA

Per cent loaned on collateral	Lenders reporting, by type of loan		
	Real estate <sup>1</sup>	Machinery <sup>1</sup>	Livestock <sup>1</sup>
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
50 to 60.....	18	0	46
60 to 70.....	50	72	27
70 to 80.....	23	14	27
80 to 90.....	9	14	---

<sup>1</sup> Based on lenders reporting per cent loaned on collateral for such loans.

A significant difference in the per cent loaned by type of loan was indicated at the .10 probability level.

TABLE 3. PERCENTAGE OF LENDERS, BY TIME PERIODS FOR REPAYMENT AND TYPE OF LOAN, BANKS AND PCAs, ALABAMA

Years to repay	Lenders reporting, by type of loan		
	Real estate <sup>1</sup>	Machinery <sup>1</sup>	Livestock <sup>1</sup>
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
1 to 2.....	11	8	30
3 to 4.....	11	76	50
5 to 6.....	22	12	10
7 to 8.....	17	4	10
9 to 10.....	39	---	---

<sup>1</sup> Based on lenders reporting time periods for repayment in full for such loans.

*There was a significant difference between loan types with respect to length of time given for repayment.*

cent for livestock loans. Lenders evidently considered loans for livestock more risky than for real estate and machinery.

Many lenders who reported time as a criterion also listed specific lengths of time for repayment in full, Table 3. The most common period for repayment of real estate loans was 9 to 10 years, with 39 per cent reporting, while 2- and 3-year loans were for machinery and livestock, being reported by 76 per cent and 50 per cent of lenders, respectively.

Lenders were asked if they would be more willing to make loans to beginning farmers who would submit a detailed farm plan synthesized by a qualified agency, such as Auburn University's Cooperative Extension Service or Agricultural Experiment Station. Of those reporting, 78 per cent replied in the affirmative and 9 per cent were undecided. Such responses showed the need and importance of detailed planning.

Credit life insurance also can aid in transferring lenders risk involved in making a loan. This should be helpful to the beginning farmer when applying for the initial loan. Of lenders reporting, 34 per cent required credit life insurance in making a loan. Of those not requiring it, 30 per cent highly recommended credit life insurance to borrowers.

Many lenders indicated that whether a loan was made depended to a large degree on each individual case. That these lenders tended to resist categorization of borrowers is substantiated by the fact that 97 per cent of these reporting had no set loan policy.

The beginning farmer's position can be greatly strengthened by a shift of major emphasis from collateral to other criteria, such as reputation, projected repayment ability, education, and experience. Along with a shift in criteria emphasis, tools such as a

detailed farm plan and credit life insurance should prove beneficial to the beginning farmer.

### **Farmers Home Administration Policy**

In 1968, the FHA probably offered the beginning farmer more total financial assistance than any of the other lending institutions studied. This agency offered several types of loans accompanied by technical management assistance, but farm ownership and operating loans were primary types applicable to the beginning farmer's situation. Farm ownership loans could be used for buying farms, expanding and improving farms, and refinancing debts. Operating loans could be used for livestock purchasing, machinery purchasing, and refinancing, as well as for operating expenses.

FHA terms and interest rate were advantageous to the beginning farmer since each loan was tailor-made for the individual, including a repayment schedule suited to his ability to repay. For long-term loans, principal payments could be deferred for 2 years where necessary, and the interest rate for farm ownership loans and operating loans was 5 per cent per year on the unpaid principal. Maximum terms and indebtedness were 40 years and \$60,000 for farm ownership loans and 7 years and \$35,000 for operating loans.

Important criteria for making loans common to the two types discussed were as follows:

1. The borrower must have been unable to receive adequate credit from other sources.
2. Experience or training necessary for success in the planned farming endeavor was essential.
3. The borrower must have had the kind of reputation that would have indicated success in the planned farming operation.
4. Management and operation of the farm by the borrower was required.
5. During the period for which the loan was made, the unit could not have exceeded in size a family operated farm.

Although adequate security was required by the FHA, collateral was not the major criterion for making a loan as was true for the other lending institutions studied. An FHA farm ownership loan was secured principally by the farm itself, while operating loans were secured by chattels.

When a loan application is under consideration, the person re-



sponsible for the decision is an important factor. An advantage of FHA in this respect was that lenders did not decide eligibility. Instead, a committee of three farmers who knew local farming and credit conditions decided eligibility and made recommendations as to disposition of applications.

### CASE STUDY ANALYSIS

Eight farming operations were examined in detail with respect to the farm operator getting established in farming. Cases A, B, C, and D began farming without family help and E, F, G, and H began with family help. In each case, family situation, farm situation, how the operator achieved farm entry, and growth in the farm business were analyzed to identify factors contributing to or against successful establishment in farming.<sup>2</sup> A summary analysis of all eight cases is presented, followed by detailed coverage of two cases, A and H. Operators A and H were chosen for presentation in detail because of their qualities of diversity and applicability to the low-equity beginning farmers' situation.

#### Summary Analysis of Eight Cases

**BIOGRAPHICAL CHARACTERISTICS.** All operators and their wives except one were reared in a rural orientation in their respective local areas. Operator E's wife was reared in town near their present farm.

During their school years, all operators participated in agriculturally related activities and all the operators' wives participated

TABLE 4. SELECTED CHARACTERISTICS OF BEGINNING FARMERS, EIGHT CASE STUDY OPERATORS, ALABAMA

Characteristic	Case study operators reporting								Av.
	A	B	C	D	E	F	G	H	
Age of operator (when started).....	23	36	19	31	23	20	22	34	26
Years farmed.....	4	4	10	4	3	5	4	2	4.5
Education, years									
Operator.....	12	12	11	8 <sup>1</sup>	12	12 <sup>2</sup>	12	12	11.4
Wife.....	12	12	11	11	12	9	12	12 <sup>2</sup>	11.4 <sup>3</sup>

<sup>1</sup> Also participated in management and technical short courses sponsored by the Cooperative Extension Service.

<sup>2</sup> Also held B.S. degree.

<sup>3</sup> Does not include 4 years of college completed by operator H's wife.

