Research On Agricultural Lending
In The State Of Texas

A Report For
The Texas State Finance Commission

Research Conducted By
Analytica, Inc.
September 2002

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Background

The Finance Commission of Texas commissioned Analytica to conduct research on Agricultural Lending in the State of Texas. The research was comprised of four steps. First, to provide background, historical data on agricultural production was compiled and this forms Section 1 of this document. Second, historical data on agricultural lending was compiled and is reported in Section 2 of this document. Next, in-depth interviews with eight experts on agricultural lending were conducted and these results form Section 3. Finally 400 interviews were conducted with farmers and ranchers across the state. These results are reported in Section 4.

Each of the four Sections begins with an introduction, followed by an Executive Summary of that Section followed by Detailed Results.

There are three Appendices to the report. The first is a listing of sources of financial supports available to agricultural producers. Appendix 2 contains the comments offered by agricultural and agricultural lending experts organized by interview. Appendix 3 is the survey instrument used to interview the 400 farmers and ranchers.

What follows next is an Executive Summary of the entire research.

Executive Summary

Historical Data on Agricultural Production

Historical data on agricultural production in the State of Texas reveals that:

- The number of farms and ranches in the state have increased over the last several years and now stand at slightly over 200,000;
- However, approximately 87% of these 200,000 had sales under $50,000 and 51% had sales under $10,000; and,
- The dollar value of all crops and livestock has increased seven-fold since 1964, from $2 billion to $14 billion.

Reviewing the data overall, agricultural production appears to be stable and possibly on an upward path.

Historical Data on Agricultural Lending

For the Southern Plains in 1987, there was a spike of 400 agricultural bankruptcies but since then the number of bankruptcies has oscillated between 100 and 200 annually. There appears to be a normal, steady demand for loans and a normal, steady availability of funds. Historical data on agricultural lending indicates stability, not crisis.

In-Depth Interviews with Experts

The experts who were interviewed paint a somewhat more dire picture for agricultural producers in general. The last several years have been hard on agricultural producers in Texas, especially farmers. Farmers with less experience, i.e., newer to the business, have been hurt worse than older farmers with more experience. Both cumulative experience as an agricultural producer as well as accumulated equity help explain the differential impact.

Several factors have contributed to the accumulation of problems in Texas agriculture:

1. Water: Water tables are going down so irrigated farming has suffered;
2. Weather: Recent weather conditions have not been kind to farmers;
3. Market Conditions: Market conditions, i.e., poor prices have been a problem. There are three contributing factors to the pricing problem: 1) trade imbalances; 2) the rising value of the dollar relative to other currencies; and, 3) a trade policy that lets in cheap (and sometimes subsidized) imports with tariffs that are not nearly as large as tariffs on exports;
4. Poor Management: Some farmers have focused on operating income, reducing expenses, and becoming more efficient. These farmers have done well and are still very creditworthy. Farmers that have not approached their farming as a business and utilized careful investment decisions have not done well; and,
5. Loss Of Equity: Some agricultural enterprises have lost so much equity over the last several years that those operations have increased their risk and, in turn, impeded their access to capital.

Government support, subsidies, and loan programs have been essential to the viability of agricultural producers. In essence, the government is often guaranteeing a cash flow that the banker needs to be able to make a loan. Unfortunately, this same system encourages overproduction and has allowed marginal producers to survive. Changes in the program going forward, however, may allow the weaker producers to fail. Many state farm educational programs (e.g., FARM – Farm Assist, SPA – Standardized Performance Analysis, etc.) have helped educate farmers about value-added agriculture, positioning, differentiating a product, production benchmarking, operating efficiencies, breakeven analysis, and risk. Farming has become more and more like a business and this bodes well for the future. Such education programs should be maintained and encouraged.

Suggestions from the experts for potential new programs include:

1. A program that would transition ownership from the current generation to younger family members or to promising employees (i.e., allow good, experienced employees to buy equity stakes in current successful operations);
2. A government-encouraged system for bringing private equity investors into the agriculture business;
3. Federal government adjustments to the tariff situation making it more fair, balanced, and rational; and,
4. New, long-term educational programs covering all aspects of creating and delivering value-added products should be encouraged.

There is also the subject of loan availability. Although many operations have lost equity and the increased risk has made getting loans more difficult over the last few years, this is only true for the more marginal operations. Loans are available for creditworthy customers. Bankers' underwriting requirements prevent them from approving questionable loans and these should not be loosened unless we want to see another round of bank failures. While it is true that bank consolidation has meant that local community banks that were more likely to make farm loans have been replaced by larger banks that typically do not loan to agriculture enterprises, the availability of funds is still there.

Loan availability more often than not still depends on risk reduction resulting from federal and state loan guarantees and production subsidies.

Many banks are instituting requirements for more sophisticated business and personal financial statements and risk assessment before making a loan. Good performers with good credit and good operations are continuing to receive loans. In fact, banks are actively competing for good credit.

Results from Farmer and Rancher Interviews

The 400 interviews were completed with two different sample types. The first sample of 100 was representative of the largest producers (first handlers) in the state. Every enterprise in this group had revenues over \$500,000 and 48% had revenues over \$1,000,000. To be reflective of the state as a whole, the second sample of 300 spanned the entire range of first handlers, from the very large to the very small. Revenues in this second sample ranged from \$10,000 to over \$500,000. By selecting the sample randomly within guidelines established by the Finance Commission, and stratifying by area code across the state, the interviewees represent a statistically valid sample of first handlers that could have borrowing needs.

Interviews with these 400 farmers and ranchers revealed that:

- Land or building loans come almost equally from Commercial Banks and the Farm Credit System - approximately 40% each;

- Equipment and/or livestock loans were more likely to come from Commercial Banks (55%) and then Merchants or Dealers (25%);
- Operating loans were more likely to come from Commercial Banks (83%, Large Producers and 62%, All Producers) followed by the Farm Credit System (10.6% and 18.8%, respectively);
- Among the Large Producer Sample (revenues over $500,000) 85% had some type of loan but 15% did not. For the All Producer Sample (revenues over $10,000) only 41.4% had a loan;
- With respect to agricultural lending, the two biggest problems are "Finding interested lenders" and "Repaying the loan." About 1 in 5 first handlers have problems finding interested lenders and 1 in 6 have had problems repaying the loan;
- However, only 9 of the 100 Large Producer Sample had ever been turned down for a loan and only 10 of the 300 All Producer Sample had been turned down. In both groups the reasons for denial were quite varied and not inconsistent with the experts' claims that there exist interested lenders when the borrower had a proven repayment history and a healthy operation;
- 13 of the 100 Large Producer Sample and 19 of the All Producer 300 Sample had been in a situation where they could not repay a loan. More flexible payment requirements and loan refinancing/restructuring was the solution in most cases;
- Of the 85 respondents in the Large Producer Sample who had loan experience, 62.4% could cite instances where their lender was especially helpful or understanding but 9.4% volunteered examples where the lender was not. Among the 124 respondents in the All Producer Sample with lending experience, 65.3% could cite helpful instances and 6.5% volunteered examples where the lender was not; and,
- For the Large Producer Sample, 35.3% of the 85 with loan experience had used income from a non-agricultural source to repay an agricultural loan during the last 3 years. For the All Producer Sample the number was 47.2% of the 124 with loan experience. The median amount of income used as a percentage of the loan value was 20% for the Large Producer Sample and 25% for the All Producer Sample.

Policy suggestions from the first handlers included:

- When asked for recommendations to the Texas State Legislature for suggested changes to support agricultural production, the Large Producer Sample mentioned: Better prices (6.0%); Import problems (4.0%); Concern over water (3.3%); Less government involvement (3.0%); Greater availability of funding (2.7%); and Newer and more markets (2.7%). For the All Producer Sample ideas included: Better prices (18.3%); Less government involvement (9.0%); Import problems (7.3%); More government involvement (6.7%); Tax breaks and reforms (6.0%); and Greater availability of funding (5.7%);
- When asked for legislative recommendations regarding agricultural lending, approximately 50% in both samples could offer no further recommendations. The recommendations that were offered included: Making the lending process easier (21.2% and 14.5% from the Large and All Producer samples, respectively); Help with interest rates (10.6% and 10.5%); More lending sources (8.2% and 7.3%); and More knowledge and understanding about agriculture (7.1% and 13.7%); and,
- From the Large Producer Sample, of the 15 without loans, 13 said they could get one if they wanted one and 2 didn't know. From the All Producer Sample, of the 176 without loans, 151 (85.7%) said they could get one, 21 (12.2%) said no, and 4 (2.0%) did not know.

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A Report for The Finance Commission of Texas

Introduction

Background

In 2002, The Finance Commission of Texas sponsored research on agricultural business lending in the state. The research project was awarded to Analytica, Inc. Agriculture, in the form of farming and ranching, is very important to the economy of the state of Texas and this research was designed to develop a clear understanding of the current state of lending to agricultural businesses. The scope of the research, as specified in the Request for Proposal, is reproduced below:

> *"The scope of Phase V of the study, as approved by the Study Committee of the Finance Commission, is in Appendix 1. Essentially, the extent of the study is to: (i) collect statistical data about agricultural businesses' demographics and trends in Texas over the last 20 years, (ii) collect statistical data about state and federal government sponsored agricultural lending, guaranty, commodity price support, and conservation programs over the last 20 years; and (iii) collect current data to ascertain the characteristics and types of credit available to agricultural businesses in Texas (as defined below) regarding availability, quality, and prices. Other factors to consider include type of agricultural business and geographic location. Conclusive analysis should be obtainable to discern the general nature of the availability of agricultural business lending in Texas, specifically regarding: who is and who is not receiving credit; who is providing credit (including government sponsored entities); what types of credit are available and at what price; whether competitive market pressures are influencing agricultural lending in Texas; and if legitimate agricultural business lending needs are being met. Any significant differences or variations between the characteristics noted above should be logically and rationally explained. Additionally, government agricultural programs, as described above, should also be evaluated; especially regarding their impact on loan underwriting decisions by non-government lenders and importance to agricultural producers as defined below.*
>
> *For the purposes of this study, agricultural business shall be defined as a proprietorship, partnership, joint venture, cooperative, corporation, or limited liability company that is a "first handler" that engages in: the production of food, fiber or durable crops; and, the breeding, raising, or fattening of livestock. Production, raising, and harvesting activities within the commercial fishing and lumber industries are <u>not</u> to be included in the above definition. The study is intended to provide valuable information to the Texas Legislature in evaluating public policy questions relating to agricultural business lending in Texas."*

Methodology

To accomplish the research objectives Analytica conducted several separate streams of research that are presented in the four sections of this report. They are:

1. Historical data on agricultural production in the state from 1910 to 2000 was located, coded, and graphed. In addition to this long-term scope, more detailed data from the Census of

Agriculture, conducted every five years from 1964 to 1997 was located, coded, and graphed. This information is presented in Section 1.

2. Data on agricultural lending from District 11 of the Federal Reserve Bank from 1986 to 2002 were located and graphed. This information is presented in Section 2.
3. In-depth interviews with eight experts on agricultural production and lending in the state were conducted and transcribed. These results of these interviews are reviewed in Section 3.
4. Interviews with 400 farmers and ranchers in the state were conducted. The results of these interviews are reviewed in Section 4.

In addition to the four sections of the report, three appendices are provided. They are:

1. Appendix 1 compiles a comprehensive list of sources of agricultural lending, subsidies, and support at the federal and state level.
2. Appendix 2 presents the comments of the eight experts from Section 3 on agricultural production and lending in the state in their entirety.
3. Appendix 3 presents the survey instrument used to interview the 400 farmers and ranchers in the state.

Together, these separate streams of research represent the source of information from which recommendations and conclusions in this report are made.

Section 1: Historical Data on Agricultural Production in Texas

Introduction

We begin this section by defining what we mean by a farmer. For purposes of the U.S. Census of Agriculture, a farmer is any person engaged in the use of land for agricultural means who generates revenue of at least, or normally would produce at least, $1,000 per year. Using this definition, in Texas in 2001 there were approximately 227,000 farms. Of course this broad definition includes many operations which are part-time or semi-retired in nature. Nevertheless, the historical data which follows reports information based on the Census of Agriculture and thereby uses their definition.

Executive Summary – Historical Data on Agricultural Production in Texas

Today, Texas generates more agricultural revenue than any other state except California. Furthermore, agricultural receipts totaled almost $14 billion in 1997, and constituted approximately 14% of the state's GDP when all aspects of agriculture (from production to promotion to transportation, etc.) are included. Arable land makes up 78% of the state's land mass. The Texas Department of Agriculture is the key agency for administering the state's agriculture policy.

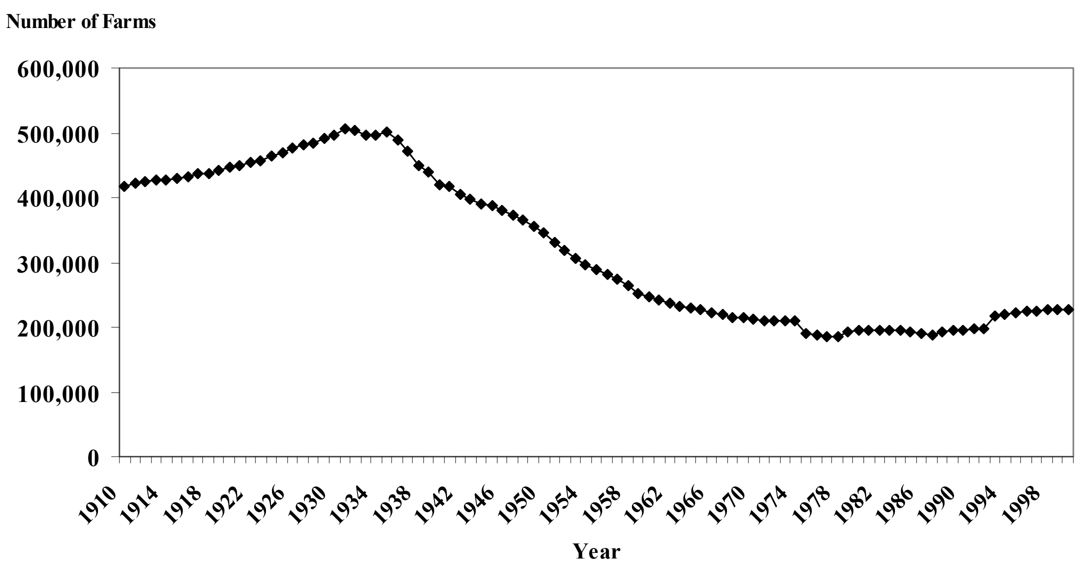
- In 1910 the number of farms and ranches in Texas was slightly over 400,000. This number grew to about 500,000 by 1935, dropped steadily until it leveled off to slightly under 200,000 in 1975 and has increased to slightly over 200,000 by 2001. The increase in the number of farms over the last several years has primarily come from the "Under 50 acre group". The last 15 years has also seen an increase in the number of farms with sales "Over $500,000" and the number of farms with sales "Under $2,500".
- The pattern in the number of farms is not reflected in the pattern of production of either livestock or crops. Cattle production has enjoyed a persistent increase from almost 7 million head in 1910 to 14 million head in 2001. Even more dramatic than the increase in cattle production is the increase in the total market value of all crops and livestock: from approximately $2 billion in 1964 to almost $14 billion in 1997.
- Crop yields in almost every crop category for which there is data available have persistently increased since 1955.
- Of the estimated 194,301 farms in 1997, well over 150,000 were individual or family owned. Similarly, 67,440 (34.7%) had sales under $2,500 and 31,746 (16.3%) had sales between $2,500 and $10,000. A full 169,049 (87.0%) had sales under $50,000.
- For some crops there is an increasing gap between the number of acres planted and the number of acres actually harvested, which indicates there is a trend toward leaving more and more acres unharvested.
- For all of the trends there are noticeable year-to-year fluctuations, no doubt derived from weather and market effects.
- From the long-term data that is available it is impossible to tell whether some of the recent downward shifts are the beginning of a significant downward trend or simply typical random fluctuations resulting from weather, market prices, and other normal year-to-year variations. Taking the picture of all of the graphs as a whole, agricultural production in Texas appears to be at least stable and possibly on an upward path.

Detailed Results – Historical Data on Agricultural Production in Texas

To obtain data on farms and farm production in the state dating back to the early 20th century, we accessed a data warehouse, the Published Estimates Database, made available online by the National Agricultural Statistical Services (NASS). The NASS is an arm of the United States Department of Agriculture.

Figure 1 presents the number of farms in Texas from 1910 to 2000. Notice the decline in the number of farms after the Great Depression and a continued steady decrease after World War II. The past 25 years has seen the number of farms in Texas remain steady, and even increase slightly over the last ten years. This increase is counter to the national trend, as the number of farms in the US has gone from 3.2 million in 1964 to 1.9 million in 1997 with declines in each of the Census periods[1].

Figure 1: Number of Farms in Texas: 1910 to 2000



Source: National Agricultural Statistical Services, Published Estimates Database

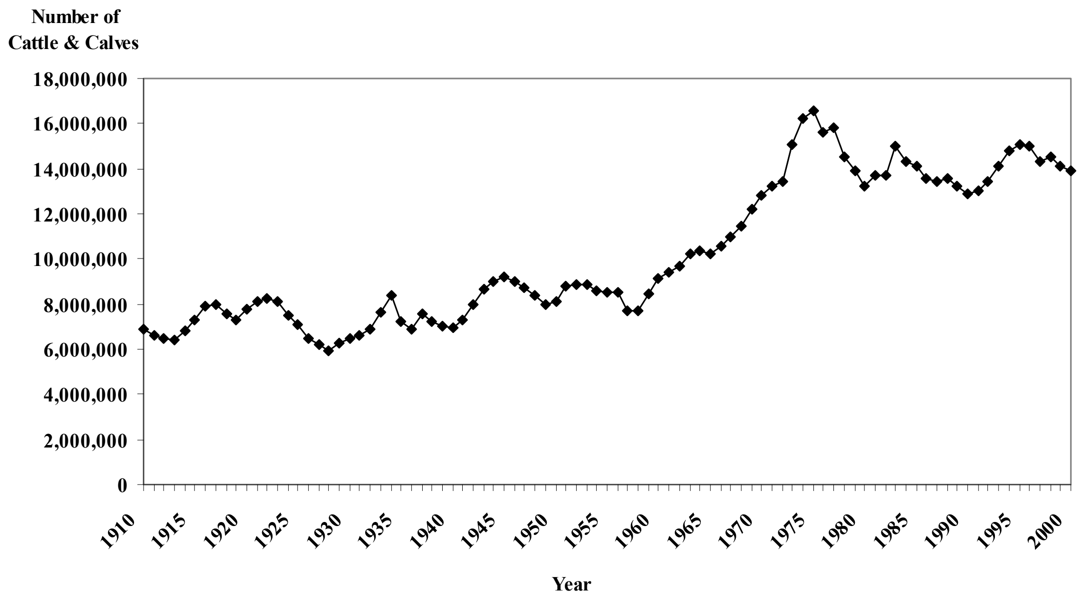
The reason for the recent upswing in Texas may be recreational farming and ranching. As noted earlier, the definition of a farm is, "any place from which $1000 or more of agricultural products are produced and sold, or normally would have been sold, during the census year."[2] As a result, the total includes many operations which may be characterized as recreational farms.

[1] Historical Highlights: 1997 and Earlier Census Years. 1997 Census of Agriculture. United States Department of Agriculture, National Agricultural Statistical Services. http://www.usda.gov/nass/.

[2] Glossary. Census of Agriculture. United States Department of Agriculture, National Agricultural Statistical Services. http://www.usda.gov/nass/.

Texas, famous for so many things, was, and is, undeniably linked to cattle production. In fact, Texas is unrivaled in the United States for its cattle production capacity. The state of Texas alone produces roughly 13.4%, or 14 million head, of the nation's cattle[3]. Cattle accounted for 76.5% of the state's livestock and poultry production, generating $7.25 billion in revenue in 1997[4]. In fact, Kenedy County, located in the southern coastal plains, had more cattle, 46,000 head, than people, 414, in the year 2000[5]. Figure 2 presents the number of cattle in Texas from 1910 to 2000.

Figure 2: Number of Cattle in Texas: 1910 to 2000



Source: National Agricultural Statistical Services, Published Estimates Database

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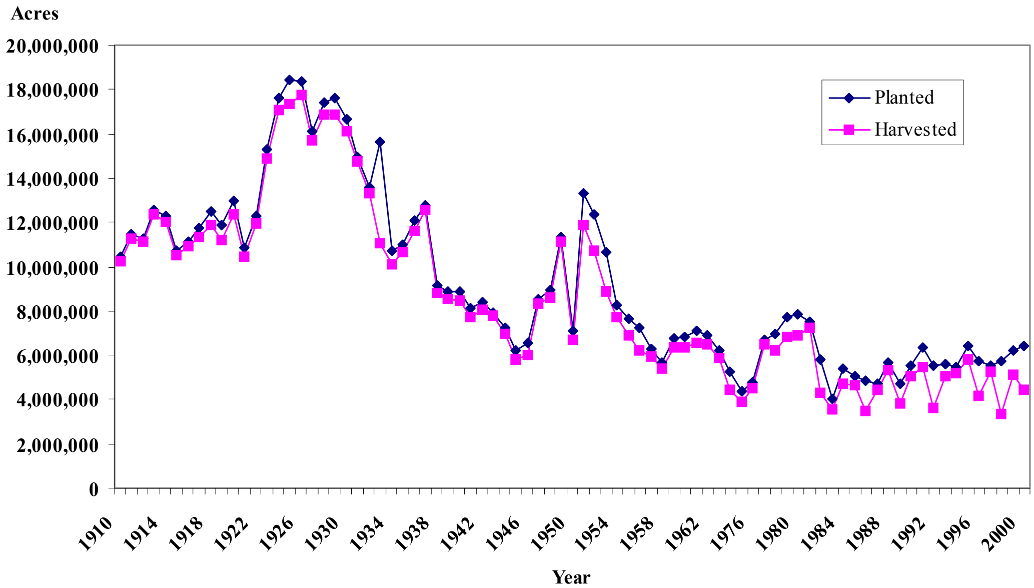
[3] Historical Highlights: 1997 and Earlier Census Years. 1997 Census of Agriculture. United States Department of Agriculture, National Agricultural Statistical Services. http://www.usda.gov/nass/.

[4] 1997 Census of Agriculture: Texas. United States Department of Agriculture, National Agricultural Statistical Services. http://www.usda.gov/nass/.

[5] US Census, 2000. United States Department of Agriculture, National Agricultural Statistical Services. http://www.usda.gov/nass/.

The advancements in technology, planting methodologies, and land use that have enhanced yields for the previous decades become strikingly evident in the reduction of acres planted and harvested. Nevertheless, Texas still ranks as the top producer of cotton in the United States. For 1997, Texas generated 27% of the nation's cotton[6]. Figure 3 presents the number of acres devoted to cotton production in Texas historically. There appears to be a greater separation between acres planted and acres harvested in the latter years than has been the case in years past.

Figure 3: Number of Acres Devoted to Cotton Production in Texas: 1910 to 2000



Source: National Agricultural Statistical Services, Published Estimates Database

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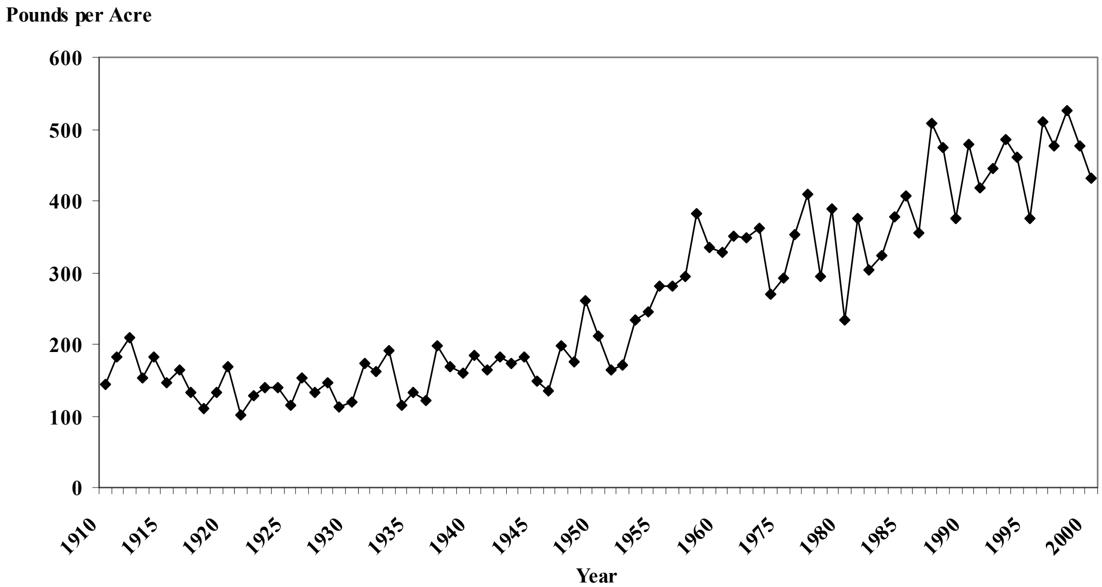
[6] 1997 Census of Agriculture. Ranking of States and Counties. United States Department of Agriculture, National Agricultural Statistical Services. http://www.usda.gov/nass/.

Figure 4 is a clear and dramatic representation that the yield for cotton has seen a positive trend over the last 30 years. Only with such an increase could fewer acres produce increasing quantities over time.

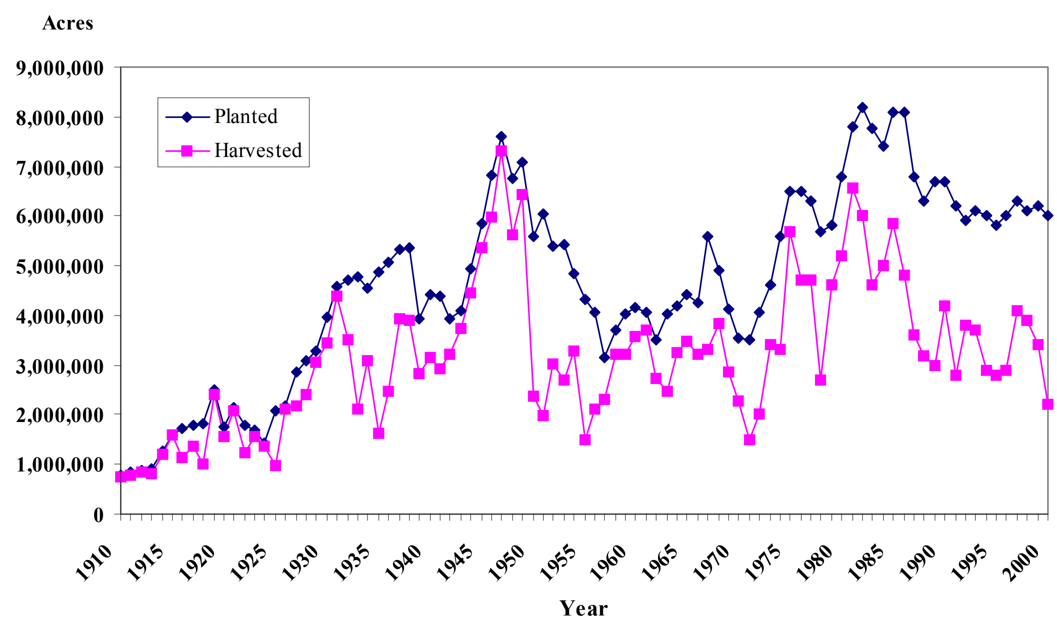
Figure 4: Yield of Cotton Production in Texas: 1910 to 2000



Source: National Agricultural Statistical Services, Published Estimates Database

Figure 5 illustrates the rather dramatic increase in the difference between acreage planted and acreage harvested in wheat.

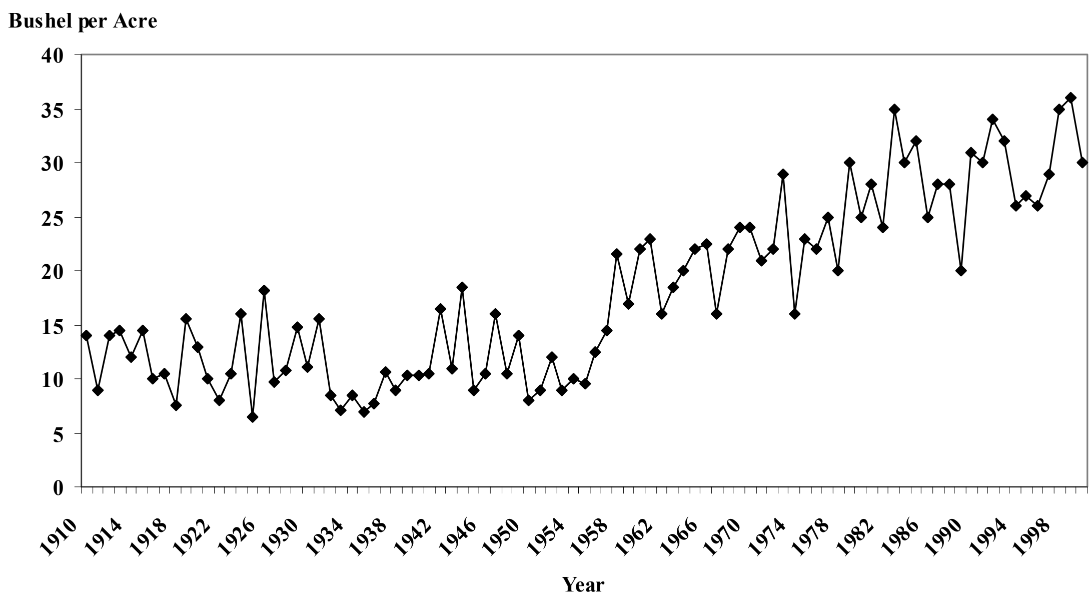
Figure 5: Total Acreage Devoted to Wheat Production in Texas: 1910 to 2000



Source: National Agricultural Statistical Services, Published Estimates Database

Figure 6 shows a steady yield increase for wheat much like the rise in the yield for cotton shown in Figure 4.

Figure 6: Yield of Wheat Production in Texas: 1910 to 2000



Source: National Agricultural Statistical Services, Published Estimates Database

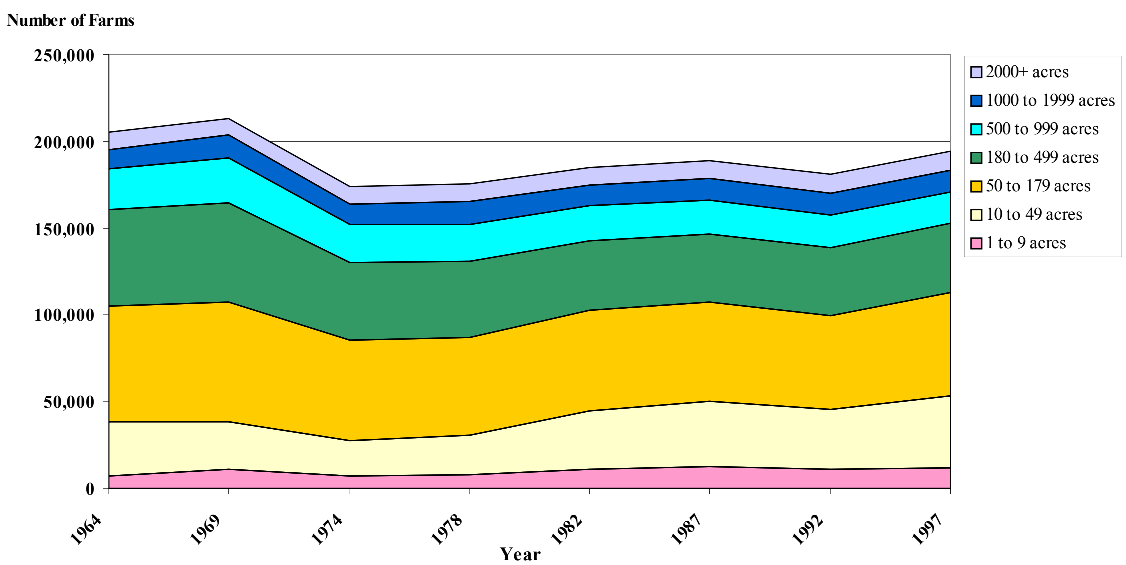
Data from The Census of Agriculture: 1964 to 1997

Data represented in the following figures is from the Census of Agriculture conducted every four to five years by the Census Bureau for the years 1964 through 1992, and by the USDA for 1997. The 2002 Census of Agriculture will be conducted at the end of this year (2002); the results from the 2002 Census will be available in the summer of 2004.

The Census of Agriculture is touted as the only comprehensive database of agricultural information compiled by the federal government. Formerly under the domain of the U.S. Census Bureau, the U.S. Department of Agriculture has administered the Census since 1997. The Census is now conducted in years that end with the numbers '2' and '7' (for example, the Census was conducted in 1992 and again in 1997). Presently, the USDA is preparing for the launch of the 2002 Census. The Census is mailed to American farmers, and the farmers are required by law to fill out the survey with accuracy and alacrity.

Figure 7 illustrates that the recent increase in the number of farms in the state is primarily coming from the "under 50 acre" group. As previously noted, this occurrence may represent recreational type use for rural land. Each segment in Figure 7 represents a separate size farm. The segments are laid on top of each other to produce a cumulative effect that provides the overall total when the layers are viewed as a whole.

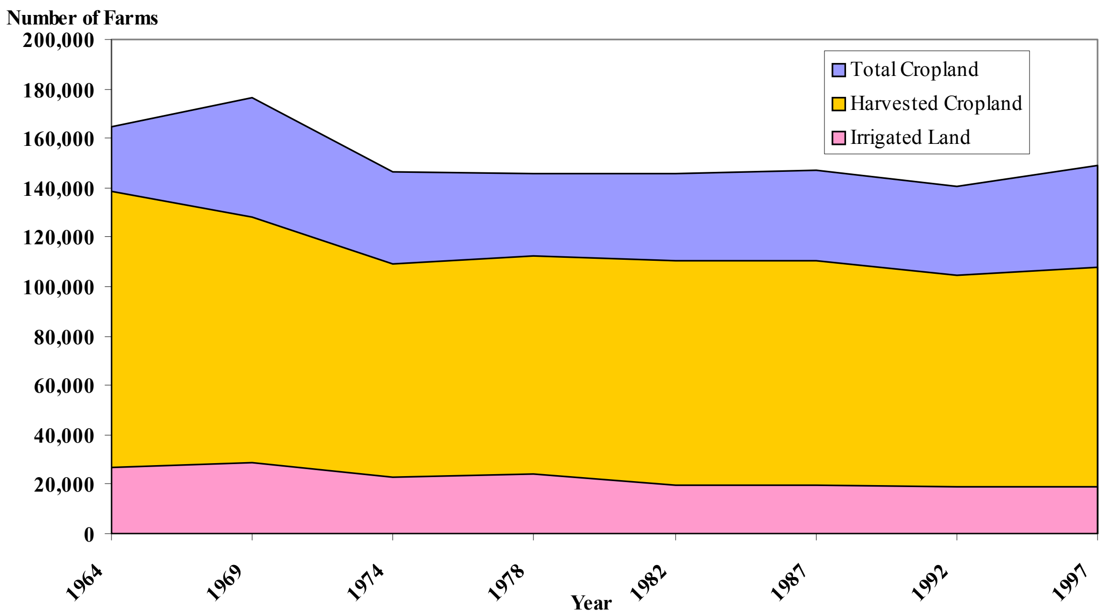
Figure 7: Number of Farms in the State of Texas by Size: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

Some 78% of the total acreage of the state is available for farming, but not all of this is suitable for farming due to annual rainfall or other environmental or topographical issues. There is a total of 167,624,960 acres of land in the state of Texas, and of that total 131,308,286 acres are available for agricultural use. Of the 131-plus million acres available for agricultural use, 65.5% (or roughly 86 million acres) are slated primarily for pastureland and graze land. Figure 8 shows the number of farms devoted to cropland from 1964 to 1997.

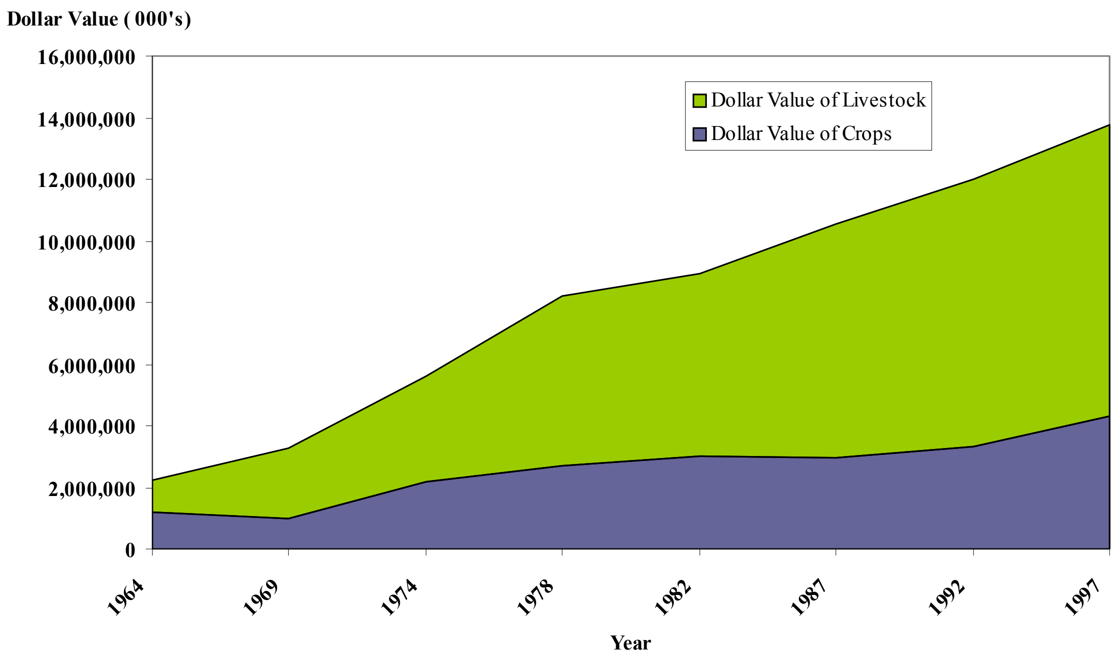
Figure 8: Total Number of Farms in Texas Devoted to Cropland: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

Figure 9 shows the total dollar market value (in thousands) of crops and livestock in Texas.

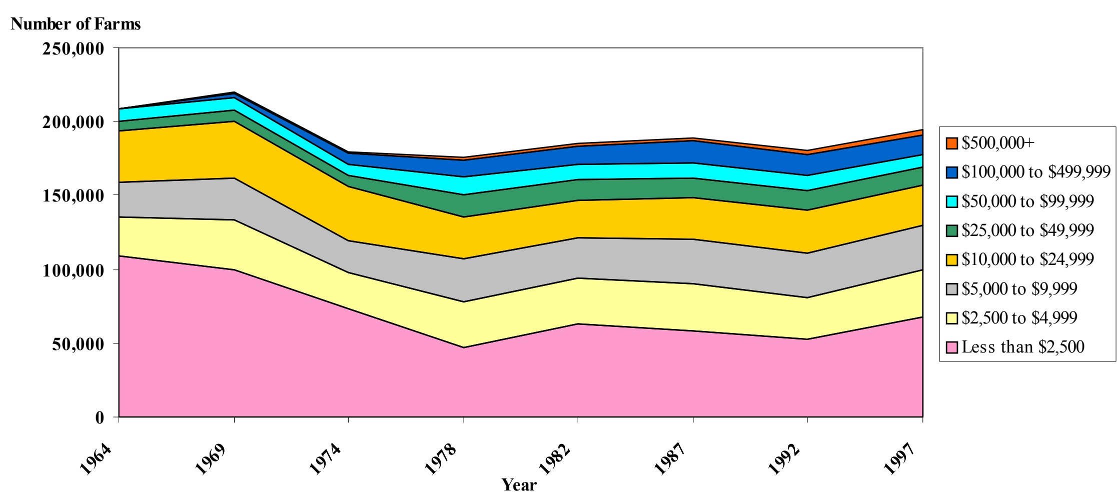
Figure 9: Total Market Value of Crops and Livestock in Texas: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

Figure 10 illustrates that the number of farms in the largest and smallest categories is increasing – the "over $500,000" and "under $2,500" groups. We believe this is because of recreational farming and the advent of agribusiness. Of the total farms in the state of Texas, 8.8% generate more than $100,000 and produce 86.7% of the state's agricultural output.

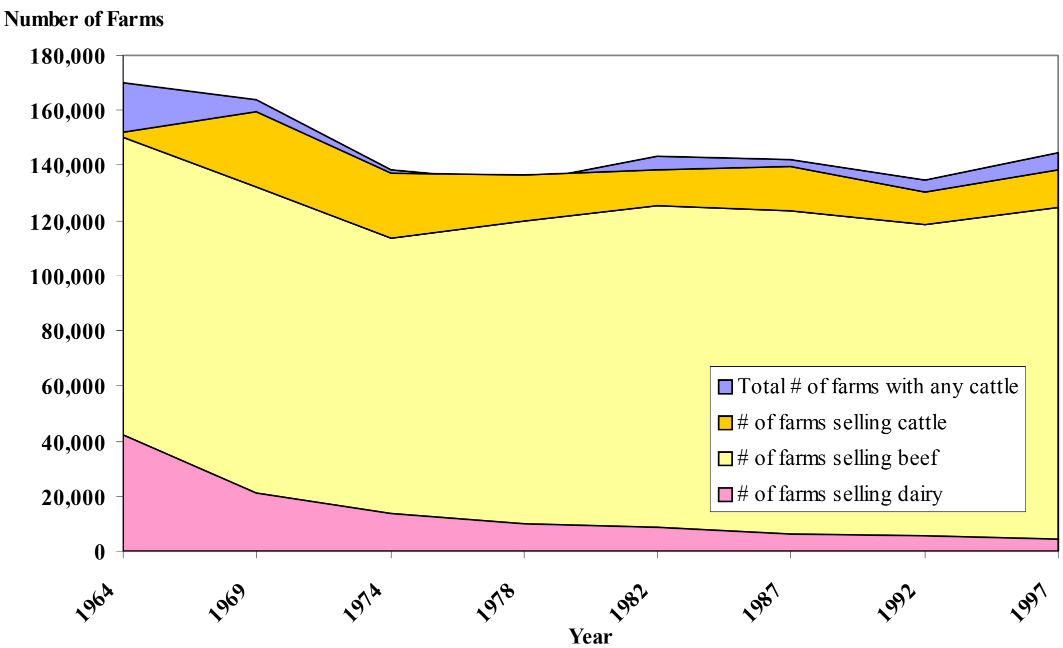
Figure 10: Number of Farms in Texas Segmented by Value of Sales: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

Figure 11 shows the number of farms engaged in some form of livestock production. Please keep in mind that many farms actually engage in both crop and livestock production and would be counted in both graphs.

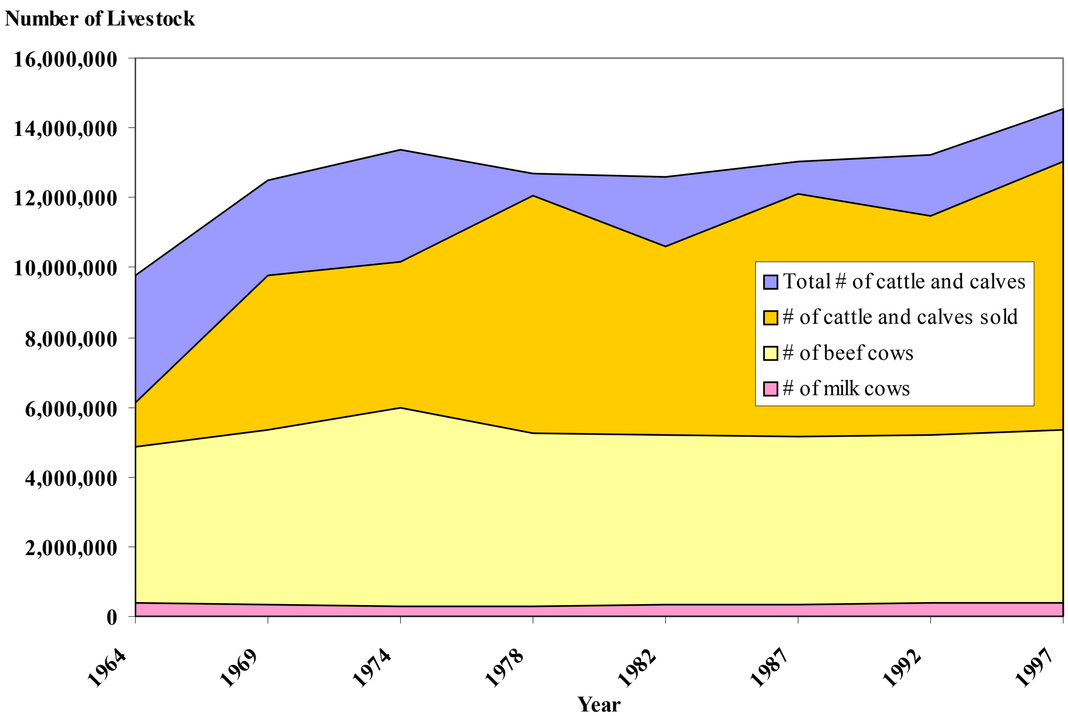
Figure 11: Number of Farms Engaged in Livestock Production in Texas: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997
Note: many farms are engaged in multiple activities

Figure 12 shows the number of livestock produced by year and indicates an increase over the last 15 years of the Census.

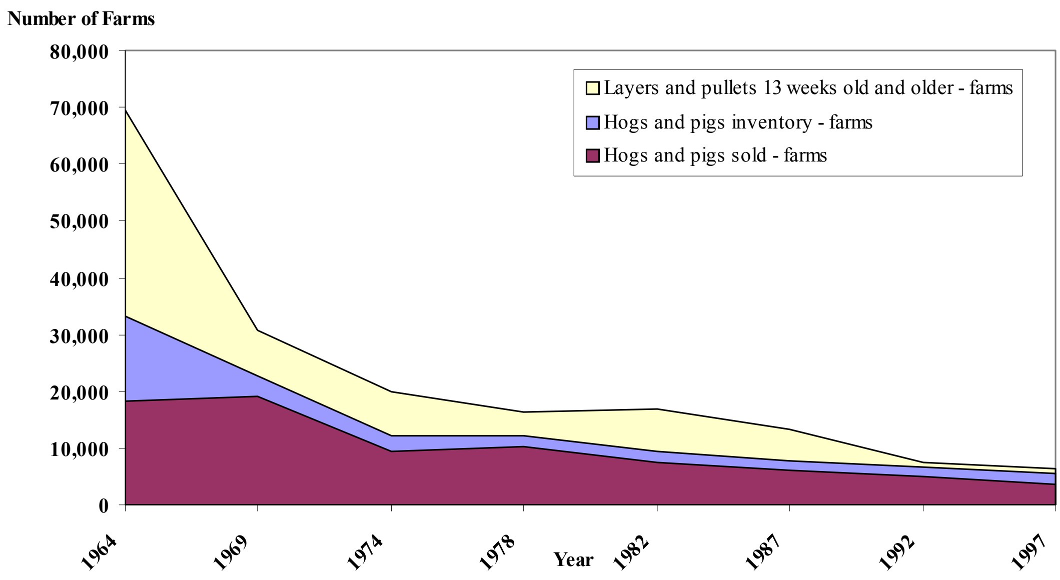
Figure 12: Number of Livestock Produced in Texas: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

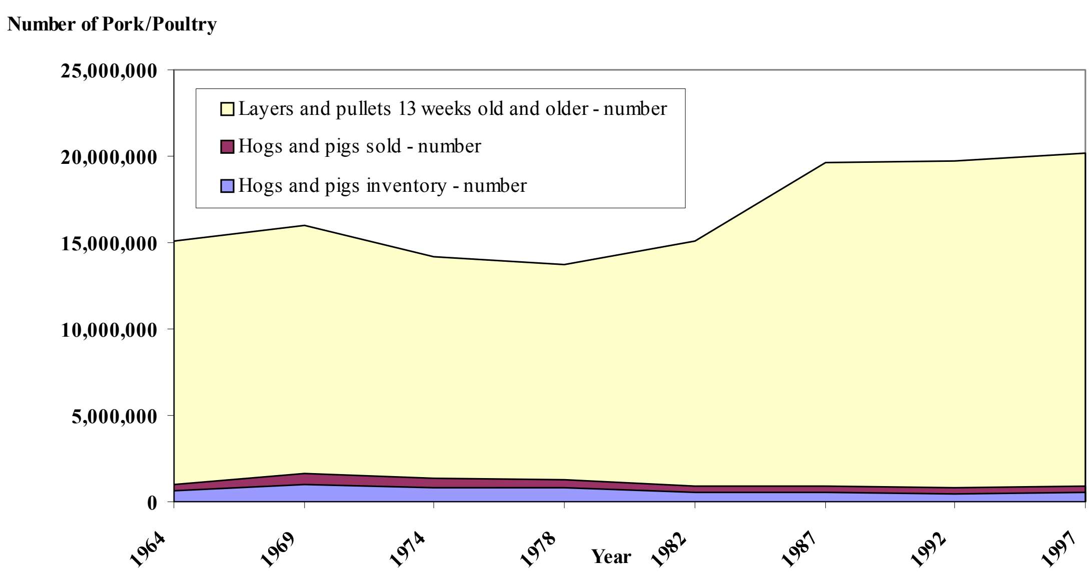
Although Figure 13 shows the number of farms engaged in pork and poultry production has been declining, Figure 14 demonstrates that the actual number of such animals produced has been increasing. It appears that farm consolidation and yield help reconcile these two pictures.

