Western Beef Resource Committee *Third Edition*

Cattle Producer's Handbook

Finance Section 940

Sources of Credit

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Farm and ranch owners and operators can and do borrow money from many different sources. Some lending agencies specialize in certain types of loans and some provide other financial services in addition to lending money.

Lenders of agricultural credit fall into two general categories: institutional and non-institutional. Institutional lenders are Farm Credit System, commercial banks, and Farm Services Agency (FSA). Non-institutional credit sources include dealer financing and individuals. This fact sheet describes each of these types of lenders in more detail.

Farm Credit Systems

Congress in 1916 established the Farm Credit System to provide an additional source of funds for agricultural loans. Changes and additions to the original act have occurred at various times, but the basic structure of the current Farm Credit System became effective with the passage of the Farm Credit Act of 1933.

The Farm Credit System obtains loan funds by selling bonds in the national money markets. Proceeds from these bond sales are made available to district Farm Credit banks in districts plus a central bank for cooperatives. The federal land bank part of the system provides long-term real estate loans through local offices. Short- and intermediate-term loans to farmers, ranchers, and certain other qualified borrowers are also available through the Farm Credit System.

The Farm Credit System is a cooperative wholly owned by its member borrowers with membership coming through the purchase of stock equal to the specified percentage of the amount borrowed. Each member has one vote, and an elected board of directors governs the Farm Credit System.

Commercial Banks

Commercial banks are an important source of agricultural loan funds. Commercial banks are the largest source of non-real estate loans, which are typically short and intermediate-term loans. These are typically for purchasing intermediate assets and annual operating loans.

Banks are not a particularly large source of real estate or long-term loans. This difference is partially explained by the need for banks to maintain liquidity to meet customers' cash requirements and unexpected withdrawals of deposits.

In the past, many banks employed agricultural specialists to work with agricultural credit lines. These individuals were trained in financial management and had a familiarity with production agriculture.

Changes within the industry, however, have been toward area loan centers, with less emphasis on local loan agents. This has had a large impact on rural borrowers who have historically relied on local lending agents. While some banking entities still caterer to the agricultural sector through the use of loan officers, most have moved this clientele to officers located in distant loan centers.

The large share of non-real estate loans as held by banks is at least partially explained by the large number of banks and the existence of one in nearly every rural community. This proximity to their customers allows bank personnel to become acquainted with customers and their needs. Most rural banks provide financial services such as checking and saving accounts. Realizing changes in the banking industry has made the past convenience of one stop financial service a discrepancy in most rural communities.