<sup>2</sup> Years in which the case study operators began farming were: A—1964, B—1964, C—1958, D—1964, E—1965, F—1963, G—1964, and H—1966.

in 4-H Club and/or home economics, with the exception of operator E's wife.

In every case the operator had a strong desire to farm, and in no case was any friction found between husband and wife concerning farming as a career. The desire to farm was further evidenced by plans for expansion that were apparent in every case. Selected characteristics of the case study operators and their wives are given in Table 4.

**HOW STARTED AND PROBLEMS INVOLVED.** Operators A, B, C, and D, who got their start without family help, began farming partially as a result of a timely opportunity to rent farms. One exception was operator B who made several years of financial sacrifice to accumulate savings to buy land. Operators A and C owed their starts in farming partially to the financial assistance of the FHA. Other helpful factors for those who began farming without family help included: (1) for operator A, the favorable attitude of a local banker; (2) for operator B, having the ability and access to machinery to clear his own land; and (3) for operator D, the possession of usable farm assets and the availability of financial assistance from farm supply dealers.

Operators E, F, G, and H began farming with family help. Operator E began farming totally dependent on family help. His

TABLE 5. FACTORS INFLUENCING STARTS OF BEGINNING FARMERS AND MAJOR PROBLEMS INVOLVED, EIGHT CASE STUDY OPERATORS, ALABAMA

Item	Case study operators reporting								Total
	A	B	C	D	E	F	G	H	
<b>Factors influencing starts</b>									
Opportunity to rent land..	X		X	X				X	4
Family help.....					X	X	X	X	4
Bank help.....	X					X	X		3
FHA help.....	X		X					X	3
Farmer dealer help.....				X			X		2
PCA help.....							X		1
Accumulated savings.....		X							1
Possession of farm assets..				X					1
Access to heavy machinery for clearing land.....		X							1
<b>Major problems involved in starting</b>									
Locating a farm.....	X	X		X	X	X		X	6
Financial assistance.....	X			X	X	X		X	5
Limited capital.....		X <sup>1</sup>							1
No problem reported.....			X						1
Overcoming death of father.....							X		1

<sup>1</sup> Would not consider financial assistance.

wife's grandmother furnished land, some initial equipment, and her reputation of good standing for financial assistance from the FHA. Others beginning with family help were somewhat less dependent on this type of help. Factors instrumental in these farmers getting started that could be considered independent of family help varied as widely as for those who began without family help: (1) the favorable attitude of a local banker was important for operators F and G; (2) available financial support from a PCA and farm machinery dealers was important to operator G; and (3) the opportunity to rent a farm and the financial support of the FHA were important for operator H. Factors influencing the starts of beginning farmers studied are reported in Table 5.

For all operators except C and G, locating a farm suitable for planned enterprises was the major problem in getting started. Operators A and B were interested primarily in buying rather than renting land, and both expressed doubt about their ability to pay for farms that were for sale. Operator A was unable to finance any of the several farms desired, while operator B's capital was limited and he was unwilling to assume debt. Operators D, E, F, and H indicated difficulty in securing financial assistance. Operator C suggested no major problems in getting started in farming as he was not contemplating such a venture when the opportunity occurred. Operator G's major problem was the untimely death of his father.

**INCOME.** Income varied considerably among operators, Table 6. For the first year of farming, gross farm income ranged from operator E's \$4,500 to operator B's \$50,000, and net farm income from operator E's \$2,500 to operator B's \$11,000. Estimates for 1967 showed that income had risen substantially in all cases. Gross farm income that year ranged from operator E's \$9,500 to operator A's and B's \$69,000 each, while net farm income ranged from operator E's \$4,500 to operator H's \$28,500.

TABLE 6. AVERAGE INCOME OF BEGINNING FARMERS FOR SELECTED YEARS, EIGHT CASE STUDY OPERATORS, ALABAMA

Year of farming	Average income			
	Gross farm	Net farm	Off-farm	Net
First year.....	\$19,462	\$ 6,650	\$800	\$ 7,450
1967.....	47,300	15,188	562 <sup>1</sup>	15,750

<sup>1</sup> Pertains only to income earned by wives since all operators were full-time farmers in 1967.

LAND TENURE. All operators except A and B started farming entirely on rented land, Table 7. The size of rented farms ranged from operator D's 100 acres to operator H's 443 acres. By January 1, 1968, operators C and G had become farm owners as well as renters; otherwise, operator tenure had not changed. Except for operators B and H, however, total acres operated increased in each farming operation from inception to January 1, 1968.

TABLE 7. ACRES OPERATED BY BEGINNING FARMERS FOR SELECTED YEARS, EIGHT CASE STUDY OPERATORS, ALABAMA

Land tenure by year of farming	Acres operated by case study operators								
	A	B	C	D	E	F	G	H	Av.
	No.	No.	No.	No.	No.	No.	No.	No.	No.
<b>First year</b>									
Owned.....	238	287	0	0	0	0	0		66
Leased.....	44		240	100	130	140	370	443	183
TOTAL.....	282	287	240	100	130	140	370	443	249
<b>1967<sup>1</sup></b>									
Owned.....	278	280	287	0	0	0	130		122
Leased.....	178		50	127	200	670	310	443	247
TOTAL.....	456	280	337	127	200	670	440	443	369

<sup>1</sup> Last complete year before the interviews were taken.

CHARACTERISTICS OF LEASING AGREEMENTS. Leasing agreements were common to all cases, with the exception of operator B, Table 8. When starting, six operators used a cash-rent lease and one a sharing-on-halves type of leasing agreement. Except for operator D, all operators using leasing agreements had written contracts. However, operators F and G had verbal agreements as well as

TABLE 8. INITIAL CHARACTERISTICS OF LEASING AGREEMENTS HELD BY BEGINNING FARMERS, EIGHT CASE STUDY OPERATORS, ALABAMA<sup>1</sup>

Leasing agreement characteristics	Case study operators reporting								
	A	B	C	D	E	F	G	H	Total
Cash rent.....	X		X	X		X	X	X	6
Share rent.....					X				1
Written.....	X		X		X	X	X	X	6
Verbal.....				X	X	X	X		3
Renewal privilege.....	X		X	X	X	X			5
No renewal privilege.....				X	X	X	X	X	5
Capital safeguards.....			X					X	2
No capital safeguards.....	X		X	X	X	X	X		6
1-year lease.....				X	X	X	X		4
3-year lease.....	X								1
5-year lease.....			X					X	2

<sup>1</sup> Some operators had more than one leasing agreement, and some of these had different characteristics.

those in writing. After the first year of farming, leasing agreements continued varied with little change.