Figure 13: Number of Farms in Texas Engaged in Pork/Poultry Production: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

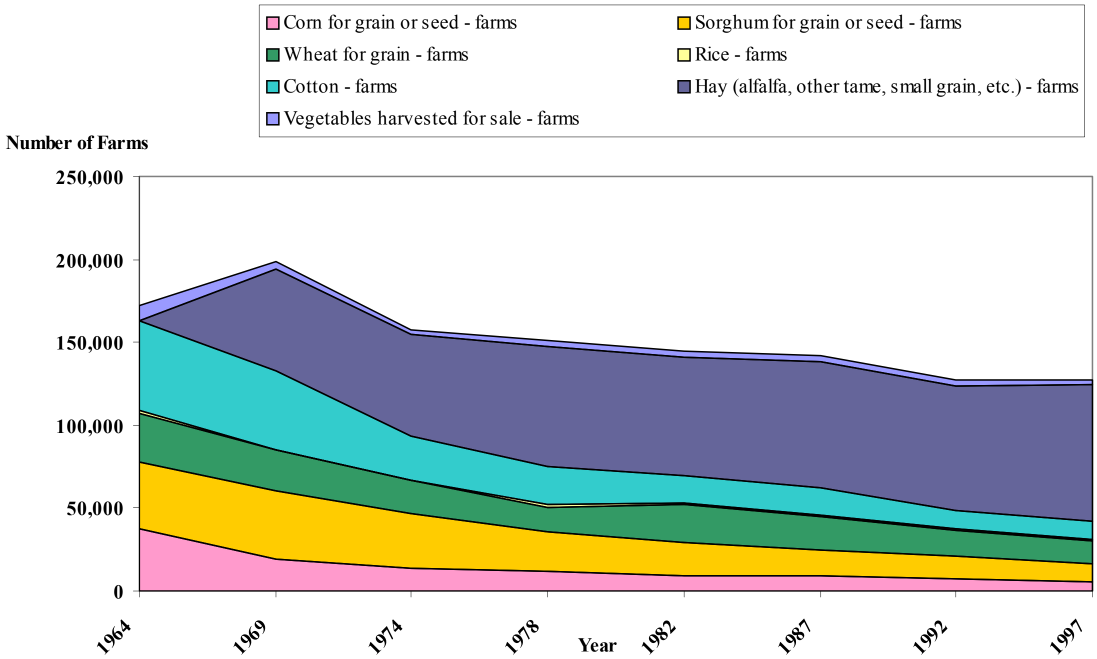
Figure 14: Number of Pork/Poultry Produced in Texas: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

Figure 15 shows a decrease in the number of farms engaged in producing selected crops.

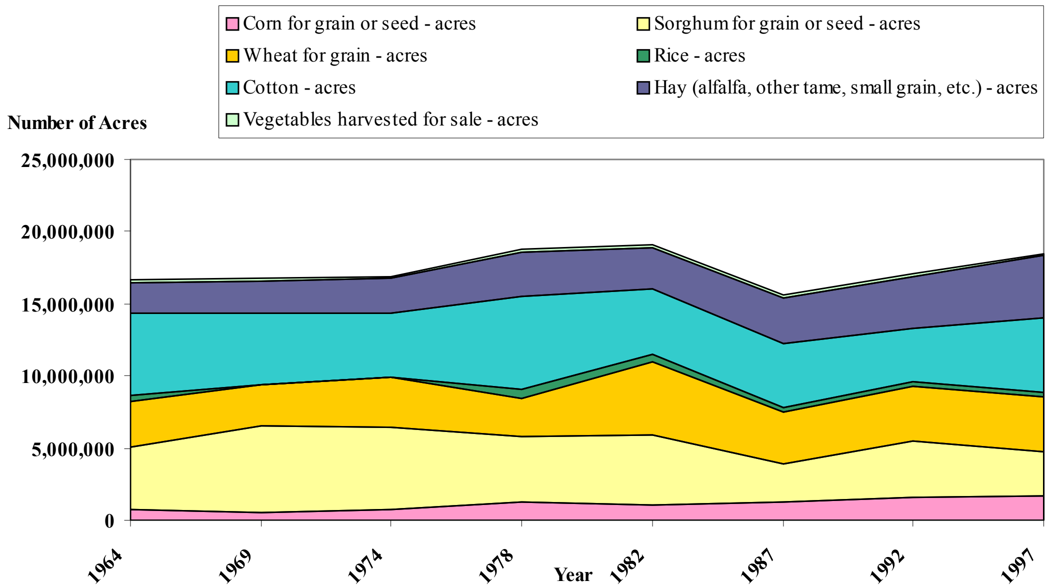
Figure 15: Number of Farms in Texas Engaged in the Production of Selected Crops: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

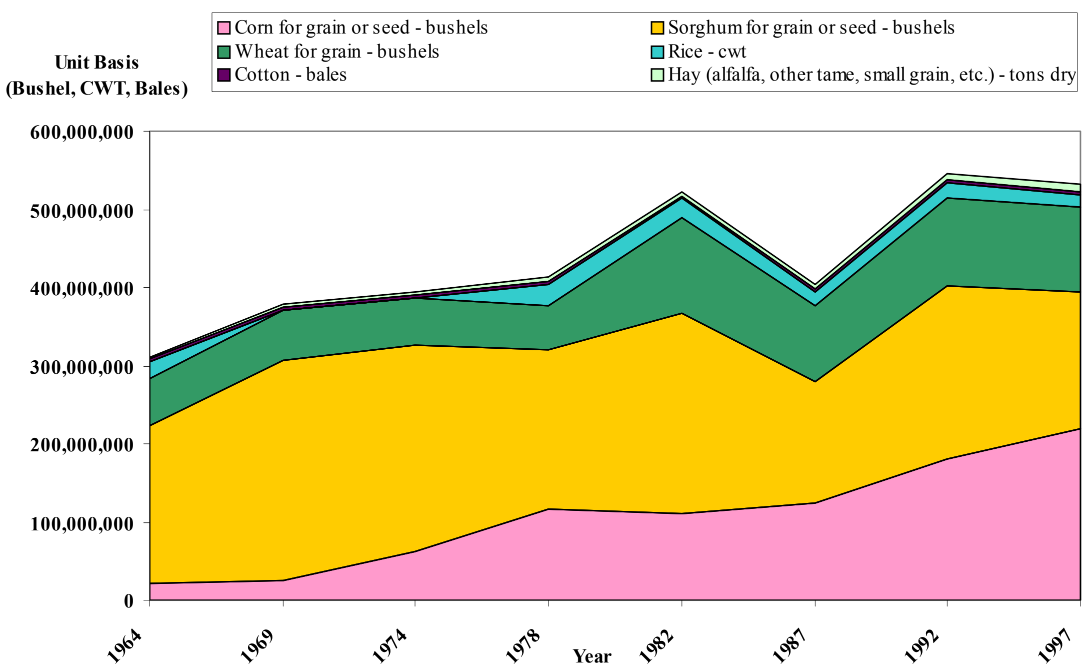
Although the previous Figure showed the number of farms producing selected crops declining, Figure 16 and Figure 17 indicate that the acreage devoted to these crops and the production of these crops have both increased. Again, increased yield and farm consolidation could explain (reconcile) the three graphs.

Figure 16: Number of Acres in Texas Engaged in the Production of Selected Crops: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

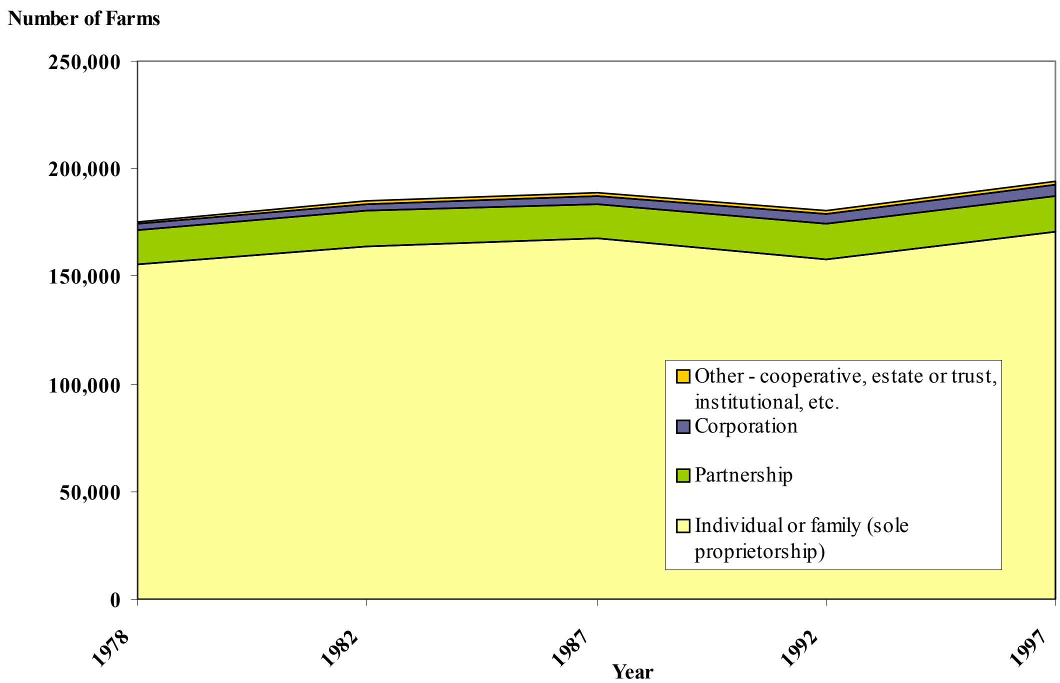
Figure 17: Selected Crop Production in Texas: 1964 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

Figure 18 reiterates the recent growth in the number of farms in the state. Although the greater increase is coming from the individual or family farm, we note that over the last 20 years, the number of corporations engaged in farming has increased from 2,692 in 1978 to 4,893 in 1997, an increase of 81%.

Figure 18: Number of Farms in Texas Segmented by Type of Organization: 1978 to 1997



Source: National Agricultural Statistical Service, Census of Agriculture for 1964 to 1997

The cumulative effect of the previous 18 Figures is to yield a perception of an industry that is holding its own and maybe even enjoying a slight resurgence. Clearly, there have been impressive yield increases over the years along with farm consolidation and more utilization of a corporate structure for many agricultural operations.

Reality would be different, however, if there had not been federal government and, to a lesser extent, state government support of farming. Subsidies, loan guarantees, and funds available for loans all represent direct supports. (Many of these programs are outlined in Appendix 1.) Indirect support of the industry can be found in government research to increase crop and livestock yield. The point is that the seemingly healthy picture of the agricultural industry in Texas would be quite different without the direct and indirect support of the federal and state government.

In the next section we turn to historical data on agricultural lending.

Section 2: Historical Data on Agricultural Lending

Introduction

Data on agricultural bankruptcies since 1987 and agricultural lending from the Federal Reserve Bank, District 11, are contained in this Section.

Executive Summary – Historical Data on Agricultural Lending

- Except for a spike of 400 agricultural bankruptcies in 1987, the Southern Plains oscillated between 100 and 200 bankruptcies per year. This stable pattern has existed from 1984 to 2000, except for the 1987 spike.
- Quarterly data from the Federal Reserve Bank, 11th District, for the last three years show fairly stable:
  1. Demand for loans;
  2. Availability of funds;
  3. Loan renewals or extensions;
  4. Loan repayment;
  5. Collateral requirements; and,
  6. Loan-to-deposit ratios.
- Over the last two years there has been a modest increase in:
  1. The total amount of agricultural loans;
  2. The number of loans from the Farm Service Agency; and,
  3. The dollar amount of Farm Service Agency loans.
- Land values per acre decreased steadily from 1986 to 1995 and then leveled off through the first quarter 2002. Although at different absolute levels, this pattern of decrease was virtually identical for irrigated, dry and ranch land.
- In summary, historical data on agricultural lending indicates stability, not crisis. There appears to be a normal, steady demand for loans and a normal, steady availability of funds.
- Overall, historical data on agricultural production and agricultural lending indicate the same stable, steady environment.

Detailed Results on Agricultural Lending

Table 1 depicts the number of Chapter 12 Farm Bankruptcy filings in the U.S. from 1986 to 1999. A dramatic increase is evident in 1987 with unusually high, although generally decreasing filings, through the early 1990's. The need for Chapter 12 in the Bankruptcy Code arose in the 1980's as widespread farm failures alerted policy makers to the need for the preservation of farm production[7]. Farm failures entered pop culture in the form of Farm Aid and other works of art.

Table 1: Chapter 12 Farmer Bankruptcy Case Filings by Fam Production Region: 1986 to 1999[8]

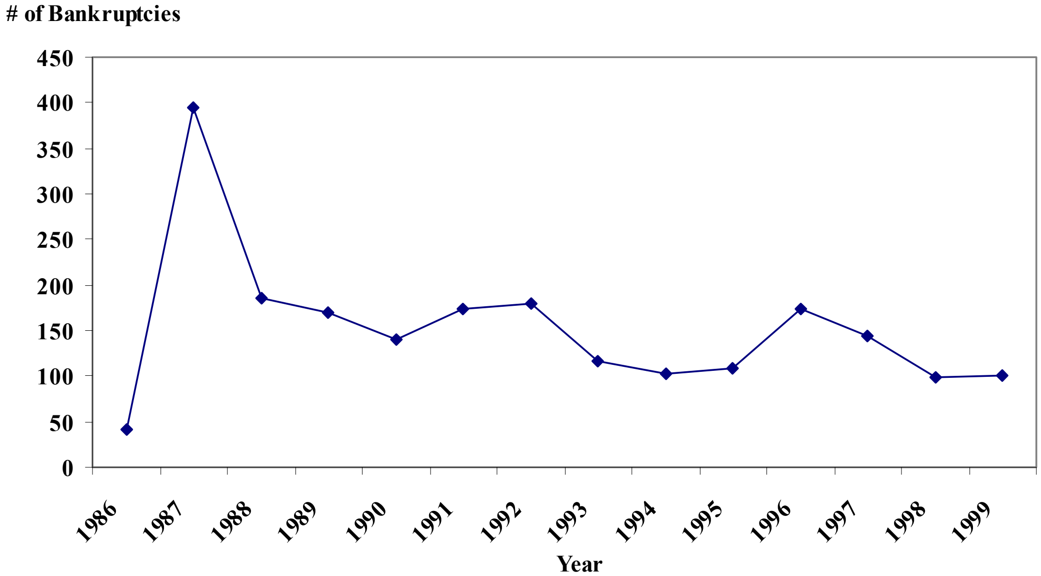
	Farm Production Region										
Year	Northeast	Lake States	Corn Belt	Northern Plains	Appala-chian	Southeast	Delta States	Southern Plains	Mountain	Pacific	United States
1986	9	50	103	148	92	47	44	41	42	24	600
1987	99	465	1,292	1,553	470	335	547	394	546	363	6,064
1988	39	175	447	358	102	105	170	185	256	188	2,025
1989	24	147	290	218	68	83	115	170	155	163	1,433
1990	49	130	226	224	79	118	128	141	135	106	1,336
1991	85	145	213	190	86	139	169	173	152	127	1,479
1992	69	160	259	235	116	121	154	180	178	124	1,596
1993	78	140	210	172	73	84	131	116	114	117	1,235
1994	66	105	123	124	62	66	77	102	78	88	891
1995	78	103	122	134	64	84	57	108	81	93	924
1996	84	97	114	195	65	84	112	173	74	83	1,081
1997	87	80	91	152	46	83	91	145	109	62	946
1998	58	78	94	146	58	77	64	98	89	45	807
1999	52	61	145	168	60	67	52	100	82	46	833
Total	877	1,936	3,729	4,017	1,441	1,493	1,911	2,126	2,091	1,629	21,250

[7] Stam, Jerome M.; Milkove, Daniel L.; Wallace, George B. Indicators of Financial Stress in Agriculture Reported by Agricultural Banks, 1982-1989. Agricultural Income & Finance. Economic Research Service/USDA. February 2000.

[8] Source: http://www.ers.usda.gov/briefing/bankruptcies/Data/BankruptciesTable1.htm. Northeast = CT, DE, ME, MD, MA, NH, NJ, NY, PA, RI, VT. Lake States = MI, MN, WI. Corn Belt = IL, IN, IA, MO, OH. Northern Plains = KS, NE, ND, SD. Appalachian = KY, NC, TN, VA, WV. Southeast = AL, FL, GA, SC. Delta States = AR, LA, MS. Southern Plains = OK, TX. Mountains=AZ, CO, ID, MT, NV, NM, UT, WY. Pacific=AK, CA, HI, OR, WA.

Figure 19 shows the number of filings for the Southern Plains, wherein the Texas number would reside.

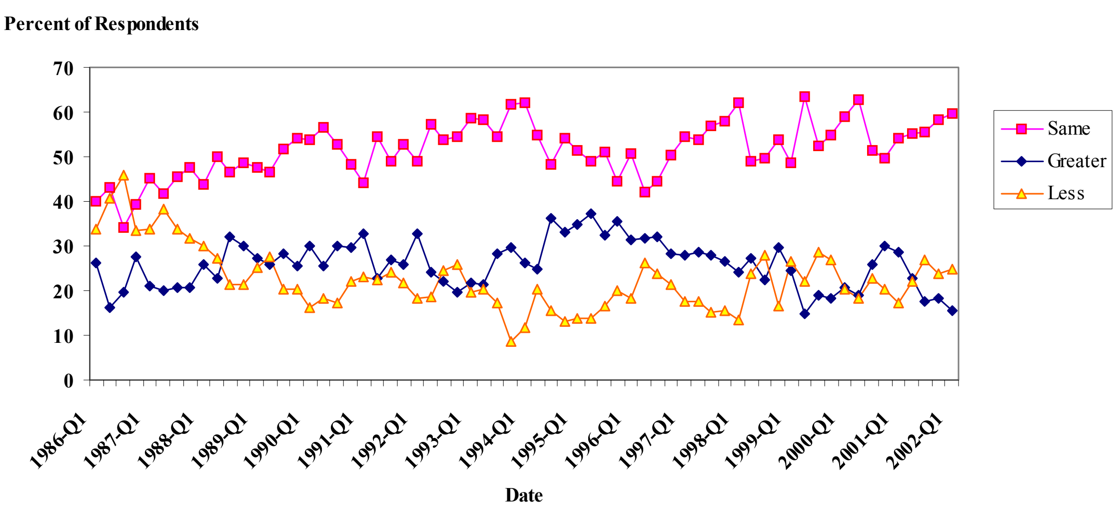
Figure 19: Southern Plains, Chapter 12 Bankruptcies: 1986 to 1999



Source: http://www.ers.usda.gov/briefing/bankruptcies/Data/BankruptciesTable1.htm

Additional data from the Federal Reserve Bank in Dallas for District 11 helps complete the picture on agricultural lending in Texas from 1986 to the present. The Federal Reserve Bank in Dallas surveys banks in the 11th District (Texas, northern Louisiana, and southern New Mexico) on a quarterly basis to assess their exposure to agriculture. Figure 20 shows that 60% expect that the demand for agricultural loans to be roughly the same going forward. Almost equal numbers expect it to be less or greater, but both of these groups total less than 30%.

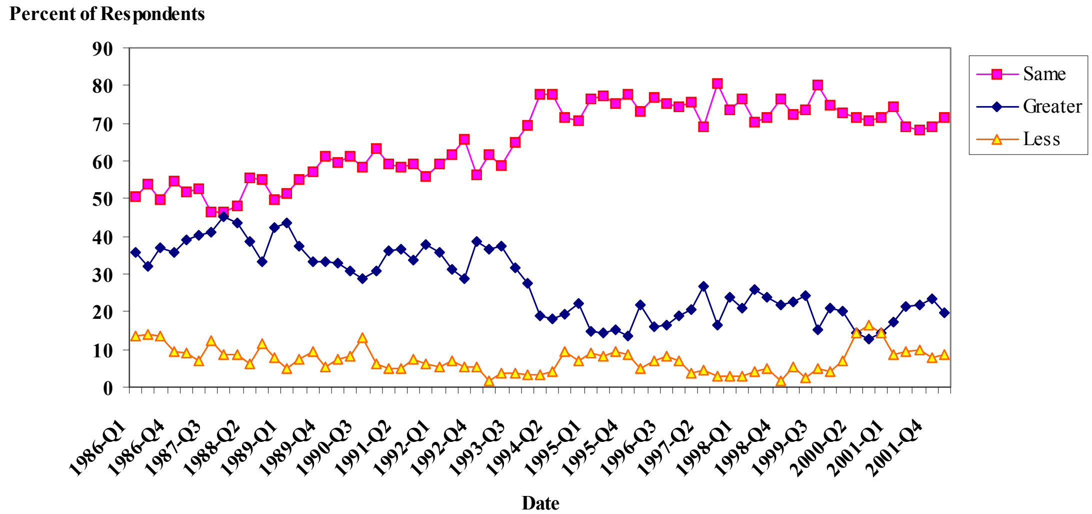
Figure 20: Demand for Loans -- Federal Reserve Bank, 11th District: 1986 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Figure 21 shows that since 1994 between 70% and 80% of the respondents believe the availability of funds has not changed.

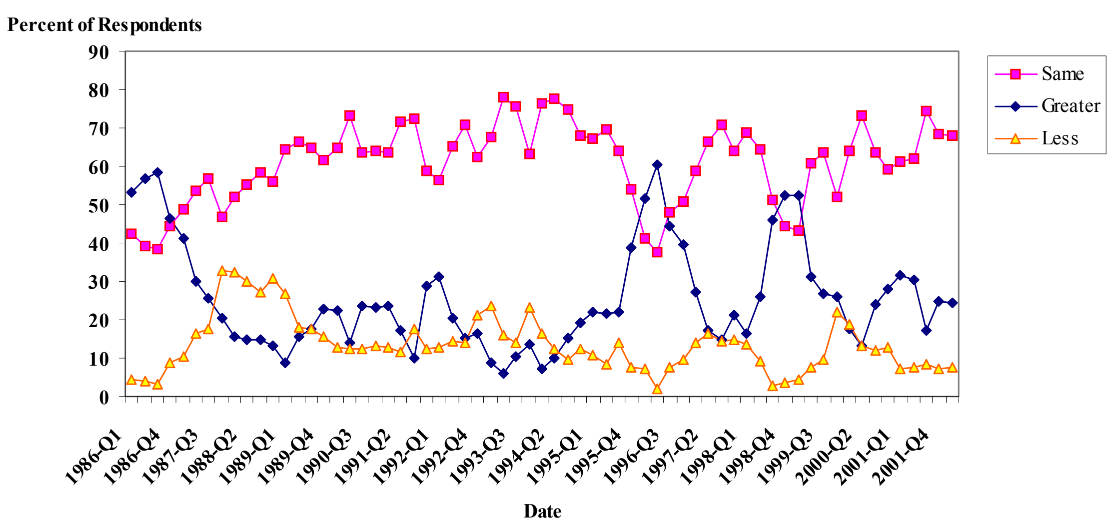
Figure 21: Availability of Funds -- Federal Reserve Bank, 11th District: 1986 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Figure 22 shows that almost 70% expect loan renewals or extensions to be the same going forward. Note the two spikes, one in 1996 and one in 1998, parallel economic problems in 1986. But, as of 2000 and 2001, the expectations of renewal/extensions had abated.

Figure 22: Loan Renewal or Extensions – Federal Reserve Bank, 11th District: 1986 to 2002

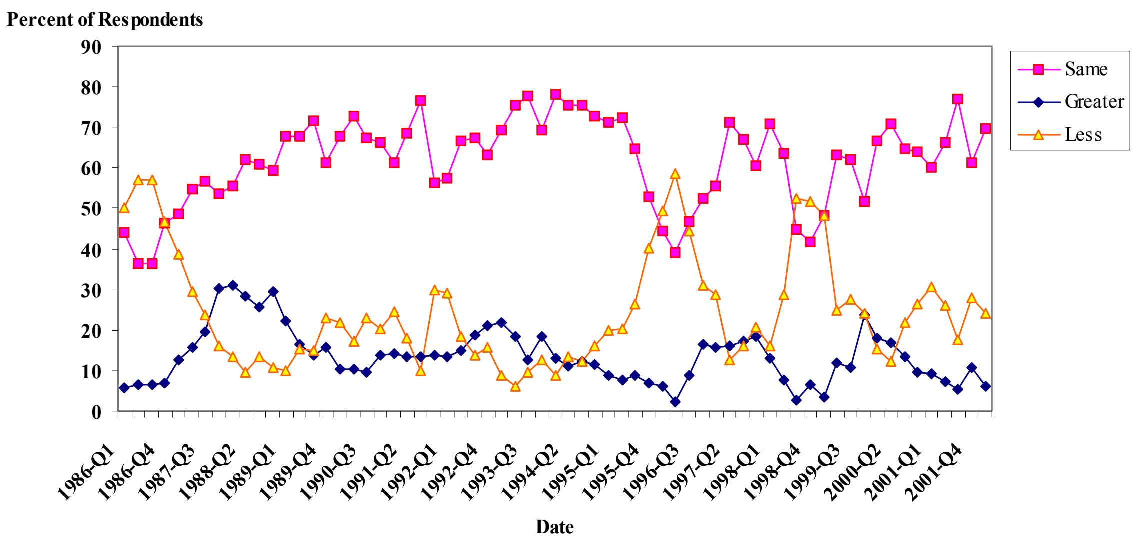


Source: Federal Reserve Bank, District 11 (Dallas)

Source: Federal Reserve Bank, District 11 (Dallas)

Figure 23 shows the same rather healthy picture of loan repayment.

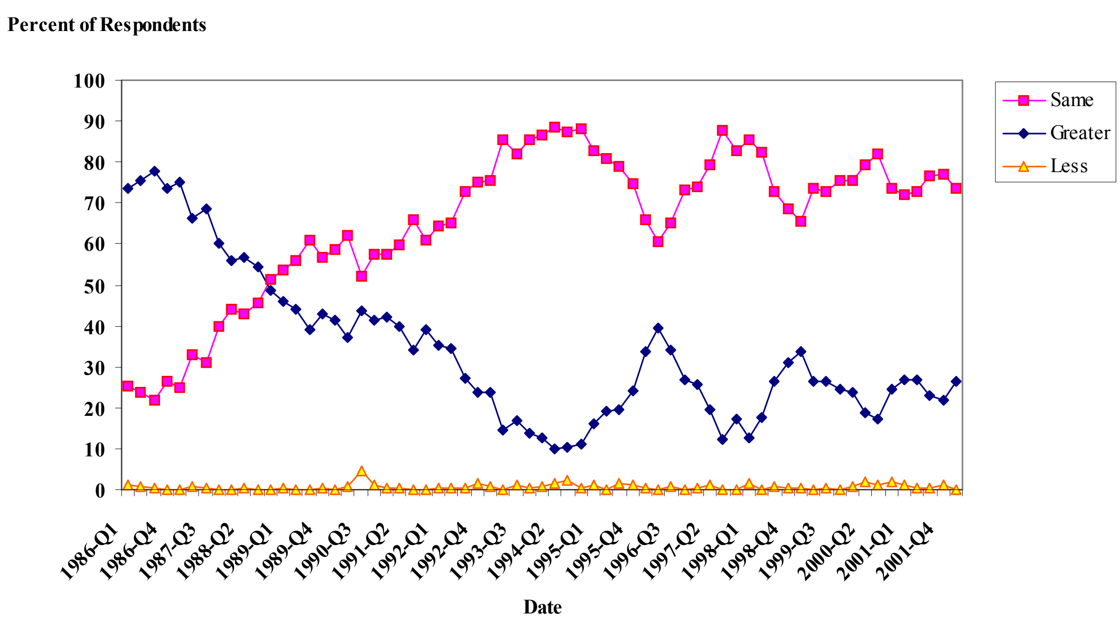
Figure 23: Rate of Loan Repayment -- Federal Reserve Bank, 11th District: 1986 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Figure 24 makes it clear that bankers almost never expect loan collateral requirements to decrease, but those that believe collateral requirements will increase have declined to less than 30%. The problematic quarters cited earlier in 1996 and 1998 are paralleled in this collateral graph but as of the fourth quarter in 2001, a new spike had not emerged.

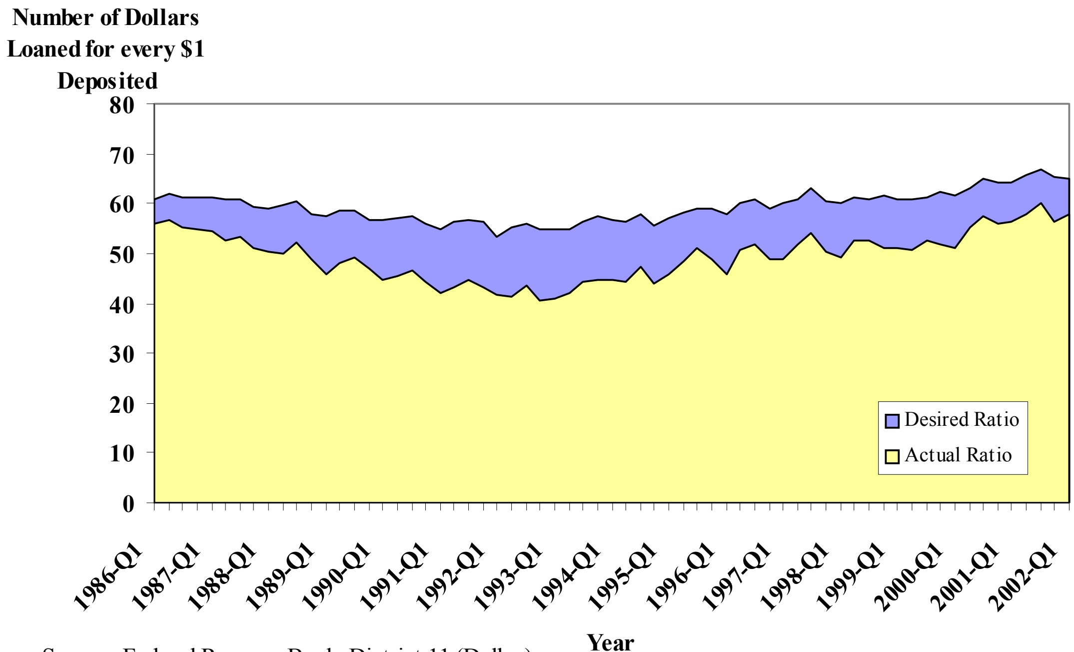
Figure 24: Amount of Collateral Required – Federal Reserve Bank, 11th District: 1986 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Figure 25 shows only a slight gap with no trend between the desired loan to deposit ratio and the actual ratio.

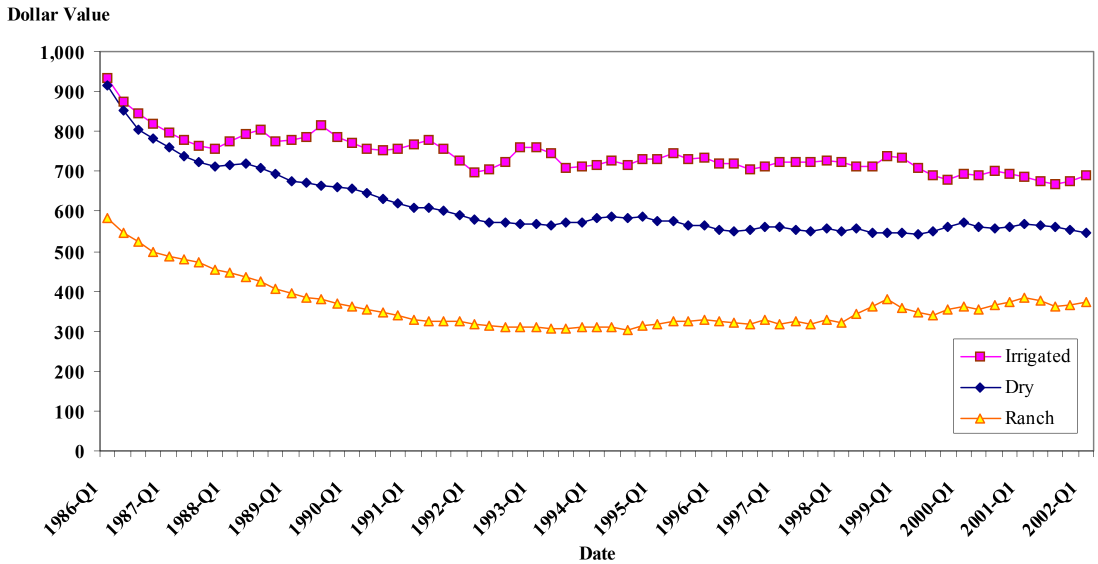
Figure 25: Loan to Deposit Ratios – Federal Reserve Bank, 11th District: 1986 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Figure 26 shows, in terms of constant 1992 dollars, a steady decrease in land values per acre from 1986 to the end of 2001. Most of the decrease, however, took place before 1995. The value for irrigated land, of course, remains above that for dry land, which in turn, remains above that for ranch land.

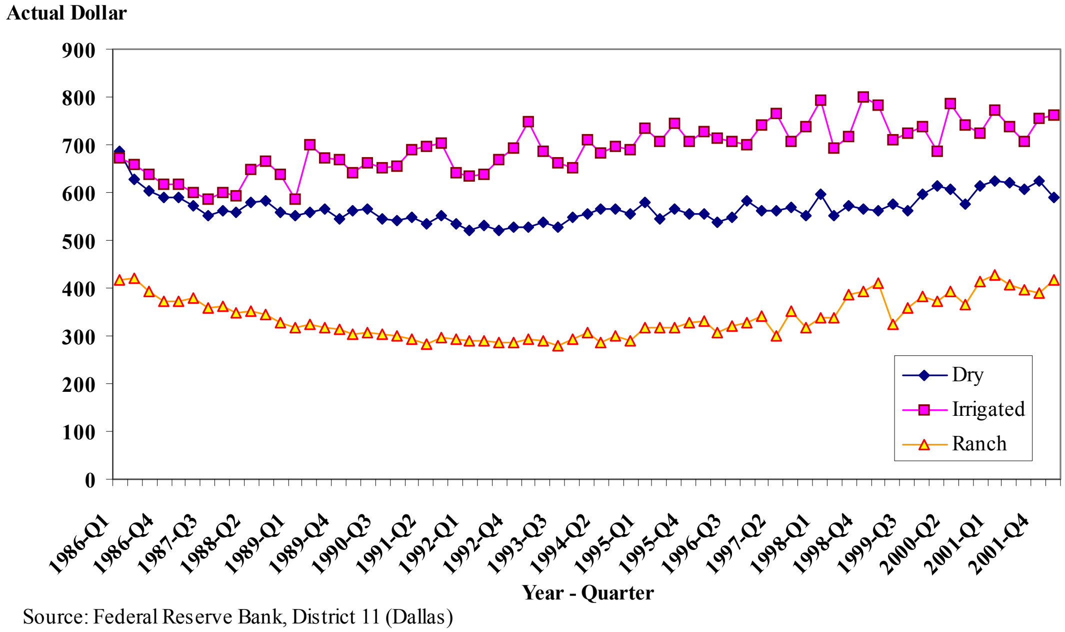
Figure 26: Land Values Per Acre in 1992 Dollars – Federal Reserve Bank, 11th District: 1986 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Figure 27 in actual, not constant, dollars illustrates an almost flat picture but not one of increasing values. Given the degree of urban encroachment on some farming areas which is driving up land values in some parts of the state, there must be corresponding decreases in other parts of the state to maintain the recent flat market value of agriculture land.

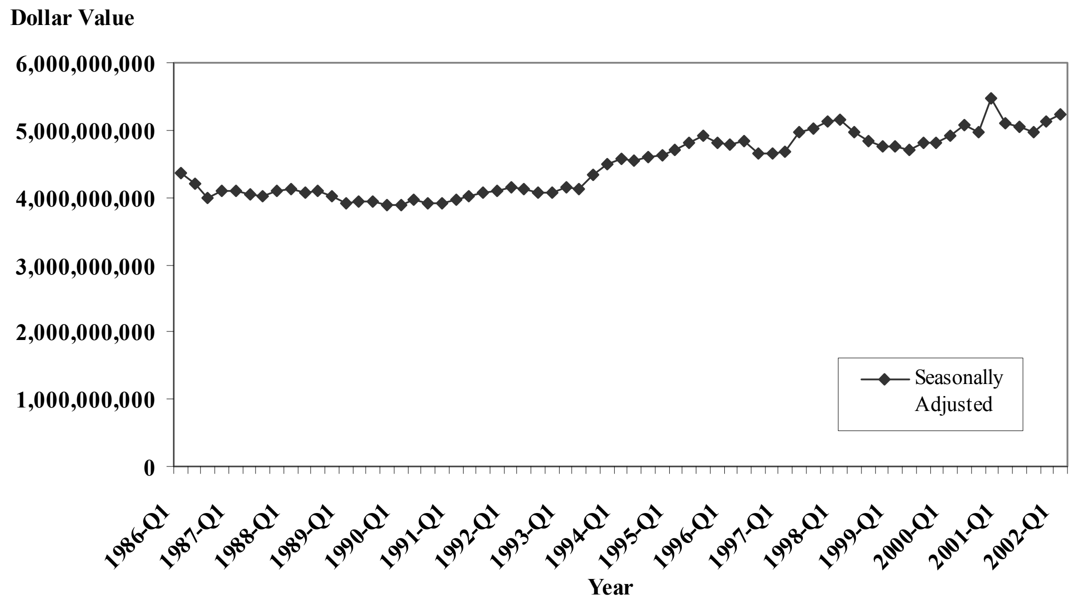
Figure 27: Three Month Moving Averages of Value of Agricultural Land in Actual Dollars – Federal Reserve Bank, 11th District: 1986 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Figure 28 depicts the total dollar value of all outstanding agricultural loans. As would be expected with some small inflation and some modest increases in farming and ranching, this number has steadily increased since 1993.

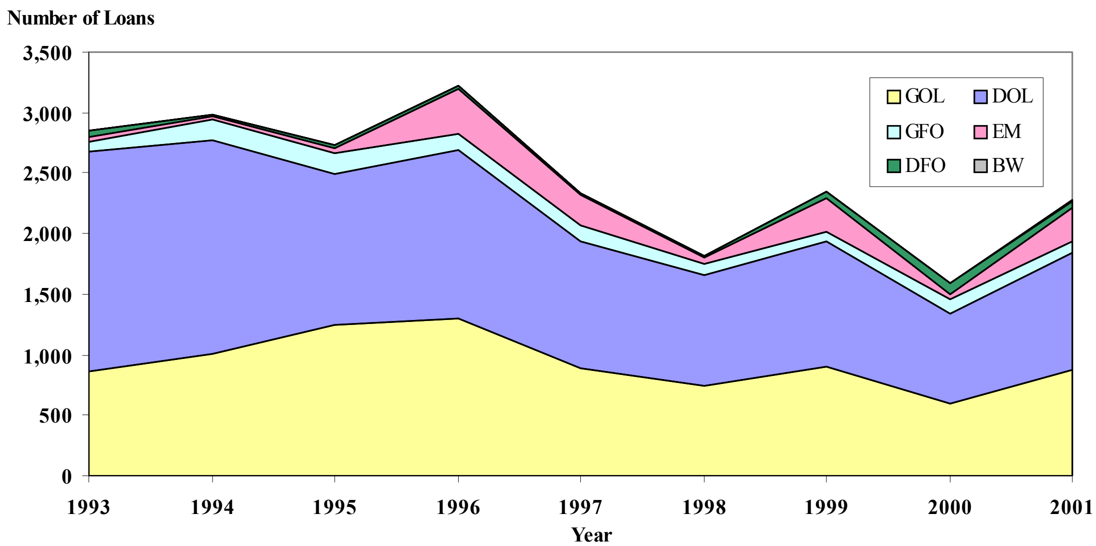
Figure 28: Total Amount of Agricultural Loans – Federal Reserve Bank, 11th District: 1985 to 2002



Source: Federal Reserve Bank, District 11 (Dallas)

Specific data from the Farm Services Agency in the state of Texas for particular programs began in 1993. Figure 29 shows the number of loans by category. The categories specified are: BW – Boll Weevil Eradication; DFO – Direct Farm Ownership; EM – Emergency; GFO – Guaranteed Farm Ownership; DOL – Direct Operating Loans; and GOL – Guaranteed Operating Loans.

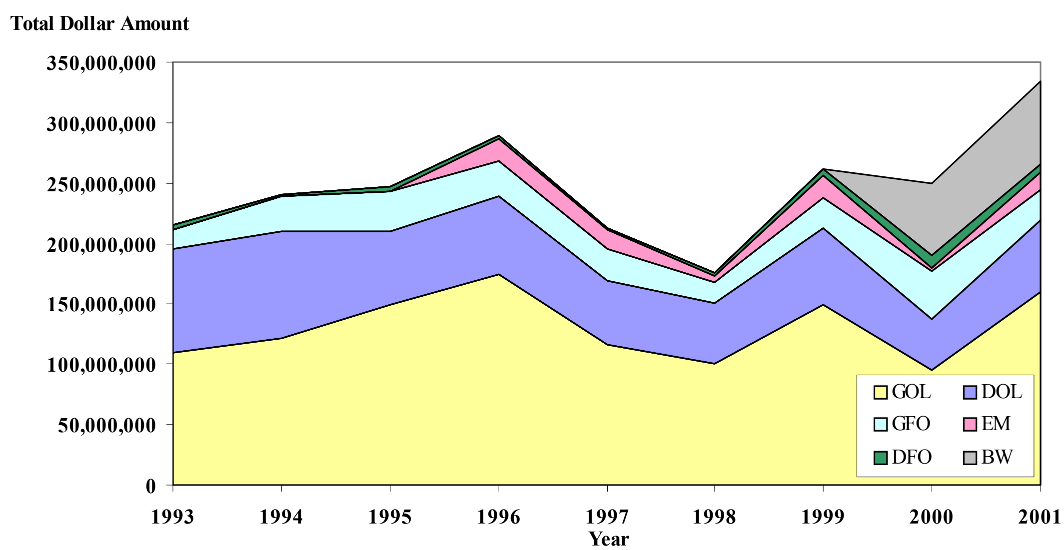
Figure 29: Texas Loan and Obligations – Number of Loans from the Farm Services Agency: 1993 – 2001



Source: United States Department of Agriculture, Texas State Farm Services Agency Office

Figure 30 shows the dollar amount of loans from the Farm Services Agency for these various programs. There is a clear increase since 1999.

Figure 30: Texas Loan and Obligations – Dollar Amount of Loans from the Farm Services Agency: 1993 to 2001



Source: United States Department of Agriculture, Texas State Farm Services Agency Office

Taken cumulatively, the data on lending shows some periods when agricultural lending has been under stress – 1986, 1996, and 1998, but it has been relatively calm since 1998. As noted in the earlier historical data summary, however, government supports of both a direct and indirect nature and at both a federal and state level, have played an important role in maintaining this industry. Without such past and continuing support, the picture would likely be quite different.

Section 3: In-Depth Interviews with Agricultural and Agricultural Lending Experts

Introduction

The area of agricultural production and specifically, agricultural lending is very complex. To gain additional input Analytica conducted eight interviews with established experts. To encourage frank and candid comments interviewees were promised confidentiality. Therefore, no names are associated with this portion of the report. Participants interviewed, however, as the reader will see in the ensuing comments, were quite knowledgeable about both the state of agricultural production in Texas as well as agricultural lending. Among the eight individuals interviewed, four were bankers with considerable experience in agricultural lending, two were government employees familiar with agriculture, and two were University faculty with experience in agriculture and agricultural lending.

Executive Summary – Expert Interviews

The last several years have been hard on agricultural producers in Texas, especially farmers. Farmers with less experience, i.e., newer to the business, have been hurt worse than older farmers with a lot of experience. Both cumulative experience as an agricultural producer as well as accumulated equity help explain the differential impact.

Several factors have contributed to the accumulation of problems in Texas agriculture:

1. Water: Water tables are going down so irrigated farming has suffered.
2. Weather: Recent weather conditions have not been kind to farmers.
3. Market Conditions: Market conditions, i.e., poor prices have been a problem. There are three contributing factors to the pricing problem: 1) trade imbalances; 2) the rising value of the dollar relative to other currencies; and, 3) a trade policy that lets in cheap (and sometimes subsidized) imports with tariffs that are not nearly as large as tariffs on exports.
4. Poor Management: Some farmers have focused on operating income, reducing expenses, and becoming more efficient. These farmers have done well and are still very creditworthy. Farmers that have not approached their farming as a business and utilized careful investment decisions have not done well.
5. Loss Of Equity: Some agricultural enterprises have lost so much equity over the last several years that those operations have increased their risk and, in turn, impeded their access to capital.

Government support, subsidies, and loan programs have been essential to the viability of agricultural producers. In essence the government is often guaranteeing a cash flow that the banker needs to be able to make a loan. Unfortunately, this same system encourages overproduction and has allowed marginal producers to survive. However, changes in the program going forward may allow the weaker producers to fail. Many state farm educational programs (e.g., FARM – Farm Assist, SPA – Standardized Performance Analysis, etc.) have helped educate farmers about value-added agriculture, positioning, differentiating a product, production benchmarking, operating efficiencies, breakeven analysis, and risk. Farming has become more and more like a business and this bodes well for the future. Such education programs should be maintained and encouraged.

Suggestions from the experts for potential new programs include:

1. A program that would transition ownership from the current generation of owners to younger family members or to promising employees of current operations (i.e., allow good, experienced employees to buy equity stakes in current successful operations).
2. A government-encouraged system for bringing private equity investors into the agriculture business.
3. The Federal government should adjust the tariff situation and make it more fair, balanced, and rational.
4. New, long-term educational programs covering all aspects of creating and delivering value-added products should be encouraged.

There is also the subject of loan availability. Although many operations have lost equity and the increased risk has made getting loans more difficult over the last few years, this is only true for the more marginal operations. Loans are available for creditworthy customers. Bankers' requirements prevent them from giving questionable loans and these should not be loosened unless we want to see another round of bank failures. While it is true that bank consolidation has meant that local community banks that were more likely to make farm loans have been replaced by larger banks that typically do not loan to agriculture enterprises, the availability of funds is still there.

Loan availability more often than not still depends on risk reduction resulting from federal and state loan guarantees and production subsidies.

Many banks are instituting requirements for more sophisticated business and personal financial statements and risk assessment before making a loan. Good performers with good credit and good operations are continuing to receive loans. In fact, banks are actively competing for good credit.

Detailed Results from Expert Interviews

The next section of this report reproduces the questions that guided the discussion. Please keep in mind that it was an open discussion rather than a rigid interview. In the next Section we report comments organized by topical category. Comments offered by interviews are contained in Appendix 2.

The Questions

1.) In your opinion, what is the current state of the agricultural industry in Texas? Especially, first handlers – farms and ranches.

2.) Could you please share any information or opinions on agricultural business owners' ability to get financing for their businesses?

3.) In this research we are going to interview 400 farmers and ranchers across the state about their ability to obtain financing. What questions do you think we should be sure to ask?

The section that follows provides verbatim comments from each expert organized by specific topic areas.

Individuals' Comments Organized by Topical Category

A.) Summary of Comments on Current Conditions – Where Are We?

Interview #1) They are in dire straits. Profitability is, at best, marginal. A lot of farmers have gone out of business, and others are on the borderline. Many enterprises have been losing equity over the last several years and this has impeded access to capital. Risk factors get so high that the lenders are cutting the farmers off.

Interview #3) Many areas in Texas have been irrigated over time, but that is being reduced because of dropping water tables and/or competition for water. The non-ag competition, particularly near urban areas, (e.g. golf courses) for water has a higher marginal value for water.

Interview #4) Producers got hit three different ways over the last few years – if they lost income off the farm, if they were a land owner the value of the land has gone down, and if they owned equipment. They got hit with a triple dip.

Interview #6) People are struggling right now, especially cotton farmers. Many folks are struggling around the Lubbock area where you have dry land cotton farming, have a lack of equity, poor business plans, and lack good management.

Interview #7) There are those who are strong and creditworthy now because they have focused on operating income, reducing expenses and becoming more efficient in their operation. The gap between this type of farmer and the one who didn't do these types of things has widened over the last three years. The people in the breeding livestock operations have been highly profitable over the last three years. By and large those who have been watching their bottom lines have done well and really exemplified the widening of the gap discussed earlier. The highly leveraged, poor operators are getting worse.

Interview #8) There are two markets for first handlers who make their living off of agriculture: age 40 and under and over the age of 40. The age 40 and under segment are generally struggling unless they have had strong capital and/or strong family support. The over 40 segment are probably okay, but they do have some issues. Their primary issues are: 5 years of very low commodity prices, the Freedom to

Farm Act was not good for Texas in general (it was hard on cotton, wheat, grain farmers in Texas), and without the disaster programs, there would have been chaos. There were two bright, hard-working young men who had college degrees in the local community who couldn't make it in farming. And, that just shows that the plight of the Texas farmer is not confined to ill-equipped, lazy individuals, but has affected folks that one would normally think would be profitable.

B.) Summary of Comments on the Problems Contributing to the Current Conditions – How Did We Get Here?

Interview #1) Four main areas that affect profitability: weather, market factors, management tactics, and production efficiencies. Weather and market conditions are factors that cannot be controlled, but better management tactics could be taught to the farmers. In terms of their contribution to current conditions, I would weigh the four factors at: Management – 15%; Production efficiencies – 15%; Weather – 35%; and Market conditions – 35%.

Interview #2) The need is for education in the development of business plans. Bring ag producers to a higher level with regard to their sophistication and their ability to develop better business plans and provide financial information.

Interview #3) The most productive areas in Texas are irrigated. Irrigation is being threatened because water is being used faster than it is being replenished. The agriculture industry is heading toward true commercial farming. Farms should be no different than any small business. We don't need more new farms; we need better business management and more experience on the existing farms. Value-added agriculture such as positioning, differentiating a product, further processing, and alliances is lacking coherent business plans and management capabilities of the farmer. How to put together a solid business plan, what does the competition look like, and so on, are education issues that need to be addressed. Commodity agriculture production is moving the same way heavy manufacturing moved. Lower land costs, lower labor costs, water considerations will move production to developing countries like Brazil, those in eastern Europe, and even China. Texas will be at a comparative disadvantage because production will move to places with better soil, better weather patterns and so forth.

Interview #4) Of these categories: price, managerial expertise, weather, and productivity, the number one concern above all would be the price. The weather would be right below the price. If there was just enough bad weather to reduce the commodity they were growing and not zero it out, then the producer suffered because when a commodity is zeroed out to complete devastation the farmers make money through crop insurance and other federal assistance. But, if a producer has a yield that does not qualify them for the crop insurance and they have to go to market with a low production level and then the prices also go down, the farmers get killed. Another issue to be discussed would be the US Ag Policy and specifically, the Farm Bill/Farm Insurance Programs. The insurance programs have allowed some producers to be better off than they should have been and that is going to change. And another element of the price issue is trade. Currently, the US averages 62% tariffs on exports, but only applies 12% tariffs on foreign imports. When the dollar was weaker against the European currencies, these tariffs were not as much of an issue, but the dollar strengthened relative to those currencies and the tariffs were not adjusted accordingly and that has contributed to the (unfair) balance of trade.

Interview #5) The keys to the problems are lack of marketing plans by the producers. Prices are also a concern when generating the cash flow projections. The prices need to show the producers that they are going to breakeven and/or make progress on their term debt payments. In the '70's lenders secured loans with real estate. If they could not service their debt, they were living off the appreciation of their real estate. Lenders subsequently got burned in the '80's and so did the borrowers. You can't loan these guys out of debt.

Interview #6) Cotton farmers are struggling because of the oversupply and imbalance of trade. A lot of the problems are water related. There should not be a support system for marginal performers. There is the need to be a good businessman in order to survive in today's climate. People tend to think that parenting and farming are two natural professions, but there is a need to educate.

Interview #7) In our area we have had three back to back to back years of no carry over debt which translates into positive cash flows for three years. By and large those who have been watching their bottom lines have done well.

Interview #8) Congressman Combest and Congressman Stenholm sent a letter to the members of Congress to pull some money out of the Farm Bill citing some statistical evidence, and they are extremely knowledgeable in the agriculture issue. They made the point that real income of farmers is lower than at any time since the Great Depression. They further stated that commodity prices are lower and other countries utilize tariffs to support their farmers. America has a cheap food policy and does not use tariffs. Some of the reason for the current state is the general stance of American agriculture policy. Other countries protect their farmers with tariffs and subsidies. They perceive their agriculture as a national security issue. Most foreign countries do not have the capability to produce as much food as America does. American farmers had a profitable run exporting commodities after World War II due to the fact that Europe had been ravaged by war and Japan was rebuilding after the war. The American farmer was feeding a substantial portion of the international community, and a lot of those countries perceived that dependence on American food as a threat. President Carter used grain as leverage with his wheat embargos. This example just proved to the rest of the world that if someone depended on the US for food we would use that against them. The weather and foreign protection are major elements of agriculture.

C.) Summary of Comments on the Role of Government

Interview #1) Government programs that help educate the farmer about the market and about production risk (like Farm Assist) are beneficial. Education helps with the access to capital as well as production efficiencies. Improving farmers analytical skills and the financial capabilities along with anything they could do to improve access to capital would be welcome. Expand guaranty programs in the Texas Department of Agriculture and let people know about the young producer loans and guarantees.

Interview #2) The new farm bill gave some relief to the bankers. They need the cash flows - the operating loans must produce the cash flows and the subsidies are important to that. Farm Assist (FARM) is a good program and so is Standardized Performance Analysis (SPA).

Interview #3) First handlers are totally dependent on the government farm assistance. Federal government subsidies carry the business, but the system encourages overproduction. Without government assistance, it would not make sense to make most farm loans. Government programs take a lot of risk away. Estimates circulated (not published) that land values in South Plains and the Coastal Bend Area (and others) would have fallen by 60% if the government was not subsidizing farming.

Interview #4) The US Ag Policy and specifically, the Farm Bill/Farm Insurance Programs have allowed some producers to be better off than they should have been. And, that is going to change and the producers are wary of that change.

Interview #5) The USDA did $265 million in loans from 2293 loans to the agricultural community, and $180 million in loan guarantees.

Interview #8) In regards to running a farm like a business it should be considered that for a farmer looking at all the risks associated with running their farm, the fewest risks are present in securing government payments. They have to maximize their income and thus government assistance becomes the rational choice.

D.) Summary of Comments on Policy Recommendations – Education

Interview #1) A major issue is education - help farmers become better financial managers. Those programs that help farmers better understand market and production risk would be beneficial. Also, educate with respect to access to capital. Improve farming efficiencies. Educate the bankers who don't understand agricultural production.

Interview #2) Use programs like Farm Assist and Standardized Performance Analysis to help improve decision-making and production efficiencies. Help farmers move from a cash basis to an accrual basis of accounting. Help farmers develop better business plans.

Interview #3) Help farmers understand value-added agriculture and such concepts as positioning, differentiating products, adding value through additional processing, the benefits of alliances, the development of coherent business plans, and training on entrepreneurship.

Interview #4) Currently, the schools are a one-shot deal and not a continuing curriculum, and the government should investigate implementing the curriculum over a longer period of time whereby the producers are compelled to attend more classes over a continuing basis.

Interview #5) Help producers develop better marketing plans and show how to do a breakeven analysis so they know whether they are making money and making progress on debt payments. The Master Marketer Program is a good one.

Interview #6) Do a better job of educating farmers - provide them with marketing tools and how to use them. Teach the professional farmer in today's world. People tend to think that parenting and farming are two natural professions, but there is a need to educate. Help educate bankers about the ag lending industry too. Also, educate about estate planning so there is a clear succession.

Interview #8) Education is an important element, but some of those farmers are already more sophisticated than they are given credit for. For the small community banks the relationships with farmers creates unique lending opportunities meaning that those close relationships cuts out the need for a lot of formal financial information and institutional paperwork.

E.) Summary of Comments on Policy Recommendations – Expand Support Programs

Interview #1) Expand guaranty programs in the Texas Department of Agriculture. Let people know about the young producer loans and guarantees.

Interview #3) There are state and federal programs in place to encourage young farmers, but what is really needed is a program to focus on transitioning the ownership of the assets of the operation to the younger generation of family members or to employees of the bigger operations (i.e. allow good, experienced employees to buy equity stakes in the operations). The Farm Credit System should have more of a centralized resource to bring private equity investors into the fold.

Interview #4) The federal government should create a more rational and fair tariff situation to "balance out" the imbalance of trade. They should alter the box structure of the World Trade Organization.

Interview #5) The state TAFA program had some problems when it got started, but improvements have been made in its management.

Interview #6) Change economic policy at the federal level – balance of trade, dollar value relative to foreign currencies. We need a way to loan to offspring of farmers so they can buy the operations from their parents or for current employees with experience to buy into the operation.

Interview #8) For the agricultural community, they need access to venture capital. When Governor Perry was Ag Commissioner, he was working on bringing value added corporations to Texas because Texas ships out a lot of commodities to be processed into the final product (the value added product). Location and expertise play a major role in this type of value added products. Need venture capital for farm products. An example of these value added products is the Pace Company, the picante sauce. The hog production was not a big industry in Texas until a few hog farms sprouted up in the Panhandle: examples would be Right Brand Foods and Swift Premium Farms. For the chicken industry: Pilgrim's and Sanderson Farms. For the turkey industry: Plantation Farm. To reiterate, venture capital is needed for the individuals who want to enter the value added arena. Texas needs to explore generating opportunities for value added products and the American farmer faces a competitive disadvantage in the international community due to foreign tariffs.

F.) Summary of Comments on Availability of Loans

Interview #1) A lot of folks are having trouble getting financing – it's a touch and go situation. Larger operations have a little more access to financing just by the virtue of their size and their history. Because a lot of enterprises have been losing equity over the years, this has impeded access to capital. Risk factors get so high that the lenders are cutting the farmers off. The banking system is set up fairly well. The regulatory environment is needed to keep the banks in business and prevent bank failures. Some traditional banks are not friendly towards the agriculture sector. Agriculture does not make up a large percentage of their portfolio and therefore it's difficult to sell an ag loan to a traditional bank over some other type of loan. With the government support programs there are a lot of alternative sources of financial services.

Interview #2) They must meet the requirements of whatever institution they are trying to work with, but, given that, there is no problem with credit availability. If a farmer had a good business history and the lending institution felt like they could secure the loan, the lending institution would not have a problem approving the loan. As far as the access to credit is concerned a lot of the problem is the level of financial information that the farmers need to present to bankers. Lenders should require, and are making progress in requiring, better, more complete financial information from the farm customers. Credit is available. Even John Deere is making loans.

Interview #3) From a financial institution perspective, without these government assistance programs, it would not make sense to make most farm loans. Government programs take a lot of risk away. The lenders would be there if the borrowers had coherent, convincing business capabilities.

Interview #4) The availability of loans is there. With enough good credit there are lending programs available. Although the number of private institutions is declining, the availability of funds is still there. A producer with good credit should have no problems obtaining loans.

Interview #5) Smaller banks, community banks that traditionally provide credit to their local farmers and ranchers are being taken over by larger, corporate banks like Wells Fargo, Bank of America, etc. Producers in those particular counties are probably not going to meet the big banks requirements, whereas before the people in the smaller banks knew the farmers, knew they were good people and would pay the loans back.

Interview #6) The problem is not the lending availability but the agriculture business itself. Consolidation of banks has led to less personal touch with the borrower. Acquisition of smaller banks by regional, national banks will alter their focus in relation to risk management immediately. Credit is available in a more formal, less personable way than it was available in the past. Presently, banks require financial statements, good credit history, business plans and the like in order to approve agriculture loans. Don't loosen credit requirements this would lead to bank failures.

Interview #7) The state of credit availability is good. There is plenty of credit available. Competition is really strong for good quality credit. There is a definite dividing line between the strong creditworthy customer, the one that everybody is after, and those who are not creditworthy. That dividing line has widened over the last three years. Those who have increased focus on operating income, reducing expenses and becoming more efficient in their operations have really differentiated themselves.

Interview #8) Agriculture banks in Texas have a lower loan to deposit ratio than the banks in the cities. For quality credit there is more than enough money available.

Section 4: Agricultural Lending in Texas – Interviews with a Stratified Random Sample of 400 Agricultural Producers

Introduction

This section of research on agricultural lending in the State of Texas presents the results of 400 interviews with 400 farmers and ranchers in the state.

Executive Summary of Survey Results

Methodology

- From a D&B file of 15,627 Texas enterprises in agricultural production (first handlers), Analytica extracted the 500 largest such enterprises (based on revenue). This group was labeled the population of large first handlers and a random sample of 100, stratified by Primary SIC Code, Area Code, and Revenue was interviewed. Every enterprise in this group had revenues above $500,000 and 48% had revenues above $1,000,000.
- From the same master file of 15,627 first handlers, a second sample of 300 was also interviewed. In an attempt to avoid too many interviews with individuals who were actually semi-retired or engaged in "recreational farming" only enterprises with revenues over $10,000 were included. This cutoff was set low on purpose by the Finance Commission to make certain the perspective of small farmers and ranchers would be included in this research. The primary purpose of the research was centered around agricultural lending and as the interviews progressed it became clear that a great many of the enterprises with revenues less than $25,000 did not currently have, and did not want to obtain, a loan. A decision was made by the Finance Commission, therefore, to interview as many as possible in the lower revenue category, but not over 30%.

Nature Of Loans

- Table 2 shows the percents of the "Large Producer (N=100)" and "All Producer (N=300)" samples with each type of loan.

Table 2: Number of Loans by Types for Sample

	Large Producer Sample (N=100)	All Producer Sample (N=300)
Any Loan	85.0%	41.4%
Land or Building Loan	52.0%	20.7%
Equipment or Livestock Loan	55.0%	18.3%
Operating Loan	66.0%	23.3%

- Table 3 shows the median loan amount and median interest rate, fixed and variable, for Land or Building Loans for the two samples. Also included are other data on the loan process. For example, note the information on the row labeled Amount. Of the 100 in the large producer sample, 51 had a land or building loan and provided the amount. Of the 51 amounts, the median was $430,000. (Note that complete detail on all this data is provided in the detailed results section.)

Table 3: Land or Building Loans

	Large Producer Sample (N=100)	All Producer Sample (N=300)
Amount	$430,000 (N=51)[9]	$135,000 (N=44)
Fixed Interest Rate	7.5% (N=33)	7.0% (N=43)
Variable Interest Rate	5.0% (N=8)	5.75% (N=7)
Loan-To-Equity Ratio	70.0% (N=31)	70.0% (N=19)
Additional Collateral	7.7%	18.3%
Personal Guarantee*	61.5%	43.3%
(For Farmers) Crop Insurance	5.4%	9.1%
Federal Farm Participation	7.7%	6.6%

* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

[9] When the N is cited, the number provided is the median amount.

- Table 4 shows the result for Equipment or Livestock Loans.

Table 4: Equipment or Livestock Loans

	Large Producer Sample (N=100)	All Producer Sample (N=300)
Amount-Standard	$125,000 (N=42)[10]	$20,000 (N=34)
Amount-Line of Credit	$1,000,000 (N=8)	$25,000 (N=9)
Fixed Interest Rate	7.0% (N=36)	7.0% (N=36)
Variable Interest Rate	6.0% (N=7)	5.9% (N=7)
Loan-To-Equity Ratio	80.0% (N=25)	70.0% (N=20)
Additional Collateral	20.0%	20.4%
Personal Guarantee*	58.2%	32.1%
(For Farmers) Crop Insurance	6.3%	8.6%
Federal Farm Participation	5.5%	7.4%

* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

[10] When the N is cited, the number provided is the median amount.

- Table 5 shows the result for Operating Loans.

Table 5: Operating Loans

	Large Producer Sample (N=100)	All Producer Sample (N=300)
Amount-Standard	$300,000 (N=15)[11]	$71,000 (N=30)
Amount-Line of Credit	$400,000 (N=41)	$67,000 (N=19)
Fixed Interest Rate	7.5% (N=29)	7.3% (N=43)
Variable Interest Rate	6.0% (N=16)	6.0% (N=8)
Loan-To-Equity Ratio	80.0% (N=8)	60.0% (N=11)
Additional Collateral	40.9%	33.3%
Personal Guarantee*	66.7%	29.4%
(For Farmers) Crop Insurance	28.0%	35.7%
Federal Farm Participation	12.1%	17.9%

* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

[11] When the N is cited, the number provided is the median amount.

- Table 6 shows the types of lenders used for each type of loan.

Table 6: Types of Lenders Used

		Large Producer Sample (N=100)	All Producer Sample (N=300)
Land/Building Loan			
	Commercial Bank	40.4%	39.3%
	Farm Credit System	32.7%	41.0%
	Farm Service Agency	1.9%	6.6%
	Other*	25.0%	13.1%
Equipment/Livestock Loan			
	Commercial Bank	54.5%	55.6%
	Merchant/Dealer Credit	25.5%	25.9%
	Farm Credit System	9.1%	5.6%
	Farm Service Agency	0.0%	5.6%
	Other*	10.9%	7.4%
Operating Loan			
	Commercial Bank	83.3%	62.3%
	Farm Credit System	10.6%	18.8%
	Merchant/Dealer Credit	0.0%	7.2%
	Farm Service Agency	0.0%	7.2%
	Other*	6.1%	4.4%

* Responses of "Other" in the above table included: For Land or building loans - Credit Union, seller financing, an individual, a family trust. For Equipment and/or Livestock loans - Credit Union, finance company, FHA, National Livestock. For Operating loans - Credit Union, SBA.

Nature Of Problems (As selected from list provided)

- For the Large Producer Sample the top three problems encountered with Land or Building Loans were:
    - Finding interested lenders (19.2%);
    - Repaying the loan (9.6%); and,
    - Completing the loan applications (7.7%).
- For the All Producer Sample the top three problems were:
    - Finding interested lenders (16.4%);
    - Repaying the loan (16.4%); and,
    - Refinancing the loan (14.8%).

- For the Large Producer Sample the top three problems encountered with Equipment or Livestock Loans were:
    - Finding interested lenders (20.0%);
    - Repaying the loan (10.9%); and,
    - Applying for the loan (7.3%).
- For the All Producer Sample the top three problems were:
    - Repaying the loan (13.0%);
    - Finding interested lenders (9.3%); and,
    - Applying for the loan (7.4%).
- Finally, for the Large Producer Sample the top three problems encountered with Operating Loans were:
    - Finding interested lenders (24.2%);
    - Repaying the loan (18.2%); and,
    - Applying for the loan (6.1%).
- For the All Producer Sample the top three problems were:
    - Repaying the loan (23.2%);
    - Finding interested lenders (13.0%); and,
    - Refinancing the loan (13.0%).
- Clearly the two biggest problems are "Finding interested lenders" and "Repaying the loan". About 1 in 5 first handlers have problems finding interested lenders and about 1 in 6 have had problems repaying the loan.
- In terms of satisfaction ratings the item consistently receiving the worst ratings was "Number of lending alternatives available and interested". This was true of the Large Producer Sample (Average of 6.03 on a "1" to "10" scale where "10" is "Extremely Satisfied") as well as the All Producer Sample (Average = 6.34). Other steps in the lending process receiving particularly low ratings were "Collateral requirements, including loan-to-equity ratio" (6.78 from the Large Producer Sample), and "Application process and forms" (6.92 from the Large Producer Sample).
- 9 of the 100 Large Producer Sample and 10 of the 300 All Producer Sample had been turned down for a loan, some multiple times. Reasons given, however, were quite varied. They included: Past performance; requirements too high; poor economy; lender's unfamiliarity with the operations; too much outstanding debt; and too new to the business.
- 13 of the 100 Large Producer Sample and 19 of the All Producer 300 Sample had been in a situation where they could not repay a loan. More flexible payment schedules and loan refinancing/restructuring was the solution in most cases.
- Of the 85 respondents in the Large Producer Sample who had loan experience, 62.4% could cite instances where their lender was especially helpful or understanding but 9.4% volunteered examples where the lender was not. Among the 124 respondents in the All Producer Sample

with lending experience, 65.3% could cite helpful instances and 6.5% volunteered examples where the lender was not.

- For the Large Producer Sample, 35.3% of the 85 with loan experience had used income from a non-agricultural source to repay an agricultural loan during the last three years. For the All Producer Sample the number was 47.2% of the 124 with loan experience. The median amount of income used ratioed to loan value was 20% for the Large Producer Sample and 25% for the All Producer Sample.
- From the Large Producer Sample, 35% said they received no help from the Federal and/or State government and 15.0% said they received very little. For the All Producer Sample the corresponding numbers were 51.7% and 21.3%, respectively.

Policy Recommendations Offered By First Handlers

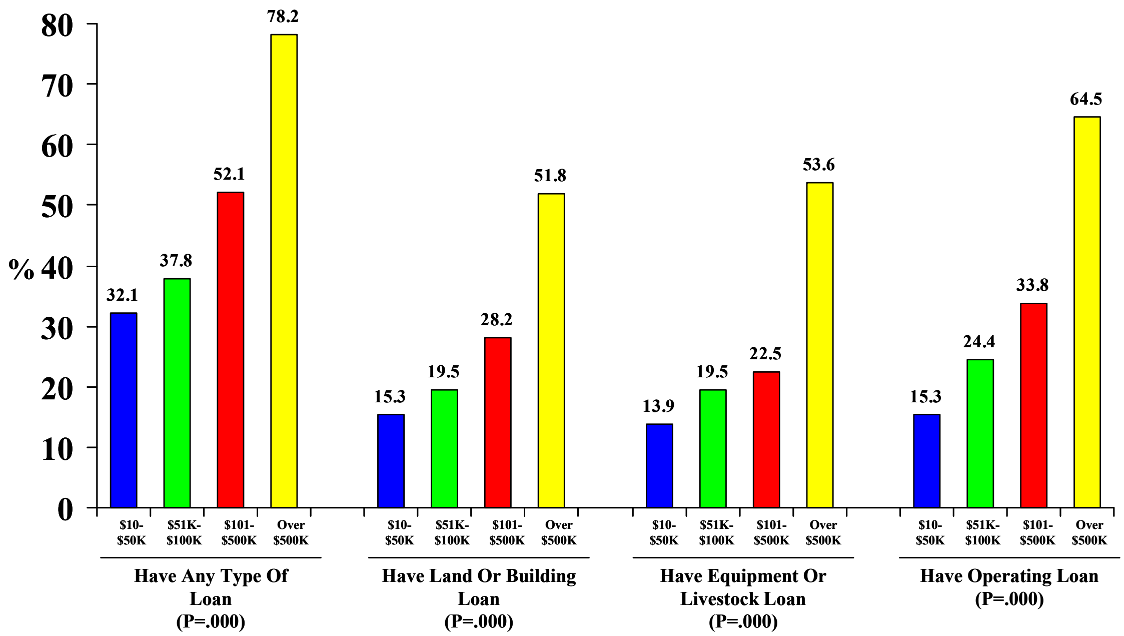
- When asked for recommendations to the Texas State Legislature for suggested changes to support agricultural production, the Large Producer Sample mentioned: Better prices (6.0%); Import problems (4.0%); Concern over water (3.3%); Less government involvement (3.0%); Greater availability of funding (2.7%); and Newer and more markets (2.7%). For the All Producer Sample ideas included: Better prices (18.3%); Less government involvement (9.0%); Import problems (7.3%); More government involvement (6.7%); Tax breaks and reforms (6.0%); and Greater availability of funding (5.7%).
- When asked for legislative recommendations regarding agricultural lending, around 50% in both samples could offer no further recommendations. The recommendations that were offered included: Making the lending process easier (21.2% and 14.5% from the Large and All Producer samples, respectively); Help with interest rates (10.6% and 10.5%); More lending sources (8.2% and 7.3%); and More knowledge and understanding about agriculture (7.1% and 13.7%).
- From the Large Producer Sample, of the 15 without loans, 13 said they could get one if they wanted one and two didn't know. From the All Producer Sample, of the 176 without loans, 85.7% said they could get one, 12.2% said no, and 2.0% did not know.

Significant Differences In Responses By Demographic Variables

- There were many interesting and revealing relationships between some of the demographic variables, for example "Revenue" or "Primary SIC Code" and answers to the survey questions. Every significant result is referenced in the detailed report but the most useful are included here.

- Figure 31 shows that loans in general, as well as each separate type of loan, varies significantly by revenue. This makes sense, of course, but it also helps document that the biggest exposure to lending problems comes from the larger enterprises.

Figure 31: Significant Differences in Responses by Revenue (1 of 2)[12]



- Results by number of workers, number of acres and number of livestock, where significant, parallel results exactly by revenue and therefore are not reported.

Sample Base: All respondents (N=400)

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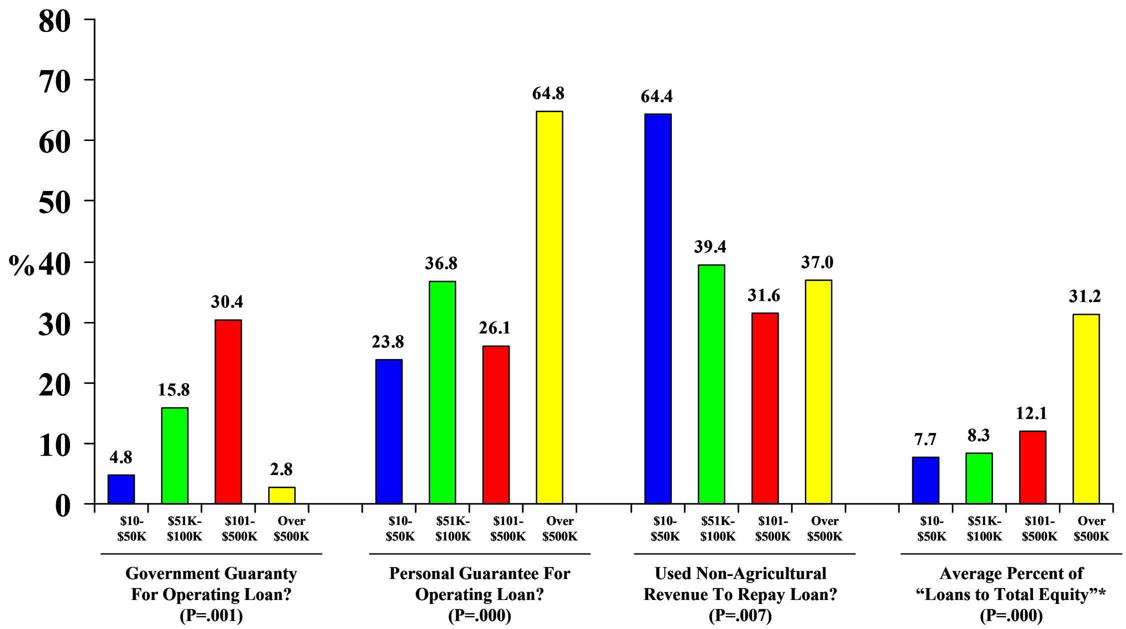
[12] Note that this is the first time in the report where we describe the results of a statistical test. In Figure 31, for example, answers to all four questions about loan types were significantly different by revenue. Whenever the probability reported in parentheses is less than 0.05 one may interpret the differences in the graph as meaningful. If the probability cited is 0.05 or above the differences in the graph are not meaningful.

- Figure 32 shows that the largest operations are the least likely to have a government guaranty for an operating loan but the incidence of such goes up as the revenue increases from the lowest category through the next two levels. Correspondingly, the largest operations are much more likely to have to offer a personal guarantee. The smallest operations are more likely to have used non-agricultural revenue to repay a loan and the average percent of loans to equity increases with size.

Figure 32: Significant Differences in Responses by Revenue (2 of 2)



*** The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the four levels are: 32.7, 30.4, 40.4, 42.1 (P=.244)**

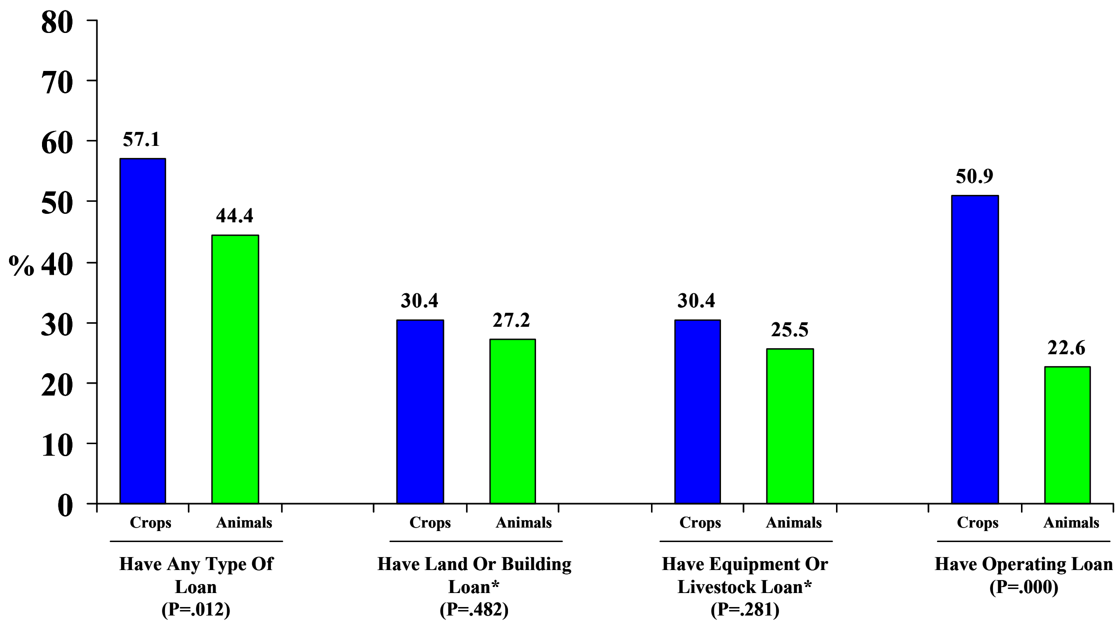
- Results for average percent of "loans to total equity" by number of workers, number of acres and number of livestock, where significant, parallel results exactly by revenue and therefore are not reported.

Sample Base: All respondents (N=400)

- Special note regarding "Personal Guarantee": If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

- Figure 33 makes it clear that operations involving primarily crops are more likely to have a loan, primarily because they are more likely to have an operating loan.

Figure 33: Significant Differences in Responses by Primary SIC Code

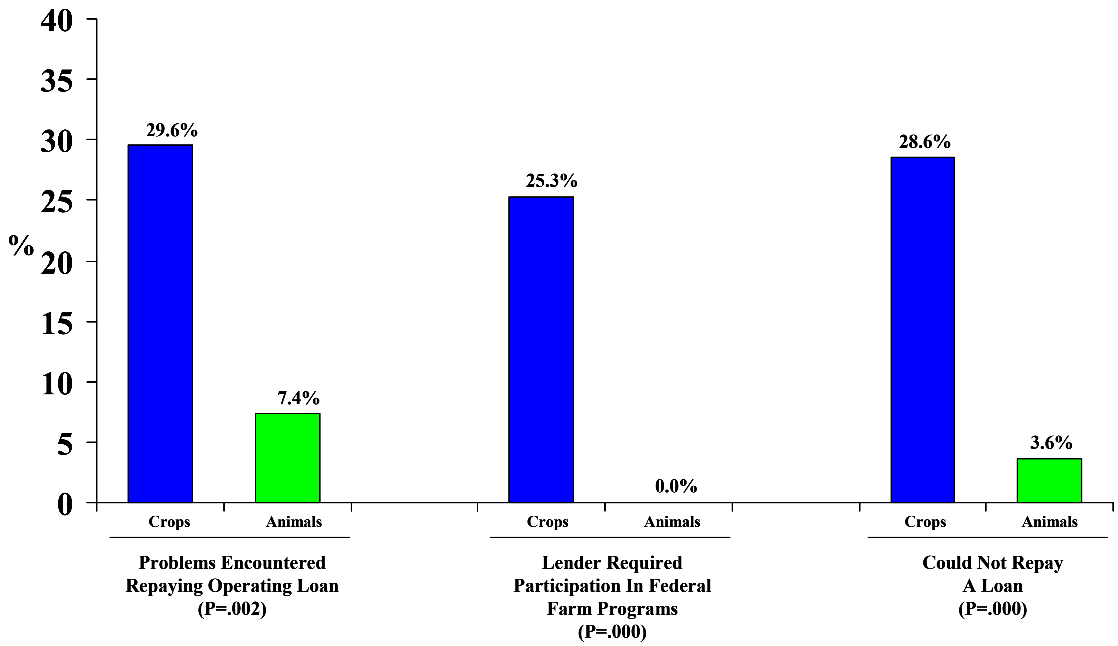


* Probability is not significant, shown only for comparison

Sample Base: All respondents (N=400)

- Figure 34 shows operations, primarily involving crops are: 1) more likely to have encountered problems in repaying a loan; 2) the only group required to participate in farm programs; and, 3) is the group more likely to not be able to repay a loan.

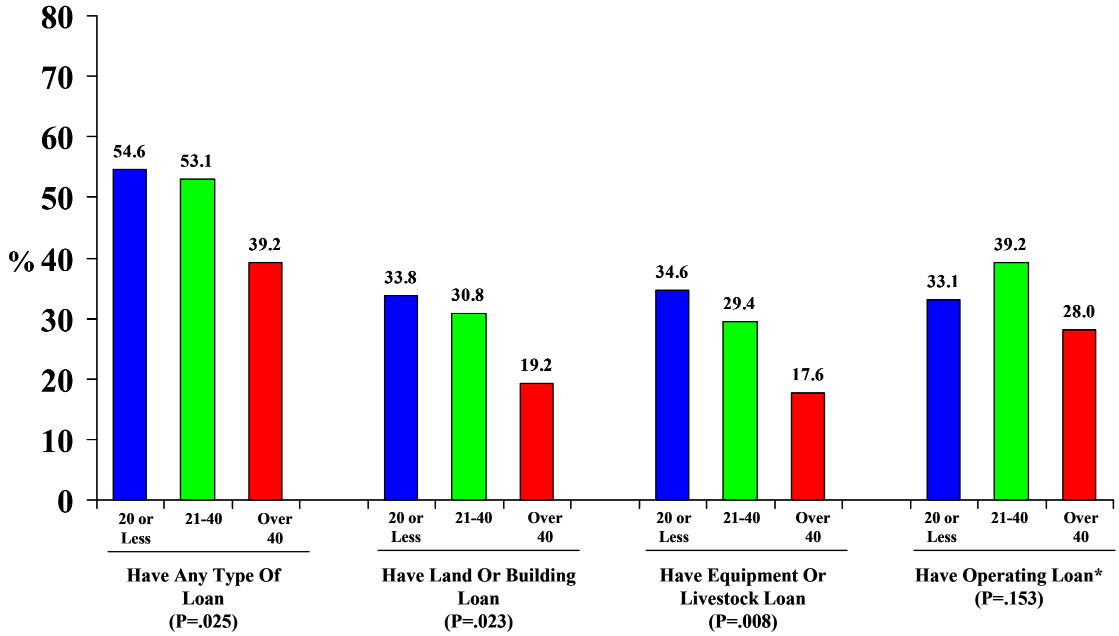
Figure 34: Significant Differences in Responses by Primary SIC Code



Sample Base: All respondents (N=400)

- Years-in-operation effects are displayed in Figure 35. Clearly, the older operations are more likely to have either retired debt or simply work without it.

Figure 35: Significant Differences in Responses by Years in Operation

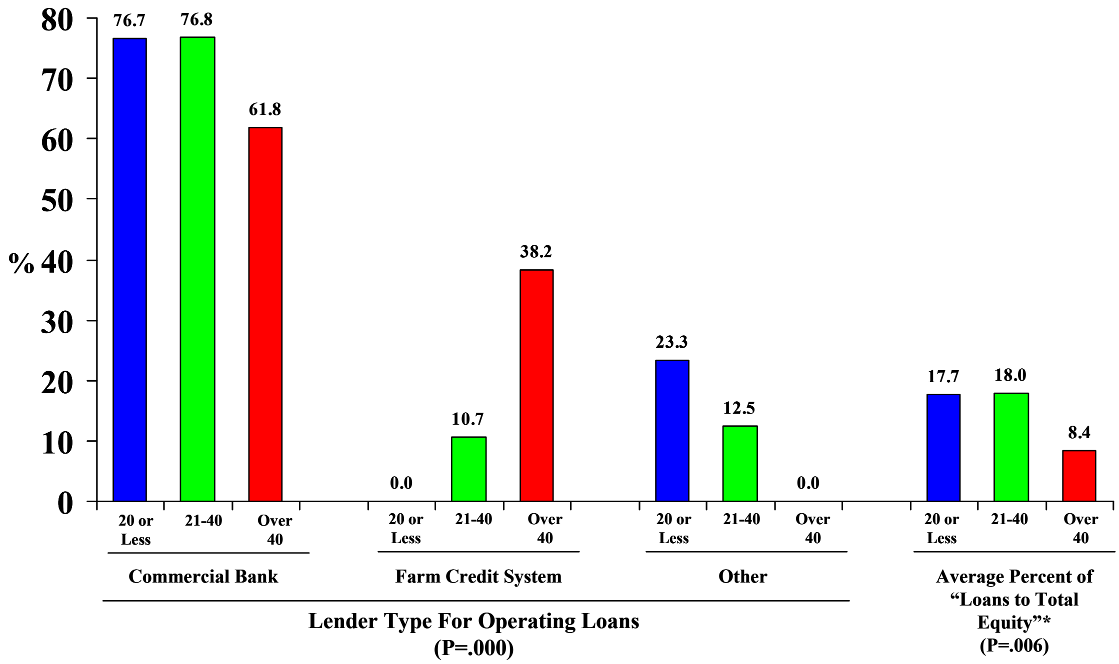


* Probability is not significant, shown only for comparison

Sample Base: All respondents (N=400)

- In Figure 36 we see that "Years In Operations" affects the Type of Lender Used as well as Loan To Equity Ratio.

Figure 36: Significant Differences in Responses by Years in Operation

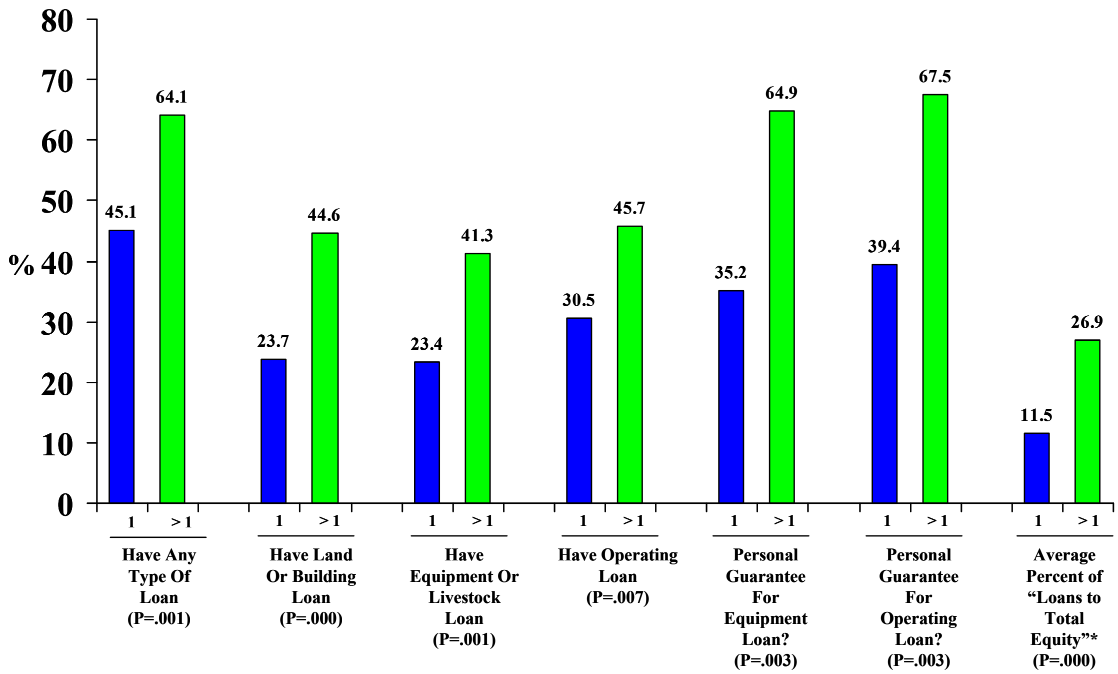


*** The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the three levels are: 42.7, 39.2, 29.6 (P=.129)**

Sample Base: All respondents (N=400)

• Finally, Figure 37 shows that those operations with a number of separate enterprises are more likely to have loans of all types, have to offer personal guarantees, and be more highly leveraged.

Figure 37: Significant Differences in Responses by Number of Separate Agricultural Enterprises



*** The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the two levels are: 32.9, 49.8 (P=.001)**

• Operating loan average amount is $142,430 for those with 1 enterprise; $710,111 for those with over 1 (P=.001).

Sample Base: All respondents (N=400)

• Special note regarding "Personal Guarantee": If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Detailed Results from the Survey

The Texas Agricultural Census reports that, based on revenue, the largest 8.8% of farms and ranches account for 86.7% of agricultural production in Texas. Consequently, the request for proposal made it clear that the research needed to carefully and adequately represent current conditions in agricultural lending for these major producers. At the same time, the Finance Commission of Texas wished to make certain that a good cross-section of agricultural operations of all sizes were interviewed. To accomplish both goals, Analytica conducted interviews with two different samples representing two different populations:

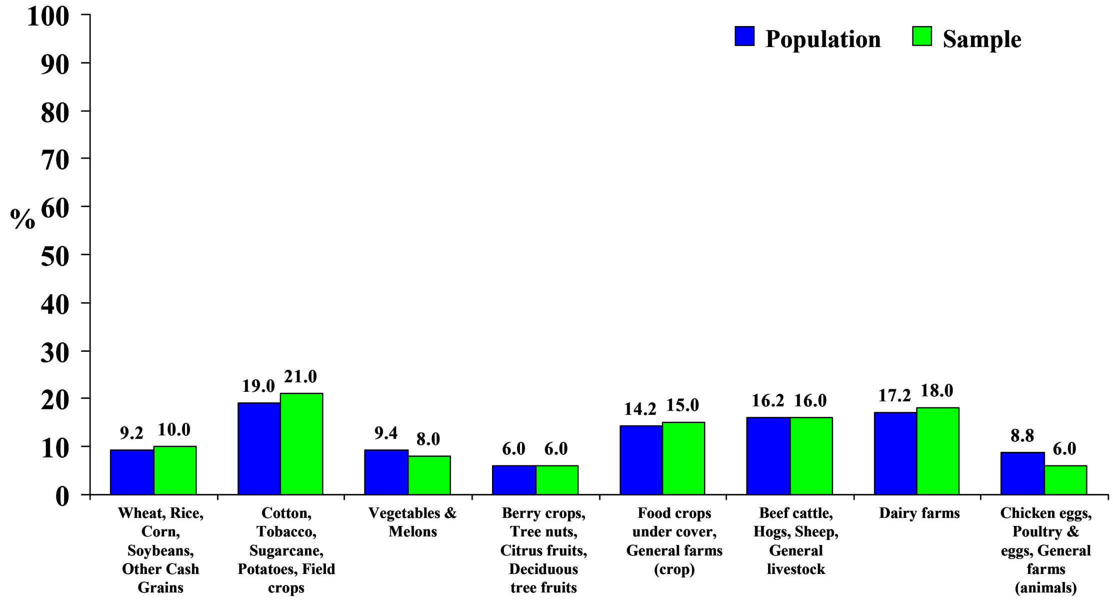
- Large producers and
- A sample of all first handlers.

D&B maintains a file of 19,819 Texas businesses whose SIC codes place them in agricultural production. The Finance Commission of Texas wished to exclude businesses that were not first handlers. These businesses included cotton gins, soil preparation services, and other specialty areas like animal aquaculture. This left 15,627 businesses. From this list Analytica obtained the largest 500, which were designated the population of large producers, and selected a stratified random sample of 100 to interview. The sample was stratified by primary SIC code, region of the state (based on area code), and revenue.

The Population and Sample of Large Producers

Figure 38 compares the population and sample of large producers by primary SIC code. The Figure documents that the sample parallels the population for each SIC code. The fact that the two bars are virtually identical illustrates that the sample is representative of the population in regards to SIC code distribution.

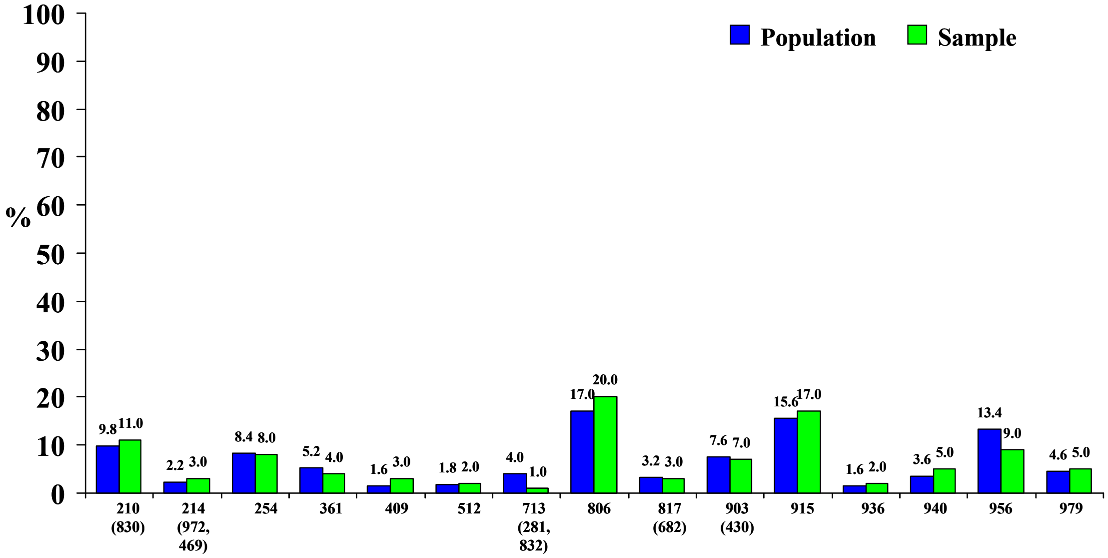
Figure 38: Population and Sample by Primary SIC Code: Largest 500 Producers



• All numbers are in percentages.

Figure 39 compares the population and sample of large producers by area code. The Figure documents that the sample parallels the population for area code. The fact that the two bars are virtually identical illustrates that the sample is representative of the population in regards to area code distribution. An area code map of Texas is provided as reference in Figure 40.