**CREDIT USE.** The use of credit was significant in that all operators used borrowed funds in some form. Credit used in the first year of farming ranged from \$2,000 by operator E to \$26,700 by operator G, Table 9. In the second year it ranged from zero by operator B to \$19,000 by operator A, while the 1967 credit use ranged from \$6,400 by operator E to \$49,000 by operator G.

TABLE 9. AVERAGE AMOUNT BORROWED BY BEGINNING FARMERS FOR SELECTED YEARS, BY TERM OF LOAN, EIGHT CASE STUDY OPERATORS, ALABAMA

Year of farming	Amount borrowed by term			Total
	Short	Intermediate	Long	
First.....	\$4,688	\$4,119	\$1,375	\$10,188
Second.....	4,806	4,962	0	9,769
1967.....	8,938	9,100	625	18,662

It was expected that credit would be used primarily for building production assets during the first year of farming since such assets are a prerequisite for production. Operators D, E, F, and G, however, deviated from such expectations. Operator D entered farming with an accumulation of production assets since he had farmed previously. Operators E and F had the use of production assets belonging to relatives, while operator G entered farming with inherited production assets.

After the first year of farming, use of operating credit and credit for the purchase of production assets became more important. However, operating credit was not important for the two dairy farmers, operators C and H. Since they received income monthly, they were able to absorb operating expenses without the aid of credit.

Sources of credit used varied considerably, and included banks, FHA, farm supply dealers, PCA, an individual, and finance companies. Banks, FHA, and farm supply dealers were the most used sources of credit. The range in number of sources used by year was: first year — from one for operators B, C, D, and E to three for operator G; second year of farming — from zero for operator B to three for operators A and F; 1967 — from one for operators B, C, and G to three for operators E and F.

Only operator H had been unable to secure as much credit as he thought he needed during his farming career up to the time of interview. He was unable to expand dairy herd size because the

FHA felt that the required loan would jeopardize his risk-bearing ability.

**GROWTH OF ASSETS AND NET WORTH.** Excluding operators B and C, total beginning assets ranged from operator E's \$2,200 to operator A's \$22,500. However, operator A's net worth was only \$4,335. Net worth just prior to starting to farm, excluding operators B and C, ranged from operator H's \$50 to operator G's \$6,800.

After the first year of farming, assets in each case increased considerably. Excluding operators B and C, total assets by the beginning of 1968 ranged from operator E's \$12,700 to operator H's \$85,950. Net worth also increased considerably by the beginning of 1968, and, excluding operators B and C, ranged from operator E's \$8,100 to operator A's \$56,300. Averages for assets and net worth are presented in Table 10.

TABLE 10. AVERAGE VALUE OF ASSETS AND NET WORTHS OF BEGINNING FARMERS FOR SELECTED TIME PERIODS, EIGHT CASE STUDY OPERATORS, ALABAMA

Time period	Assets					Total	Net worth
	Farm machinery, equipment, and supplies	Live-stock	Land and buildings	Non-farm			
At inception .....	\$ 3,192	\$ 2,471	\$ 9,131	\$6,988	\$21,782	\$14,551	
End of second year .....	10,156	7,950	15,875	6,794	40,775	..... <sup>1</sup>	
Beginning of 1968 .....	28,312	16,300	27,250	8,606	80,469	63,181	

<sup>1</sup> Data collected did not include liabilities at end of second year. Therefore, net worth for that time could not be calculated.

Operators B and C were different financially from the other operators. Operator B started farming at an older age than the others and with accumulated assets of \$106,500 and a net worth of \$91,500 largely from heavy equipment work and a feed mill business. By the beginning of 1968, his assets amounted to \$207,200 and his net worth was \$192,200. Operator C received a 287-acre farm as a gift from his mother in his fourth year of farming. He started farming with assets of \$10,520 and a net worth of \$3,320. By the beginning of 1968 his assets had increased to \$169,000 and his net worth was \$138,500.

In general, asset growth was tremendous, Table 10. From just prior to starting to farm to the end of the second year, average assets increased about 87 per cent. From the end of the second year of farming to the beginning of 1968, average assets increased about 97 per cent.

If operator B had been excluded from Table 10, average assets and net worth started with would have been \$9,680 and \$3,558, respectively, considerably less than comparable figures for the other farmers. Nonfarm assets on the average decreased from just prior to starting to farm to the end of the second year as a result of operator B's accounts receivable decreasing as he collected old debts.

To illustrate in greater detail how these farmers got started in farming, two case studies will be presented in detail. One farmer from each of the two groups, one starting with family help and the other without family help, will be presented.

### Case Study A

**FAMILY SITUATION.** The family members of this case were a 27-year-old operator, his wife, and two young children. The operator and his wife had always lived in a farming atmosphere and they wanted the same for their children.

The operator as a school boy was involved in agriculturally related activities common to farm youth. Activities relating specifically to his future in agriculture included both 4-H Club and vocational agriculture. The operator's wife engaged in activities similar to her husband's during her 12 years of formal education.

Operator A and his wife were enthusiastic about their chosen life. His entire family seemed happy working and striving together for farm oriented goals.

**FARM SITUATION.** As of January 1, 1968, Operator A's farm consisted of 456 acres, 278 acres owned and 178 acres rented. The farming operation consisted of three major enterprises: 145 acres of cotton planted on several small fields, a relatively modern 68-sow hog operation, and 12 beef cows. Acreage supplying inputs for the hog operation included 28 acres of corn and 7 acres of small grain. The small beef operation utilized 15 acres of pasture and 10 acres of hay.

Rented land included 10 cash-rent tracts and one share-rent tract. Eight of the cash-rent tracts rented for \$25 per acre and the others for \$22 per acre. For the tract leased on shares, one-fourth of the fertilizer and insecticide expenses for the crops was paid by the landlord, and the landlord received one-fourth of cash receipts from the crops. All lease agreements were written and all had renewal privileges, but none had provisions that would safe-

guard his capital improvements. All leases were for 1 year, with the exception of one 3-year lease.