Figure 39: Population and Sample by Area Code: Largest 500 Producers



• All numbers are in percentages.
Sample Base: Largest 100 Producers

Figure 40: Texas Area Codes

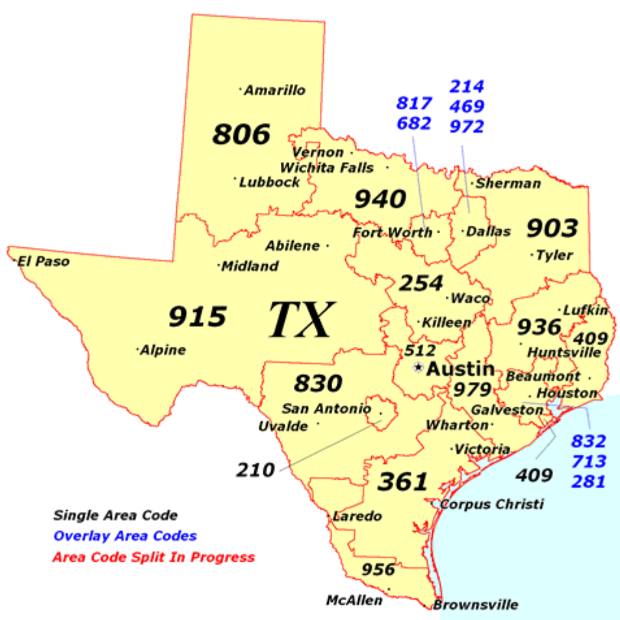
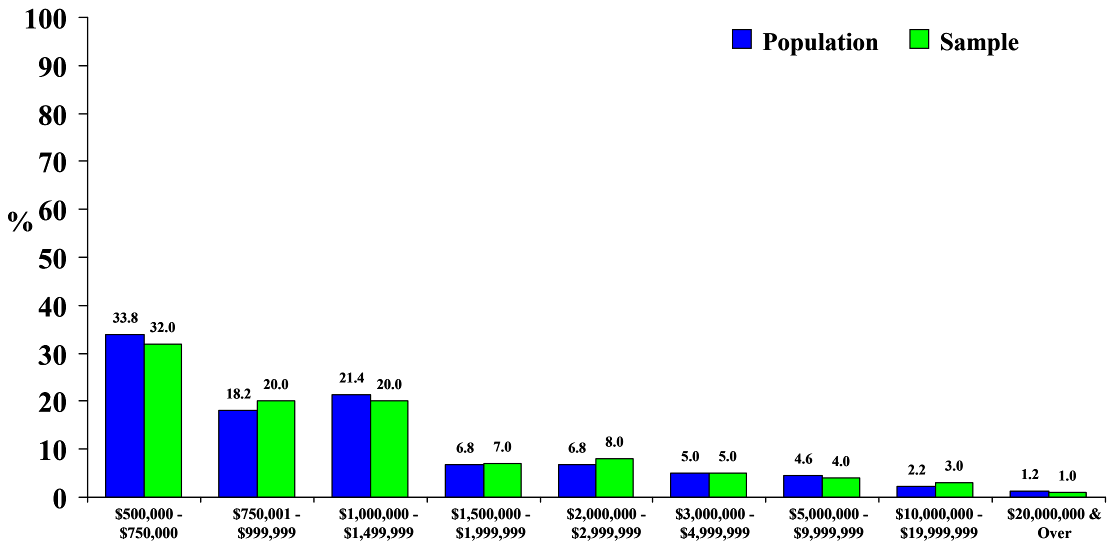


Figure 41 compares the population and sample of large producers by revenue category. The Figure documents that the sample parallels the population for each revenue category. The fact that the two bars are virtually identical illustrates that the sample is representative of the population in regards to revenue category distribution.

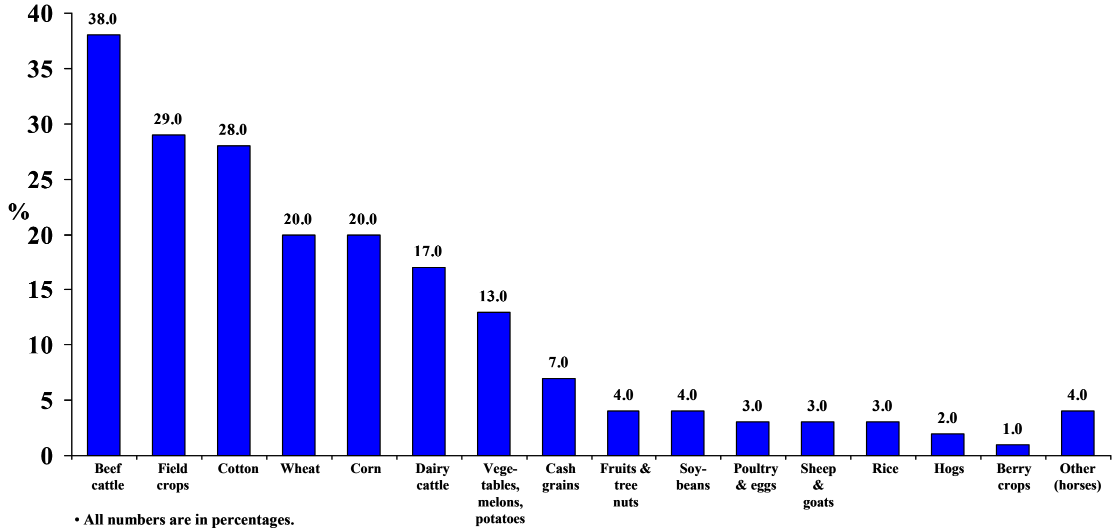
Figure 41: Population and Sample by Revenue Category: Largest 500 Producers



• All numbers are in percentages.
Sample Base: Largest 100 Producers

Figure 42 presents a summary of the responses to Question 16, the distribution of crops and animals representing significant sources of revenue for large producers.

Figure 42: Distribution of Crops and Animals Representing Significant Sources of Revenue: Large Producers (Question 16)



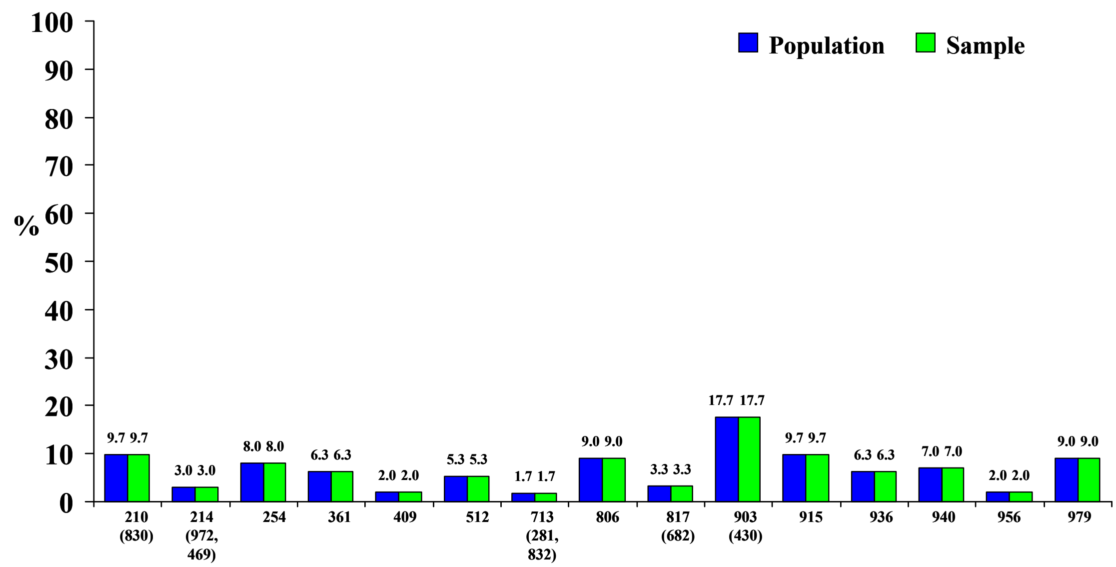
Sample Base: Large producers (N=100)

The Population and Sample of All First Handlers

Selection of the sample of all first handlers was not as straightforward as that of the large producers. There are over 200,000 entities classified as farms and ranches in Texas. Many of these are part-time or semi-retired operations that the Finance Commission of Texas did not wish to over represent. To accomplish this goal, a revenue cutoff of $10,000 per year was established[13]. As the interviews were conducted it became clear that even with revenues in the $10,000 to $40,000 range many of these operations were still part-time or semi-retired. The Agricultural Census could have been used to set quotas by revenue but this would have meant that of the 300 interviews to be conducted, 126 would be from the $10,000 to $25,000 range – which was judged to be too many. Consequently, it was decided to use the D&B list of 15,627 to set quotas by area code and to interview as many as possible in the lower revenue category, but not over 30%.

Figure 43 compares the population and sample of all first handlers by area code. The Figure documents that the sample parallels the population for each area code. The fact that the two bars are virtually identical illustrates that the sample is representative of the population in regards to area code distribution.

Figure 43: Population and Sample by Area Code: All First Handlers

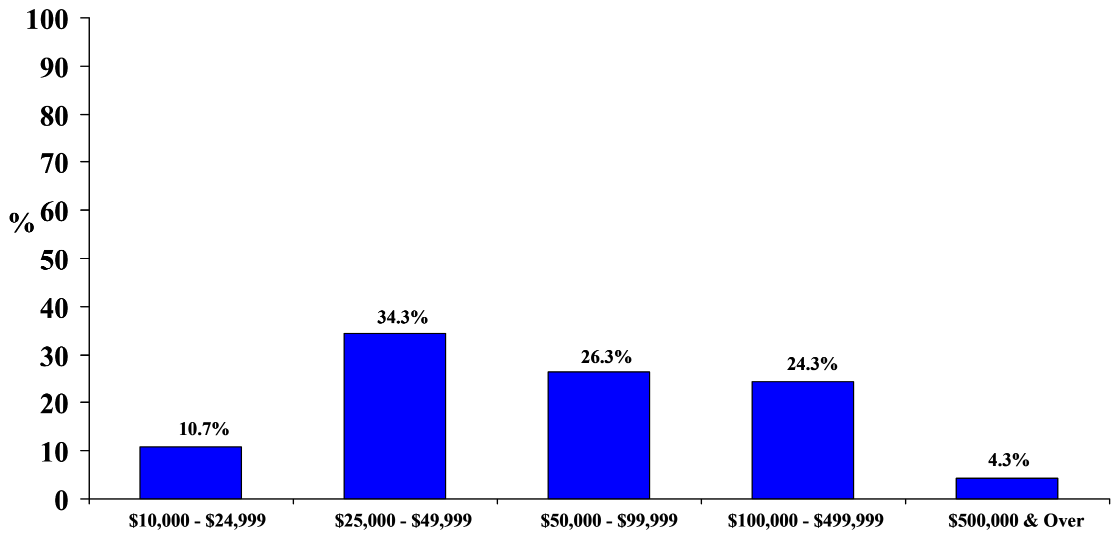


• All numbers are in percentages.
Sample Base: All First Handlers

[13] The Agricultural Census lists from 1997 indicate that, of the 194,301 farms and ranches at that time, 67,422 (34.7%) have revenues less than $2,500 and 129,322 (66.5%) have revenues less than $10,000.

Figure 44 presents the distribution of the 300 first handler interviews by revenue category.

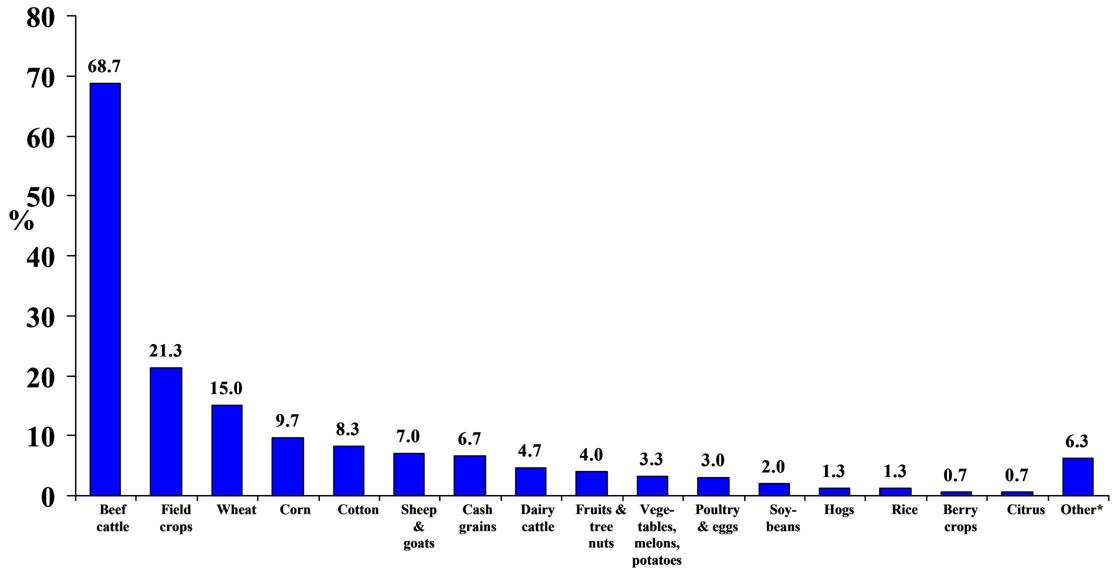
Figure 44: Distribution of the 300 Interviews by Revenue Category: All First Handlers



• All numbers are in percentages.
Sample Base: All First Handlers

Figure 45 presents a summary of the responses to Question 16, the distribution of crops and animals representing significant sources of revenue for first handlers.

Figure 45: Distribution of Crops and Animals Representing Significant Sources of Revenue: First Handlers (Question 16)



*** Other includes horses (17), birds (1), reptiles (1)**

• All numbers are in percentages.

Sample Base: All Producers (N=300)

Detailed Results

The interview instrument consisted of 24 sets of questions and is provided in Appendix 3 for reference. Several of the questions were open-ended. Detailed results are provided by question. Unless otherwise noted, results are with respect to the entire sample.

Detailed results are presented in two groups: those for the 100 Large Producers Sample, and those for the 300 All First Handlers Sample.

The Large Producers (N=100)

Questions 1a through 1d

Table 7 presents a summary of the responses given by the sample of large producers to Questions 1a through 1d.

Table 7: Summary of the Responses to Questions 1a through 1d: Large Producers (N=100)

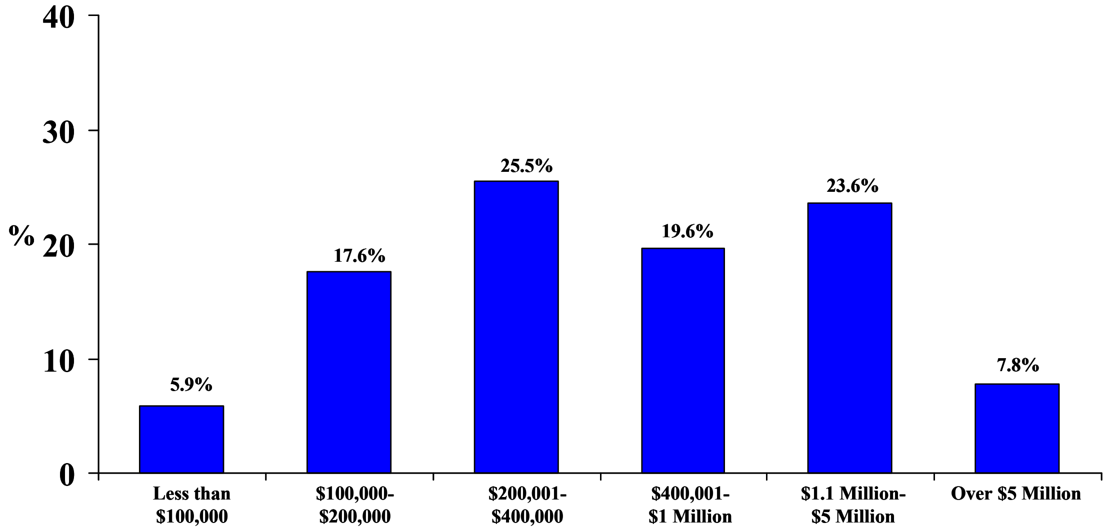
Question	Summary of Responses
1) Do you currently have one or more loans or lines of credit to support your farming (or ranching) operations?	Seventy-nine percent (79%, N=79) currently have one or more loans.
1a) (If No) If you had a loan within the last three years, in what year was the most recent loan repaid?	Six percent (6%, N=6) had a loan within the last three years.
1 and 1a	Eighty-five percent (85%, N=85) have current or recent loan experience.
1b) How many loans do you currently have for land, buildings, or to make building improvements for the purpose of farming or ranching?	Fifty-two percent (52%, N=52) have one or more land or building loans. Twenty-six percent (26%) have 2 or more.
1c) How many loans do you currently have to purchase equipment or livestock?	Fifty-five percent (55%, N=55) have one or more equipment or livestock loans. Thirty-eight percent (38%) have 2 or more.
1d) How many operating loans do you currently have to purchase feed, seed, or meet any other current operating expenses?	Sixty-six percent (66%, N=66) have one or more operating loans. Eleven percent (11%) have 2 or more.

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2a: Amount:

Figure 46 presents a summary of the responses to Question 2a, the distribution of loan amounts for land or building loans for large producers. Of the 52 large producers who had a land or building loan, 51 provided a loan amount.

Figure 46: Distribution of Loan Amounts for Land or Building Loans: Large Producers (Question 2a)



- **The 51 loan amounts ranged from a low of $30,000 to a high of $20 million and averaged $1.8 million. The median loan amount was $430,000.**

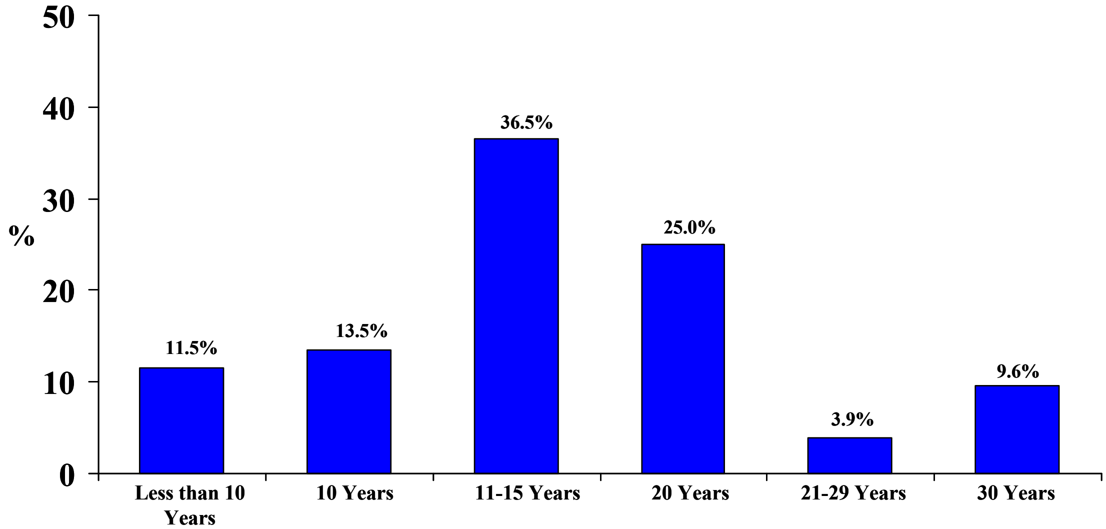
Sample Base: Large producers with a land or building loan who provided a loan amount (N=51)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2b: Loan amortization length:

Figure 47 presents a summary of the responses to Question 2b, the distribution of amortization lengths for land or building loans for large producers. All 52 of the large producers who had a land or building loan provided an amortization length.

Figure 47: Distribution of Amortization Lengths for Land or Building Loans: Large Producers (Question 2b)



- **The 52 loan amortization lengths ranged from a low of 1 year to a high of 30 years and averaged 16.1 years. The median length was 15 years.**

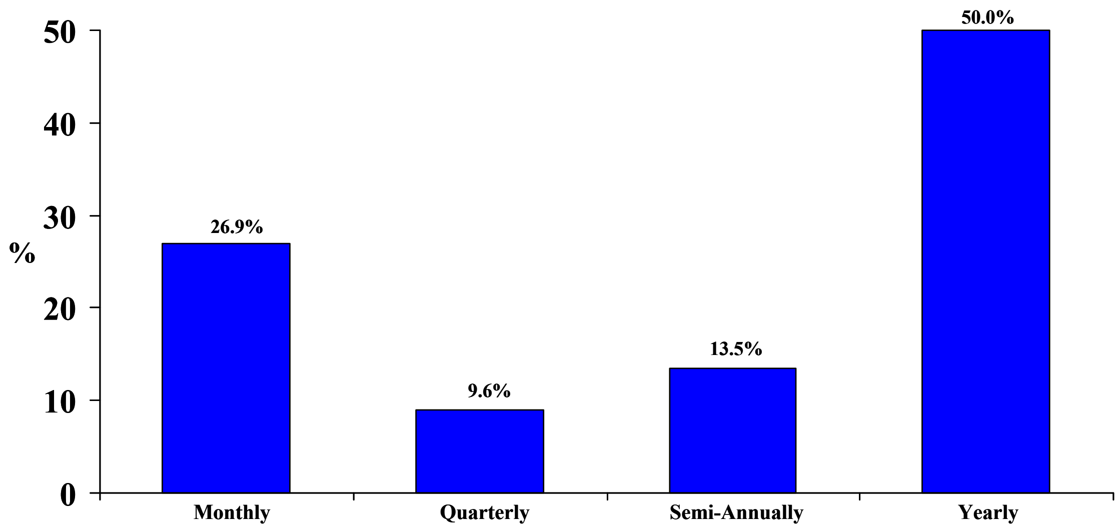
Sample Base: Large producers with a land or building loan who provided an amortization length (N=52)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2c: Repayment terms:

Figure 48 presents a summary of the responses to Question 2c, the distribution of repayment terms for land or building loans for large producers. All 52 of the producers who had a land or building loan provided their repayment terms.

Figure 48: Distribution of Repayment Terms for Land or Building Loans: Large Producers (Question 2c)



- **For only two persons was a balloon involved in repayment terms.**

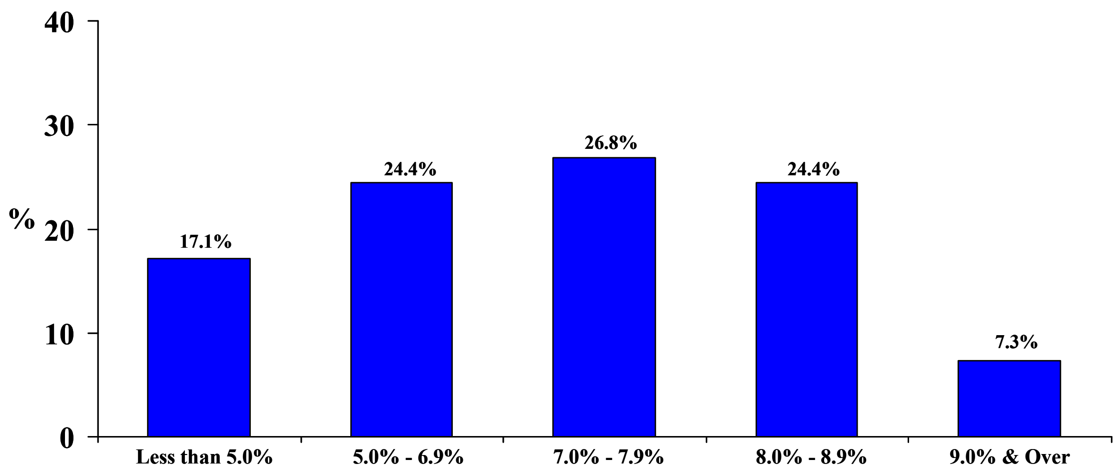
Sample Base: Large producers with a land or building loan who provided repayment terms (N=52)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2e: Interest rate:

Figure 49 presents a summary of the responses to Question 2e, the distribution of interest rates for land or building loans for large producers. Of the 52 large producers who had a land or building loan, 46 indicated whether their interest rate was fixed or variable. Of the 46, 33 indicated they had a fixed interest rate and they provided this number. Thirteen (13) indicated they had a variable interest rate and 8 could provide that number.

Figure 49: Distribution of Interest Rates for Land or Building Loans: Large Producers (Question 2e)



- **The 33 fixed interest rates ranged from a low of 4.40% to a high of 11% and averaged 7.20%. The median was 7.5%.**
- **The 8 variable interest rates ranged from a low of 4.35% to a high of 7% and averaged 5.53%. The median was 5%.**

Sample Base: Large producers with a land or building loan who provided their interest rate (N=41)

Question 2f: Government guaranty or subordination agreement (If yes, which government agency)?

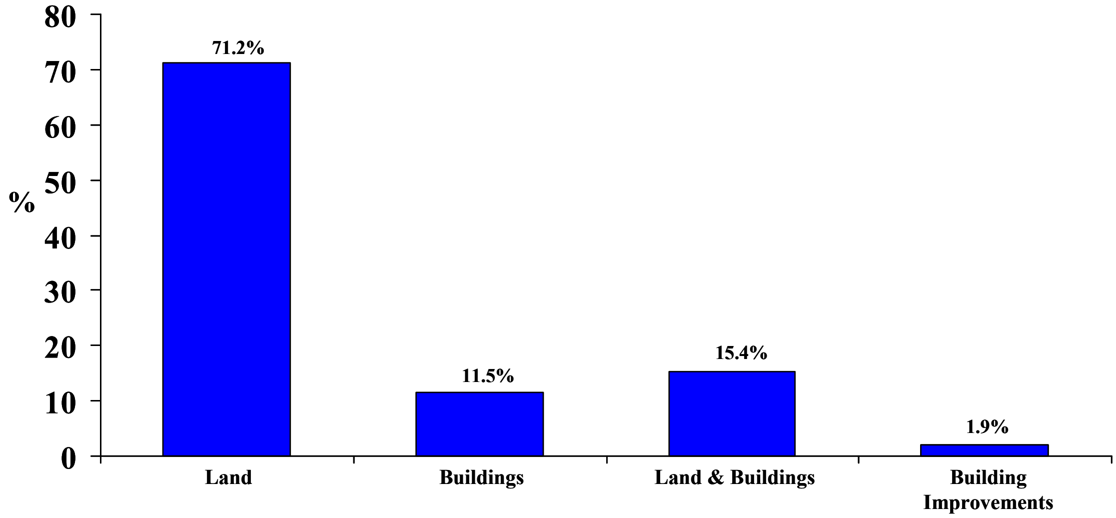
Of the 52 large producers with a land or building loan, 9.6% (N=5) indicated that there was a government guaranty or subordination agreement. Government agencies mentioned included the Federal Land Bank, First Ag Credit, and FMHA.

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2g: Specific purpose or use of loan:

Figure 50 presents a summary of the responses to Question 2g, the distribution of uses for land or building loans for large producers. All 52 of the large producers that had land or building loans described their uses for their land or building loans.

Figure 50: Distribution of Uses for Land or Building Loans: Large Producers (Question 2g)



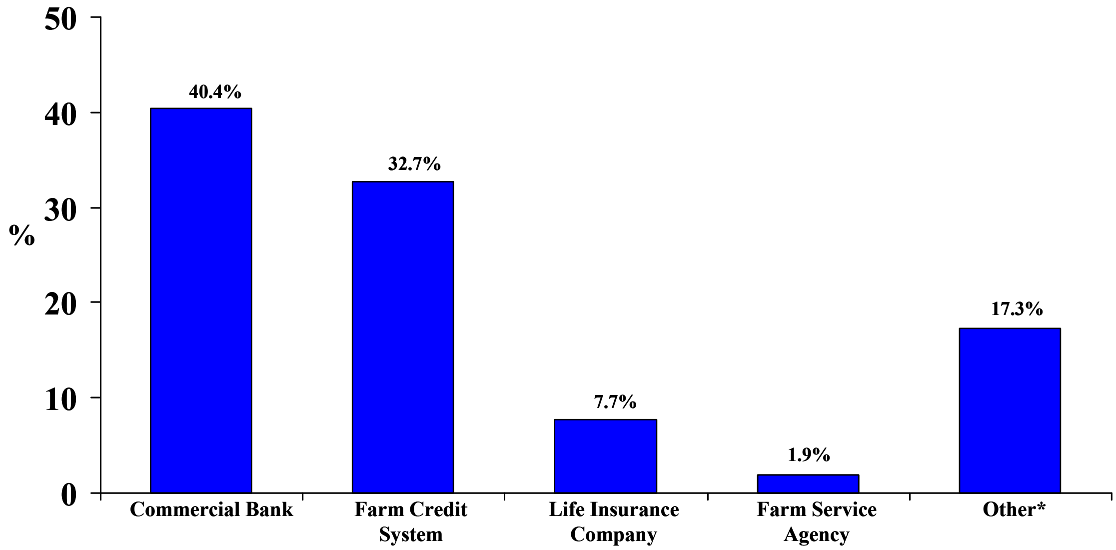
Sample Base: Large producers with a land or building loan (N=52)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2h: Type of lender:

Figure 51 presents a summary of the responses to Question 2h, the distribution of type of lender for land or building loans for large producers. All 52 of the large producers that had land or building loans provided the type of lender for their land or building loans.

Figure 51: Distribution of Type of Lender for Land or Building Loans: Large Producers (Question 2h)



*** Other includes: Credit Union, seller financing, an individual, a family trust**

Sample Base: Large producers with a land or building loan (N=52)

Question 2i: (If one or more major land/building loans) In what ways did you come to be aware of the institutions you approached for the loan?

Table 8 presents a summary of the responses to Question 2i. Fifty-two respondents who had a land or building loan offered 53 comments.

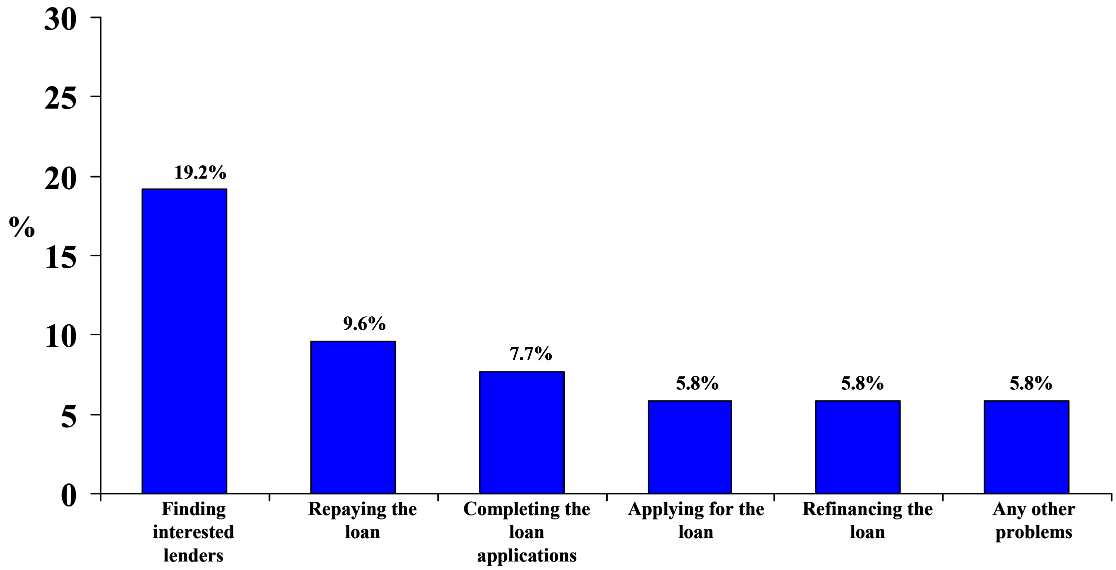
Table 8: Responses from Large Producers with Land or Building Loans to:
"In what ways did you come to be aware of the institutions you approached for the loan?"
Sample Base: Large Producers with a Land or Building Loan (Question 2i, N=52)

Percent Of 52 Respondents	Response	Characteristic Mention
26.9%	They are local	They've been in the lending business for years down here in the valley / We just knew they were there / I've just known about them forever (Federal Land Bank) / This bank had financed this land from the people we purchased it from and they were real willing to finance us for it / We were always aware of them but we had to get in good enough financial shape where they would loan us money / They just have a local office in town (Farm Credit System) / I've known about the Federal Land Bank for a long time / They have always been here / Everyone knows about the Federal Land Bank / It's our local bank
26.9%	Long term past relationship	It's a long-standing relationship / Just that particular loan was with a bank we've been banking with for 30 years / I've been doing business with them for 28 years / I've just been around them forever, through my parents and my family / We had done business with them for about 20 years / I've dealt with them since I started in business / I've known them forever / It's the bank I've used for 50 years / We've been doing business with them for over 50 years, I get my farm loans through them / We always do business with them
13.5%	Through other individuals (family, friend, etc.)	Just track record, industry contacts and ongoing business relationships / This loan was made from my family's trust / Through other individuals who have used them before / My brothers recommended me to them years ago / It was a very wealthy person I knew and we used the same lawyer / Through other dairy farmers
7.7%	Word of mouth	Just word of mouth / Word of mouth
5.8%	Can't remember	I really can't remember / I don't remember
5.8%	Seller financing	It was seller financing / The seller of the land financed it for us
5.8%	Came to me	Initially they came to my office / They came to me (First Ag Credit) / It's a large bank, they solicited me
3.8%	Advertisement	Through ads in the Farm Journal / They advertised locally
3.8%	Other	I had been in this business before in Oklahoma and in researching financial possibilities here I became aware of the FMHA and I spent some time in their office and visited with the regional guy there
1.9%	Other	Through our commercial bank, they were aware that this company (life insurance) made long term loans for buildings and land

Question 2j: (If one or more major land/building loans) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Figure 52 presents a summary of the responses to Question 2j, the distribution of problems encountered for land or building loans for large producers.

Figure 52: Distribution of Problems Encountered for Land or Building Loans: Large Producers (Question 2j)

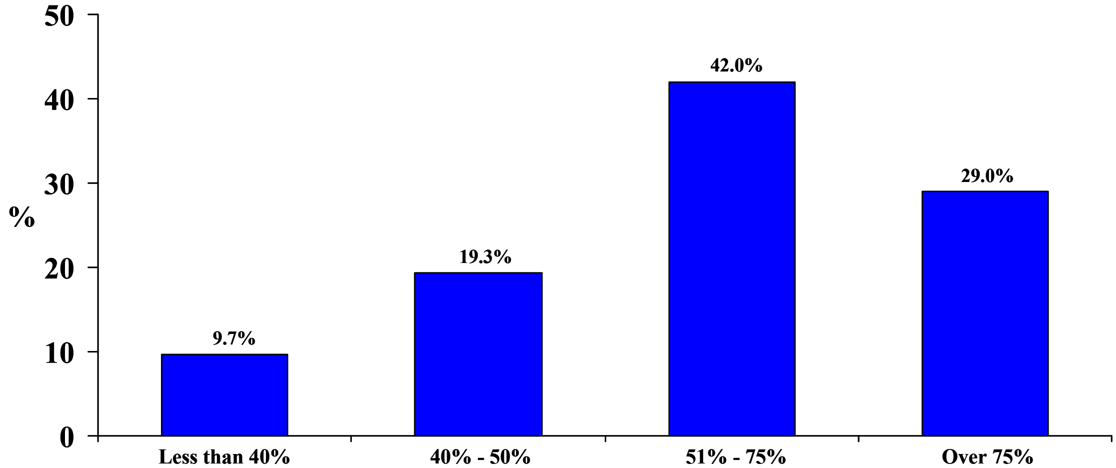


Sample Base: Large producers with a land or building loan (N=52)

Question 2k: (If one or more major land/building loans) What was the loan-to-equity ratio?

Figure 53 presents a summary of the responses to Question 2k, the distribution of loan-to-equity ratios for land or building loans for large producers. Of the 52 large producers who had a land or building loan, 31 could provide loan-to-equity ratios.

Figure 53: Distribution of Loan-To-Equity Ratios for Land or Building Loans: Large Producers (Question 2k)



- **The 31 loan-to-equity ratios ranged from a low of 33% to a high of 150% and averaged 69.2%. The median was 70%.**

Sample Base: Large producers with a land or building loan who could provide loan-to-equity ratios (N=31)

Questions 2l through 2o

Table 9 presents a summary of the responses given by the sample of large producers to Questions 2l through 2o.

Table 9: Responses to Questions 2l through 2o: Large Producers with a Land or Building Loan (N=52)

Question	Summary of Responses
2l) Was additional collateral required?	Four (N=4, 7.7%) had to provide additional collateral.
2m) Was a personal guarantee required?	Thirty-two (N=32, 61.5%) had to provide a personal guarantee.*
2n) (For farmers) Did the lender require crop insurance?	For the 37 who had some farming activities, 5.4% (N=2) had to provide the lender with crop insurance.
2o) Did the lender require participation in one or more federal farm programs?	Four (N=4, 7.7%) were required to participate in one or more federal farm programs.

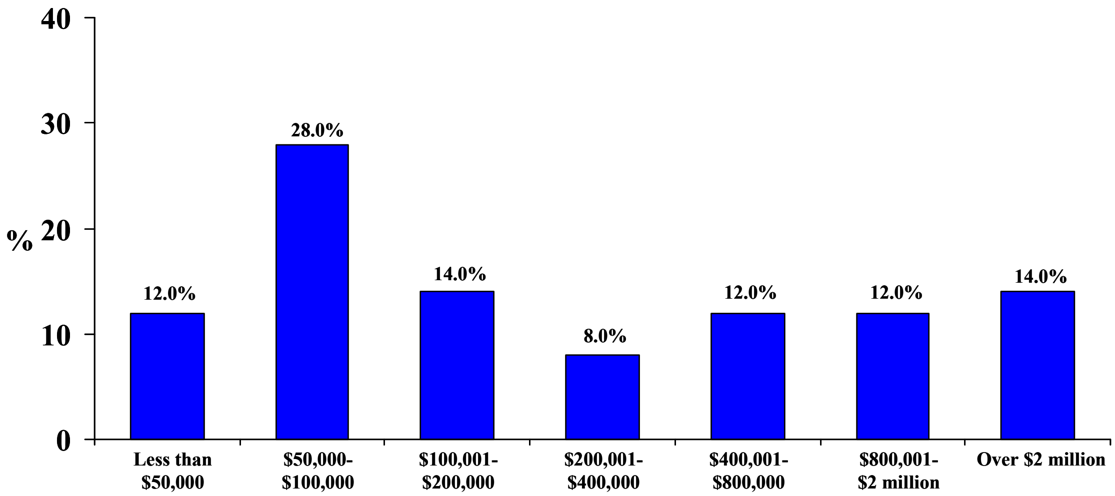
* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3a: Amount:

Figure 54 presents a summary of the responses to Question 3a, the distribution of loan amounts for equipment or livestock loans for large producers. All of the 55 large producers who had an equipment or livestock loan provided loan information. Of the 55, 46 had a standard loan and 42 provided a loan amount. Nine large producers had a line of credit and eight provided an amount.

Figure 54: Distribution of Loan Amounts for Equipment or Livestock Loans: Large Producers (Question 3a)



- **The 42 standard loan amounts ranged from a low of $20,000 to a high of $5 million and averaged $563,571. The median loan amount was $125,000.**
- **The 8 line of credit amounts ranged from a low of $40,000 to a high of $165 million and averaged $22.7 million. The median line of credit amount was $1 million.**

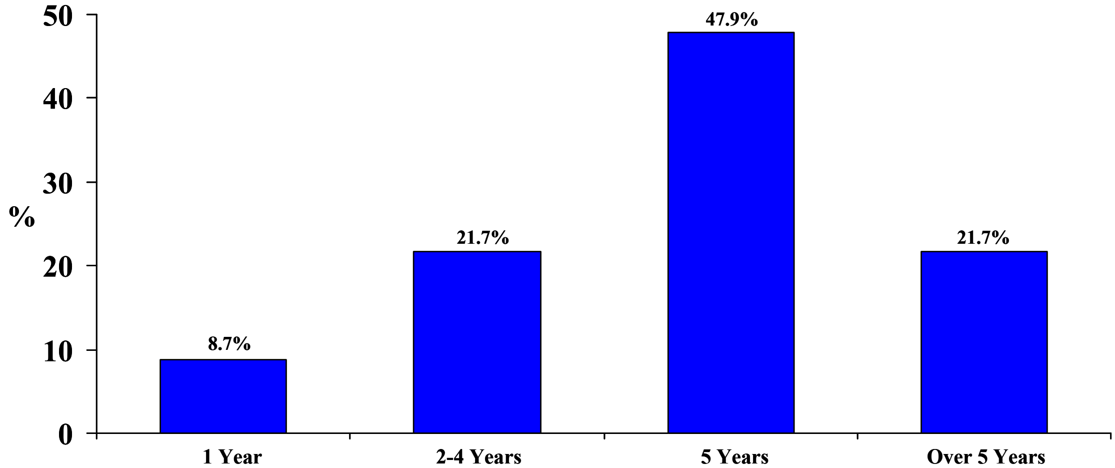
Sample Base: Large producers with an equipment or livestock loan who provided a loan amount (N=50)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3b: Loan amortization length:

Figure 55 presents a summary of the responses to Question 3b, the distribution of amortization lengths for equipment or livestock loans for large producers. All of the 46 large producers who had an equipment or livestock loan provided an amortization length.

Figure 55: Distribution of Amortization Lengths for Equipment or Livestock Loans: Large Producers (Question 3b)



- **The 46 loan amortization lengths ranged from a low of 1 year to a high of 20 years and averaged 5.4 years. The median length was 5 years.**

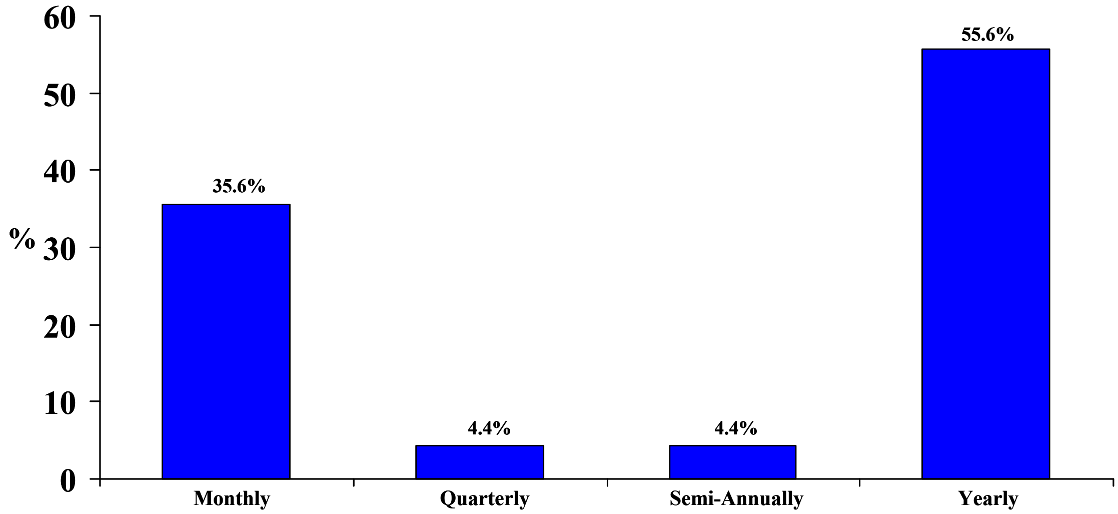
Sample Base: Large producers with an equipment or livestock loan who provided an amortization length (N=46)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3c: Repayment terms:

Figure 56 presents a summary of the responses to Question 3c, the distribution of repayment terms for equipment or livestock loans for large producers. Of the 46 large producers who had an equipment or livestock loan (standard), 45 provided repayment terms.

Figure 56: Distribution of Repayment Terms for Equipment or Livestock Loans: Large Producers (Question 3c)



- **For only one person was a balloon involved in repayment terms.**

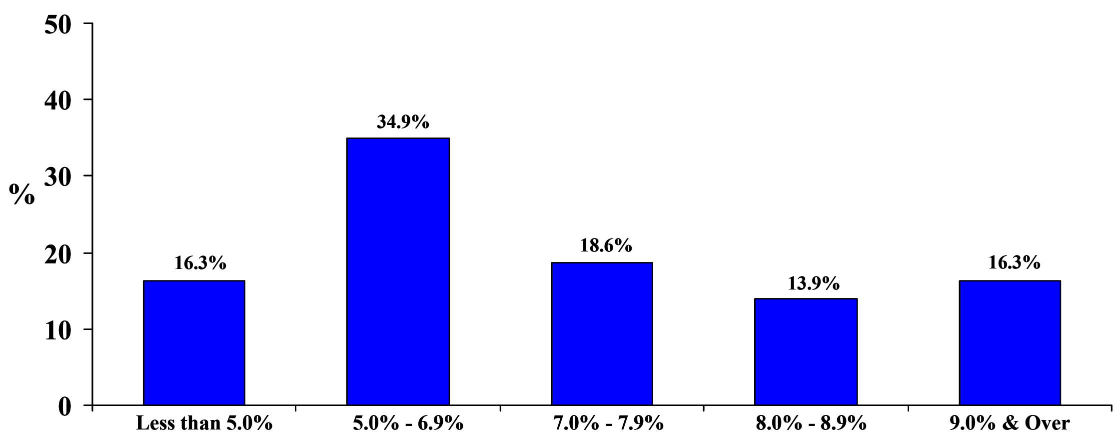
Sample Base: Large producers with an equipment or livestock loan who provided repayment terms (N=45)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3e: Interest rate:

Figure 57 presents a summary of the responses to Question 3e, the distribution of interest rates for equipment or livestock loans or lines of credit for large producers. Of the 55 who had an equipment or livestock loan or line of credit, 48 indicated whether their interest rate was fixed or variable. Of the 48, 36 indicated they had a fixed interest rate and they provided the number. Twelve indicated they had a variable interest rate and seven could provide that number.

Figure 57: Distribution of Interest Rates for Equipment or Livestock Loans: Large Producers (Question 3e)



- **The 36 fixed interest rates ranged from a low of 0% to a high of 12% and averaged 6.96%. The median was 7%.**
- **The 7 variable interest rates ranged from a low of 5% to a high of 10.5% and averaged 6.74%. The median was 6%.**

Sample Base: Large producers with an equipment or livestock loan who provided their interest rate (N=43)

Question 3f: Government guaranty or subordination agreement (If yes, which government agency)?

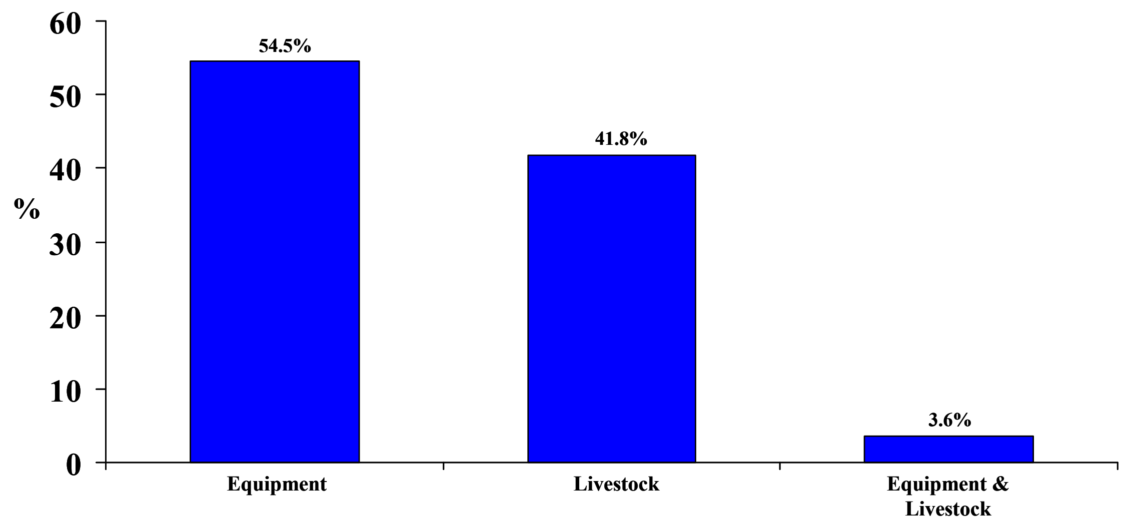
Of the 55 large producers with an equipment or livestock loan, 5.5% (N=3) indicated that there was a government guaranty or subordination agreement. One of the three indicated that the SBA was the government agency involved. Two of the three declined to say which government agency was involved.