Farm income in 1967 resulted from the sales of cotton and seed from 145 acres, 500 slaughter hogs, and 6 beef calves. Gross farm income was an estimated \$69,000, with net farm income estimated at \$18,000.

**HOW STARTED.** At the age of 20, operator A left his parents' farm to pursue work independent of his father. In 1959 he became employed in a paper mill in his home town and continued there on a full-time basis until 1966.

While working at the paper mill, operator A periodically searched the local farming area for land to rent or buy. Eventually he asked an elderly merchant who leased farmland if he could rent a certain tract of land. The bargaining ended with operator A buying the 238-acre tract for one-third down with 6 per cent interest on the balance. The down payment was financed through a local bank on an unsecured note. An additional 44 acres were leased on a cash-rent basis for \$22 per acre per year for 3 years with an option to renew the written contract. However, the contract did not include provisions for safeguarding the operator's capital improvements.

Operator A financed the first year's farming operation with two loans from FHA and one from a bank. With a \$500 down payment, one FHA loan was for \$8,000 to buy a tractor and equipment. This was for 5 years with a 5 per cent interest rate and required annual payments. The other FHA loan was a 1-year, \$1,200 operating loan at 5 per cent interest. Security for both FHA loans was estimated at \$25,000. The remaining loan was a 1-year bank note of \$2,500 to purchase a used cotton picker. This loan, with 6 per cent interest, was payable at the end of the year, and the picker was used as security.

As a consequence of (1) the opportunity to buy land, (2) the cooperation of the banker who financed the down payment for the land, and (3) the FHA, operator A began farming on a part-time basis in 1964. An estimated gross farm income of \$12,000 for that year resulted from sales of cotton from 54 acres and 20 slaughter hogs. Net farm income was estimated at \$3,200. This, with a \$5,000 income from the paper mill, brought total net income for 1964 to \$8,200.

Operator A's major problem encountered in starting to farm



was finding a suitable farm. He stated: "Farms were hard to locate, those we wanted couldn't be financed, and there was no house on some places."

**GROWTH.** Just before starting to farm for himself, operator A had an estimated net worth of \$4,335 with assets of \$22,500 and liabilities of \$18,165. In the initial farming year, the FHA and bank supplied the necessary capital of \$11,700. During this first year the operator saw a desperate need to expand cotton acreage, but was unable to do so. However, he did increase his livestock numbers.

The second year of farming (1965), though still farming part-time, operator A used a greater amount of intermediate-term credit. A tractor and used cotton picker were purchased from a dealer for \$2,600 as down payment and the balance of \$11,000 amortized over a 3-year period at 8 per cent interest. The tractor and picker were used as security for the loan. The operator borrowed \$2,000 from the bank for 1 year at 6 per cent interest to buy a truck, with the truck as collateral. Also, a 1-year operating loan was obtained from the FHA for \$6,000 at 5 per cent interest. Security for this loan was estimated at \$30,000.

During the second year of farming, operator A expanded almost all phases of his operation. This included renting additional cotton land and increasing livestock numbers. This expansion required more machinery and increased operating capital. By the end of the year his assets had increased to \$48,700.

Total use of credit declined somewhat in 1967, but amount borrowed for operating capital increased 67 per cent and long-term credit was used again. An operating loan was obtained from the FHA for \$10,000 at 5 per cent interest payable at the end of the year. The FHA also supplied an additional \$5,000 over and above the \$3,800 raised by the operator for a hog-finishing parlor. The 5 per cent interest loan was amortized over a 20-year period with annual payments. Collateral for both FHA loans was valued at \$42,000, and all payments for diverted cotton acreage were arranged to go directly to the FHA. A new car also was purchased on credit in 1967 through a loan company with a down payment of \$1,100, and a balance of \$3,000 financed over a 3-year period at 8 per cent interest with monthly payments. The car was used as security.

On January 1, 1968, assets were valued at \$79,300, a substantial increase since the second year of farming and a tremendous in-

crease since starting to farm. Liabilities estimated at \$23,000 included: real estate, \$15,500; machinery and equipment, \$3,500; car, \$1,300; and accounts payable, \$2,700. The final result was a net worth of \$56,300.

Expansion was evident again in 1968 when operator A further increased his cotton acreage and operating capital. However, no increase occurred in livestock and machinery.

Operator A indicated he had never been denied credit for lack of security since inception of the farming operation.

**ANALYSIS.** Farm operator A and his family seemed well pleased with their chosen way of life. Enthusiasm was exhibited throughout the interview and the operator and his wife were most optimistic concerning their future in farming.

The operator indicated he had always wanted to become an independent, full-time farmer. Although seeing no opportunity for this when he left his parent's farm, he searched for ways and means of eventually succeeding in his goal.

Three factors were associated with operator A's start in farming: (1) the apparent desire of an older man to see a young man become established in farming, (2) the favorable attitude of the local banker, and (3) the ability to acquire financial support from FHA. The key to these factors was that the operator was reared in the local area and his reputation was well known in the community.

In 4 years of farming for himself, operator A changed from a part-time to a full-time farmer. Growth was further evidenced through a rapid accumulation of assets and net worth. From starting in farming to the end of the second year, assets increased \$26,200; from the end of second year to the beginning of 1968, assets increased \$30,600, resulting in an overall increase of \$56,800. During this period net worth increased \$51,995.

Findings associated with operator A's success were: (1) 12 years of formal education, (2) a farm oriented upbringing in the local area, (3) enthusiasm concerning his farming career, (4) the presence of farm organization and expansion planning, and (5) solicitous financial planning by the operator, banker, and FHA.

### **Case Study H**

**FAMILY SITUATION.** The family consisted of a 36-year-old operator, his wife, and three small children. Both the operator and

his wife had farm backgrounds. He participated in 4-H Club and vocational agriculture, and his wife took part in 4-H and home economics in school.

The operator attempted a college education but was forced to return home after 6 months to help on the farm. His wife, after graduating from high school, completed 4 years of college and received a bachelors degree.

During the interview the operator and his wife indicated a strong desire to make farming a career. All family members seemed happy in their present way of life.