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3g: Specific purpose or use of loan:

Figure 58 presents a summary of the responses to Question 3g, the distribution of uses for equipment or livestock loans for large producers.

Figure 58: Distribution of Uses for Equipment or Livestock Loans: Large Producers (Question 3g)



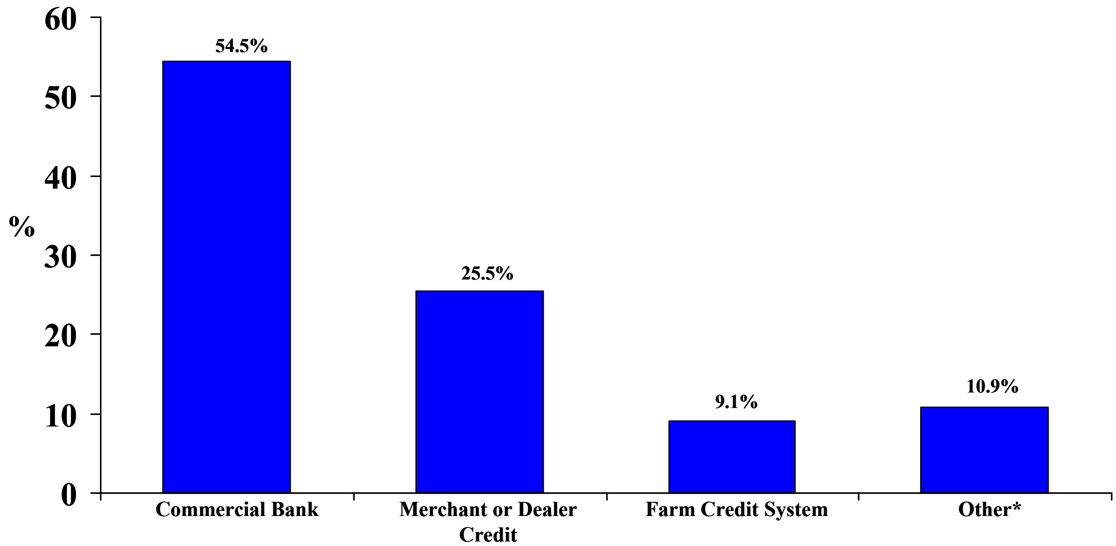
Sample Base: Large producers with an equipment or livestock loan (N=55)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3h: Type of lender:

Figure 59 presents a summary of the responses to Question 3h, the distribution of type of lender for equipment or livestock loans for large producers. All 55 of the large producers that had equipment or livestock loans provided the type of lender for their equipment of livestock loans.

Figure 59: Distribution of Type of Lender for Equipment or Livestock Loans: Large Producers (Question 3h)



*** Other includes: Credit Union, finance company, FHA, National Livestock**

Sample Base: Large producers with an equipment or livestock loan (N=55)

Question 3i: (If one or more equipment or livestock loans) In what ways did you come to be aware of the institutions you approached for the loan?

Table 10 presents a summary of the responses to Question 3i. Fifty-five respondents who had an equipment or livestock loan offered 55 comments.

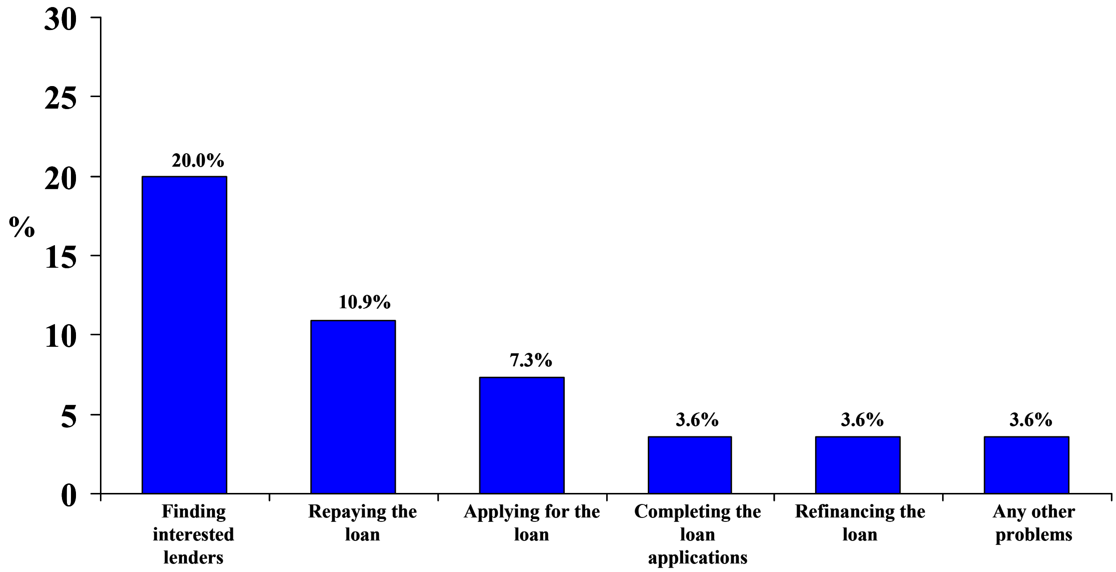
Table 10: Responses from Large Producers with Equipment or Livestock Loans to:
"In what ways did you come to be aware of the institutions you approached for the loan?"
Sample Base: Large Producers with an Equipment or Livestock Loan (Question 3i, N=55)

Percent Of 55 Respondents	Response	Characteristic Mention
34.5%	Long term past relationship	They were our existing bank and they were familiar with this program that we used / We were originally with Bank of America and our lender quit them so we moved where he did; he's moved several times and we've just followed where he goes / I've been there so long, 35 years / I just always have done business with them / That is where we keep all of our money / An ongoing business relationship / It was Production Credit and I've been using them for years / I've been doing business with them for about 30 years so that made it pretty easy to know who to contact / I've dealt with them since I started in business / We've known the bank for years / That's where I do all my loans / We've been dealing with them for many years / It's the same bank I've used for 50 years
30.9%	Dealer financing	Just through the local vendor / When you buy a tractor they offer it to you (John Deere Credit) / Through the irrigation dealer / It was the dealer who made us the loan / It's just through the people who build these valley pivots / Just through the dealership, it's just what they offered / Through the local dealer / We've worked with John Deere for a long time / We've bought equipment there before / That's where we always buy our equipment
12.7%	They are local	They are a private organization and they've been loaning money for livestock for a long time / They are the only bank in the area that has an ag lending department / They are just a local bank
5.5%	They came to me	They had called on us and made us a deal we couldn't refuse / Initially they came to my office / They came to us
5.5%	Through other individuals (family, friend, etc.)	Just through contacts / In talking with one of the state people I had worked with previously at the Economic Development Group and one of them told me that there was a bank in Houston that he thought would be very interested in my business / I sell my milk to Dairy Farmers of America and I knew they had financing and I called them up and talked to them
3.6%	Uncertain	I can't remember / I have had it 18 years, I don't remember
7.3%	Single responses	They send out newsletters; The equipment dealer suggested this bank to us; My bank sold it to them (an investor); Word of mouth

Question 3j: (If one or more equipment or livestock loans) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Figure 60 presents a summary of the responses to Question 3j, the distribution of problems encountered for equipment or livestock loans for large producers.

Figure 60: Distribution of Problems Encountered for Equipment or Livestock Loans: Large Producers (Question 3j)

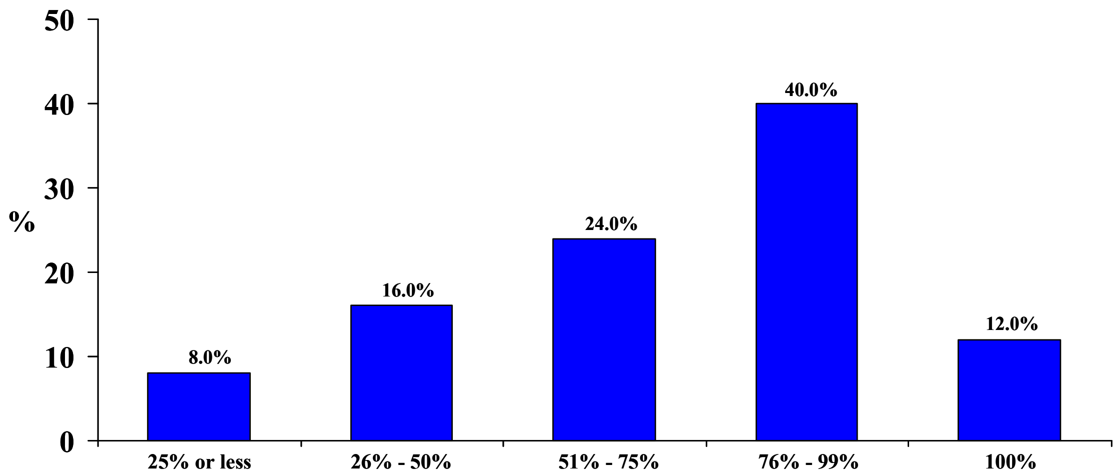


Sample Base: Large producers with an equipment or livestock loan (N=55)

Question 3k: (If one or more equipment or livestock loans) What was the loan-to-equity ratio?

Figure 61 presents a summary of the responses to Question 3k, the distribution of loan-to-equity ratios for equipment or livestock loans for large producers. Of the 55 large producers who had an equipment or livestock loan, 25 could provide loan-to-equity ratios.

Figure 61: Distribution of Loan-To-Equity Ratios for Equipment or Livestock Loans: Large Producers (Question 3k)



- **The 25 loan-to-equity ratios ranged from a low of 10% to a high of 100% and averaged 70.2%. The median was 80%.**

Sample Base: Large producers with an equipment or livestock loan who provided loan-to-equity ratios (N=25)

Questions 3l through 3o

Table 11 presents a summary of the responses given by the sample of large producers to Questions 3l through 3o.

Table 11: Responses to Questions 3l through 3o: Large Producers with an Equipment or Livestock Loan (N=55)

Question	Summary of Responses
3l) Was additional collateral required?	Eleven (N=11, 20.0%) had to provide additional collateral.
3m) Was a personal guarantee required?	Thirty-two (N=32, 58.2%) had to provide a personal guarantee.*
3n) (For farmers) Did the lender require crop insurance?	For the 32 who had some farming activities, 6.3% (N=2) had to provide the lender with crop insurance.
3o) Did the lender require participation in one or more federal farm programs?	Three (N=3, 5.5%) were required to participate in one or more federal farm programs.

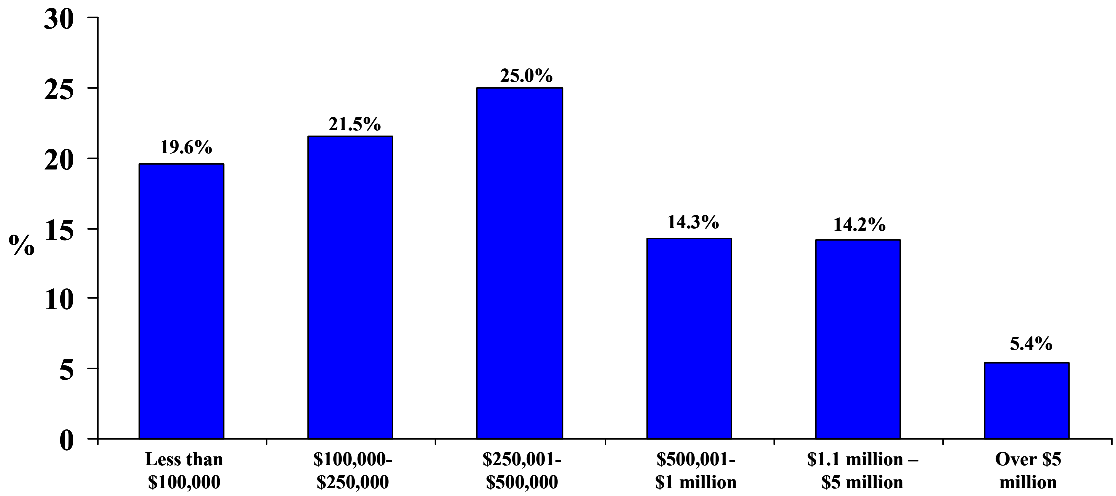
* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4a: Amount:

Figure 62 presents a summary of the responses to Question 4a, the distribution of loan amounts for operating loans for large producers. All of the 66 large producers who had an operating loan provided loan information. Of the 66, 16 had a standard loan and 15 provided a loan amount. Fifty large producers had a line of credit and 41 provided an amount.

Figure 62: Distribution of Loan Amounts for Operating Loans: Large Producers (Question 4a)



- **The 15 standard loan amounts ranged from a low of $13,000 to a high of $3 million and averaged $543,267. The median loan amount was $300,000.**
- **The 41 line of credit amounts ranged from a low of $30,000 to a high of $12 million and averaged $1.4 million. The median line of credit amount was $400,000.**

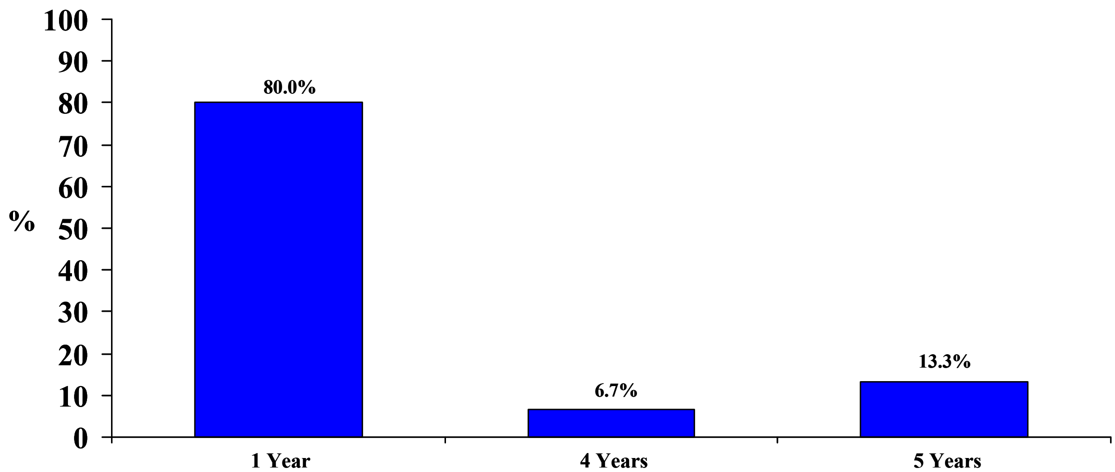
Sample Base: Large producers with an operating loan who provided a loan amount (N=56)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4b: Loan amortization length:

Figure 63 presents a summary of the responses to Question 4b, the distribution of amortization lengths for operating loans for large producers. Of the 16 large producers who had an operating loan (standard), 15 provided an amortization length.

Figure 63: Distribution of Amortization Lengths for Operating Loans: Large Producers (Question 4b)



- **The 15 loan amortization lengths ranged from a low of 1 year to a high of 5 years and averaged 1.7 years. The median length was 1 year.**

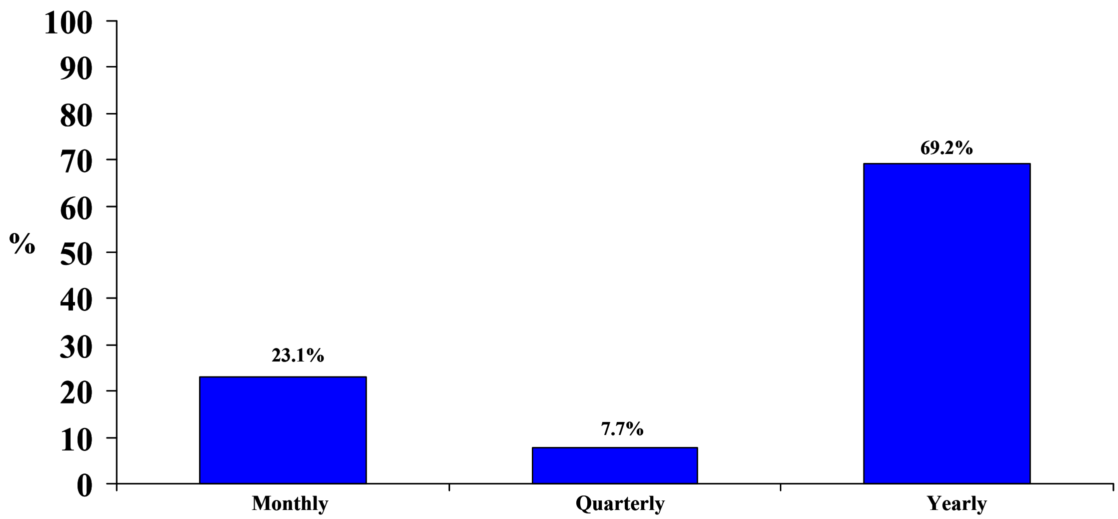
Sample Base: Large producers with an operating loan who provided an amortization length (N=15)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4c: Repayment terms:

Figure 64 presents a summary of the responses to Question 4c, the distribution of repayment terms for operating loans for large producers. Of the 16 large producers who had an operating loan (standard), 13 provided repayment terms.

Figure 64: Distribution of Repayment Terms for Operating Loans: Large Producers (Question 4c)



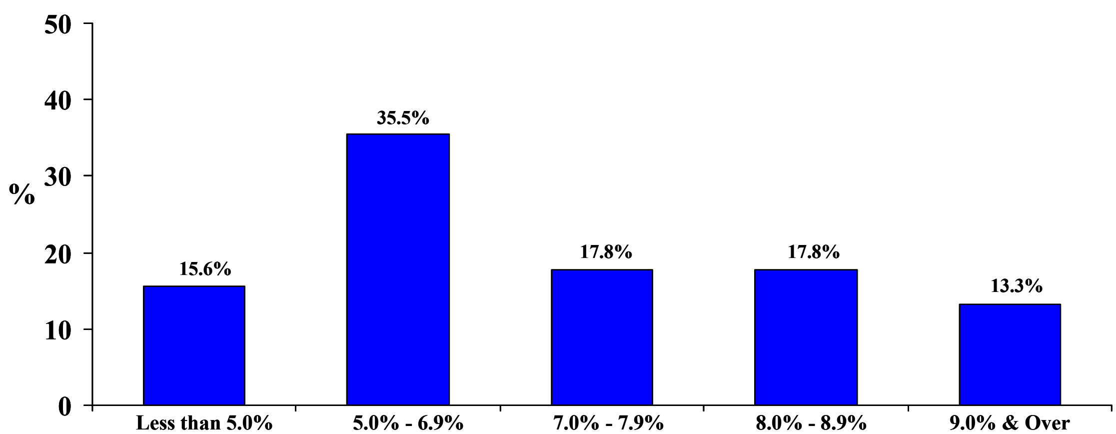
Sample Base: Large producers with an operating loan who provided repayment terms (N=13)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4e: Interest rate:

Figure 65 presents a summary of the responses to Question 4e, the distribution of interest rates for operating loans or lines of credit for large producers. Of the 66 who had an operating loan or line of credit, 59 indicated whether their interest rate was fixed or variable. Of the 59, 29 indicated they had a fixed interest rate and they provided the number. Thirty indicated they had a variable interest rate and 16 could provide that number.

Figure 65: Distribution of Interest Rates for Operating Loans: Large Producers (Question 4e)



- **The 29 fixed interest rates ranged from a low of 4.75% to a high of 10.5% and averaged 5.51%. The median was 7.50%.**
- **The 16 variable interest rates ranged from a low of 4% to a high of 8% and averaged 5.95%. The median was 6%.**

Sample Base: Large producers with an operating loan who provided their interest rate (N=45)

Question 4f: Government guaranty or subordination agreement (If yes, which government agency)?

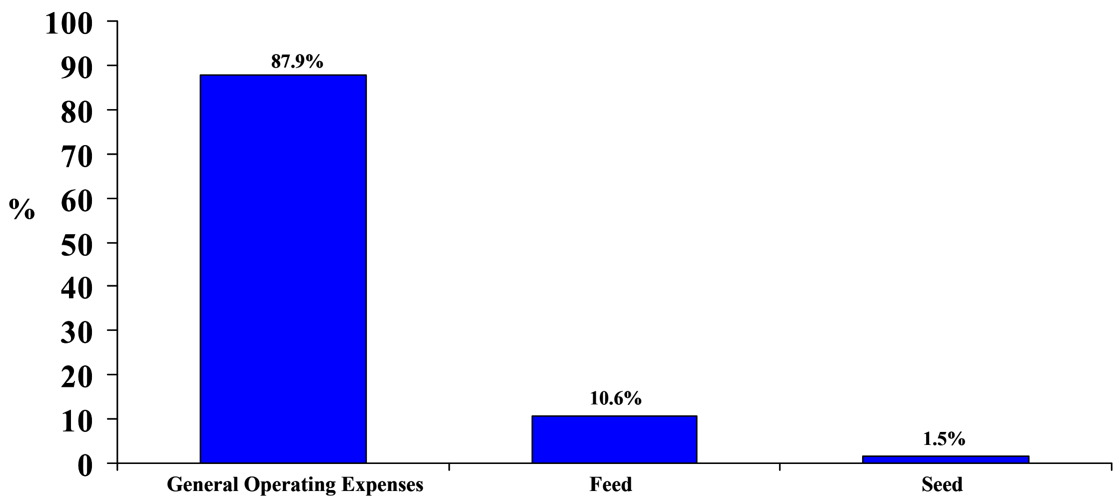
Of the 66 large producers with an equipment or livestock loan, 3.0% (N=2) indicated that there was a government guaranty or subordination agreement. Government agencies mentioned included the FSA and the SBA.

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4g: Specific purpose or use of loan:

Figure 66 presents a summary of the responses to Question 4g, the distribution of uses for operating loans for large producers.

Figure 66: Distribution of Uses for Operating Loans: Large Producers (Question 4g)



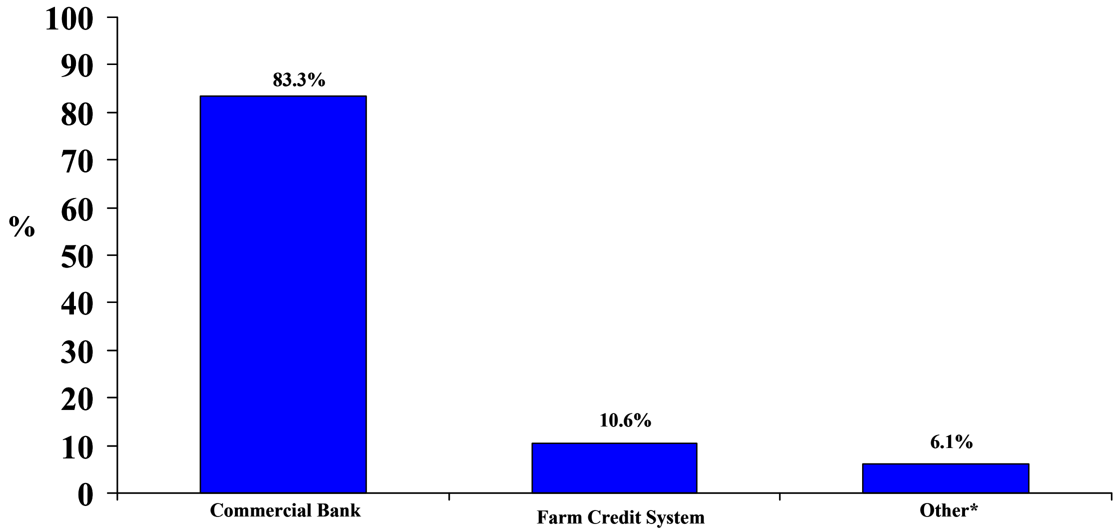
Sample Base: Large producers with an operating loan (N=66)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4h: Type of lender:

Figure 67 presents a summary of the responses to Question 4h, the distribution of type of lender for operating loans for large producers. All 66 of the large producers that had operating loans provided the type of lender for their operating loans.

Figure 67: Distribution of Type of Lender for Operating Loans: Large Producers (Question 4h)



*** Other includes: Credit Union, SBA**

Sample Base: Large producers with an operating loan (N=66)

Question 4i: (If one or more operating loans) In what ways did you come to be aware of the institutions you approached for the loan?

Table 12 presents a summary of the responses to Question 4i. Sixty-six respondents who had an operating loan offered 75 comments.

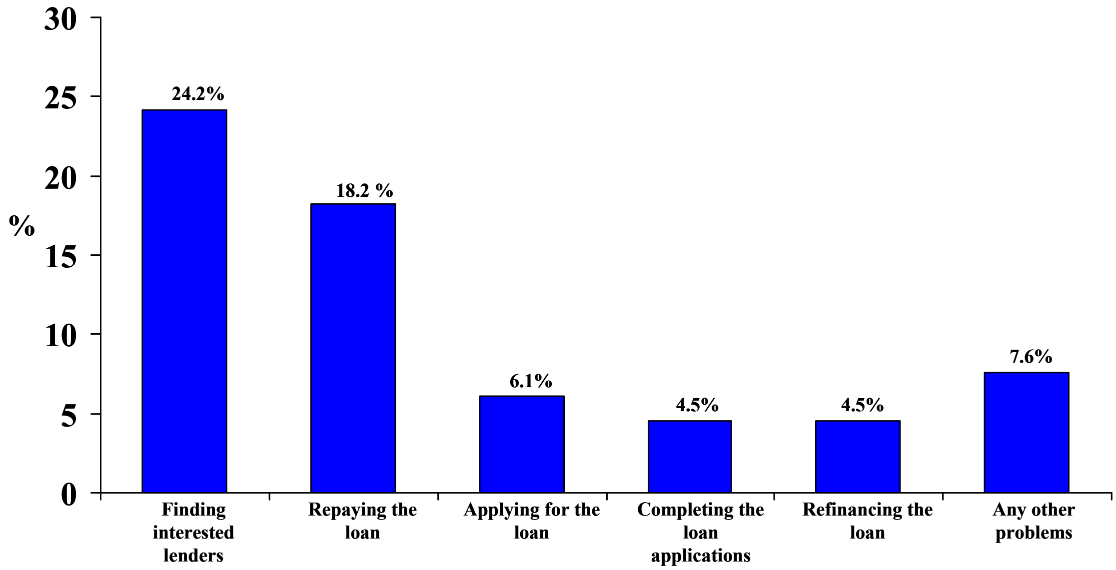
Table 12: Responses from Large Producers with Operating Loans to:
"In what ways did you come to be aware of the institutions you approached for the loan?"
Sample Base: Large Producers with an Operating Loan (Question 4i, N=66)

Percent Of 66 Respondents	Response	Characteristic Mention
57.6%	Long term past relationship	Long standing relationship / We've been doing business with them for 30 years / They were our existing bank / Past relationship / It's the bank I've been with for 35 years / I've been doing business with them all my life / I've been doing business with them for 28 years / I've done business with them for 40 years / I've had years of working relationships with a couple of institutions / We just always went to our bank / We've been using that bank for over 20 years / I've been doing business with them for about 30 years so that made it pretty easy to know who to contact / I've been banking with them since I was nine years old so it was just history I suppose / I've dealt with them since I started in business / My family has been involved with this bank for about 100 years / I've known them for 47 years and I'm a director of the bank / We've been dealing with them forever / I've been banking with them since 1958 / That's where we do our banking – historical experience / I've been banking there since I was twelve years old / Been banking there forever / That's where we always do our banking / We always do business with them / I've been doing business there for 20 years / I've been doing business with them for years
19.7%	They are local	They are the only bank in the area that has an ag lending department / They are just a local bank / I just knew they were there / It's the local bank / It's our hometown bank / It's the same local bank / They're just local, we know the bankers / It's the local bank, it's the only bank we have / It is the bank here in town
9.1%	They came to me	This is the same bank that called on us for our livestock loan / Initially they came to my office / They came to us / They approached us / They solicited the business / It's a large bank, they solicited me
6.1%	Through other individuals (family, friend, etc.)	I was introduced to them several years ago through a mutual friend / My brothers had borrowed there before me and they knew who I was / By meeting the chairman through another farm acquaintance / I used to coach basketball, and the president of the bank did my color on TV
3.0%	Stockholder in bank	I'm a stockholder and on the board of this particular bank / I own a lot of stock in the bank
4.5%	Single responses	I found out about the agricultural credit companies I talked to via advertising / We went out and looked at commercial banks / Word of mouth

Question 4j: (If one or more operating loans) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Figure 68 presents a summary of the responses to Question 4j, the distribution of problems encountered for operating loans for large producers.

Figure 68: Distribution of Problems Encountered for Operating Loans: Large Producers (Question 4j)

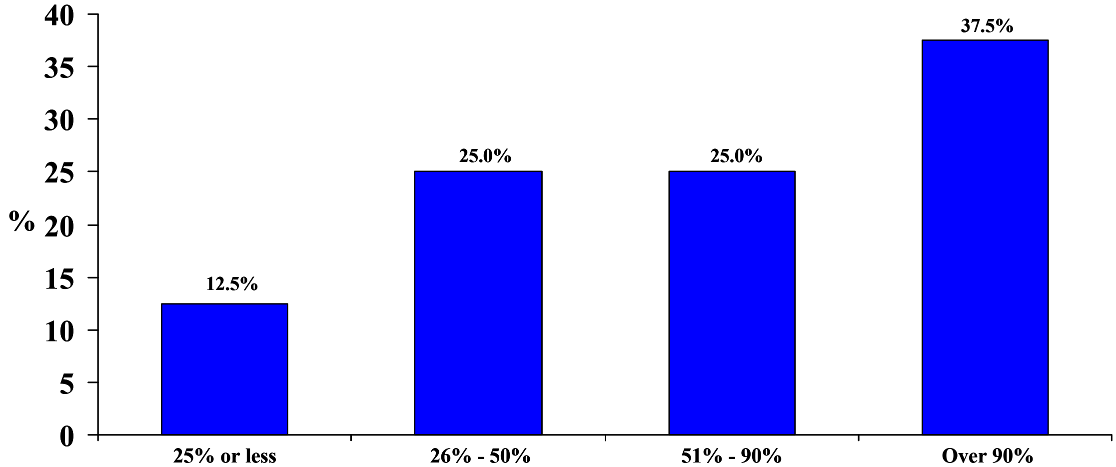


Sample Base: Large producers with an operating loan (N=66)

Question 4k: (If one or more operating loans) What was the loan-to-equity ratio?

Figure 69 presents a summary of the responses to Question 4k, the distribution of loan-to-equity ratios for operating loans for large producers. Of the 66 large producers who had an operating loan, eight could provide loan-to-equity ratios.

Figure 69: Distribution of Loan-To-Equity Ratios for Operating Loans: Large Producers (Question 4k)



- **The 8 loan-to-equity ratios ranged from a low of 21% to a high of 125% and averaged 73.6%. The median was 80%.**

Sample Base: Large producers with an operating loan who could provide loan-to-equity ratios (N=8)

Questions 4l through 4o

Table 13 presents a summary of the responses given by the sample of large producers to Questions 4l through 4o.

Table 13: Responses to Questions 4l through 4o: Large Producers with an Operating Loan (N=66)

Question	Summary of Responses
4l) Was additional collateral required?	Twenty-seven (N=27, 40.9%) had to provide additional collateral.
4m) Was a personal guarantee required?	Forty-four (N=44, 66.7%) had to provide a personal guarantee.*
4n) (For farmers) Did the lender require crop insurance?	For the 50 who had some farming activities, 28.0% (N=14) had to provide the lender with crop insurance.
4o) Did the lender require participation in one or more federal farm programs?	Eight (N=8, 12.1%) were required to participate in one or more federal farm programs.

* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Question 5: In terms of your experience at borrowing for your farming (or ranching) operations do you have any examples where your lender was especially helpful or understanding?

Table 14 presents a summary of the responses to Question 5. Eighty-five respondents who had lending experience offered the comments provided in the table.

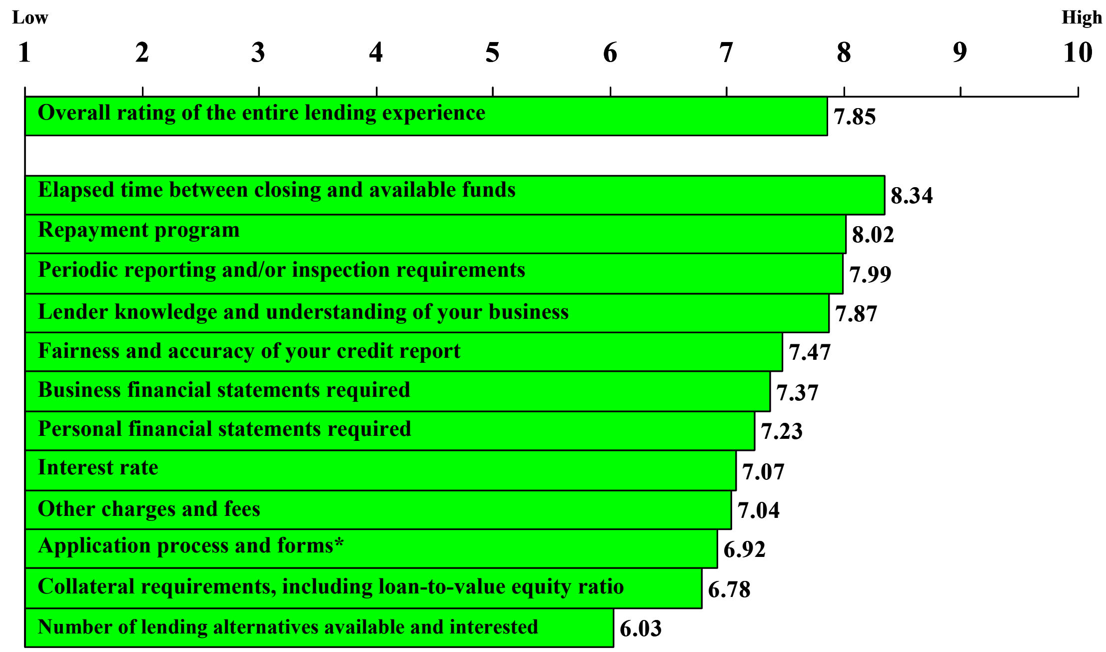
Table 14: Responses from Large Producers to:
"In terms of your experience at borrowing for your farming (or ranching) operations do you have any examples where your lender was especially helpful or understanding?"
Sample Base: Large Producers with Loan Experience (Question 5, N=85)

Percent Of 85 Respondents	Response	Characteristic Mention
62.4%	Cited examples where lender was helpful and understanding	We were able to get an addition to our line of credit with one of our ag lenders / We had one year where we had a disaster and had to roll over quite a bit of it, we had to come up with some more guarantees but they helped us work through it / They have been nice to respond to our questions and what their experience has been in certain things / They understand the way a dairy works, that there are good months and bad months and they stick with us with a revolving line of credit / Our banker is a little more of a hands-on manager than most are today / They have known me for years and known the operation for years and that's how bankers do business / He could talk our language / They have a wonderful agriculture staff and they know farming / They are all very knowledgeable about the agriculture industry, cattle in particular / Utilizing Production Credit they understand exactly what the markets are, they understand what the pitfalls are, they can tell you if you're heading down the wrong road or if you have a bad strategy / Yes, in that they allow us to take the loan in small amounts as we need it / When things get a little bit tight they will even loan me back the money to make the payments / He gave us advice on ways to use informational resources and things I should be looking for in terms of types of beef cattle when we were switching over to beef versus dairy / They always try to help us in any way possible / I know that one of them let us extend the loan out a couple of months until we got some payments / Just knowing what kind of business I'm into and working with me – that and stepping up to the plate and loaning me money / We've had a good banker, he's always tried to help us out, help point out where we might be able to improve / The one I use knows a lot about dairy farming so it's easy to apply for a loan / Yes, I had an FHA guarantee at one time and they were instrumental in getting that / We just had a good rapport, and they knew my farming practices and they were understanding when things didn't work / The only reason we didn't have problems refinancing the loan was because the banker that was at the previous bank that we banked with for 13 years, moved to this other bank and he wanted our business / They always give us prime rate, the line they revolve up and down, there's never any problem renewing every year, if it's maxed or not maxed, they renew it without much hassle
27.1%	Neutral	They want their money and when we pay we're buddies; I can't say that they've been especially helpful in any way / Cash collateral is what I have and it is sufficient enough that they don't advise me and I don't ask / I found it was just pretty much a straightforward deal, I needed money and they needed collateral and a good credit history, and that's what we have
9.4%	Cited examples where lender was NOT helpful and understanding	They just want their money, if I don't pay their understanding goes down real quick / When you get into a wipeout drought they lose some of that understanding / That's the problem in farming, no one knows it anymore except the FSA agencies, but I don't borrow from them any longer
1.2%	Other	We paid off that loan two years ago, I can't really remember

Question 6: Thinking generally in terms of your overall experience with lending for agricultural production in the State of Texas please use a "1" to "10" scale to rate your satisfaction with the various steps in the process. Use a "10" to indicate you are "Extremely Satisfied" and a "1" to indicate "Extremely Dissatisfied."

Figure 70 presents the average satisfaction ratings for the various steps in the lending process for large producers with loan experience.

Figure 70: Average Satisfaction Ratings for Various Steps in the Lending Process: Large Producers (Question 6)



* 23.5% cited problems with commercial lenders; 12.3% with federal lenders and 6.2% with state lenders.

• Differences of .6 or more in the averages are significant.

Sample Base: 85 Large producers with loan experience

Question 7: Over the past three years have you been denied a loan to support your farming (or ranching) operations on one or more occasions? (If yes) How many times? Please describe the reasons for denial.

Nine large producers responded that they had been denied a loan over the last three years. Three respondents had been turned down 1 time, 2 respondents had been turned down 2 times, 2 respondents had been turned down 4 times, 1 respondent had been turned down 8 times, and 1 respondent had been turned down 10 times. Table 15 presents the 10 reasons given by 9 respondents for denial.

Table 15: Responses to "Please describe the reasons for denial.": Large Producers with Loan Denial Experience (Question 7, N=9)

Response	Number of Respondents	Characteristic Comment
Past performance	2	Because of our red ink / Drought and inability to pay
Poor economy	2	Poor commodity prices, they don't want to lend money / They just wanted to get out of the farming loans
Requirements too high	2	Not enough collateral / One is my collateral, not enough security
Lender's unfamiliarity with the operations	1	Lack of knowledge on the banker's behalf
Too much outstanding debt	1	They thought I had too much borrowed on other things
Too new to the business	1	We have been turned down because they say we have not been in ranching long enough to have a history
Uncertain	1	I've been denied out in West Texas for no good reason

Question 8: Over the past three years have you had any occasions where you could not repay a loan? (If yes) How many times? What did the lender do to collect?

Thirteen large producers responded that they had had one or more occasion where they could not repay a loan. Eight respondents said they could not repay on one occasion, two respondents said they could not repay on three occasions, one respondent said they could not repay on three occasions, and one respondent said they could not repay on eight occasions. Table 16 presents the actions taken by lenders to collect according to those large producers who could not repay loans.

Table 16: Responses to "What did the lender do to collect?": Large Producers who could not Repay a Loan (Question 8, N=13)

Response	Number of Respondents	Characteristic Comment
Offered a flexible payment plan	4	They just extended the loan so we could repay it / They will give us an extension / We shook his hand, we made an arrangement and they're taking the payments as they come out / We just rescheduled it
Offered refinancing or loan restructuring	4	I had to refinance, they took a lien on some land / This was a loan guaranteed by the FSA, they restructured it / I refinanced / We renewed the loan
Did nothing	3	They didn't do anything / We're late on one almost every month – they just send us notices and make phone calls
Other	2	They just loaned me more money / They planned on foreclosing on July 10th and I filed bankruptcy on July 9th

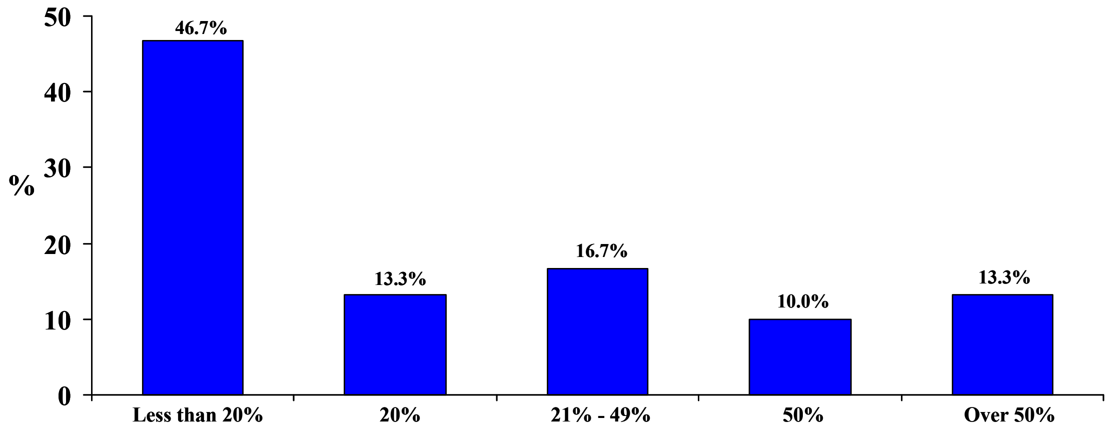
Question 9a: During the last 3 years, have you had to use revenue or income from a non-agricultural source to repay an agricultural loan?

Of the 85 large producers with lending experience, 35.3% (N=30) said that during the last 3 years they have had to use revenue or income from a non-agricultural source to repay an agricultural loan.

Question 9b: (If yes) Roughly what percent of your loan repayment had to come from non-agricultural sources?

Figure 71 presents a summary of the responses to Question 9b, the distribution of percent of loan repayments from non-agricultural sources for large producers.

Figure 71: Distribution of Percent of Loan Repayments from Non-Agricultural Sources: Large Producers (Question 9b, N=30)



- The 30 estimates ranged from a low of 1% to a high of 100% and averaged 27.9%. The median was 20%.

Sample Base: Large producers with loan experience who had to use other revenue to repay (N=30)

Questions 10 and 14: Please describe the extent your agriculture operation depends on programs from the federal and/or state government.

Table 17 presents a summary of the responses to Question 10 and Question 14. All 100 large producers provided responses.

Table 17: Responses from Large Producers to:
"Please describe to what extent your agricultural operation depends on programs from the federal and/or state government."
Sample Base: Large Producers (Question 10 and Question 14, N=100)

Percent Of 100 Respondents	Response	Characteristic Comment
35.0%	No help	None / I get no price supports, no disaster payments. I don't sit down at the Farm Service Agency at all / Zero / We don't do anything with the federal or state government / I want to get a fair price for my product but I can't depend on help / We don't participate in any / No, I really don't / None, we don't depend on them at all / None whatsoever / We don't have any / I don't depend on them because they are pretty bad
22.0%	Heavy	If you didn't have it you couldn't stay in the business / Heavily dependent on it right now / Very much / Very definitely on federal / Whenever we figure out our repayment to the bank, how we can pay them back, we have to list all of that and we count on that very highly / Seems like about 100% / It's sad to say, but if we don't have these programs we're out of business / We depend substantially on federal programs / Extensively / We wouldn't make it without them / We're very dependent on it / We depend on it 100% – if we didn't have it, we couldn't be out here / I'm heavily dependent on it / Unfortunately, the bottom line, at the end of the year, is less than what the government provides / I couldn't operate without them / 100% as far as I'm concerned
20.0%	Not stated how much	I apply for every one of them that comes along but as far as me saying that I need government programs to keep the place running, I don't depend on them / We do take advantage of them when they come around / We have some of these safe harbor deals / We do depend on the federal farm programs / Through the Farm Service Agency we participate in whatever they provide / Every farm program they come up with we try to get our fingers into
15.0%	Very little	Nominal / Not much with the size we are / I do some farming, mostly wheat and grains, and I have gotten some money from the feed program / We actually have very little government intervention / Very little / Very little, if any / Up until now, very little / Less than 5% / Not very much, 2% probably / We depend on about 5 to 10%
8.0%	Moderate	About 50% / It amounts to about 30% / Probably 45% / About 25% of it / We depend on them about 20%

Table 18 and Table 19 present a summary of what type of federal and/or state government programs respondent mentioned they depend on.

Table 18: Federal and/or State Government Programs Mentioned Depended on by Respondents
Sample Base: Large Producers (Question 10 and 14, N=100), Part 1 of 2

Percent Of 100 Respondents	Response	Characteristic Comment
35.0%	No help	-
25.0%	Subsidies	We are in some subsidies / The milk subsidies, they've been real helpful but they have been erratic / We do have a small area where we grow wheat and sorghum and get one of these subsidies, but that's about it / When we were dairy farming we got $25,000 a year / In farming subsidies, USDA / On the milk they have some kind of program coming around and I do depend on that / All of the federal programs / We depend substantially on federal programs / We do a lot of farming so we get the wheat subsidy / We participate in the USDA farm programs for cotton / We participate in the cotton program / They have all kinds of milk programs / The peanut program, the cotton program / The commodities subsidy
16.0%	Programs Not Specified	
	Very little (7.0%)	It's so insignificant, there are a few CRP programs on some of our crops but it is almost nothing / Not much with the size we are / The only actual government intervention is in the reporting of the acres and the production and the inspection of lots when they are shipped / I would tell you that we don't get much / I don't know the names of them all
	Heavy (5.0%)	We are always dependent on legislation concerning agriculture, we're always affected by it / I would say that it all depends on the federal and state programs / We participate in all of the farm programs; I cannot operate without participation there / Without the farm program it isn't too good / Anything we can qualify for
	Not stated how much (4.0%)	Not stated how much: This new farm bill for dairy is going to really hurt the large dairy farmers / We do depend on the federal farm programs / We have a grain loan or cotton loan
8.0%	Drought/disaster relief	I do get some drought assistance / Like drought relief, that's one / Last year we got drought assistance / We participate in all of the disaster programs / Right now just drought relief / I participate in the disaster relief payments / I'm in the drought program, it does help a little
7.0%	Price guarantees/supports	There is a milk price support program, the Commodity Credit Corporation, and that definitely holds the bottom price of milk up / It has a subsidized loan of about 20¢ on top of it, but it doesn't subsidize all of the cotton we raise / The federal government puts a floor on the price of milk / Without the price guarantees we couldn't make it with what the prices are now, especially cotton

Table 19: Federal and/or State Government Programs Mentioned Depended on by Respondents
Sample Base: Large Producers (Question 10 and 14, N=100), Part 2 of 2

Percent Of 100 Respondents	Response	Characteristic Comment
6.0%	FSA Programs	One thing that we have applied for is through the FSA / Specifically we benefit from FSA programs for our farming operations / We participate in the FSA program / Through the Farm Service Agency we participate in whatever they provide / Just the FSA programs, that's not very much
4.0%	Crop insurance	I'm not a big farmer (mostly ranching) but I do get some help on…the insurance / There is a federal crop pilot program, a crop revenue insurance pilot program / We get crop payments from the government
4.0%	Loan deficiency program	We participate in deficiency programs / Loan deficiency payments on cotton that I sell / There's a loan deficiency / Federal crop and deficiency pays
4.0%	Loan guarantees	We have loan guarantees from FMHA and SBA / The POP program is a loan guarantee that if our cotton doesn't reach a certain point that will kick in / If we don't have loan support on some of this we're all out / It gives me loan guarantees
3.0%	Loan interest rate support	The Go Texan program (special interest rates for agriculture loans) / We get loan rates on cotton and other crops that the government supports / Their Go Texan program has been very good
2.0%	Equipment program	I participate in the equip program / Just the farm program, the equip program, and the disaster program
2.0%	Feed program	I do get some help on the feed programs / They (FSA) help me with the feed program
2.0%	Production flexibility program	We are in the production flexibility program and that's it / It was part of the Freedom to Farm act, the production flex contract
4.0%	Single responses	The drainage stuff that we do is a government program to upgrade the land; On environmental issues and mainly because they have programs out there to help us do some of these environmental programs; Most of the things that I apply for are with the NRCS for planting grasses and that kind of thing; We have some of these safe harbor deals – they give us some improvements, 50% co-share on those things

Questions 11 and 15: If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agriculture production in the state what would those recommendations be?

Table 20, Table 21, and Table 22 present a summary of the responses to Question 11 and Question 15. All 100 large producers provided responses.

Table 20: Responses from Large Producers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural production in the state what would those recommendations be?"
Sample Base: Large Producers (Question 11 and 15, N=100), Part 1 of 3

Percent Of 100 Respondents	Response	Characteristic Comment
6.7%	No ideas	I don't have any, sorry / I really don't have any / I don't know at this point / I couldn't make a comment until I did some thinking / We talk about that type of thing here all the time but now that you ask I really don't have an answer for you / Just too many things, I couldn't even tell you one or two / I just really can't answer that question / I really don't see any solutions for the problems / As far as production, I don't know what they can do / I don't know that there is anything the State can do / Nothing I can think of / I'm not aware of any state programs / I don't have anything to suggest
6.0%	Need better prices	It (milk compacts) could protect our milk price / The commodity prices are the problem with farming right now and it's not going to get any better / The only thing that can make that better would be higher / The worst thing about milk prices is we give our milk to the handlers and 45 days later they tell us what it brought commodity prices / Higher commodity prices would fix everybody up and that way we wouldn't have to depend on the farm programs / I would really like to get a better price / Get a higher milk price / Get the commodity prices up and the energy prices down / Get us a price for our crop that will make us less dependent on the federal government / Higher commodity prices / The prices aren't realistic, we can't make it what with buying all the chemicals and everything at the prices they are, and the price of cotton, what we're getting for it
4.0%	Imports/international trade creates problems	Curb foreign imports, which are hurting our domestic sales / Probably to stop all the imports of grains and beef coming into the states / The exports/imports, just on the NAFTA, I'm not a fan of that at all, I think we've really been sold out on that deal / We don't mind competition from anywhere in the world as long as it's a fair competition, but we can't compete with their labor and that they can use any chemicals that they want and we can't / They need to protect our domestic production / First of all, our cost of input is so much higher than the cost of input of some of these other countries, and our labor is so high, that we cannot compete with the foreign countries coming in / Make things equal for the American farmer and the world farmer – including NAFTA / I would caution them about importation and movement of livestock that have diseases or are subject to diseases / We've got to quit importing so much Mexico cotton / Do away with imports
3.3%	Concern over water	The Texas Legislature doesn't have much to do with it but the federal government needs to get rough with Mexico and get our water rights back / Water in Texas is a very scarce commodity / Long term I think that the state needs to really monitor irrigation and ground water usage, monitor it and limit it / The thing that concerns us is the water rights / We are dry land farmers here and water is important / Here in the state of Texas I think one of the things that is more important than anything, and I know they've been working on this, is taking care of our underground water supply / Do something fair on the water rights issue / Let's talk about the Mexicans not paying their water back / There's one really big deal, and that's the state letting T. Boone Pickens sell off all of our water

Table 21: Responses from Large Producers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural production in the state what would those recommendations be?"
Sample Base: Large Producers (Question 11 and 15, N=100), Part 2 of 3

Percent Of 100 Respondents	Response	Characteristic Comment
3.0%	Less government involvement	I really think that a free market strategy is the best / Take away the subsidies and programs and let it wash itself out and stand on its own legs / Overall, the people in the legislature and the TNRCC need to not over-regulate / The less involvement the state or federal government has in our lives the better / Less regulation from the TNRCC / Get out of agriculture and stay out – let free enterprise work / I think we need less regulation, not more
2.7%	Greater availability of funds	That they would look closely at the available sources for lending and make sure that the agriculture customer base has adequate avenues to borrow to produce the foods and other things for the rest of the population / To streamline the lending process would certainly be helpful / The availability of funds needs to be improved / Make some low interest loans to farmers / Make it easier to use the equity in your farm / Lower interest loans
2.7%	Newer/more markets	Help with some of our trade barriers to Cuba and some of these middle-east countries, restrictions on them have done a lot to our rice markets / Helping us develop foreign sales / The Texas Department of Agriculture has done a good job in promoting agriculture in Texas on a foreign level and by all means continue it or even increase it / They could help us with exports / Increase our exports / Continue the good job they're doing, and try to expand the markets a little bit if possible, I'd like to see us have more opportunity to expand overseas / We've got to get our exports of Texas cotton up / Enhance our markets
2.3%	Less environmental regulation	On this whole environmental climate we need to have regulations based on science and not on emotion or someone's election hopes / I think they need to watch the environmental concerns, but also watch the special focus groups and make sure they are not getting an upper hand on trying to over-regulate environmentally / Knock some sense into Waco and the tree huggers and the frog kissers…I agree with most of it but they are going way overboard, to the point where we need a stack of paper about a foot high and keep it updated to comply with all the regulations they have / You are dictated by conservation and wetlands and lots of intrusion by government policy in running your operation and owning your land / Relax the environmental issues that we contend with, they're driving us out of business / Get off our back with the EPA…not so many regulations on chemicals
2.0%	More marketing	What we need from the Legislature is improved marketing programs / Help with marketing projects for specific businesses, small businesses like ourselves / Put more money into promoting Texas products / Promote Texas and Texas agriculture products / More funds for marketing
1.7%	Simplify programs	Probably not make farm bills so complicated / Cut out some of the paperwork at the federal offices / Get rid of the paperwork / Now I spend about 3 days in an office on paperwork, trying to take care of TDA regulations

Table 22: Responses from Large Producers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural production in the state what would those recommendations be?"
Sample Base: Large Producers (Question 11 and 15, N=100), Part 3 of 3

Percent Of 100 Respondents	Response	Characteristic Comment
1.3%	Agricultural programs reform	I would think that the monitoring on some of these people who are participating in some of the government programs needs to be watched a little closer / Straighten out the Farm Services Agency
1.0%	More agricultural awareness in legislature	Rather than listen to biased politicians, look for themselves to see how we do dairy / They need to be more aware of the crops we can raise on that new farm bill
1.0%	More government involvement	To keep the programs that we have, active / They need to continue to support the farmer by subsidies and federal programs / If all agriculture is going to be supported by the United States government, and/or the Texas government, then beef cattle production needs to be supported also
0.7%	Boll weevil program	Just like the boll weevil program – if they ever get rid of it, there will be so much cotton produced in Texas – enough to supply the entire U.S. economy / Continue to fund the boll weevil program
0.7%	Lower cost labor	Make it easier for guys like me – farmers and ranchers – to go to Mexico and get hands / Get the Department of Labor off my back – they make it difficult to get local labor for no good reason
0.7%	Tax breaks/reform	They want to charge (federal income) taxes – I'm against that / Perhaps tax breaks
2.7%	Single responses	People need to think outside the box and go into crops and do things differently than the normal soybeans and milo and cattle and things like that; Make it rain more; To incorporate the direct notice requirements in Texas into some type of central database system; I would say for them to depend more on cash flow financing rather than asset financing; Quit spending all that money and concentrate on what is at home instead of what is everywhere else; A little more information on what programs are available would be nice; Control the amount of acres they are planting

Question 12: If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural lending in the state what would those recommendations be?

Table 23 and Table 24 present a summary of the responses to Question 12. Eighty-five large producers with lending experience provided 89 recommendations.

Table 23: Responses from Large Producers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural lending in the state what would those recommendations be?"
Sample Base: Large Producers with Lending Experience (Question 12, N=85), Part 1 of 2

Percent Of 85 Respondents	Response	Characteristic Comment
47.1%	No recommendations	I would rather say nothing than come up with something that's not practical / I haven't had a real problem / I really wouldn't have a comment on that / We've done so little as far as dealing with the lending programs that I don't have much knowledge about what is available / I don't have a lot of insight on that / Nothing at all, we've been very satisfied with the entire lending process / With the new farm program they look like they are doing okay / I really don't know of any / I'm having a good experience / I wouldn't have anything else to add / None that I know of / I've had such a good experience with my lenders that I really wouldn't want to change anything / As you can tell from my answers we haven't had any problems but we own our land and operate it / I don't know that I would because I've had such a good experience / I would have to say that we have pretty good lending institutions here / I think they are in pretty good shape right now / I think lending is all right
21.2%	Make lending process easier	Agriculture lending should be treated and viewed fairly and should be encouraged by financial institutions / As long as we can keep the banks where they do not have to be so regulated on ag loans, so they aren't as tied down like they were 7-8 years ago, we will be fine / I see a lot of people covering themselves by making people get things done, like appraisals / There probably needs to be a little more awareness of the types of lending programs that are out there / Loan to more younger people that don't have the collateral and backing / Probably to make it more personal, do more guaranteed loans through banks so that the farmers can be dealing with people that they usually know better, their local bankers / For both commercial lenders and the Farm Credit System they need to make it where you just have to deal with one person instead of speaking with one loan officer, then another, then on to a committee, and so on, before they come back to tell you whether you have the loan or not / Change the federal laws on the bankers to where they can loan money to us, without getting beat up so bad by the federal regulators / Just some of the requirements, loan repayment, could be eased a little / Less paperwork, it seems like you have to go through an act of congress to get it processed / Not so much paperwork, and having to go here, and there
10.6%	Help with interest rates	Just what I said before, help the farmers get better interest rates with maybe some loan guarantees / In lending, just monitor the percentage of increase over prime / They (the State) ought to be able to give a better rate / A lower interest rate / Any other loan you can get cheaper, but the interest rate for farm loans is always the high interest rate / Cheaper interest rates / If the government wants to make loans themselves, they could lower the interest rate / Look at interest rates

Table 24: Responses from Large Producers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural lending in the state what would those recommendations be?"
Sample Base: Large Producers with Lending Experience (Question 12, N=85), Part 2 of 2

Percent Of 85 Respondents	Response	Characteristic Comment
8.2%	Need more loans/lending sources	Basically the number of institutions willing to do agriculture loans has diminished greatly because of the challenges to the farmers and so many people going under / The only thing I could recommend would be a wider choice for people looking for agriculture loans, more places for them to go, more opportunities / We just need more funds available to agriculture / Some guarantees within the structure so that they can get loans through the banks would make it better for everyone / I think they should support the farmers more – lend them more money / Make some agency available to make loans – right now there is very little availability / They state of Texas could do more like the federal, if they could get a program of lending
7.1%	Be more understanding/knowledgeable about agriculture	I don't think the bankers are very aware of the programs that are out there and available / Maybe have people who are involved in agriculture, like at the Land Bank, educate other bankers / In my case, I went to PCA and the Federal Land Bank, and they didn't look at the overall picture as thoroughly as I thought they would, and I had to go to a commercial bank / If people running the show could figure out how to level it out for us it would make it a lot better for us
5.9%	Qualify borrowers	I think people need to have some experience and be checked out pretty closely before they start passing out agricultural money / I hate to say that but I think they need to take a hard look at some of these people and maybe they don't all need to be in business / I don't think you should legislate lenders to force them to lend to people that can't possibly repay / I don't think they should get too lenient on it – I think that causes more problems than it solves
4.7%	Single responses	Keep their agriculture and finance department funded; If they will start letting the farmer make a profit the little towns won't keep drying up; Like I said, depend less on asset lending and more on cash flow

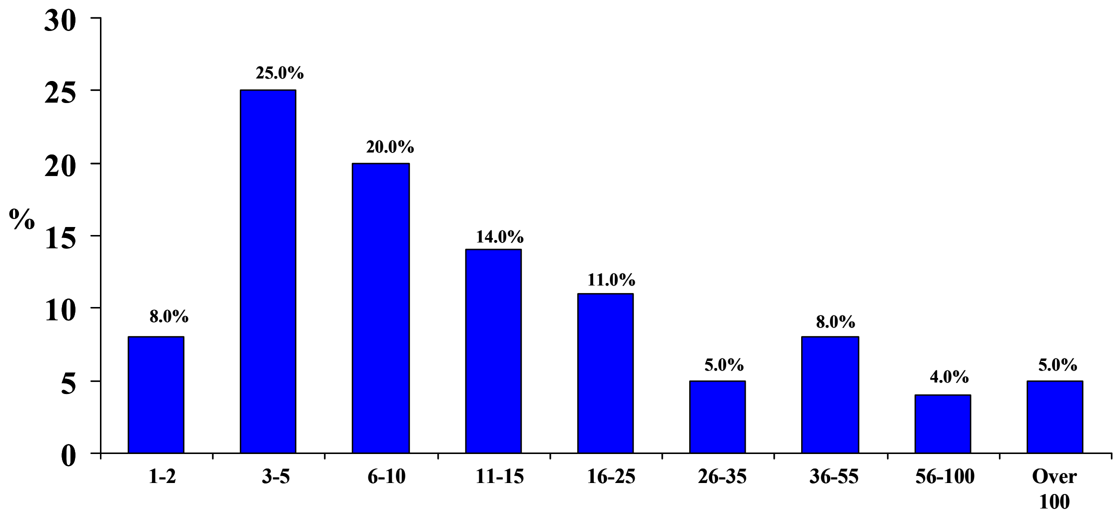
Question 13: If you needed a loan to support this operation do you think you could get one? (If no) And what would it be that would keep you from getting one?

Of the 15 large producers with no loans, 86.7% (N=13) felt they could get one and 13.3% (N=2) said they didn't know if they could.

Question 17: Roughly how many people work in your operation?

Figure 72 presents a summary of the responses to Question 17, the distribution of the number of workers for large producers.

Figure 72: Distribution of Number of Workers: Large Producers (Question 17)



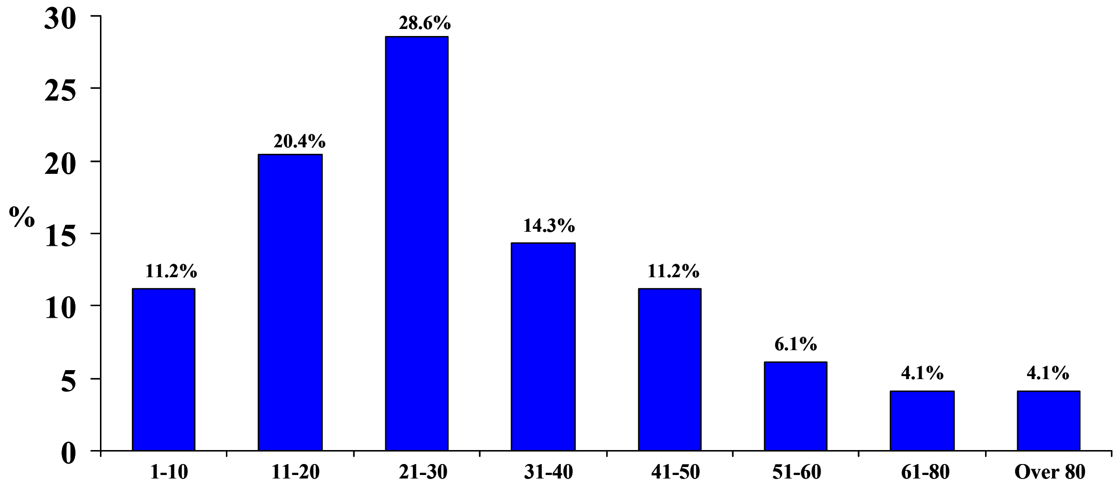
- Numbers ranged from a low of 1 to a high of 700 and averaged 33.8. The median was 10.

Sample Base: Large producers (N=100)

Question 18: How many years has this business been in operation?

Figure 73 presents a summary of the responses to Question 18, the distribution of the number of years in operation for large producers.

Figure 73: Distribution of Number of Years in Operation: Large Producers (Question 18)



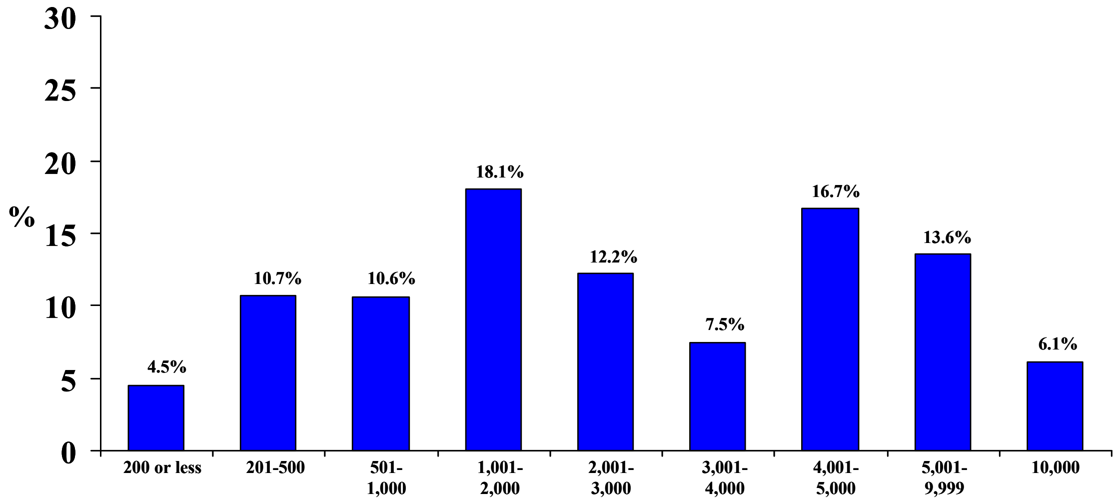
- Numbers ranged from a low of 1 to a high of 160 and averaged 33.8. The median was 27.

Sample Base: Large producers (N=100)

Question 19a: (For farmers) Approximately how many acres do you farm?

Figure 74 presents a summary of the responses to Question 19a, the distribution of the number of acres for large producers with some farming activity.

Figure 74: Distribution of Number of Acres: Large Producers (Question 19a)



- Numbers ranged from a low of 4 to a high of 10,000 and averaged 3,421. The median was 2,500.

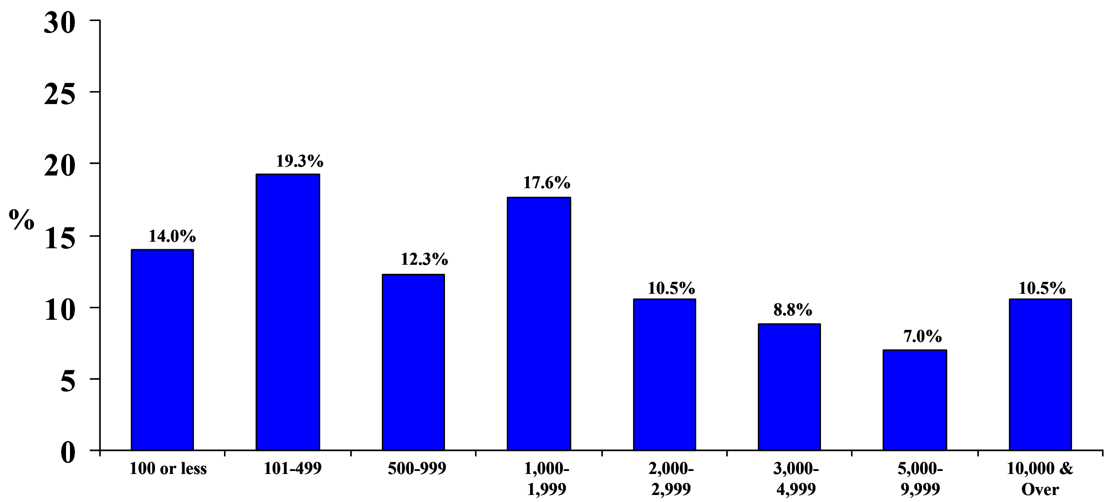
• All numbers are in percentages.

Sample Base: 66 Large producers with farming activity

Question 19b (For ranchers) Approximately how many livestock do you have?

Figure 75 presents a summary of the responses to Question 19b, the distribution of the number of livestock for large producers with some ranching activity.

Figure 75: Distribution of Number of Livestock: Large Producers (Question 19b)



- Numbers ranged from a low of 20 to a high of 4 million and averaged 95,900. The median was 1,200.

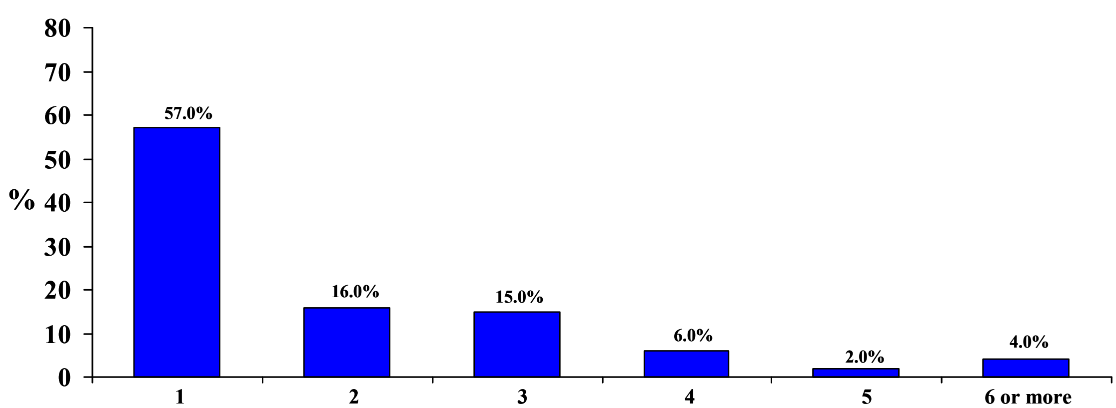
  - Note: The number of livestock refers to cattle, hogs, chickens, etc. but we provide the distribution for your information.

Sample Base: 57 Large producers with ranching activity

Question 20a: How many separate agricultural enterprises do you have?

Figure 76 presents a summary of the responses to Question 20a, the distribution of the number of separate agricultural enterprises for large producers.

Figure 76: Distribution of Number of Separate Agricultural Enterprises: Large Producers (Question 20a)



- The numbers ranged from a low of 1 to a high of 20 and averaged 2.13. The median was 1.

Sample Base: Large producers (N=100)

Question 20b: (If over 1) Do you track the profitability for each enterprise separately?

Of the 43 large producers who have more than one enterprise, 83.7% (N=36) track profitability for each enterprise separately.

Question 21: Does your agricultural business primarily operate on a cash basis or on an accrual basis?

Seventy-one (71%, N=71) of the large producers operate on a cash basis, 26 (26.0%) operate on an accrual basis, and 3 (3%) said they didn't know the difference.

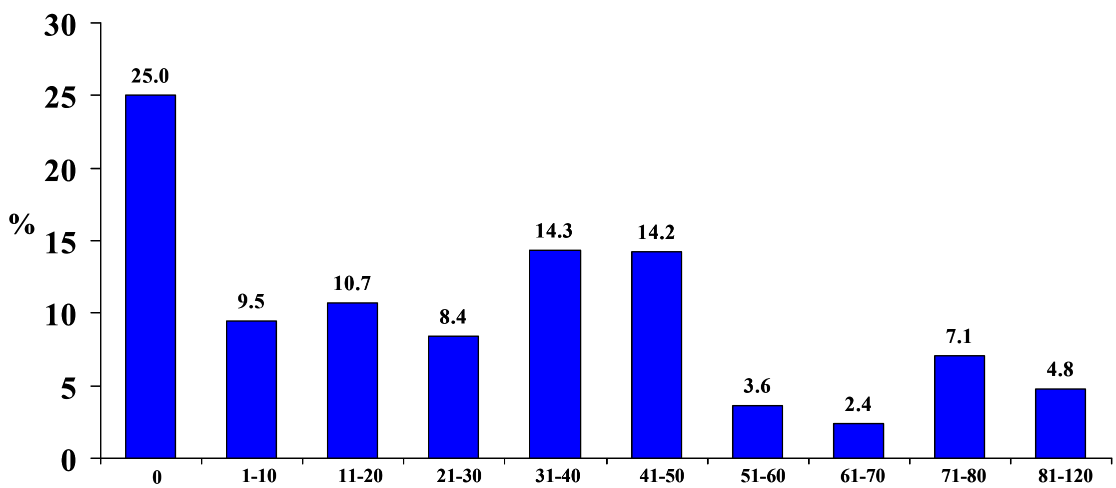
Question 22: Does a CPA prepare your books?

Eighty-nine (89%, N=89) of the large producers use a CPA to prepare their books.

Question 23: Roughly speaking, if you totaled all agricultural loans, what percent of your total equity would the loans represent?

Figure 77 presents a summary of the responses to Question 23, the distribution of the percent of total equity to loans for large producers. Eighty-four respondents provided an estimate.

Figure 77: Distribution of Percent of Total Equity to Loans: Large Producers (Question 23)



- For the 84 who were 0 or provided a number, the estimates ranged from a low of 0% to a high of 120% and averaged 31.6%. The median was 25%.
- For the 63 who currently have loans and could provide an estimate, the estimates ranged from a low of 1% to a high of 120% and averaged 42.1%. The median was 40%.

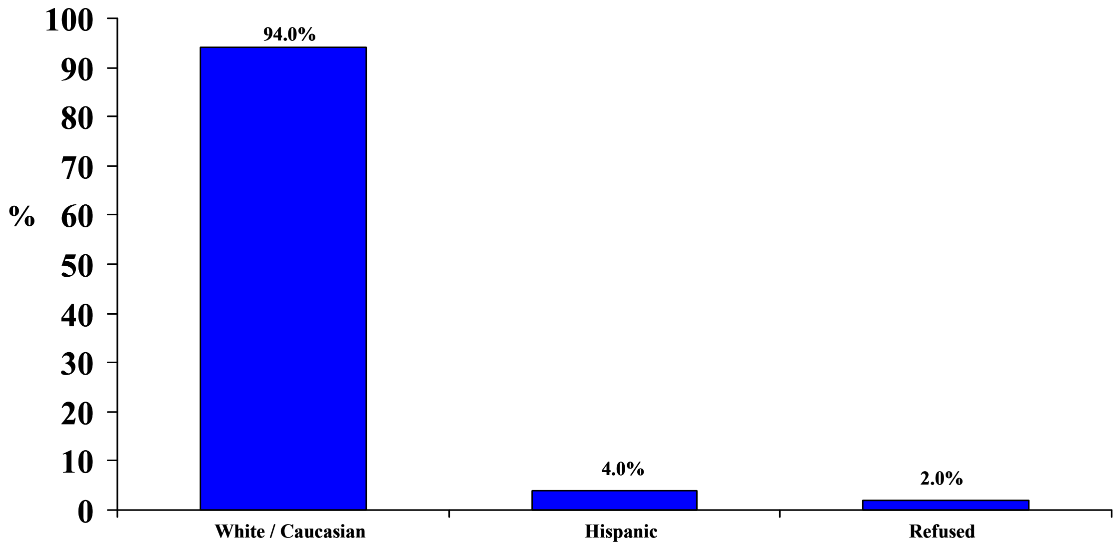
• All numbers are in percentages.

Sample Base: Large producers who were either 0 or provided a number (N=84)

Question 24: Could you please tell me to which ethnic group the owner of this business belongs?

Figure 78 presents a summary of the responses to Question 24, the distribution of ownership ethnicity for large producers.

**Figure 78: Distribution of Ownership Ethnicity:
Large Producers (Question 24)**



Sample Base: Large producers (N=100)

A Random Sample of All First Handlers (N=300)

Questions 1a through 1d

Table 25 presents a summary of the responses given by the sample of first handlers to Questions 1a through 1d.

**Table 25: Summary of the Responses to Questions 1a through 1d:
First Handlers (N=300)**

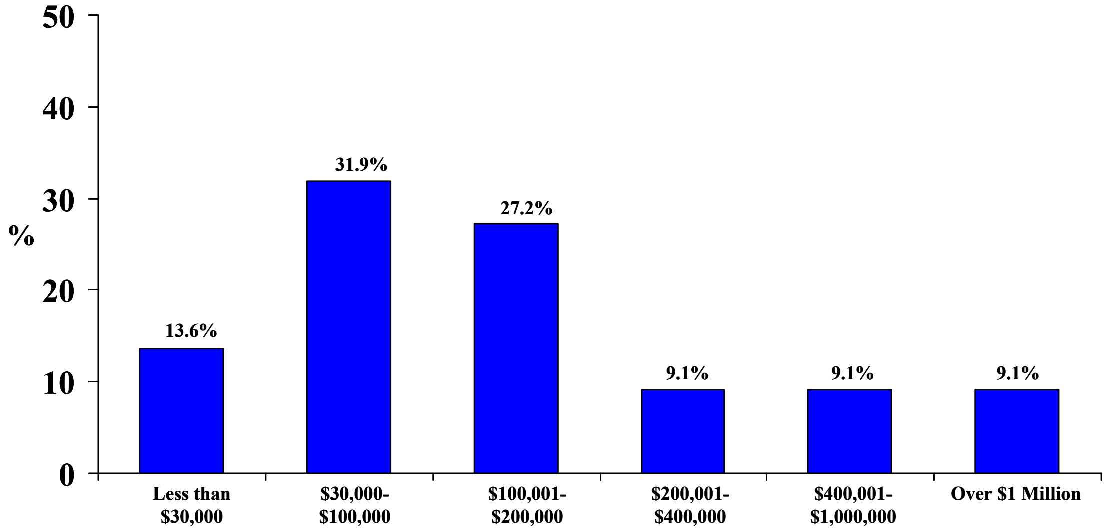
Question	Summary of Responses
1) Do you currently have one or more loans or lines of credit to support your farming (or ranching) operations?	39.7% (N=119) currently have one or more loans.
1a) (If No) If you had a loan within the last three years, in what year was the most recent loan repaid?	1.7% (N=5) had a loan within the last three years.
1 and 1a	41.4% (N=124) have current or recent loan experience.
1b) How many loans do you currently have for land, buildings, or to make building improvements for the purpose of farming or ranching?	20.7% (N=62) have one or more land or building loans. Six percent (6%) have 2 or more.
1c) How many loans do you currently have to purchase equipment or livestock?	18.3% (N=55) have one or more equipment or livestock loans. 4.7% have 2 or more.
1d) How many operating loans do you currently have to purchase feed, seed, or meet any other current operating expenses?	23.3% (N=70) have one or more operating loans. 3.3% have 2 or more.

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2a: Amount:

Figure 79 presents a summary of the responses to Question 2a, the distribution of loan amounts for land or building loans for first handlers. Of the 62 first handlers who had a land or building loan, 44 provided a loan amount.

Figure 79: Distribution of Loan Amounts for Land or Building Loans: First Handlers (Question 2a)



- **The 44 loan amounts ranged from a low of $3,000 to a high of $30 million and averaged $1.1 million. The median loan amount was $135,000.**

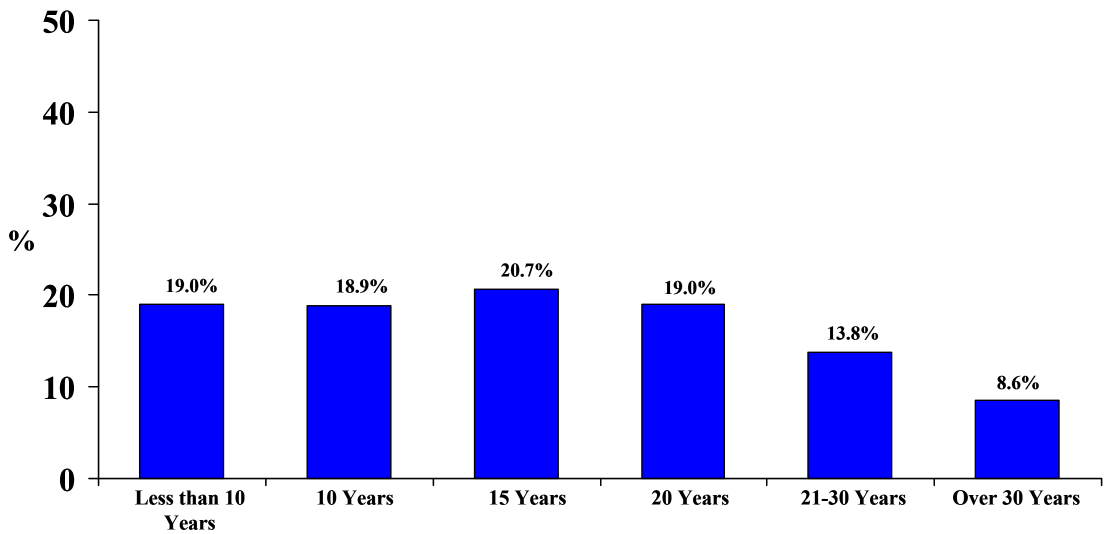
Sample Base: Producers with a land or building loan who provided a loan amount (N=44)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2b: Loan amortization length:

Figure 80 presents a summary of the responses to Question 2b, the distribution of amortization lengths for land or building loans for first handlers. Of the 62 first handlers who had a land or building loan, 58 provided an amortization length.

Figure 80: Distribution of Amortization Lengths for Land or Building Loans: First Handlers (Question 2b)



- **The 58 loan amortization lengths ranged from a low of 1 year to a high of 40 years and averaged 16.7 years. The median length was 15 years.**

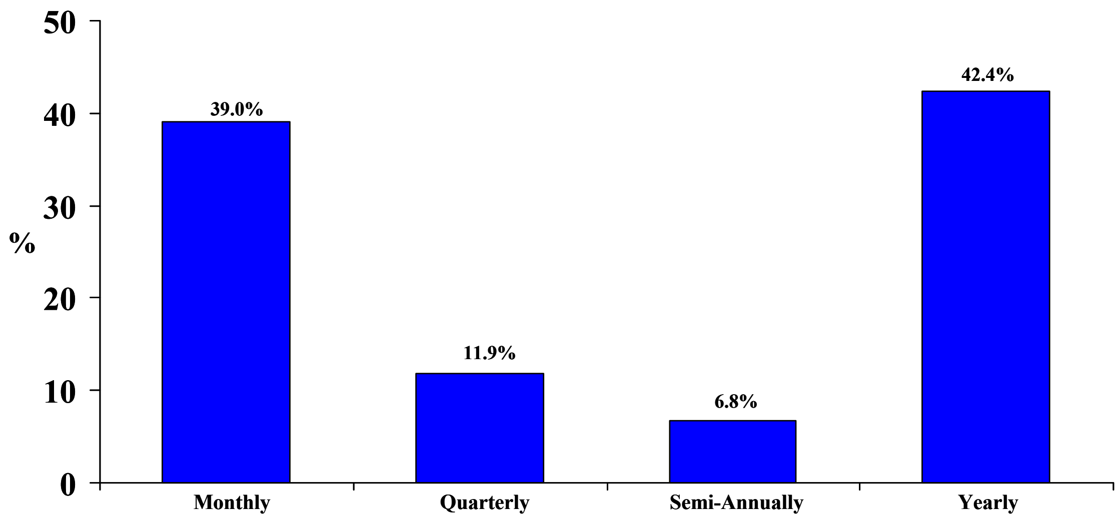
Sample Base: Producers with a land or building loan who provided an amortization length (N=58)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2c: Repayment terms:

Figure 81 presents a summary of the responses to Question 2c, the distribution of repayment terms for land or building loans for first handlers. Of the 62 first handlers who had a land or building loan, 59 provided repayment terms.

Figure 81: Distribution of Repayment Terms for Land or Building Loans: First Handlers (Question 2c)



- **For only one person was a balloon involved in repayment terms.**

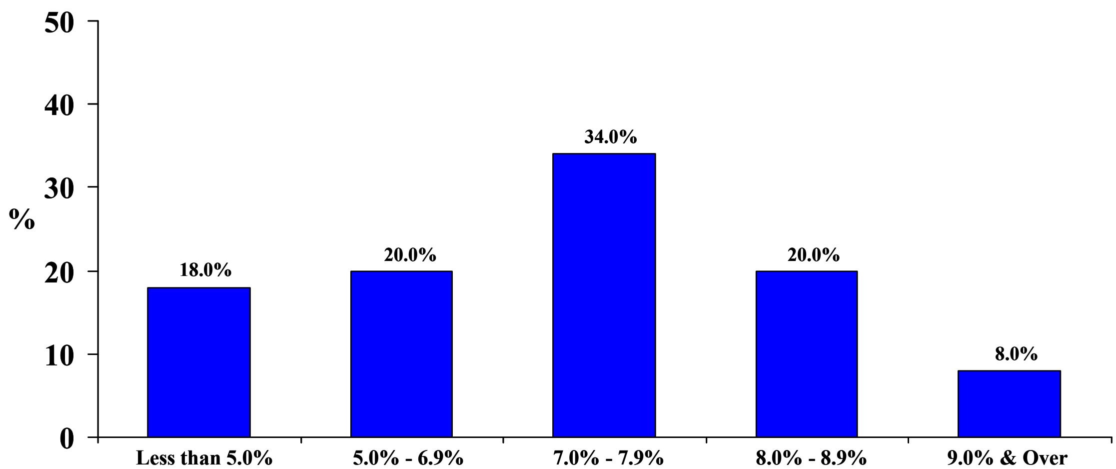
Sample Base: Producers with a land or building loan who provided repayment terms (N=59)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2e: Interest rate:

Figure 82 presents a summary of the responses to Question 2e, the distribution of interest rates for land or building loans for first handlers. Of the 62 first handlers who had a land or building loan, 57 indicated whether their interest rate was fixed or variable. Of the 57, 43 indicated they had a fixed interest rate and they provided this number. Fourteen indicated they had a variable interest rate and 7 could provide that number.

Figure 82: Distribution of Interest Rates for Land or Building Loans: First Handlers (Question 2e)



- **The 43 fixed interest rates ranged from a low of 4% to a high of 11% and averaged 6.97%. The median was 7%.**
- **The 7 variable interest rates ranged from a low of 4% to a high of 7.5% and averaged 5.54%. The median was 5.75%.**

Sample Base: Producers with a land or building loan who provided their interest rate (N=50)

Question 2f: Government guaranty or subordination agreement (If yes, which government agency)?

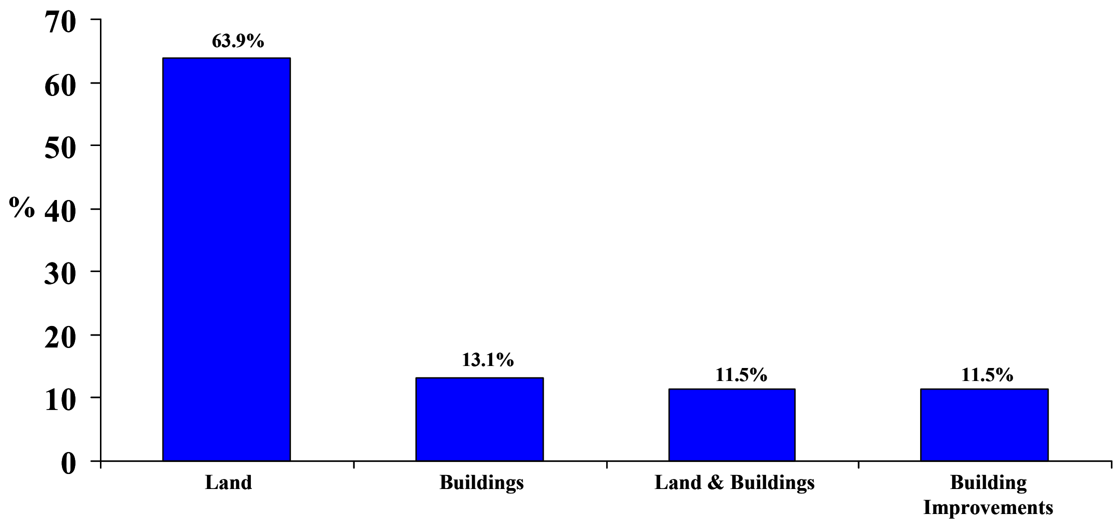
Of the 62 first handlers with a land or building loan, 21.7% (N=13) indicated that there was a government guaranty or subordination agreement. Government agencies mentioned included the FSA, Federal Land Bank, First Ag Credit, FMHA, FHA, and the SBA.

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2g: Specific purpose or use of loan:

Figure 83 presents a summary of the responses to Question 2g, the distribution of uses for land or building loans for first handlers. All 62 of the first handlers that had land or building loans described their uses for their land or building loans.

Figure 83: Distribution of Uses for Land or Building Loans: First Handlers (Question 2g)



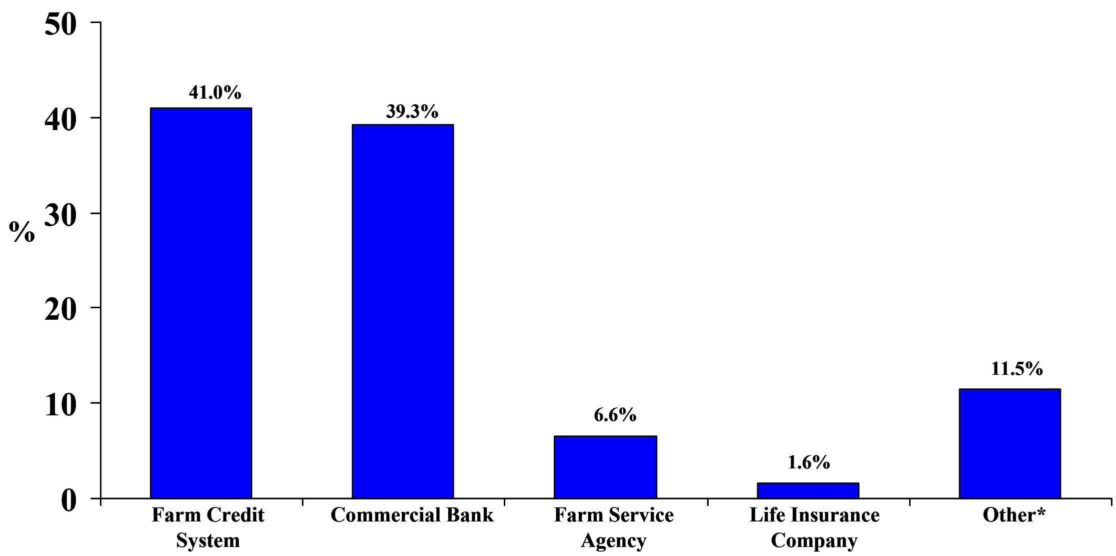
Sample Base: All Producers with a land or building loan (N=62)

Question 2: (If one or more major land/building loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 2h: Type of lender:

Figure 84 presents a summary of the responses to Question 2h, the distribution of type of lender for land or building loans for first handlers. All 62 of the large producers that had land or building loans provided the type of lender for their land or building loans.

Figure 84: Distribution of Type of Lender for Land or Building Loans: First Handlers (Question 2h)



*** Other includes: Credit Union, seller financing, an individual**

Sample Base: All Producers with a land or building loan (N=62)

Question 2i: (If one or more major land/building loans) In what ways did you come to be aware of the institutions you approached for the loan?

Table 26 presents a summary of the responses to Question 2i. Sixty-two respondents who had a land or building loan offered 62 comments.

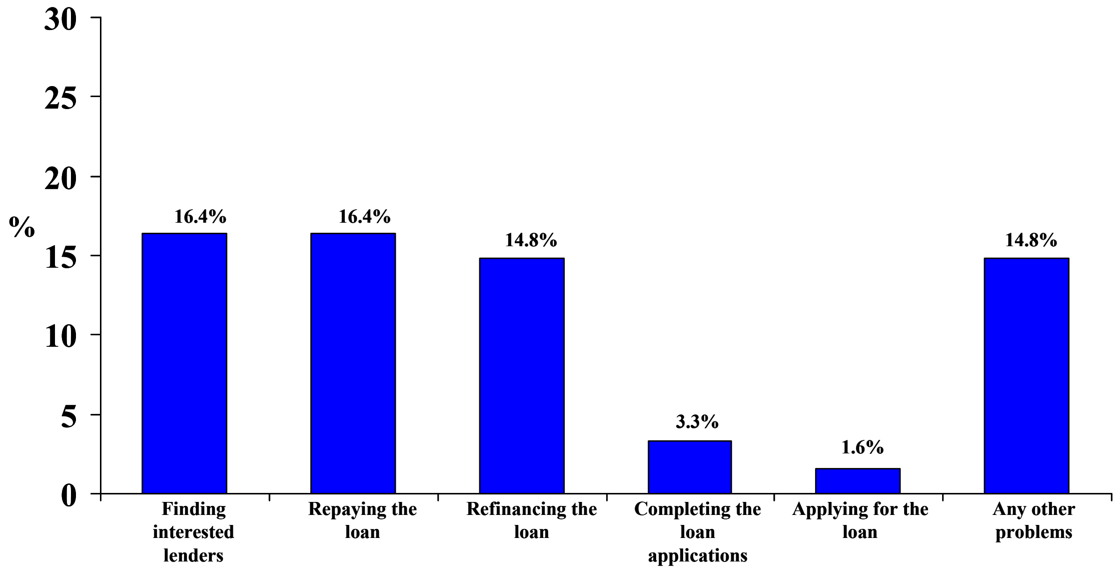
Table 26: Responses from All Producer Sample with Land or Building Loans to:
"In what ways did you come to be aware of the institutions you approached for the loan?"
Sample Base: First Handlers with a Land or Building Loan (Question 2i, N=62)

Percent Of 62 Respondents	Response	Characteristic Comment
37.1%	Long term past relationship	We've been with them for forty years / I also have my home financed through them / I have been a customer of the bank for several years / I've been doing business with the bank for many years, I know the man real well / I've used this bank for years / Ever since I've been a little girl my family has banked there / We own the bank
19.4%	They are local	They were around here / We've just always known about them / You just know the banks out there / Everybody around here knows that if you want a loan to purchase some land you go to the Federal Land Bank / When we decided get into the chicken business, the only way you could get in at that time was through FMHA
16.1%	Through other individuals (family, friend, etc.)	My husband's dad had financed a farm through there / Word of mouth / I have a friend who works at the bank that we got a loan from / I became aware of them by word of mouth / My husband knew about it
9.7%	I looked around	I just looked around for it and there it was / We shopped it with 3 different places / Just checking, getting prices on interest rates / I just call them up and whichever is the first one to say "Yes", I go down there and make a loan
8.1%	Through other lenders/business associates	Through other banks / I guess the bank told us / My bankers said to go there / My banker actually helped me with getting FHA / The ASC Office helped me find the lender
4.8%	They came to me	They told me they wanted to finance me / A guy came by and visited with me
3.2%	Advertisements	Through an advertisement in the farm paper / Through periodicals
1.6%	Other	I just assumed the loan

Question 2j: (If one or more major land/building loans) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Figure 85 presents a summary of the responses to Question 2j, the distribution of problems encountered for land or building loans for first handlers.

Figure 85: Distribution of Problems Encountered for Land or Building Loans: First Handlers (Question 2j)

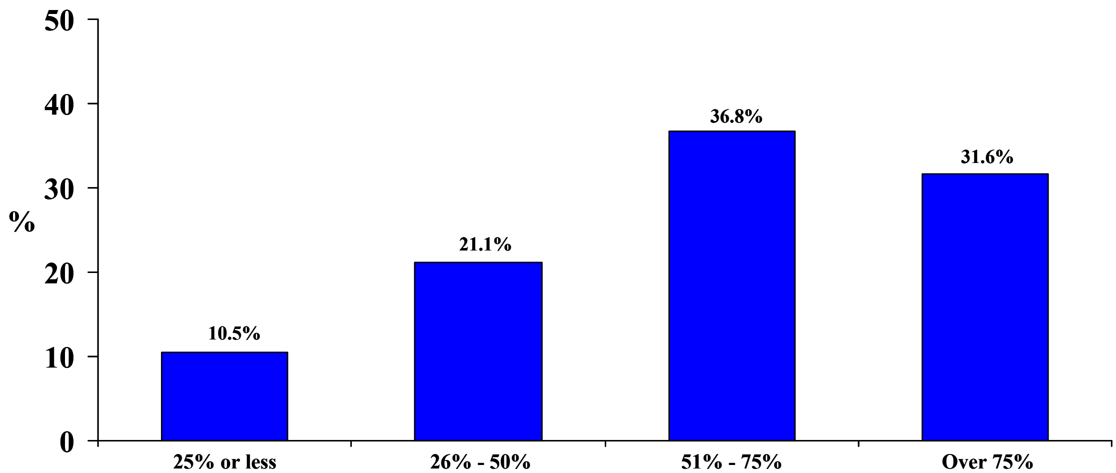


Sample Base: All Producers with a land or building loan (N=62)

Question 2k: (If one or more major land/building loans) What was the loan-to-equity ratio?