**FARM SITUATION.** On January 1, 1968, the farm consisted of 443 rented acres with 362 acres being used for an 84-cow Grade A dairy. Crops used for the dairy enterprise were: 80 acres of wheat and grain sorghum double cropped, 32 acres of corn silage, and 250 acres of pasture.

The family had a 5-year written lease for \$2,700 per year without an option to renew. The lease contained a clause that provided for the landlord to furnish materials for capital improvements. The landlord was an elderly widow who informed operator H that, at the expiration of his lease, she was going to give her farmland and buildings to her son. The landlord's son confirmed that he was planning to farm the land when the lease expired. The operator had no plans concerning the future of his dairy enterprise and was unsure whether he would still be farming at the termination of his lease.

The family owned 169 acres of woodland, which was inherited from the wife's parents, and a house with 20 acres near town on the home place that formerly belonged to the operator's parents. All of the inherited land was in timber and unsuitable for farming. Neither tract was considered as part of the farm operation.

Income in 1967 was derived from the sale of 40 young calves, 940,000 pounds of milk, and artificial insemination custom work. Gross income was \$63,900 with an estimated net farm income of \$28,500.

**HOW STARTED.** At age 29, operator H left his parents' farm. For 6 years he did artificial insemination work, and this work led to an opportunity to begin farming for himself.

An elderly farmer died, leaving his Grade A dairy herd and farm to his widow. Since operator H had done artificial insemina-

tion work for the deceased farmer, he knew the quality and condition of the herd, land, and buildings. He bargained with the widow to rent the farm with an option to buy; an agreement was reached whereby he would buy the 58-cow dairy herd and rent the 443-acre farm with a 5-year written lease without an option to renew.

Operator H received a \$19,100 loan, using his 169 acres of woodland as security, from the FHA with 5 per cent interest per year and up to 5 years to repay with payments on a monthly basis. Of the \$19,100 borrowed, \$18,400 was used to purchase the widow's dairy herd and \$700 for operating capital. A used tractor was purchased from an individual for \$750 with no money down and 15 months to pay at 6 per cent interest. Payment was set up on a monthly basis and the tractor was used as security.

As a result of the agreement with the widow and the availability of credit, operator H began farming in September 1966. In the last 4 months of that year he sold 25 young calves and 160,000 pounds of milk for a gross farm income of \$9,000. An added \$5,200 for artificial insemination work brought 1966 gross income to \$14,200, with net income estimated at \$10,000.

When operator H was questioned concerning major problems encountered in starting to farm, he indicated that opportunities to buy or rent land suited for dairying were limited. He suggested that opportunities were restricted to leasing arrangements, stating: "It's impossible to buy land and start farming. You can pay for land, but not both land and buildings needed."

**GROWTH.** Just prior to starting to farm, operator H had assets valued at \$26,200 and liabilities of \$5,150, which resulted in a net worth of \$21,050. In the first year of farming, \$19,850 was borrowed (including the \$19,100 from the FHA) to begin farming. A need was felt by the operator to expand herd size that first year, but he decided that debts were too high and that the necessary capital could not be raised.

In 1967, the second year of farming, \$14,250 was borrowed from FHA at 5 per cent interest amortized over a 4-year period with monthly payments. The loan was used to buy a new tractor and equipment and to expand herd size. Land, machinery, and livestock with an estimated value of \$28,000 were used as collateral.

An array of additional farm equipment (\$3,750 value) was pur-

chased in 1967. A down payment of \$750 was made and the balance of \$3,000 financed through a bank at 7 per cent interest, using the equipment as security. The loan was paid in one payment at the end of the year, but could have been renewed had it been necessary.

Assets on January 1, 1968, amounted to \$85,950, a substantial increase since starting to farm. However, almost 40 per cent of the increase was the value of inherited woodland and a purchased house and 20 acres, not considered as part of the farming operation. Liabilities amounted to \$36,000 (\$6,000 for machinery and equipment, \$10,000 for the house and 20 acres, and \$20,000 for cows) resulting in a net worth of \$49,950.

Operator H decided to expand herd size again in 1968, but was unable to do so because FHA felt that monthly payments would be too large for risk-bearing ability to be adequately maintained. After the disappointment of not being able to increase herd size, a decision was made to expand the farming operation by adding a new enterprise. An additional 300 acres were rented for soybean production. The leasing arrangement was rather unusual in one respect: the landlord had the option on the second day of harvest to accept as payment one-fourth of the crop or \$10 an acre. The 5-year agreement was written with no provisions for renewal or capital improvements.

Operator H was considering a cattle feedlot operation. He was thinking of breeding dairy cows artificially to a high quality beef bull to get potentially good quality steers and heifers for a feedlot.

**ANALYSIS.** The family had an extremely favorable attitude toward farming and the operator was hard working and aggressive. During the interview, enthusiasm was exhibited through constant mention of improvements planned for the operation.

The operator began farming much later in life than was found in a similar study in another state.<sup>3</sup> A farming career had been contemplated earlier in operator H's life, but bankruptcy of his father caused a major delay in carrying out his farming plans that were already in progress.

Working in the area as an artificial inseminator, operator H used another opportunity to get started in farming. Although the agreement reached with the landlord was not desirable, he was

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<sup>3</sup> ARNOLD, L. L. 1957. Problems of Capital Accumulation in Getting Started in Farming. Ind. Agr. Expt. Sta. Bull. 638. p. 7.

anxious to begin farming and accepted the terms. Two possible weaknesses in the agreement were: (1) even though the lease was for 5 years, tenure security was threatened since there was no stated renewal privilege, and (2) the 5-year lease later proved to be for too short a period for adequate repayment ability in the face of expansion.

Two factors made it possible for operator H to begin farming: (1) the timely opportunity to lease land and buildings suited to the chosen enterprise, and (2) availability of financial support from FHA. Working with farmers in the area where reared was the key element affecting the opportunity to begin farming, while inherited land from the wife's parents played a major role in initial financing.

Although operator H had only been farming for himself for 2 years at time of the interview, there had been substantial growth in assets and net worth. From just prior to starting to farm, assets had increased \$84,750. However, about 30 per cent of the increase came from inherited land. Net worth increased \$53,950, with about 45 per cent of this being from inherited land.