Figure 86 presents a summary of the responses to Question 2k, the distribution of loan-to-equity ratios for land or building loans for first handlers. Of the 62 producers who had a land or building loan, 19 could provide loan-to-equity ratios.

Figure 86: Distribution of Loan-To-Equity Ratios for Land or Building Loans: First Handlers (Question 2k)



- **The 19 loan-to-equity ratios ranged from a low of 10% to a high of 100% and averaged 62.4%. The median was 70%.**

Sample Base: Producers with a land or building loan who could provide loan-to-equity ratios (N=19)

Questions 2l through 2o

Table 27 presents a summary of the responses given by the sample of first handlers to Questions 2l through 2o.

Table 27: Responses to Questions 2l through 2o: First Handlers with a Land or Building Loan Willing to Answer (N varies from 60 to 61)

Question	Summary of Responses
2l) Was additional collateral required?	Eleven (N=11, 18.3%) had to provide additional collateral.
2m) Was a personal guarantee required?	Twenty-six (N=26, 43.3%) had to provide a personal guarantee.*
2n) (For farmers) Did the lender require crop insurance?	For the 44 who had some farming activities, 9.1% (N=4) had to provide the lender with crop insurance.
2o) Did the lender require participation in one or more federal farm programs?	Four (N=4, 6.6%) were required to participate in one or more federal farm programs.

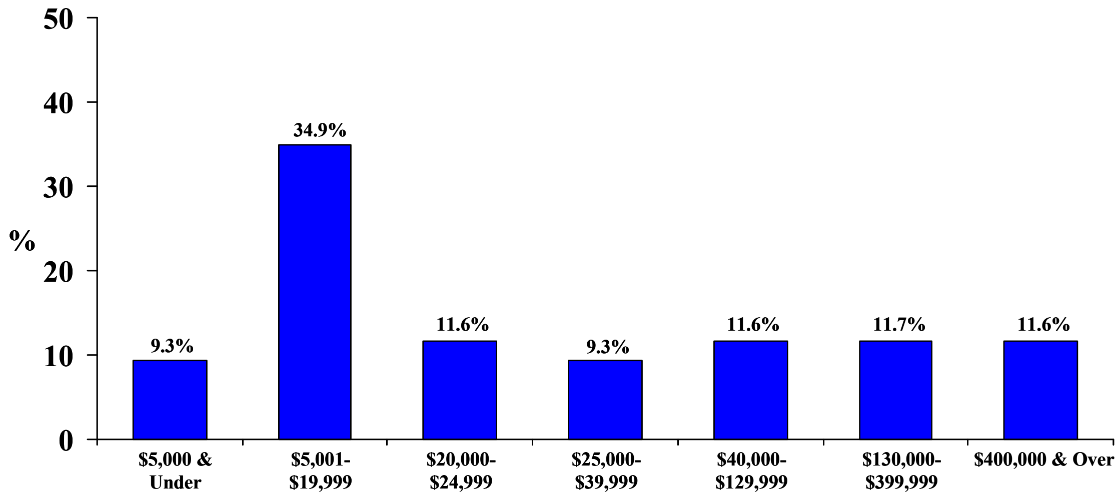
* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3a: Amount:

Figure 87 presents a summary of the responses to Question 3a, the distribution of loan amounts for equipment or livestock loans for first handlers. Of the 55 first handlers who had an equipment or livestock loan, 52 provided loan information. Of the 52, 41 had a standard loan and 34 provided a loan amount. Eleven first handlers had a line of credit and 9 provided an amount.

Figure 87: Distribution of Loan Amounts for Equipment or Livestock Loans: First Handlers (Question 3a)



- **The 34 standard loan amounts ranged from a low of $2,000 to a high of $500,000 and averaged $72,918. The median loan amount was $20,000.**
- **The 9 line of credit amounts ranged from a low of $2,800 to a high of $3.4 million and averaged $687,200. The median line of credit amount was $25,000.**

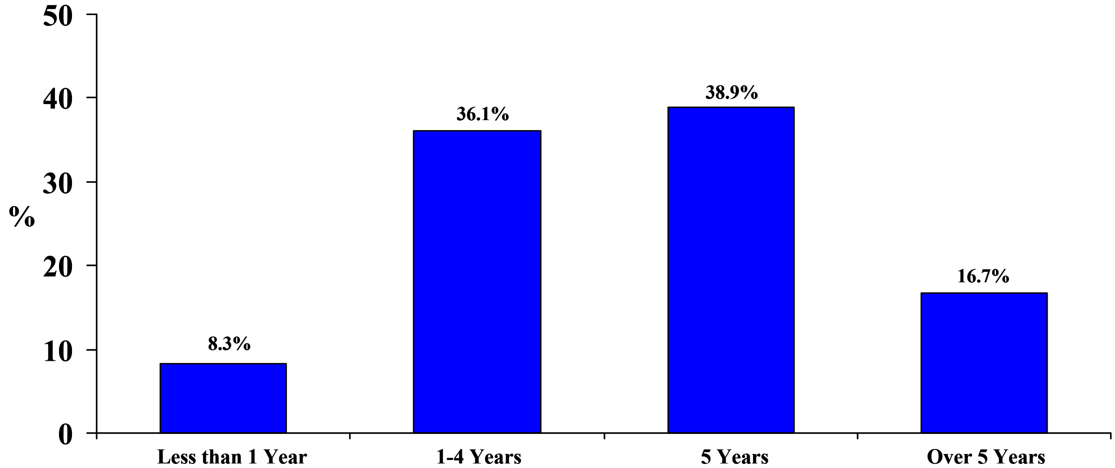
Sample Base: Producers with an equipment or livestock loan who provided a loan amount (N=43)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3b: Loan amortization length:

Figure 88 presents a summary of the responses to Question 3b, the distribution of amortization lengths for equipment or livestock loans for first handlers. Of the 41 first handlers who had an equipment or livestock loan, 36 provided an amortization length.

Figure 88: Distribution of Amortization Lengths for Equipment or Livestock Loans: First Handlers (Question 3b)



- **The 36 loan amortization lengths ranged from a low of 3 months to a high of 10 years and averaged 4.2 years. The median length was 5 years.**

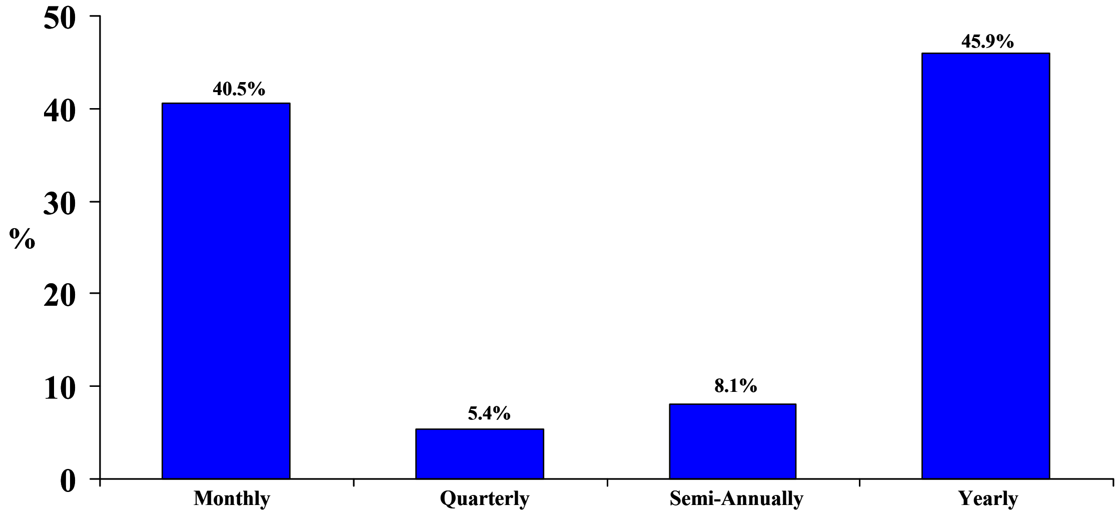
Sample Base: Producers with an equipment or livestock loan who provided an amortization length (N=36)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3c: Repayment terms:

Figure 89 presents a summary of the responses to Question 3c, the distribution of repayment terms for equipment or livestock loans for first handlers. Of the 41 large producers who had an equipment or livestock loan (standard), 37 provided repayment terms.

Figure 89: Distribution of Repayment Terms for Equipment or Livestock Loans: First Handlers (Question 3c)



- **For only one person was a balloon involved in repayment terms.**

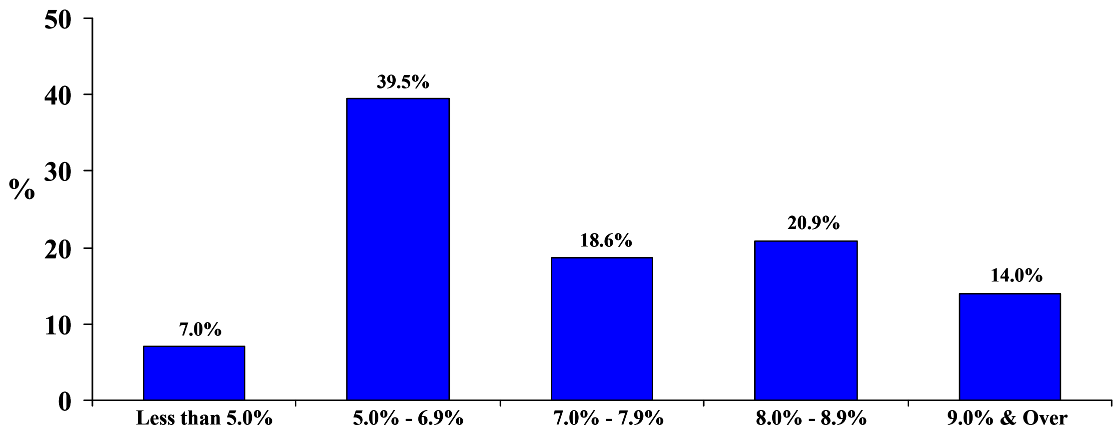
Sample Base: Producers with an equipment or livestock loan who provided repayment terms (N=37)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3e: Interest rate:

Figure 90 presents a summary of the responses to Question 3e, the distribution of interest rates for equipment or livestock loans or lines of credit for first handlers. Of the 55 who had an equipment or livestock loan or line of credit, 44 indicated whether their interest rate was fixed or variable. Of the 44, 36 indicated they had a fixed interest rate and they provided the number. Eight indicated they had a variable interest rate and seven could provide that number.

Figure 90: Distribution of Interest Rates for Equipment or Livestock Loans: First Handlers (Question 3e)



- **The 36 fixed interest rates ranged from a low of 3% to a high of 15.9% and averaged 7.44%. The median was 7%.**
- **The 7 variable interest rates ranged from a low of 5% to a high of 7% and averaged 5.81%. The median was 5.9%.**

Sample Base: Producers with an equipment or livestock loan who provided their interest rate (N=43)

Question 3f: Government guaranty or subordination agreement (If yes, which government agency)?

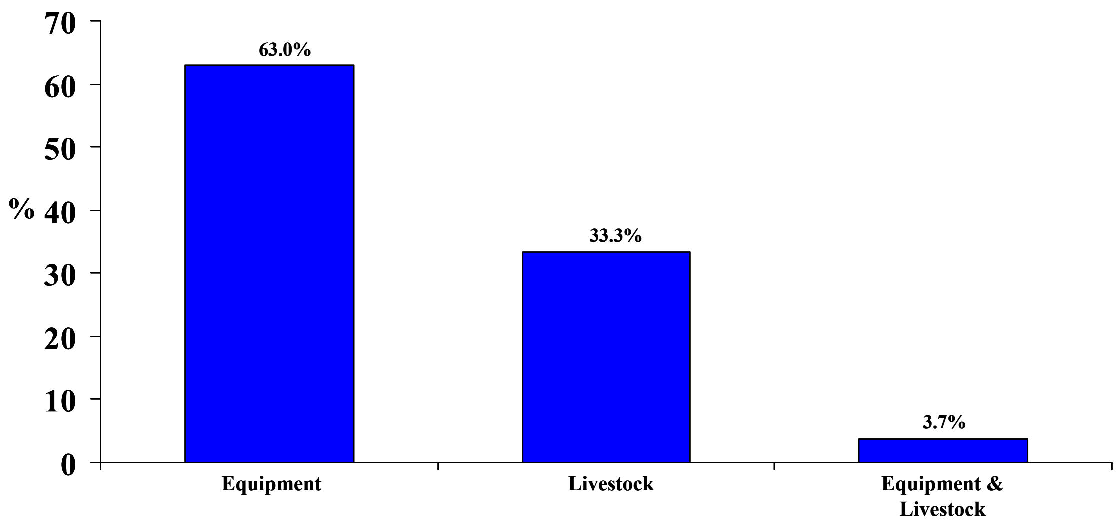
Of the 55 large producers with an equipment or livestock loan, 1.8% (N=1) indicated that there was a government guaranty or subordination agreement. The one government agency mentioned was the SBA.

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3g: Specific purpose or use of loan:

Figure 91 presents a summary of the responses to Question 3g, the distribution of uses for equipment or livestock loans for first handlers.

Figure 91: Distribution of Uses for Equipment or Livestock Loans: First Handlers (Question 3g)



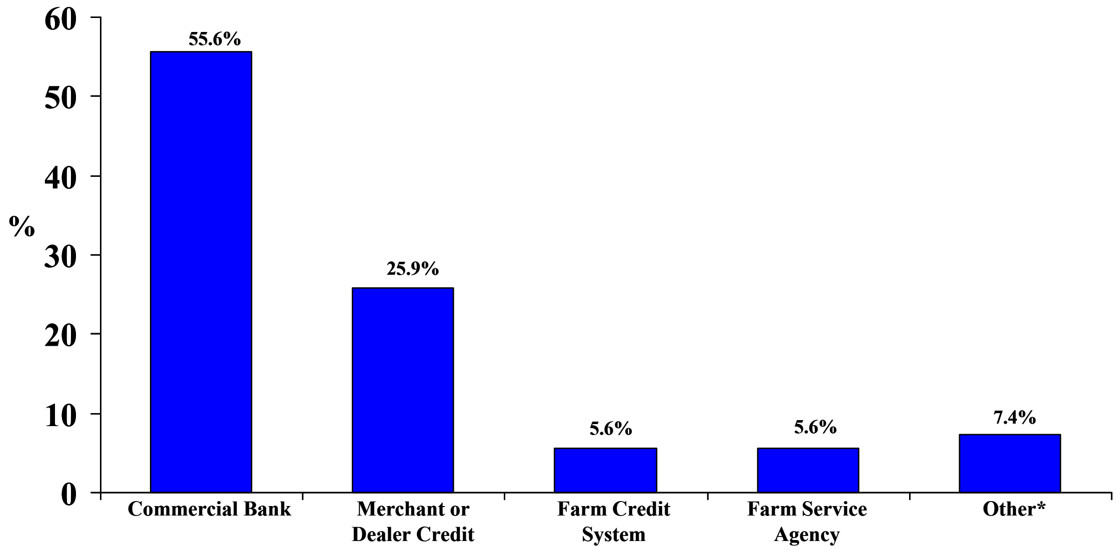
Sample Base: All Producers with an equipment or livestock loan (N=55)

Question 3: (If one or more equipment or livestock loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 3h: Type of lender:

Figure 92 presents a summary of the responses to Question 3h, the distribution of type of lender for equipment or livestock loans for first handlers. All 55 of the first handlers that had equipment or livestock loans provided the type of lender for their equipment or livestock loans.

Figure 92: Distribution of Type of Lender for Equipment or Livestock Loans: First Handlers (Question 3h)



*** Other includes: Credit Union, finance company, FHA, National Livestock**

Sample Base: All Producers with an equipment or livestock loan (N=55)

Question 3i: (If one or more equipment or livestock loans) In what ways did you come to be aware of the institutions you approached for the loan?

Table 28 presents a summary of the responses to Question 3i. Fifty-five respondents who had an equipment or livestock loan offered 55 comments.

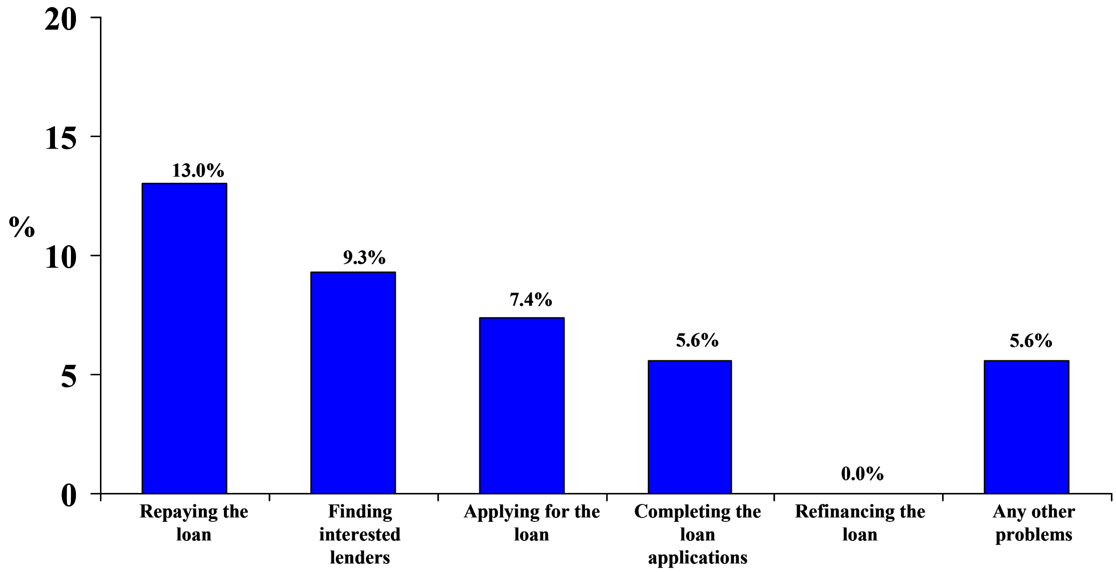
Table 28: Responses from All Producer Sample with Equipment or Livestock Loans to:
“In what ways did you come to be aware of the institutions you approached for the loan?”
Sample Base: First Handlers with an Equipment or Livestock Loan (Question 3i, N=55)

Percent Of 55 Respondents	Response	Characteristic Comment
43.6%	Long term past relationship	We bank there / That’s where I do my personal banking / I’ve banked there for twenty years / I’ve been doing business with them for years / I’ve been with them for fifty years / My family is one of the bank’s founders / I’ve used them all my life / I’ve dealt with them forever / I’ve done business with this bank for at least 30 years / I own stock in the bank, we’re all friends / Been in the credit union for probably 25 or 30 years
23.6%	They are local	It’s just the local bank / It’s just one of the banks in town / They’d been around here forever
20.0%	Through other lenders/business associates	Where we bought our first tractor they told us / My partner is a John Deere dealer / Through another ag finance lender / We went through the dealer we bought the tractor from / We just financed it through the dealer, Kubota Credit / The director of the Farm Credit System told me about it / I know the Director of the Farm Credit System and he told me about them
3.6%	Advertisements	We ended up with these people through their solicitation / It came in the mail, a brochure they sent me
3.6%	Word of mouth	I found out about them through word of mouth
3.6%	Don’t remember	I don’t remember
1.8%	Other	I was just asking about interest rates

Question 3j: (If one or more equipment or livestock loans) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Figure 93 presents a summary of the responses to Question 3j, the distribution of problems encountered for equipment or livestock loans for first handlers.

Figure 93: Distribution of Problems Encountered for Equipment or Livestock Loans: First Handlers (Question 3j)

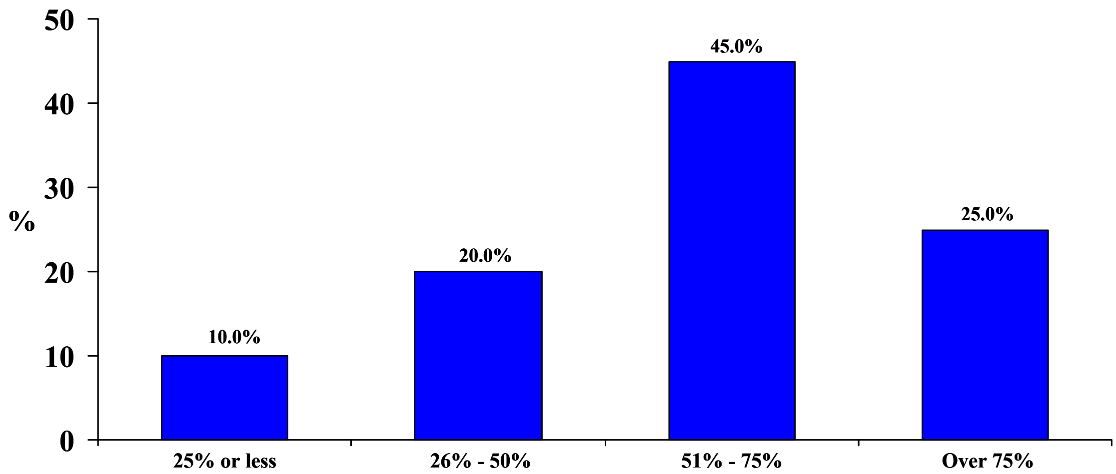


Sample Base: All Producers with an equipment or livestock loan (N=55)

Question 3k: (If one or more equipment or livestock loans) What was the loan-to-equity ratio?

Figure 94 presents a summary of the responses to Question 3k, the distribution of loan-to-equity ratios for equipment or livestock loans for first handlers. Of the 55 producers who had an equipment or livestock loan, 20 could provide loan-to-equity ratios.

Figure 94: Distribution of Loan-To-Equity Ratios for Equipment or Livestock Loans: First Handlers (Question 3k)



- **The 20 loan-to-equity ratios ranged from a low of 17% to a high of 100% and averaged 63.4%. The median was 70%.**

Sample Base: Producers with an equipment or livestock loan who provided loan-to-equity ratios (N=20)

Questions 3l through 3o

Table 29 presents a summary of the responses given by the sample of first handlers to Questions 3l through 3o.

Table 29: Responses to Questions 3l through 3o: First Handlers with an Equipment or Livestock Loan Willing to Answer (N varies from 53 to 54)

Question	Summary of Responses
3l) Was additional collateral required?	Eleven (N=11, 20.4%) had to provide additional collateral.
3m) Was a personal guarantee required?	Seventeen (N=17, 32.1%) had to provide a personal guarantee.*
3n) (For farmers) Did the lender require crop insurance?	For the 35 who had some farming activities, 8.6% (N=3) had to provide the lender with crop insurance.
3o) Did the lender require participation in one or more federal farm programs?	Four (N=4, 7.4%) were required to participate in one or more federal farm programs.

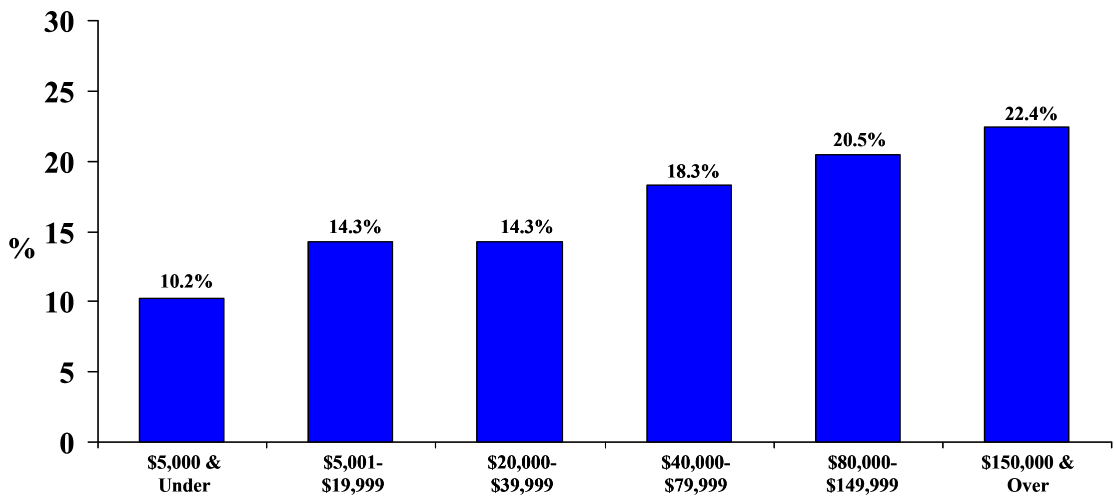
* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4a: Amount:

Figure 95 presents a summary of the responses to Question 4a, the distribution of loan amounts for operating loans for first handlers. Of the 70 first handlers who had an operating loan, 68 provided loan information. Of the 68, 40 had a standard loan and 30 provided a loan amount. Twenty-eight first handlers had a line of credit and 19 provided an amount.

Figure 95: Distribution of Loan Amounts for Operating Loans: First Handlers (Question 4a)



- **The 30 standard loan amounts ranged from a low of $3,000 to a high of $700,000 and averaged $112,317. The median loan amount was $71,000.**
- **The 19 line of credit amounts ranged from a low of $2,025 to a high of $200,000 and averaged $76,212. The median line of credit amount was $67,000.**

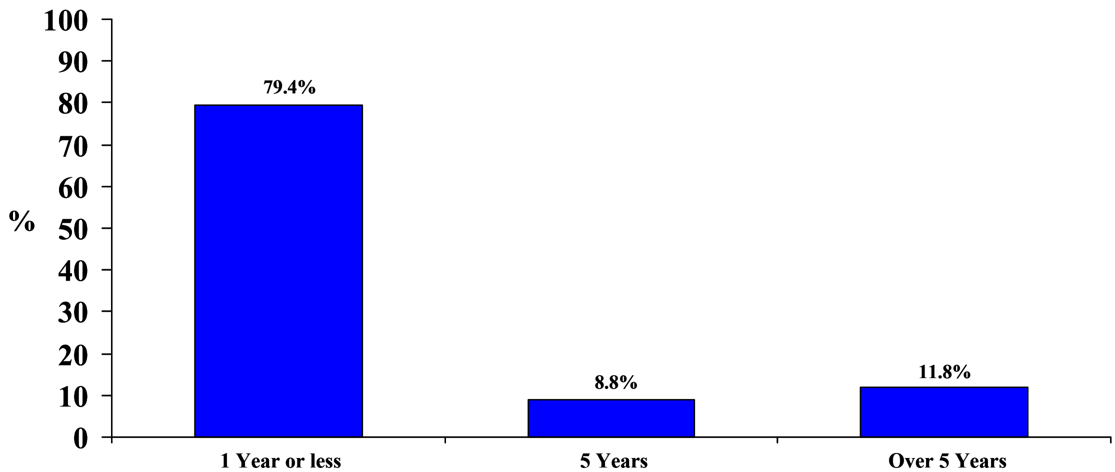
Sample Base: Producers with an operating loan who provided a loan amount (N=49)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4b: Loan amortization length:

Figure 96 presents a summary of the responses to Question 4b, the distribution of amortization lengths for operating loans for first handlers. Of the 40 first handlers who had an operating loan (standard), 34 provided an amortization length.

Figure 96: Distribution of Amortization Lengths for Operating Loans: First Handlers (Question 4b)



- **The 34 loan amortization lengths ranged from a low of 6 months to a high of 20 years and averaged 3 years. The median length was 1 year.**

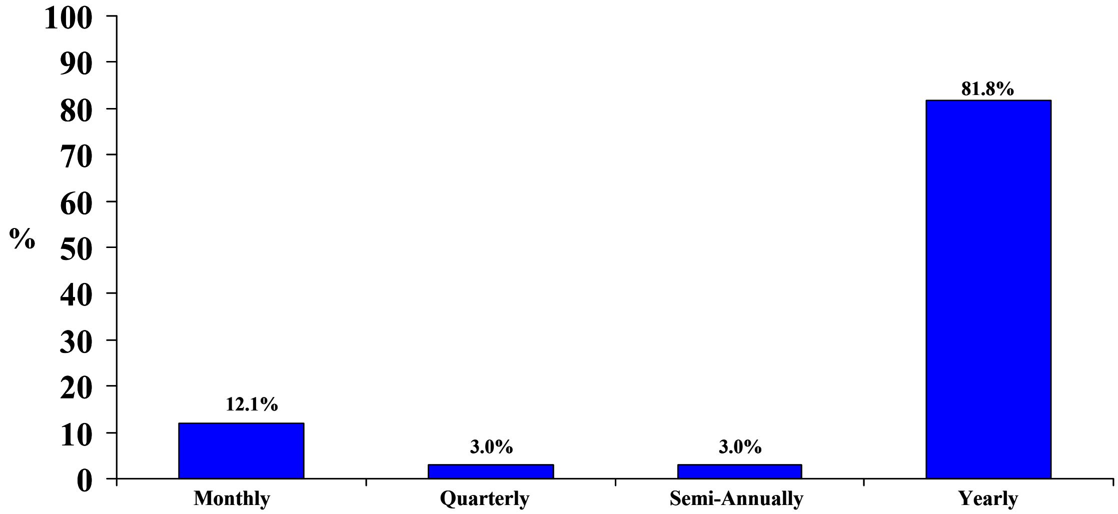
Sample Base: Producers with an operating loan who provided an amortization length (N=34)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4c: Repayment terms:

Figure 97 presents a summary of the responses to Question 4c, the distribution of repayment terms for operating loans for first handlers. Of the 40 first handlers who had an operating loan (standard), 33 provided repayment terms.

Figure 97: Distribution of Repayment Terms for Operating Loans: First Handlers (Question 4c)



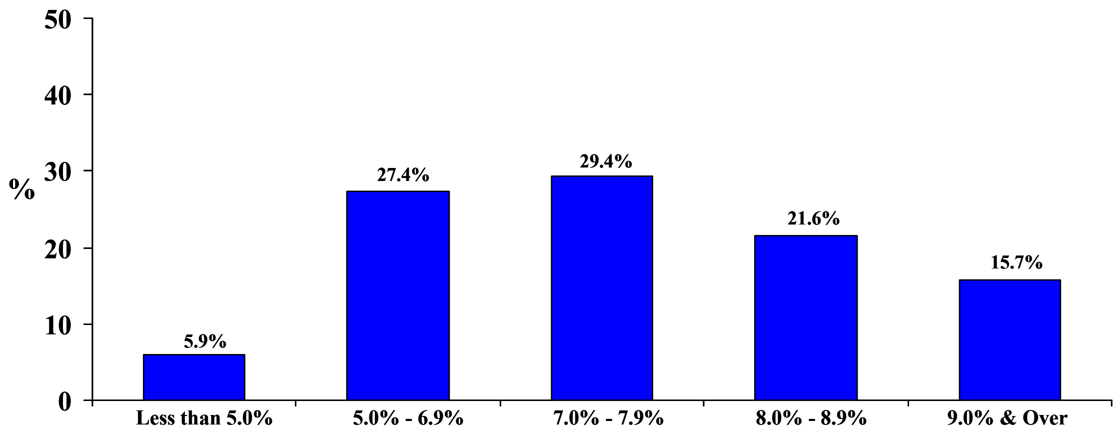
Sample Base: Producers with an operating loan who provided repayment terms (N=33)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4e: Interest rate:

Figure 98 presents a summary of the responses to Question 4e, the distribution of interest rates for operating loans or lines of credit for first handlers. Of the 70 who had an operating loan or line of credit, 59 indicated whether their interest rate was fixed or variable. Of the 59, 43 indicated they had a fixed interest rate and they provided the number. Sixteen indicated they had a variable interest rate and 8 could provide that number.

Figure 98: Distribution of Interest Rates for Operating Loans: First Handlers (Question 4e)



- **The 43 fixed interest rates ranged from a low of 4% to a high of 11% and averaged 7.48%. The median was 7.25%.**
- **The 8 variable interest rates ranged from a low of 5.9% to a high of 12% and averaged 7.16%. The median was 6%.**

Sample Base: Producers with an operating loan who provided their interest rate (N=51)

Question 4f: Government guaranty or subordination agreement (If yes, which government agency)?

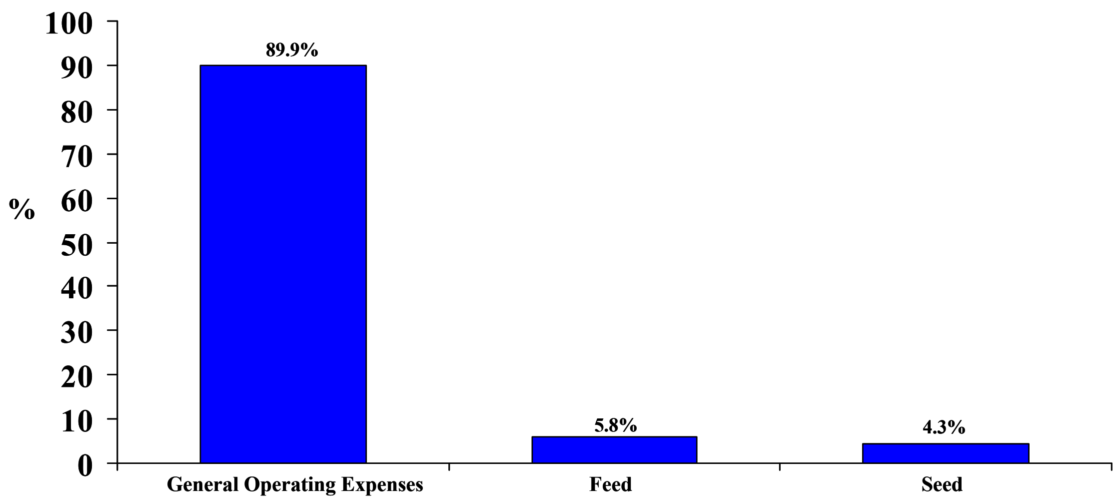
Of the 70 first handlers with an operating loan, 16.2% (N=11) indicated that there was a government guaranty or subordination agreement. Government agencies mentioned included the FSA, SBA, FMHA, and the USDA.

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4g: Specific purpose or use of loan:

Figure 99 presents a summary of the responses to Question 4g, the distribution of uses for operating loans for first handlers.

Figure 99: Distribution of Uses for Operating Loans: First Handlers (Question 4g)



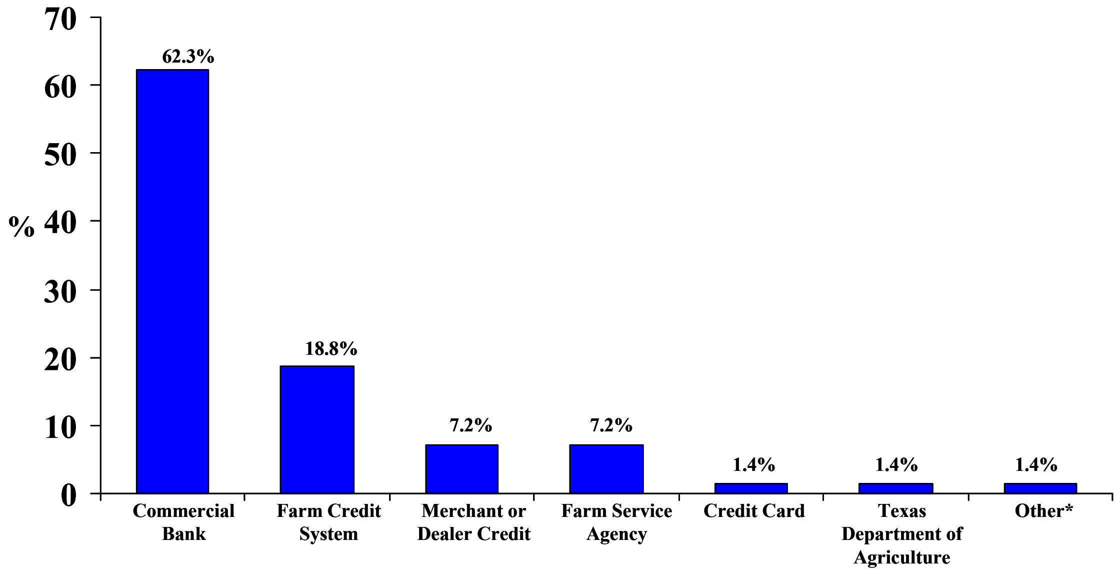
Sample Base: All Producers with an operating loan (N=70)

Question 4: (If one or more operating loans) For the largest loan for land or a building please describe the amount, the maturity, the rate, and the terms:

Question 4h: Type of lender:

Figure 100 presents a summary of the responses to Question 4h, the distribution of type of lender for operating loans for first handlers. All 70 of the first handlers that had operating loans provided the type of lender for their operating loans.

Figure 100: Distribution of Type of Lender for Operating Loans: First Handlers (Question 4h)



*** Other includes: Credit Union, SBA**

Sample Base: All Producers with an operating loan (N=70)

Question 4i: (If one or more operating loans) In what ways did you come to be aware of the institutions you approached for the loan?

Table 30 presents a summary of the responses to Question 4i, "In what ways did you come to be aware of the institutions you approached for the loan?" Seventy respondents who had an operating loan offered 75 comments.

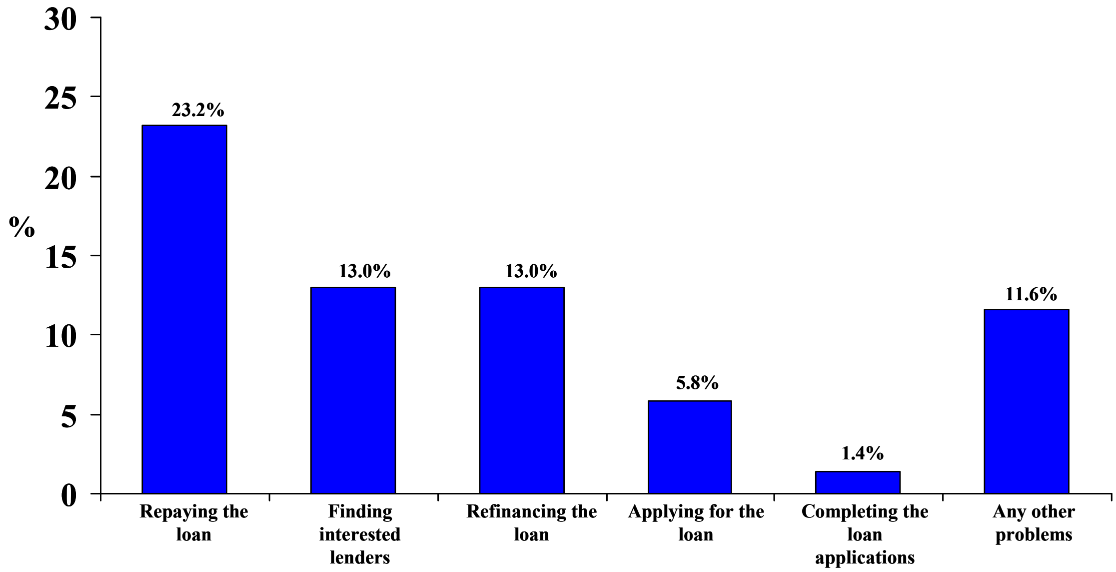
Table 30: Responses from First Handlers with Operating Loans to: "In what ways did you come to be aware of the institutions you approached for the loan?" Sample Base: First Handlers with a Operating Loan (Question 4i, N=70)

Percent Of 70 Respondents	Response	Characteristic Comment
41.4%	Long term past relationship	They do all of our banking / I've done business with them for fifty years / It's the one I do business with / I'm the fourth generation of my family to do business there / I've known them for years / I own stock in the bank / We've been dealing with them as long as we've been in business / I've known them ever since my daddy banked there when I was about five years old, and I'm 72 / I've been doing business there for 40 or 50 years / My husband has done that because his daddy did that and my daddy did that for 50 years back / We own the bank / I've been doing business with them for 47 years
20.0%	They are local	It's an itty bitty town / It's a local bank / It's a local bank, someone I've known / It's a local bank / It's been here forever / We dealt with the local bank / It was the local branch of the FSA
8.6%	Through other individuals (family, friend, etc.)	Dad was doing business over there / I've been doing business with them through my father-in-law / Through my daddy, several years ago / A guy who worked with us was the intermediary
8.6%	Through other lenders/business associates	My banker told me to go there / They're our supplier / Through an implement dealer that was encouraging people to use that plan of payment
7.1%	Uncertain	I don't remember / I don't recall
7.1%	Word of mouth	Neighbors and friends / I found out via word of mouth / From friends
5.7%	Advertisements	Through advertisements / Well, I'm 57 years old, and I read the paper
5.7%	I looked around	Go bank to bank until you find one that will loan to you / I just went to someone that would loan to someone farming and ranching / I had to check around to find out which banks were loaning money / Just going and visiting with them
2.9%	Work at bank	I work there / A good number of years ago I used to work for them

Question 4j: (If one or more operating loans) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Figure 101 presents a summary of the responses to Question 4j, the distribution of problems encountered for operating loans for first handlers.

Figure 101: Distribution of Problems Encountered for Operating Loans: First Handlers (Question 4j)

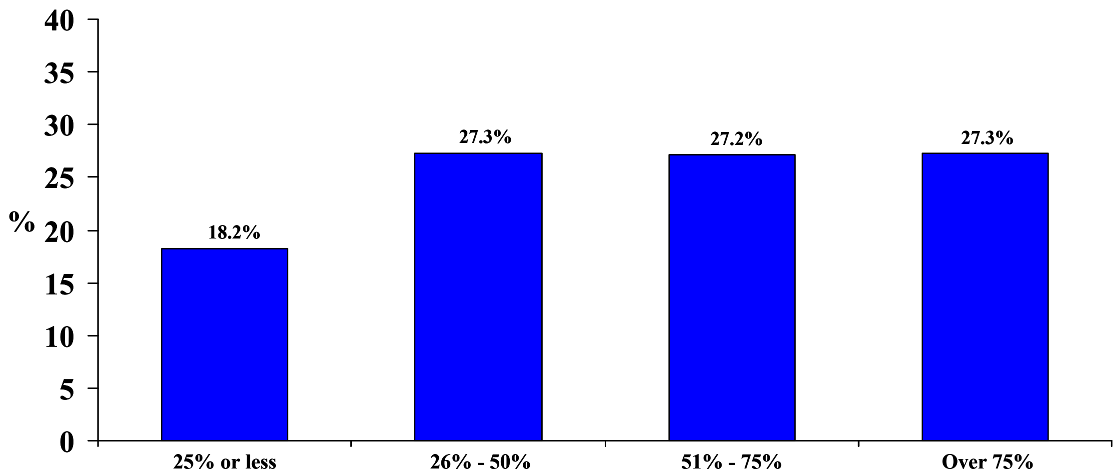


Sample Base: All Producers with an operating loan (N=70)

Question 4k: (If one or more operating loans) What was the loan-to-equity ratio?

Figure 102 presents a summary of the responses to Question 4k, the distribution of loan-to-equity ratios for operating loans for first handlers. Of the 70 first handlers who had an operating loan, 11 could provide loan-to-equity ratios.

Figure 102: Distribution of Loan-To-Equity Ratios for Operating Loans: First Handlers (Question 4k)



- **The 11 loan-to-equity ratios ranged from a low of 8% to a high of 100% and averaged 59.9%. The median was 60%.**

Sample Base: Producers with an operating loan who could provide loan-to-equity ratios (N=11)

Questions 4l through 4o

Table 31 presents a summary of the responses given by the sample of first handlers to Questions 4l through 4o.

Table 31: Responses to Questions 4l through 4o: First Handlers with an Operating Loan Willing to Answer (N varies from 67 to 69)

Question	Summary of Responses
4l) Was additional collateral required?	Twenty-three (N=23, 33.3%) had to provide additional collateral.
4m) Was a personal guarantee required?	Twenty (N=20, 29.4%) had to provide a personal guarantee.*
4n) (For farmers) Did the lender require crop insurance?	For the 56 who had some farming activities, 35.7% (N=20) had to provide the lender with crop insurance.
4o) Did the lender require participation in one or more federal farm programs?	Twelve (N=12, 17.9%) were required to participate in one or more federal farm programs.

* Please note: If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Question 5: In terms of your experience at borrowing for your farming (or ranching) operations do you have any examples where your lender was especially helpful or understanding?

Table 32 presents a summary of the responses to Question 5, "In terms of your experience at borrowing for your farming (or ranching) operations do you have any examples where your lender was especially helpful or understanding?" One hundred twenty-four (124) respondents who had lending experience offered the 125 comments provided in the table.

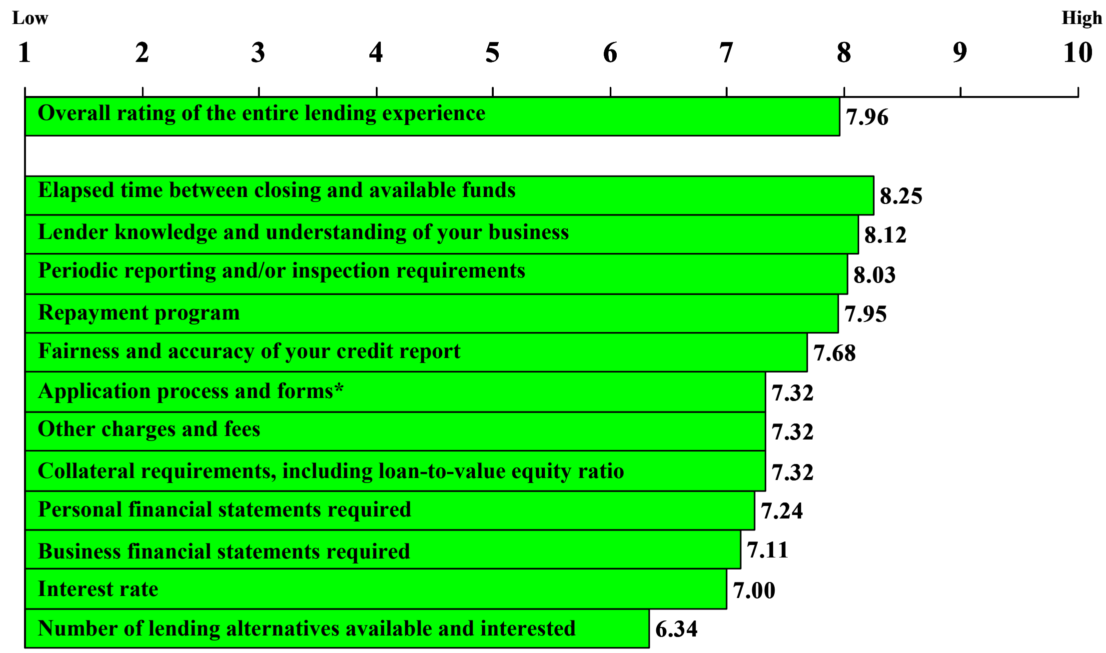
Table 32: Responses from First Handlers to:
"In terms of your experience at borrowing for your farming (or ranching) operations do you have any examples where your lender was especially helpful or understanding?" Sample Base: First Handlers with Loan Experience (Question 5, N=124)

Percent Of 124 Respondents	Response	Characteristic Comment
65.3%	Cited examples where lender was helpful and understanding	They have never denied us operational money, they've just been real good to us / We said, yes, we really wanted to continue farming, and they just did everything to keep us going / He (the banker) took care of the little things for me / Letting me know when the rates are very low / They were just easy in getting the appraisal and all the paperwork done / They seem like family / They understand our operation and the kinds of problems we have / They step up to the plate to try to structure something that works and keeps us going and makes them some money also / If you got a drought or a hard time and you need to sell some of these cattle, they will free some of them up so that you can sell them and continue to operate / Most of them are farmers, the guys you borrow from / They know the problems of agriculture with this area, they just tried to work with me / He is a rancher so he has some understanding of peoples' situation / He's just like we adopted him / If we'd need loans now, our local banks would be very cooperative with us / They just ask me can I afford it or do I need this, and if that's what I want to do, they'll help me / One time when daddy got sick, they held his payments for two years so he didn't have to make payments, which was real helpful / It is an ag community, they understand the problems that go on / They gave me different options for repayment
16.1%	Stated they had no examples	Not particularly, no / No, just the loan itself / Not really / I don't think so
12.9%	Neutral	We just have a small loan, and no problems / I didn't have any problems with it / I get along with them just fine / I have been at it a long time, I've got a record with them, I have no problems at all / I've never had any trouble / It was our first time borrowing, no problems / Our loan was just for about a month, we had no trouble
6.5%	Cited examples where lender was NOT helpful and understanding	We turned our application in early January, and we didn't get the money until March / They (the bank) cut down on their territory, and they don't want to deal with me / The bankers are there to make money off of you / I do know that there are lots of people in this area that have a hard time borrowing from the banks / As long as you sign your life away, they will be helpful / The Association doesn't want to make cattle loans, because they make so much more on the farming loans

Question 6: Thinking generally in terms of your overall experience with lending for agricultural production in the State of Texas please use a "1" to "10" scale to rate your satisfaction with the various steps in the process. Use a "10" to indicate you are "Extremely Satisfied" and a "1" to indicate "Extremely Dissatisfied."