Factors associated with the operator's success in farming were: (1) a farm oriented background in the local area, (2) 12.5 years of formal education, (3) an enthusiastic desire to farm, (4) present and future planning concerning farm operation and expansion, (5) careful financial planning by the operator and FHA.

## ALTERNATIVES AND SUMMARY

The two-sided approach, in which both farmers and lenders were studied, revealed many important factors associated with successful establishment in farming. The analysis showed wide differences in some instances and marked similarities in others. Conclusions concerning both similarities and differences may be useful in development of alternative solutions to problems facing low-equity prospective farmers as well as lenders and landlords.

### Alternatives

Current high capital requirements for land, machinery, livestock, and operating capital makes beginning farming most difficult for the young man who possesses a genuine desire to farm but who can expect little or no family help. This presentation of four case studies of beginning farmers who began without family

help within about the last 5 years shows that the obstacles of farm entry can be overcome without family assistance. However, finding these cases was not easy since such farmers were scarce indeed.

The future apparently holds no bright hope for the low-equity beginning farmer to get established in farming. Land prices are expected to continue upward, and capital requirements for machinery, livestock, and operating are expected to continue increasing. Therefore, numbers of farmers who start with little equity and no family help will continue to decrease, unless additional assistance in some form is found.

The following alternative solutions are not meant as cure-alls for problems of getting started in farming when the beginner has low equity. However, some of the alternatives should be helpful to potential farmers, landlords, and lenders.

**IMPROVING THE BORROWERS POSITION IN ACQUIRING A LOAN.** Of primary importance is the need for relegation of collateral as a criterion for advancing a loan, to be more in line with other criteria involved. More responsibility should be placed on criteria such as reputation, experience, education, repayment ability, and time.

In most cases the potential farmer will seek farm entry in familiar surroundings and where he is well known, such as the area where he grew to manhood. Lenders in the local area usually are familiar with the potential farmer's reputation, including his family, the family's credit rating, and the family's character, as well as the potential farmer's character with respect to honesty, industry, and ambition.

If the lender does not know the potential farmer well in these respects, a few inquiries can provide him an adequate perspective concerning the potential borrower's reputation and training.

When a lender determines that a potential borrower ranks high in reputation and training, all that remains is to determine if adequate repayment ability is possible. This would entail a detailed farm plan, which should be synthesized by a qualified agency. The lending agency may provide such services, or the services of a professional farm management consultant may be acquired. In this way a farm plan to maximize returns to the potential farmer's resources can be determined.

From such a plan another important factor can be discovered.

Is income sufficient for family living expenses plus repayment of loans? If adequate repayment ability, reputation, and training are found, then it would seem that a lender has a new customer and a new borrower has found an approach to farm entry assuming suitable land has been found.

An additional item can be added to this plan to enhance repayment and risk-bearing ability. Self-liquidating loans, which are repaid from gross income as the inputs are used up in the production process, should be used as much as possible. Such loans include operating loans, intermediate-term loans, and loans for improvements.

Intermediate-term capital items, such as machinery, may take as long as 10 to 15 years to be used up or completely depreciated. Since most loans of this type are financed for a shorter time, principal and interest may be greater than depreciation. Thus, the payments in excess of depreciation must be repaid from net income. Longer term financing on such capital items is more desirable.

Diversification of enterprises and an adequate insurance program enhance risk-bearing ability. Diversification reduces the probability of a net loss, and an adequate insurance program can reduce considerably the risk involved in the farming operation. Such an insurance program may include fire and windstorm, crop, liability, life, and credit life insurance and should be mutually agreeable to borrower and lender.

Whether a lending institutional system meets the needs of a potential farmer with little equity should be judged by the efficiency of loan programs with respect to maximum returns. The lender who can best assist the potential farmer in achieving the best balance of credit use among enterprises ranks highest as a source of borrowed funds.

When the potential farmer is forced to get credit from different sources, he derives little assistance from the lender in achieving a good balance in his business. Thus, FHA and some banks rank high in this respect because they offer a full line of credit: real estate, intermediate-term, and operating credit.

Since the FHA is a government agency, its supply of loanable funds is dependent upon Congress and varies with general economic conditions. In general, loanable funds probably are inadequate to accommodate demands for combining the offices of PCAs and Federal Land Bank Associations (FLBAs), which would



result in a complete line of credit. This would probably enhance the low-equity beginning farmer's opportunity to acquire needed credit.

**ACQUISITION OF TENURE SECURITY.** The foremost item for getting started in farming is suitable farm land. Many farm enterprises require a considerable amount of land while others, such as dairy and hog enterprises, require a substantial investment in buildings and stationary equipment.

If a young man is to direct his life toward farm oriented goals, and to make the necessary heavy investment in capital items, he must have adequate security of tenure. This usually is accomplished through renting or purchasing suitable land.

Renting has two advantages for the operator. First, the operator gains control of a large amount of capital with comparatively little risk; and second, he may be able to acquire an adequate size farm for efficient production.

There are also disadvantages to renting, which are manifested in poorly arranged agreements like those found in the case studies. In some cases the operators accepted unfavorable leasing agreements because they were anxious to get started farming.

The main problem in most leasing agreements seems to be that rental periods were too short for adequate security of tenure. If leases are to be made for only 1 year, they should include renewal privileges. However, for the best security of the operator and his lender, a 5-year or longer term lease is needed. Another factor important for tenure security is a provision for safeguarding capital improvements made by the operator on rented land.

There are several alternative ways of purchasing land that would be helpful to the low-equity beginning farmer.

Low-equity financing — even 100 per cent financing — of farmland has been done by individuals and more recently by FHA. In many cases low-equity financing by FHA is possible through a program where funds insured by the Federal Government are secured from conventional lenders. All loans of this nature are supervised by FHA personnel who assist the operator to plan ahead. In this way the operator's management is improved and risk is reduced.

Another method of low-equity financing now being used in Alabama is through the use of a land contract, also known as contract for sale, conditional sales contract, and purchase contract or

real estate sales contract. An example of a land contract is presented in the Appendix. Such an instrument is used in transactions where the down payment is too small for the buyer to obtain title through a conventional deed and mortgage. Possession of the property passes to the buyer, but the deed remains with the seller to be transferred when a specified amount is paid by the buyer.

A land contract not only allows a potential farmer to get started in farming with low equity, but it also gives major tax advantages to the seller. Where down payment is less than 30 per cent, the seller may spread capital gains from the sale over several years.<sup>4</sup>

A land contract has a major disadvantage to the buyer. If he is unable to meet installments as agreed upon, usually after 30 days notice he can be put off the farm, in which case all capital invested by him is forfeited as rent.

The following safeguards are suggested as ways of reducing the buyer's risk. These safeguards should be included in the contract: (1) small payments over a long period, perhaps as long as 30 to 35 years, (2) prepayment privileges that allow the buyer in high income years to make payments in advance of his repayment schedule, and (3) a provision allowing the buyer to convert the contract to a mortgage after a certain amount has been paid.

Officers of major lending institutions should consider advancing real estate loans that allow for deferment of principal payments for a given number of years. Recently, the FLBAs have introduced a repayment plan in which it is possible to defer principal payments for up to 5 years.<sup>5</sup> Such a plan permits the operator to expand his farming operation in the first few years without having to pay on real estate principal.

Managers of large financial institutions should consider making partially amortized loans. In this way only a portion of the principal needs to be amortized over, say, a 30-year loan period. The residual could be rewritten over another 30 years or longer if needed.

A final consideration that would permit a potential low-equity farmer to achieve security of tenure deserves considerable attention. Officers of major lending institutions should strongly consider the possibility of permanent or semi-permanent debt on the

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<sup>4</sup> BELL, S. C. AND J. H. YEAGER. 1963. Land Contracts and Farm Purchases. Ala. Coop. Ext. Ser. Series Cir. 621.

<sup>5</sup> BRAKE, J. R. 1966. Financing Michigan Farms—Now and In 1980. Mich. Agr. Expt. Sta. and Coop. Ext. Ser. Res. Rep. 46.

farm level. Such debt arrangements have been used in the non-agricultural sector of the economy.

With increased confidence in the economy, risk involved in financing land on a permanent or semi-permanent basis is greatly reduced. As our economy continues to expand, land appreciates, thus making this kind of lending more desirable. As a hedge against inflation, however, a sliding scale interest rate (a rate that can be changed based on level of general economic conditions) should be considered.

### Summary

The problem of capital accumulation has become a great barrier in the path of many prospective farmers as well as those who started farming on a low-equity base. This study was directed toward: (1) ascertaining how beginning farmers are financing their farms, (2) determining lending institution policies concerning the beginning farmer, and (3) developing alternatives that would be helpful to the low-equity prospective farmer.

The case study method was used to facilitate a depth probe of the factors associated with establishment in farming, and a mail survey was used to ascertain lending policies of various lending institutions in Alabama.

It was found that, to become successfully established in farming, a combination of many factors was required. Among the most important were: (1) a genuine desire to farm associated with an ambitious nature, and a cooperative and understanding wife; (2) training directed toward a farming career; (3) a rural background of both husband and wife; and (4) a rural upbringing in the area where the operator is to become established in farming.

All beginning farmers were assisted either directly or indirectly in getting started. The most obvious forms of assistance came just prior to, at inception, and during early stages of the farming career. Such assistance included family help, inheritance, or assistance from a benevolent or progressive lender. However, more subtle forms of assistance were not seen so easily. For example, operator B started farming with a net worth of \$91,500 and was financially independent. It seemed, at least on the surface, that he began farming without anyone's help. However, a few years previously the operator was able to borrow heavy equipment from the company for which he worked to clear recently purchased

land completely covered in timber. As a result, he was able to begin farming.

Although the cases described have shown that obstacles to farm entry can be breached, in the main those wishing to become full-time farm operators can expect little relief from lenders such as banks and PCAs unless their policies are changed. Most lenders reporting gave collateral most often as a criterion for making a loan to a beginning farmer. Therefore, a need existed for an exploration of other possible criteria for making such loans that would lighten the burden of collateral and yet achieve the same degree of security.

To become established in farming an operator must have security of tenure. A farm operator would be unwise to invest heavily in production assets if insecure in terms of land on which to produce crops and livestock. Yet, most operators in this study who leased land had only 1-year agreements, some of which were only verbal; several operators had no renewal privileges, and only two had provisions for safeguarding their capital improvements. A need, therefore, definitely existed for reforms in leasing agreements to provide security of tenure for successful establishment in farming by tenants. The search for adequate ways of achieving security of tenure should by no means be confined to leasing agreement reforms.

During the first and second years of farming, several operators felt a need to expand certain enterprises but did not. The main reason given for not expanding was the risk involved. Only one operator was denied credit that prevented him from expanding. Thus, the use of borrowed funds was not restricted by lenders in most cases, but, instead, by operators of their own volition.

It is noted that the case study analysis only included those who appeared to be successfully established in farming. Had it been possible to observe more cases of attempted farm entry, problems of acquiring financial assistance through credit probably would have been more apparent.

## APPENDIX

## Real Estate Sales Contract (Suggested Form)

The State of Alabama,  
 \_\_\_\_\_ County.

THIS AGREEMENT, made and entered into this day of \_\_\_\_\_, 19\_\_\_\_, by and between \_\_\_\_\_ the party of the first part, hereinafter known as the seller, and \_\_\_\_\_ the party of the second part, hereinafter known as the buyer.

Witnesseth: That the seller hereby agrees to bargain and sell to the buyer, and the buyer agrees to buy, at and for the sum of \_\_\_\_\_ dollars, to be paid as hereinafter stated, a certain parcel of real estate, situated in the County and State aforesaid, described as follows: (the full legal description would be inserted here).

The buyer agrees and promises to pay to the seller, the said sum of \_\_\_\_\_ dollars, as follows: \_\_\_\_\_ dollars cash, the payment of which is hereby acknowledged, and the balance, with interest from this date, payable in semi-annual installments of \_\_\_\_\_ dollars with interest at \_\_\_\_\_ per cent of the unpaid balance per annum from date hereof, commencing \_\_\_\_\_, 19\_\_\_\_, and ending \_\_\_\_\_, 19\_\_\_\_.

It is understood and agreed by and between the parties hereto that when \_\_\_\_\_ dollars of the principal sum has been paid, the warranty deed shall be released in exchange for a note and mortgage. The balance of the purchase price, \_\_\_\_\_ dollars, is to be paid in accordance with the terms of a note and mortgage agreement executed concurrently with the execution of this contract.

It is understood and agreed to that the seller shall furnish an abstract of title, brought down to date, on or before \_\_\_\_\_, 19\_\_\_\_, showing title in seller, and shall allow the buyer a reasonable time to have the abstract examined and to notify the seller of any objections. If title is found defective, the seller shall have a reasonable time to put same in merchantable condition.

It is agreed that until transfer of title from the seller to the buyer, the seller reserves the right of himself, his agents, his employees, or his assigns to enter said real estate at any reasonable time for purposes of consultation with the buyer and of making inspections. It is agreed, further, that the buyer shall farm said real estate in accordance with sound farming practices and to keep said real estate in good repair at the buyer's expense.

It is agreed that the seller shall pay the taxes for the year 19\_\_\_\_, and that the buyer shall pay all subsequent taxes, paying taxes and assessments of every kind, or if paid by the seller, the same shall be considered as advanced to the buyer, to be repaid, with interest at \_\_\_\_\_ per cent per annum thereon, upon demand.

The seller agrees and binds \_\_\_\_\_ heirs, executors, and administrators upon payment of said purchase money, and amounts

advanced for taxes, etc., with interest thereon, and the full compliance with all the terms thereof, to execute to the buyer \_\_\_\_\_, heirs, and assigns, good warranty titles, free from encumbrance, to said real estate, except as herein indicated.

It is understood and agreed that if the buyer is in default as to any portion of an installment due and payable, or any portion of the accrued interest due and payable, he shall be allowed a grace period to make payment starting with the first day after such default, according to the following schedule:

(Complete details as to days of grace according to amount of purchase price paid should be entered here.)

It is agreed that overdue installments of principal and accrued interest shall bear interest at the rate of \_\_\_\_\_ per cent per annum. To prevent default, it shall be necessary to pay within the applicable grace period the accrued interest and overdue installments of principal and regular accrued interest.

The buyer agrees that in case of failure to pay any of said installments when due, or in case of the buyer's failure to comply with any term of this agreement, or in case of failure to comply with any promise or agreement herein obtained, then, and in either event, the seller shall have the right to annul this agreement and, in such event, the buyer shall then become the tenant of the seller, and the seller shall be entitled to the immediate possession of said property described herein, and may take possession thereof, and may eject the buyer by an action of unlawful detainer, and shall retain all the monies paid under this agreement by the buyer as rent of the premises (said amount being hereby agreed and declared by said parties to be the rental value of the premises).

And for the further purpose of securing the payment of said indebtedness, the buyer does hereby agree to keep said property insured by reputable companies during the life of this contract for the seller in the sum of \_\_\_\_\_ dollars, and deliver the policy to the seller; and should the buyer fail to insure said property, then the seller is hereby authorized to do so, and the premiums so paid by him shall be and constitute a part of the debt secured hereby.

It is understood and agreed by and between the buyer and seller hereto that the buyer reserves the right to pay in full the balance of indebtedness as a result of this contract when \_\_\_\_\_ dollars of principal have been paid.

In witness whereof, this real estate contract has been executed and delivered this day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_(seal)  
Seller

\_\_\_\_\_(seal)  
Seller

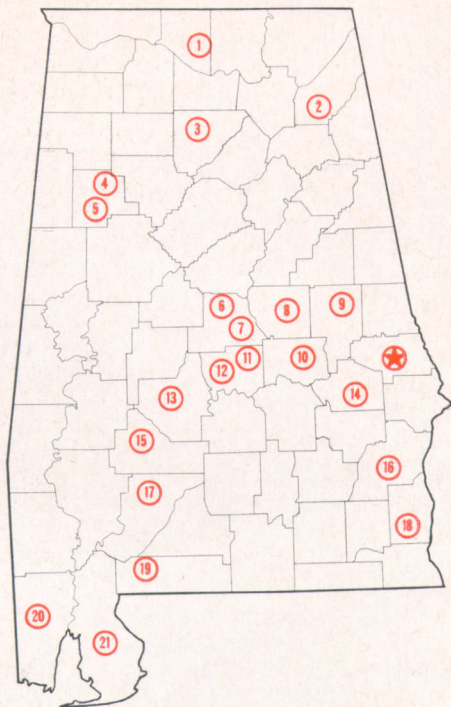
\_\_\_\_\_(seal)  
Buyer

\_\_\_\_\_(seal)  
Buyer



## AGRICULTURAL EXPERIMENT STATION SYSTEM OF ALABAMA'S LAND-GRANT UNIVERSITY

With an agricultural research unit in every major soil area, Auburn University serves the needs of field crop, livestock, forestry, and horticultural producers in each region in Alabama. Every citizen of the State has a stake in this research program, since any advantage from new and more economical ways of producing and handling farm products directly benefits the consuming public.



### Research Unit Identification

★ Main Agricultural Experiment Station, Auburn.

1. Tennessee Valley Substation, Belle Mina.
2. Sand Mountain Substation, Crossville.
3. North Alabama Horticulture Substation, Cullman.
4. Upper Coastal Plain Substation, Winfield.
5. Forestry Unit, Fayette County.
6. Thorsby Foundation Seed Stocks Farm, Thorsby.
7. Chilton Area Horticulture Substation, Clanton.
8. Forestry Unit, Coosa County.
9. Piedmont Substation, Camp Hill.
10. Plant Breeding Unit, Tallassee.
11. Forestry Unit, Autauga County.
12. Prattville Experiment Field, Prattville.
13. Black Belt Substation, Marion Junction.
14. Tuskegee Experiment Field, Tuskegee.
15. Lower Coastal Plain Substation, Camden.
16. Forestry Unit, Barbour County.
17. Monroeville Experiment Field, Monroeville.
18. Wiregrass Substation, Headland.
19. Brewton Experiment Field, Brewton.
20. Ornamental Horticulture Field Station, Spring Hill.
21. Gulf Coast Substation, Fairhope.