Figure 103 presents the average satisfaction ratings for the various steps in the lending process for first handlers with loan experience.

Figure 103: Average Satisfaction Ratings for Various Steps in the Lending Process: First Handlers (Question 6)



* 17.2% cited problems with commercial lenders; 13.8% with federal lenders and 3.4% with state lenders.

• Differences of .4 or more in the averages are significant.

Sample Base: 124 Producers with loan experience

Question 7: Over the past three years have you been denied a loan to support your farming (or ranching) operations on one or more occasions? (If yes) How many times? Please describe the reasons for denial.

Ten first handlers responded yes to “Over the past three years have you been denied a loan to support your farming (or ranching) operations on one or more occasions?” Seven respondents had been turned down 1 time, 1 respondent had been turned down 2 times, 1 respondents had been turned down 3 times, and 1 respondent had been turned down 25 times. Table 33 presents the 10 reasons given by the respondents for denial.

Table 33: Responses to “Please describe the reasons for denial.”: First Handlers with Loan Denial Experience (Question 7, N=10)

Response	Number of Respondents	Characteristic Comment
Past performance	3	It’s an agricultural loan, past performance, and assets are too specialized / The cash flow was not there for it / They told me my income wasn’t enough to support a loan
Requirements too high	2	I tried to increase my line and they wanted to add a bunch of collateral and I said no, they had enough collateral / Their equity requirements were excessive
Unfamiliarity with the operations	1	They didn’t know what they were talking about
Poor economy	1	There was a drought and nobody was lending money
Referred to another lending institution	1	They sent us to the FSA
Too much outstanding debt	1	We owed so much money
Uncertain	1	I don’t know, they didn’t say

Question 8: Over the past three years have you had any occasions where you could not repay a loan? (If yes) How many times? What did the lender do to collect?

Nineteen first handlers responded yes to "Over the past three years have you had any occasions where you could not repay a loan?" Fourteen respondents said they could not repay on 1 occasion, 2 respondents said they could not repay on 2 occasions, and 3 respondents said they could not remember. Table 34 presents the actions taken by lenders to collect according to those first handlers who could not repay loans.

Table 34: Responses to "What did the lender do to collect?": First Handlers who could not Repay a Loan (Question 8, N=19)

Response	Number of Respondents	Characteristic Comment
Offered a flexible payment plan	9	They took however much we owed and took it off our next year's budget / They stretched it out for us / Just had to pay the interest / We just rolled the principal forward / They just keep it until we can repay / They fixed it where I could skip three payments because they knew I get paid every three months or ten weeks
Offered refinancing	7	We refinanced / We refinanced, got a lower interest rate
Unspecified	2	I don't recall / I can't remember exactly
Other	2	We had an emergency loan from the FSA / We were forced to get a mortgage on our home

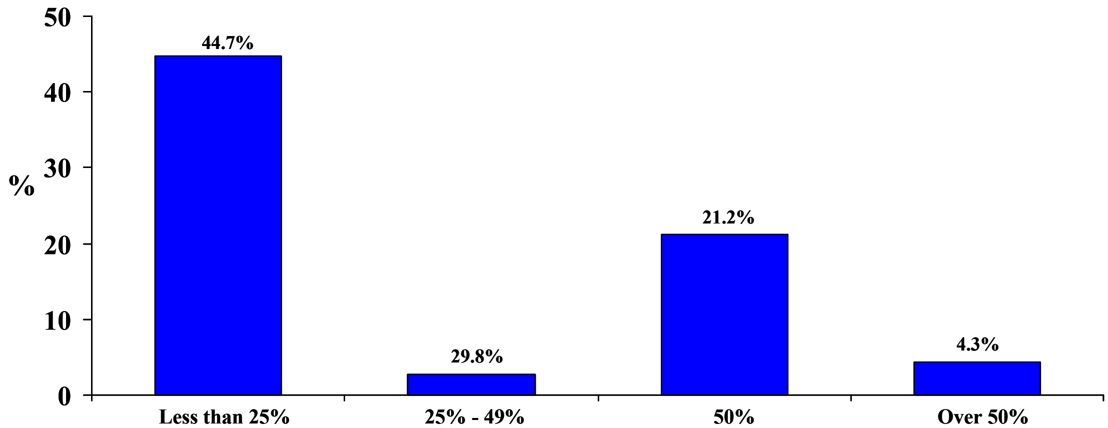
Question 9a: During the last 3 years, have you had to use revenue or income from a non-agricultural source to repay an agricultural loan?

Of the 124 first handlers with lending experience, 47.2% (N=58) said that during the last 3 years they have had to use revenue or income from a non-agricultural source to repay an agricultural loan.

Question 9b: (If yes) Roughly what percent of your loan repayment had to come from non-agricultural sources?

Figure 104 presents a summary of the responses to Question 9b, the distribution of percent of loan repayments from non-agricultural sources for first handlers.

Figure 104: Distribution of Percent of Loan Repayments from Non-Agricultural Sources: First Handlers (Question 9b, N=47)



- Of the 58, 9 either declined to provide an answer because it was impossible to estimate or were not willing to provide one. The 47 estimates ranged from a low of 10% to a high of 100% and averaged 30.2%. The median was 25%.

Sample Base: Producers with loan experience who had to use other revenue to repay and could provide an estimate (N=47)

Questions 10 and 14: Please describe the extent your agriculture operation depends on programs from the federal and/or state government.

Table 35 presents a summary of the responses to Question 10 and Question 14. All 300 first handlers provided responses.

Table 35: Responses from First Handlers to:
"Please describe to what extent your agricultural operation depends on programs from the federal and/or state government."
Sample Base: First Handlers (Question 10 and Question 14, N=300)

Percent Of 300 Respondents	Response	Characteristic Comment
51.7%	No help	We don't get any help from the government / I'm in no federal or state programs / The ranchers don't get squat / I wish they would help / We've just always gone to the bank to get money / There's nothing available for me that I'm aware of / My policy is to stay away from the government / I have not taken anything from the federal government / I really don't depend on any of them right now / None whatsoever / We don't have any subsidies / I'm retired and don't get anything from the government / Our operation doesn't depend on the government at all / I don't depend on them / Basically none / I take no federal or state aid – none whatsoever / We happily do not depend on the government for anything / I really don't depend on them because I don't want them to tell me how to run my business / The Federal and State government have never done anything to me except take my money / So far, it has not been dependent on those programs / We don't depend on the government at all for any of their programs / We were in that flexibility program, but that has come to an end / I haven't ever received anything from the government / I have never taken anything for the government and never have in my entire life, I don't believe in it, if I can't make it on my own, I ought to go broke / I don't want anyone telling me when to plant something, I have to decide that on my own / The current farm bill is a joke / There's no plan for citrus growers
21.3%	Very little	We rely on the government very little / It's nice when the help happens, but it usually means that something bad has happened / We have only used government programs one time / We use what's available for wheat / About 10-15% of my income is from programs / Only if we have a crop loss
9.7%	Moderate	We get the normal government help / It's a program that's designed to get us by for right now / Well, it's okay until you get taxed to death for getting it / My husband is on the Board here, and we're aware of the government programs and we take advantage of them / Whatever the government provided, we used it wisely / The farmer definitely has to have a safety net
9.3%	Heavy	We depend on it an awful lot because the market price isn't fair enough / We've been in the CRP program for 12 years / They've helped tremendously in the past / Without the federal farm program or price subsidies, very few out here would be in business / We are very dependent on the farm programs
8.0%	Not stated how much	It's a help, but I've lived without them before / It'd be hard to say / Whatever program is available they verify that I'm qualified / I prefer not to comment / We participate in the program / I just get whatever the ASE office offers

Table 36 and Table 37 present a summary of what type of federal and/or state government programs respondents mentioned they depend on.

**Table 36: Federal and/or State Government Programs Mentioned Depended on by Respondents
Sample Base: First Handlers (Question 10 and 14, N=300), Part 1 of 2**

Percent Of 300 Respondents	Response	Characteristic Comment
51.7%	No help	Characteristic comments in Table 35
16.3%	Programs Not Specified	
	Very little (6.7%)	Every once in a while we have some, but nothing you can count on / Some, only a little bit / The way our operation is, we don't get much at all / It's only about 10%, I don't get much from the government / The ASE office pay you just so much on this, so much on your land / We signed up with the Farm Service Agency and receive a small check / We were in that one government crop program but I think it ended this year
	Moderate (3.3%)	We participate in all the government programs with our crops / We get the normal government help / Most of the government help is a bunch of politicians talking and when it comes down to it, it doesn't do a lot of good / Today, the farmer couldn't do without the government programs / I participate in several with the USDA
	Not stated how much (3.3%)	I prefer not to comment / We take what they give us / Agricultural Service Agency, we just do what they say
	Heavy (3.0%)	We depend on that greatly / I imagine two-thirds of my operation depends on the programs / We've been involved with all the programs that they have but the programs they say are for agriculture are for something else, either for environmental, or a study, or something else; the farmer doesn't get hardly any of that
13.3%	Drought/disaster relief	We were in the drought program in the milk production program / We did get drought relief checks the year before last / The last two or three years we got drought relief for our cattle / I have done disaster relief / There's not that much, just federal farm programs and disaster relief / Occasionally in a dry year they will have a program to relieve the drought and we participate in that / I use them for disaster relief – specifically the drought / I registered with the deal on the drought / We got some help on the disaster payment for feed and drought a couple of times / Except for when it was real dry, I don't do anything with the government / Unfortunately right now with the drought we are in we depend on it pretty heavily / When we have a drought, or low pecan crops, I go for assistance / I've used some of the disaster programs, things like drought commission lines
11.3%	Subsidies	Just government subsidies / Mostly from the ASDS people and the grass programs / Without the subsidies, the marketplace won't sustain it / With the prices of cotton so low, if you didn't have the subsidies you couldn't think about growing cotton / Sometimes they have a sheep program / The feed grain program and I was raising peanuts also, and with the new farm bill there will be some payments coming to me from that / We get our payments for which we qualify, for growing corn, and then we did apply for the emergency livestock program back in 1996 / We have the deficiency payments and some other payments that come from FSAC / Sometimes I use the feed programs / In the NAP – Noninsurable on pastureland, if you have so much loss on your grazing they will pay you a subsidy / Just the subsidy payment we get through the ASC office / I got cost shares on my trees when I planted, I plant about 25 acres

Table 37: Federal and/or State Government Programs Mentioned Depended on by Respondents
Sample Base: First Handlers (Question 10 and 14, N=300), Part 2 of 2

Percent Of 300 Respondents	Response	Characteristic Comment
6.0%	Price guarantees/supports	I participate in wool and lamb incentives / Very little, unless you count the quota price on peanuts / My husband says if we can get a price for our product, he would wish the government wouldn't have to pay us anything / I depend on them setting prices / Cattle programs – whenever I sell any, I get some money / The way the price of rice is structured right now, they end up kicking in about 45% of the total revenue / We use the cotton, grain and corn programs
3.0%	Conservation programs	We're in the CRP program / We participate in programs for water conservation / The soil conservation guy helps with a program to help get the land finished up / Just the ones where you spray the mesquite fires and the soil conservation piece / They're assisting in building some tanks on my ranch / Farmers Service Agency, they are the agency we work with to improve our ranches and farms in ditch control, erosion, things like that / We have done a few conservation kinds of things, I think that was with the federal government / I used to have that thing where you'd get assistance with a pond or something
2.0%	Crop insurance	Through crop insurance payments if the wheat doesn't make / We use mostly the insurance for the last 6 or 7 years / We lost our whole crop one year, we got our fertilizer costs back from the state / We have insurance and sometimes there are national disaster programs
1.0%	Tax relief	The only thing we get is the agriculture tax / Just deductions for farmland, that's all / I get a tax break on my land
1.0%	Single responses	Nothing but that FHA loan, which I guess could be considered a government program; We had some fencing done by the AFCS office; Mesquite spraying

Questions 11 and 15: If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agriculture production in the state what would those recommendations be?

Table 38, Table 39, Table 40, and Table 41 present a summary of the responses to Question 11 and Question 15. All 300 first handlers provided 352 responses.

Table 38: Responses from First Handlers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural production in the state what would those recommendations be?"
Sample Base: First Handlers (Question 11 and 15, N=300), Part 1 of 4

Percent Of 300 Respondents	Response	Characteristic Comment
27.7%	No specific ideas	I wish there was something they could do to help these rural communities, but I don't know what the answer is / I don't have much experience / I couldn't be constructive recommending anything / I don't have any at this time / The beef cattle industry doesn't get any help from the government / I've never given any thought to try to improve anything / I don't feel qualified to make that kind of recommendation / The government has nothing to do with my operation at all, so there is nothing they can do / As far as I can tell, they are doing fine / I can sit around and gripe about a few different things, but I don't really know any constructive thing to tell
18.3%	Need better prices	When you're still getting the same price for wheat that you did 40 years ago, and everything else is out of sight for costs, that's not good / Give it a chance to cycle back around / They need to set a price at least somewhere where the farmer can make a living / Last year the price for milk was $17, and this year it's $13, so we're going to have to tighten some belts / Farming is the only business where you sell wholesale and buy retail / A more stable price for cattle / If the government wants to come up with steadier prices it would help / The prices need to go up – everything we buy is way up and the prices aren't any better than they were 20 years ago / We need to be able to get something for our crops / Get some better prices for our commodities / Get some better prices for our cattle and for my goats too / Maintaining the price of cattle and price supports for crops / They need to have a better support price for grain, rice, milo and corn
9.0%	Less government involvement	Leave us alone and let us do our best / The less government, the better / We have too much government control anyway / The legislature created these appraisal districts, and it looked good, but these people do not know how to appraise / I don't think you are doing agricultural any big service by having to depend on government subsidies, government loans, and all that; I think that has been proven in New Zealand and Australia / Cut out all the programs; if a farmer can't make it, then let him go out of business / Rules and regulations are choking everybody down to nothing / The less laws they make the better off we are / Take off a bunch of the restrictions they have got and let people do their own thing / I'm not particularly crazy about subsidies / I don't like to see this subsidizing of the dairy industry / If they would open it up and let you plant whatever you wanted that would help / Get out of the agricultural business and let it take care of itself / Close down the federal agricultural department, I think they do more harm than good to the farmers / If a man can't support himself, he shouldn't be in the business, they've got too many farm programs / My view on it is unpopular, but the government has allowed the farmers to guarantee themselves an income, no matter / Get rid of the GBRA / Cut out the bureaucracy

Table 39: Responses from First Handlers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural production in the state what would those recommendations be?"
Sample Base: First Handlers (Question 11 and 15, N=300), Part 2 of 4

Percent Of 300 Respondents	Response	Characteristic Comment
7.3%	Imports/international trade creates problems	We just can't compete against other countries / They should run tighter quality control on imported beef / Do away with the Australian beef, Canadian beef, pork, and lumber / If it were the federal government I'd say keep the foreign lamb out and wool, put the tariff back on it / The influx of foreign cattle into the state – I wonder if that is a good thing / Stop imports / Restrict imports as long as there is ample production available domestically / Restrict NAFTA imports into the U.S. / Shut down the border to Mexican cattle, it is unfair / We are continually getting these cattle coming out of Mexico, that are messed up with TB, and it's quarantining our cattle, and we have to have TB tests, and I think they need to discontinue that / We're getting over flooded in Texas by this stuff coming out of Mexico, cattle and everything else, and now we're starting to get a flood of chickens coming out of Mexico, and we don't need that / Stop importing and giving tax breaks to importers / Stop imports on cattle and cotton – bringing in products from overseas runs the prices down for farmers here
6.7%	More government involvement	They need to be more involved in what the operation is all about / We don't have any land improvement programs under the Texas Legislature and that's what I see a need for / We don't get any help, the people who need it / They used to have subsidies and they really don't anymore / We need some kind of program on our lamb and wool market too / I think the state needs to take a more of an investment approach in agriculture / Enforce the fair trade laws set up for stockyard processors / I used to think that I didn't want the government involved at all, but the way the price situation has gotten, if they're not involved, there is no way you can make it, especially in dry land row crop like corn, wheat, and milo that we plant / Cost sharing / All the farmers get a blue check if they don't make a crop, but if something happens to our cattle, we don't get anything, so we need some sort of subsidy on that or the grain program / They need to do something to help the little 100 to 200 acre farms and the 50 acre farms / The price of feed keeps going up, keep it stable
6.0%	Tax breaks/reform	We need tax breaks for the self-employed farm family / Flat tax would be great / Keep taxes down / Local taxes should be lowered – or even done away with / You've got people out there working 12-14 hours a day and when they die, their family has to pay estate taxes that more than likely will bankrupt or do away with the farm, the estate taxes need to be eliminated / Tax breaks / The taxes are so high; even though we have an agricultural exemption they are high / They could probably lower my taxes, that'd help a lot / Probably give tax credits or something like that, because we have so much problem making a living
5.7%	Greater availability of funds	More institutions to go and get land loans / Make a little more money accessible to young men to get into farming / About the only way you can get a loan is through the FSA and their collateral requirements are very high / Maybe working capital loans / Make loans easier to get / I wish there were more institutions that would lend to people in agriculture / Have loans readily available for the large rancher and large farmer / If the farmer needs a loan, he ought to be able to get it without a whole lot of trouble / I think the local banks should encourage more farm loans

Table 40: Responses from First Handlers to: "If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural production in the state what would those recommendations be?" Sample Base: First Handlers (Question 11 and 15, N=300), Part 3 of 4

Percent Of 300 Respondents	Response	Characteristic Comment
3.7%	More marketing	They say to market your products yourself, but we don't know what to do / Help in marketing / More cooperative advertising for the beef industry / It depends on the people doing the promoting, if they do real good then we do better - it might be the beef council or whatever / Improve the marketing for the farmer
3.3%	Promote younger farmers	There doesn't seem to be enough younger people to take over for the older people / Make it possible for the young men to get into agriculture / Encourage the young ones to continue in ag / They better do everything possible to get people into farming, maintain farming, because one of the worst things that can happen is to have your food supply cut off / I am really concerned about the future of agriculture because it is going to be run by people who are not knowledgeable in that area / Anything that would make farming a little easier, to make it more profitable and more economical for people to get into, because there are lots of people who would like to farm / They are paying these big bucks to the big guys, and leaving the little ones home-owned, none of those are going to be left, the farms that have been in the family 100 years are being sold / The type of farming I'm in, which is fresh vegetables, roadside stand, nobody's doing it anymore; the younger people aren't interested in it, so some type of education to get future generations interested in it
3.3%	Concern over water	Clear the brush to get the water supply increased / If you want to drill a well, you have to go through so much red tape / Water is becoming a very critical issue for farmers / Help out during droughts / Give us more water down here / Improve water rights
3.0%	Newer/more markets	Develop some more and new markets for our commodities / It would be nice to get some new deals cut with these other countries / We need a better market for our grain / Instead of giving money to foreign countries, give them grain and support our farmers and ranchers here / Help improve the markets, I think that's the critical thing, like trade with China, Japan, and even Europe – I think we've lost a lot of markets
2.7%	Less environmental regulation	The environmental regulations worry us some / Forget about this whole environmental deal…all they are interested in is the license money / Relax pesticide use, the EPA's got too much of their hands into farming / I know when you're handling poisons you've got to know what you're doing, but still it's too restrictive / Get rid of a lot of this EPA business
2.7%	Agricultural programs reform	I think agricultural loans made by the government should not be made to anyone unless over 50% of their income comes from agriculture / I've known people that have gotten money from the government, haven't planted, and are collecting interest / A person should have to verify that he is a productive farmer or rancher for the tax break; it is abused pathetically / If they could come up with a reasonable insurance on all commodities, but they'd have to put a real good watch on it, some people just play the game for the programs and the insurance / They pay the farmer whether he farms or not, I don't believe in it

Table 41: Responses from First Handlers to: "If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural production in the state what would those recommendations be?" Sample Base: First Handlers (Question 11 and 15, N=300), Part 4 of 4

Percent Of 300 Respondents	Response	Characteristic Comment
2.0%	Concerns over monopolies and big companies	Get rid of the monopolies and the big boy; the packing houses and the grain companies make it tough for us / They need to get these big butchers that slaughter the cattle here, they control the prices / They need to watch these big chicken companies and put some requirements on them
1.7%	Brush control	It is so terribly hard to get help on spraying prickly pears and mesquite where we can control our brush – that's an area where the ranchers would benefit more than any other program / Clear the brush to get the water supply increased / More help on brush control, getting rid of cedar
1.7%	Conservation or reduction programs	We need a set-aside percentage for each farmer, like set aside 25% of your land so you wouldn't be overproduced, and then a farmer could get a fair price for their crop / Back when we were setting aside acres every year, that was the best program we ever had / I'd like to see a quota system to curtail overproduction / We're trying to get our county to get the groundwater conservation district in effect, so we have some protection
1.7%	Need smaller slaughterhouses	They need to get these big butchers that slaughter the cattle here, they control the prices; you need to get that away from them, open the market / We need some slaughterhouses for pork, so we have a nearer buyer, we're shipping out of state
1.3%	More agricultural awareness in legislature	Anytime I've gone to the Texas Department of Agriculture, even the congressmen in that district have no clue what we do or that we exist / If this is being presented to the Texas State Legislature, I think they should be a little bit more aware of what the farmer and rancher does and how we make our money
1.3%	More rain/better weather	More rain would be nice / The only thing I would like the legislature to do is to promise me that it would start raining
1.0%	Insurance coverage	The insurance they have is great, but they just gave county averages, so the insurance paid on the county average – didn't even pay for the corn seed / Change the federal crop insurance
7.3%	Single responses	The FHA need people to work for them who are more people friendly; Get us a Farm Bill we can live with; Help agriculture get more co-ops and vertical integration; Lending institutions need more people with an ag background; I'd like to see them mandate that the state highway department take better care of the fences along their highways – instead of making the landowners do it all; They need to have a unified state brand law; They need to find out who's taking care of the money from the bull incentive payment program, and who has it now that they've done away with it

Question 12: If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural lending in the state what would those recommendations be?

Table 42 and Table 43 present a summary of the responses to Question 12. One hundred twenty-four first handlers with lending experience provided 138 recommendations.

Table 42: Responses from First Handlers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural lending in the state what would those recommendations be?"
Sample Base: First Handlers with Lending Experience (Question 12, N=124), Part 1 of 2

Percent Of 124 Respondents	Response	Characteristic Comment
50.8%	No recommendations	No, I am not aware of any problems / I think they're probably doing okay / Right here we don't have a problem / No, I don't think so / I don't have an opinion on that / I don't know because I don't have a lot of experience / The current lending system is a good thing / I don't have any lending problems / I haven't borrowed that much so it is hard for me to say / I don't really have any problems getting the money I need, so I don't have any recommendations / I haven't had any trouble, so I don't have many / They are doing a fine job / I don't know, we've never had a problem getting financed for things that were worthwhile / I don't have any, because they're pretty good / I don't really have any recommendations, I think everything is satisfactory / To me, they've been good / Well, I think it's alright right now
14.5%	Make lending process easier	They need to be more lenient in what they require to get a loan / They should make it easier for young people to get involved / Be a little more lenient on the old time farmers / Lessen the governmental requirements, it seems to have unnecessary rules and regulations / Don't make the requirements so stringent that people can't get a loan / Make the loans more accessible and where someone who is not already into agriculture could know about the programs / If they could fix it where the banks don't hassle you to get the money, that would be great / They just need to make it available, and not take a year's worth of paperwork and 3 or 4 lawyers to get it done / Someone starting new would probably have some problems establishing credit / Well, you have to be pretty tough on who you lend to, but sometimes I think they get a little too tough / They give you 30 years to pay off a loan for a house, so why not for a dairy loan / Minimize paperwork / Make the loan forms simpler
13.7%	Be more understanding/knowledgeable about agriculture	Most of the people who deal with dairy don't know anything / Look at the individual as far as what they can do, not what their history is with other people / Farming has a boom and bust cycle / More flexibility / You got to come up with something to help the farmer and quit sticking it to him / They need to have people who go out and see who's tending the business / The lending officers should be more educated in agriculture / Have bankers understand agriculture better / A little more realistic look at capital – land and facilities / The larger city areas have no idea what goes on, people are not very understanding / I think the people that understand agricultural lending are doing a very good job, and the people that don't, aren't / Try to educate these corporate bankers

Table 43: Responses from First Handlers to:
"If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural lending in the state what would those recommendations be?"
Sample Base: First Handlers with Lending Experience (Question 12, N=124), Part 2 of 2

Percent Of 124 Respondents	Response	Characteristic Comment
10.5%	Help with interest rates	I just think that interest rates could be more negotiable / Lower interest rates / I think a lower lending or interest rate / Drop the interest rates / You can get lower interest rates, so if they could help more people to know about these, people could keep their costs down
7.3%	Need more loans/lending sources	I think farmers have to have a source because without it they're lost / They could make some money available to the middle-size farmer / Getting the availability of funds is important / Make more money available to the people that need it, they say they have all these loans but no one ever qualifies for them
2.4%	Government backing	Easier access to government backing / I think they need some type of pool backed by the state that agricultural people could pull from / Someone needs to step in and help them out
12.1%	Single responses	The Legislature might help farmers and ranchers with kids in college, some special loans or something; The Legislature needs to do something about these companies who send credit cards to people who can't afford them; I think the margin requirements are too high; They wanted to take 6 to 8 weeks to get us the money; I would make sure that they're not overextending to people; I think the government should just stay away; I am more of a conservative bent, but I don't know that we should be encouraging marginal farming people, that should not be taking a risk, to get into it; Slow down lending on new chicken houses and promote lending to improve the existing houses; More capital is necessary for the farm credit systems; It's easy right now to get some money, lots of farmers get loans and lots can't pay them back, and the government keeps bailing them out

Question 13: If you needed a loan to support this operation do you think you could get one? (If no) And what would it be that would keep you from getting one?

Of the 176 first handlers with no loans, 85.7% felt they could get one and 12.2% didn't think they could, and 2.0% said they didn't know if they could. Table 44 presents the reasons given by 21 of the respondents who did not think they could get a loan.

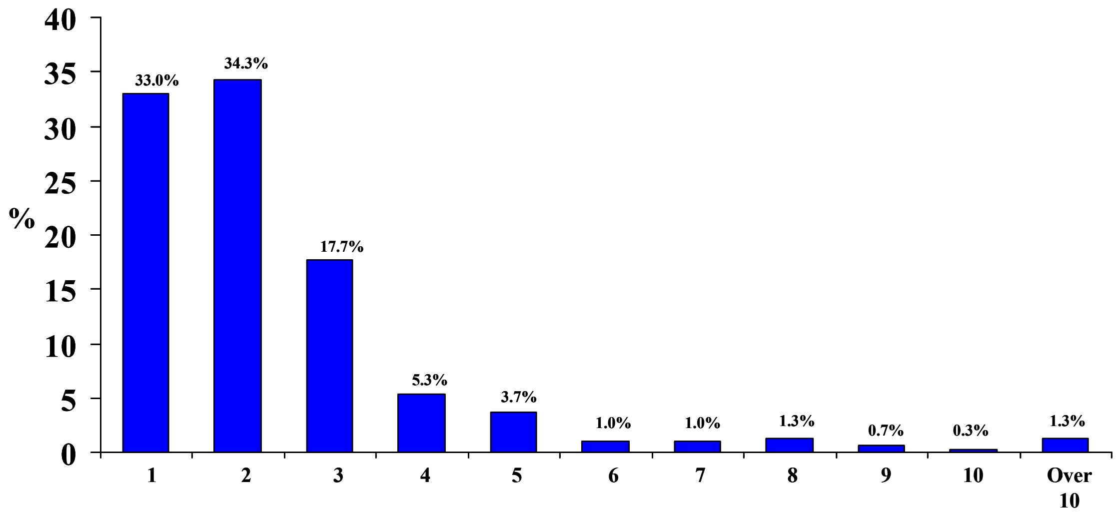
Table 44: Reasons Given by Respondents Who Did Not Think They Could Get a Loan: First Handlers with No Loans Who Did Not Think They Could Get One (Question 13, N=21)

Percent of 21 Respondents	Response	Characteristic Comment
52.4%	No specific reason provided	I think I'd have to rely on credit cards, it's just the easiest thing to do / I don't have a reason, I just don't think they would give me one / I don't know for sure
19.0%	Cannot qualify	Can't qualify / We have bad credit / They advertise all this stuff that they're going to do, but when you put in for this stuff, most of the time they tell you you don't qualify / I've been to the SBA, the loans can't qualify because we don't fall in the right categories
9.5%	Past performance	The drought hit for two years and we were slow to pay back our loans / I couldn't get one, because of something that happened in the past with me and the Farm Credit System
19.0%	Single responses	I'd have to put my land up for collateral, and I'm not going to do that / I'm too old to get a loan / No, I have the impression they're not too terribly available / The bank in Brookshire doesn't believe in farming loans

Question 17: Roughly how many people work in your operation?

Figure 105 presents a summary of the responses to Question 17, the distribution of the number of workers for first handlers.

Figure 105: Distribution of Number of Workers: First Handlers (Question 17)



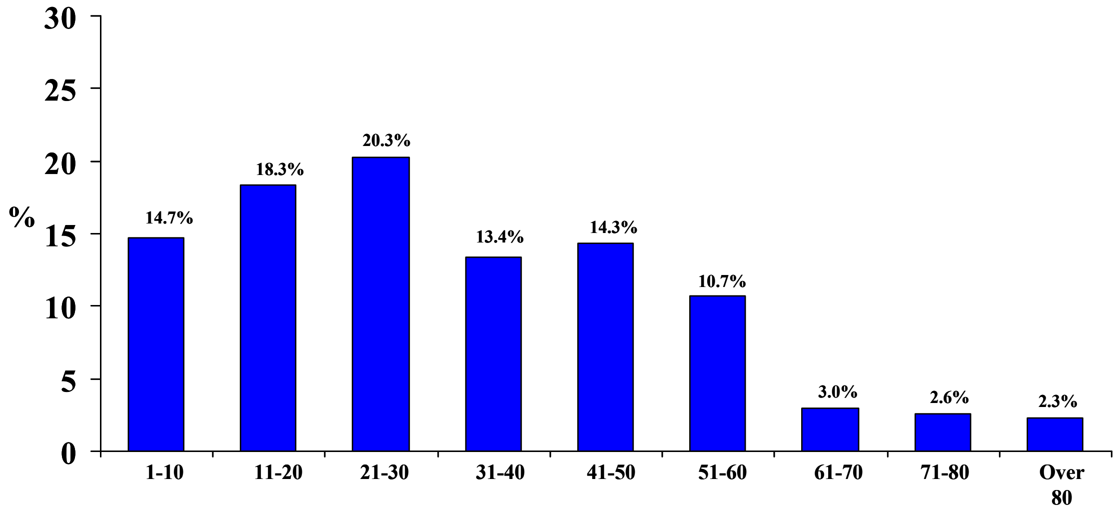
- Numbers ranged from a low of 1 to a high of 900 and averaged 5.65. The median was 2.

Sample Base: All Producers (N=300)

Question 18: How many years has this business been in operation?

Figure 106 presents a summary of the responses to Question 18, the distribution of the number of years in operation for first handlers.

Figure 106: Distribution of Number of Years in Operation: First Handlers (Question 18)



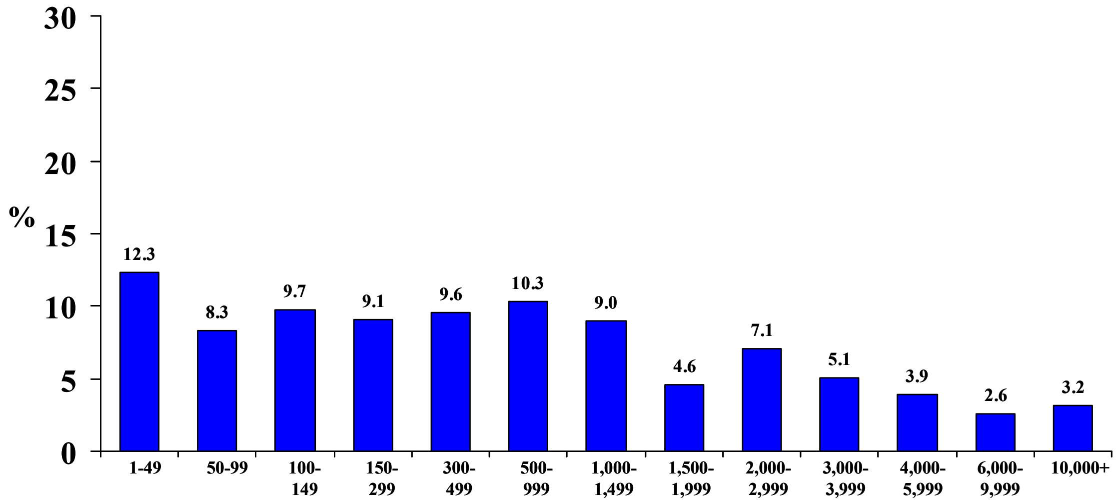
- Numbers ranged from a low of 1 to a high of 170 and averaged 34.4. The median was 30.

Sample Base: All Producers (N=300)

Question 19a: (For farmers) Approximately how many acres do you farm?

Figure 107 presents a summary of the responses to Question 19a, the distribution of the number of acres for first handlers with some farming activity.

Figure 107: Distribution of Number of Acres: First Handlers (Question 19a)



- Numbers ranged from a low of 1 to a high of 30,000 and averaged 1,674. The median was 500.

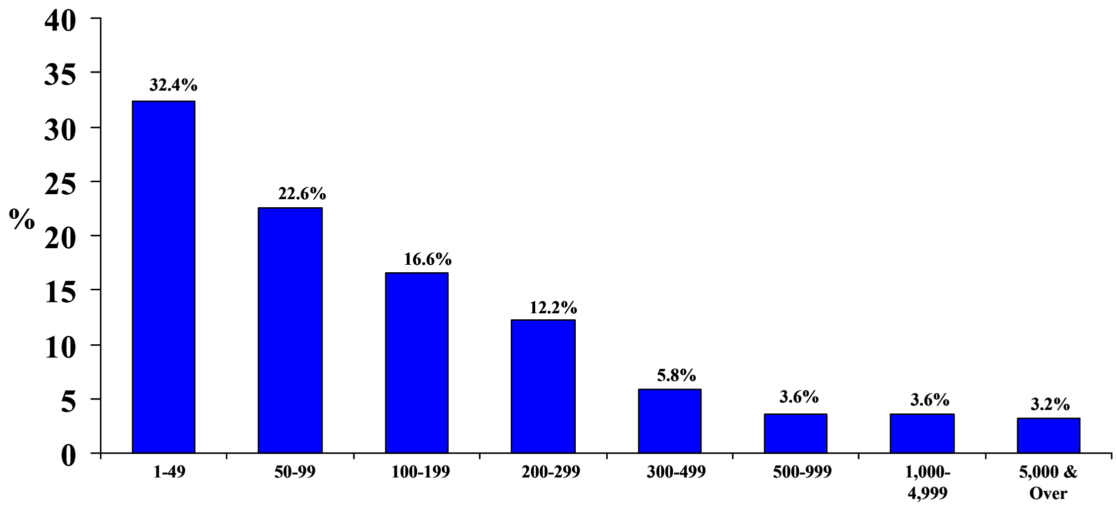
• All numbers are in percentages.

Sample Base: 155 Producers with farming activity

Question 19b (For ranchers) Approximately how many livestock do you have?

Figure 108 presents a summary of the responses to Question 19b, the distribution of the number of livestock for first handlers with some ranching activity.

Figure 108: Distribution of Number of Livestock:
First Handlers (Question 19b)



- Numbers ranged from a low of 4 to a high of 115,000 and averaged 2,299. The median was 75.

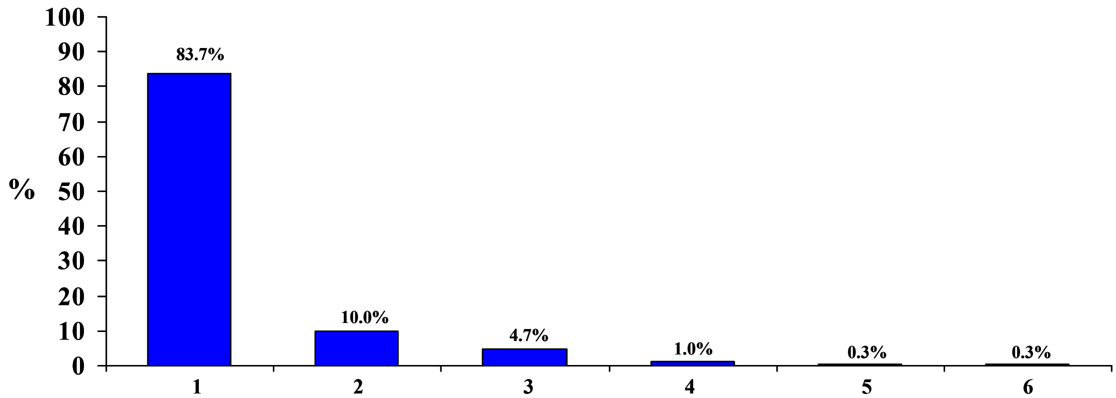
- Note: The number of livestock refers to cattle, hogs, chickens, etc. but we provide the distribution for your information.

Sample Base: 222 Producers with ranching activity

Question 20a: How many separate agricultural enterprises do you have?

Figure 109 presents a summary of the responses to Question 20a, the distribution of the number of separate agricultural enterprises for first handlers.

Figure 109: Distribution of Number of Separate Agricultural Enterprises: First Handlers (Question 20a)



- The numbers ranged from a low of 1 to a high of 6 and averaged 1.25. The median was 1.

Sample Base: All Producers (N=300)

Question 20b: (If over 1) Do you track the profitability for each enterprise separately?

Of the 49 first handlers who have more than one enterprise, 62.0% (N=31) track profitability for each enterprise separately.

Question 21: Does your agricultural business primarily operate on a cash basis or on an accrual basis?

Ninety percent (90%) of the first handlers operate on a cash basis, 6.7% operate on an accrual basis, and 3.3% said they didn't know the difference.

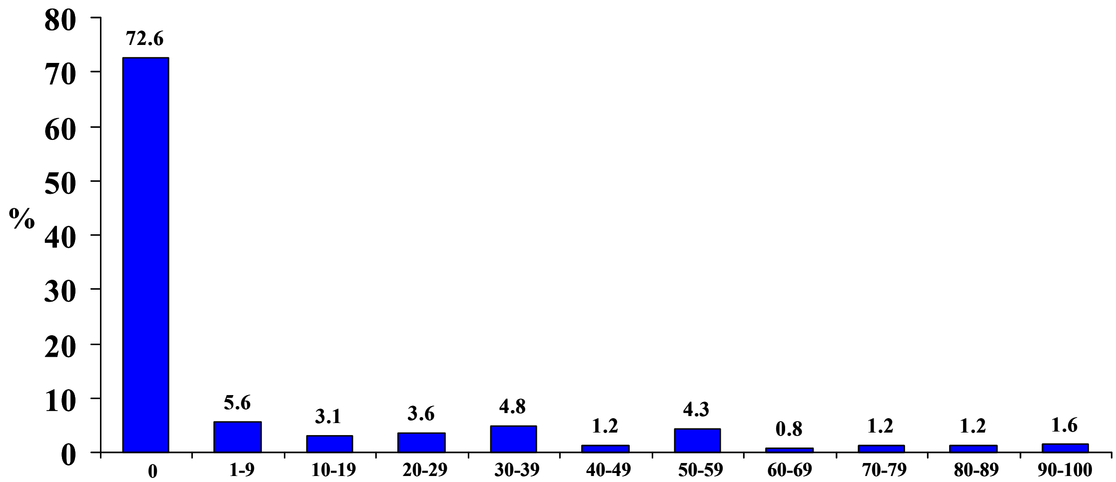
Question 22: Does a CPA prepare your books?

74.3% of the first handlers use a CPA to prepare their books.

Question 23: Roughly speaking, if you totaled all agricultural loans, what percent of your total equity would the loans represent?

Figure 110 presents a summary of the responses to Question 23, the distribution of the percent of total equity to loans for first handlers. Of the 300 respondents 183 were 0% and 69 were not 0% and provided a number.

Figure 110: Distribution of Percent of Total Equity to Loans: First Handlers (Question 23)



- For the 252 who were 0 or provided a number, the estimates ranged from a low of 0% to a high of 100% and averaged 9.45%. The median was 0%.
- For the 69 who currently have loans and could provide an estimate, the estimates ranged from a low of 1% to a high of 100% and averaged 34.5%. The median was 30%.

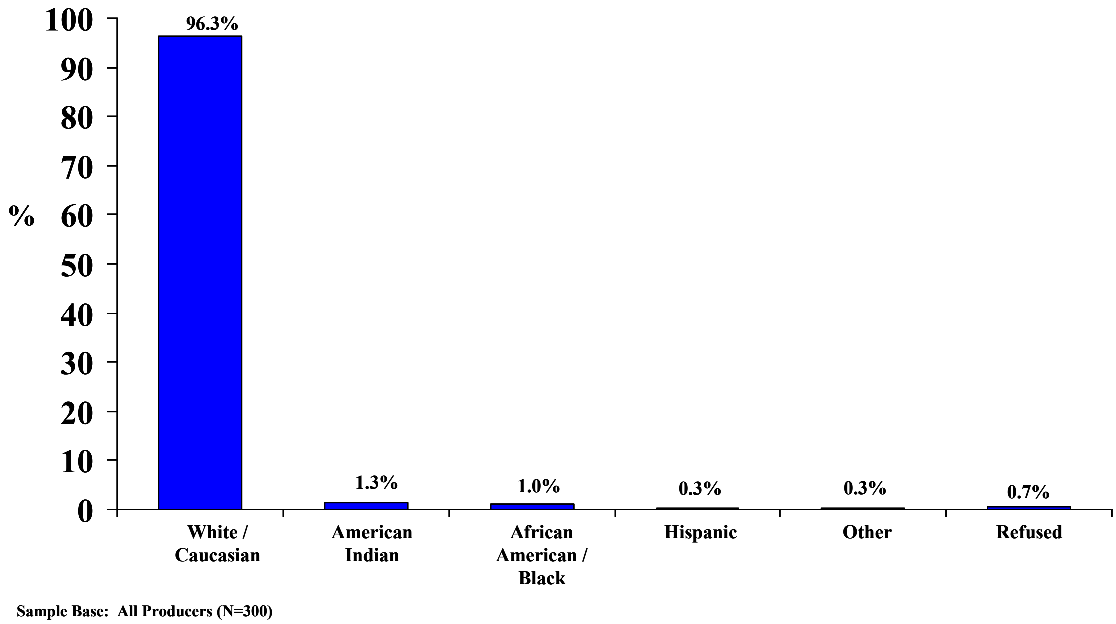
• All numbers are in percentages.

Sample Base: Producers who were either 0 or provided a number (N=252)

Question 24: Could you please tell me to which ethnic group the owner of this business belongs?

Figure 111 presents a summary of the responses to Question 24, the distribution of ownership ethnicity for first handlers.

Figure 111: Distribution of Ownership Ethnicity:
First Handlers (Question 24)



Statistical Tests

Using results from all 400 interviews, answers to every question were tested for significant differences by:

- Revenue (4 levels - \$10,000-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, Over \$500,000);
- Number of workers (4 levels - 1, 2, 3, 4 & over);
- Number of acres (3 levels - Less than 200, 201-1,000, 1,001 & over);
- Number of livestock (3 levels - Less than 50, 50-100, 101 & up);
- Primary SIC Code (2 levels - Crops, Animals);
- Animals represent a significant source of revenue (Yes or No);
- Crops represent a significant source of revenue (Yes or No);
- Region of State (based on Area Codes);
- Years in operation (3 levels - 20 or less, 21-40, 41 & over);
- Number of separate agricultural enterprises (2 levels - 1, Over 1);
- Track profitability separately (Yes or No);
- Cash or accrual; and,
- Use CPA (Yes or No).

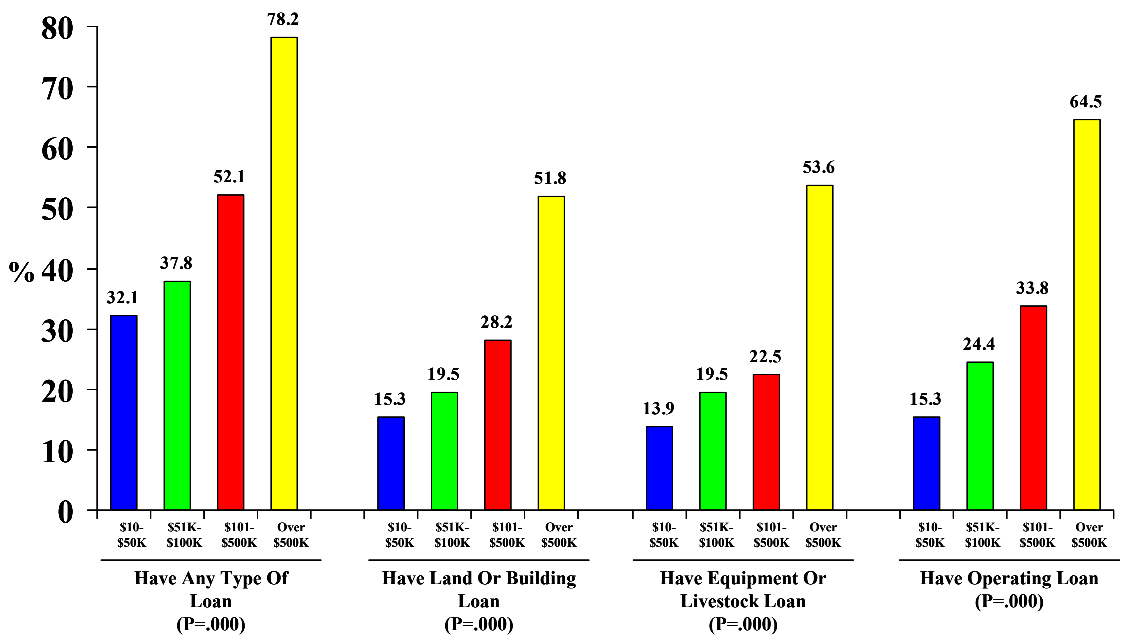
Table 45 presents the number and percent of items significantly different by each variable.

Table 45: Number and Percent of Items Significantly Different by Each Variable

Test Variable	Number Of Items Significantly Different	Percent Of Items Significantly Different
Revenue	8	10.4%
Number of workers	5	6.5%
Number of acres	5	6.5%
Number of livestock	5	6.5%
Primary SIC Code	7	9.1%
Animals represent a significant source of revenue	3	3.9%
Crops represent a significant source of revenue	5	6.5%
Region of State (based on Area Codes)	2	2.6%
Years in operation	5	6.5%
Number of separate agricultural enterprises	8	10.4%
Track profitability separately	3	3.9%
Cash or accrual	6	7.8%
Use CPA	6	7.8%

Figure 112 and Figure 113 present significant differences in responses by revenue. Figure 112 shows that loans in general, as well as each separate type of loan, varies significantly by revenue. This makes sense, of course, but it also helps document that the biggest exposure to lending problems comes from the larger enterprises. Figure 113 shows that the largest operations are the least likely to have a government guaranty for an operating loan but the incidence of such goes up as the revenue increases from the lowest category through the next two levels. Correspondingly, the largest operations are much more likely to have to offer a personal guarantee. The smallest operations are more likely to have used non-agricultural revenue to repay a loan and the average percent of loans to equity increases with size.

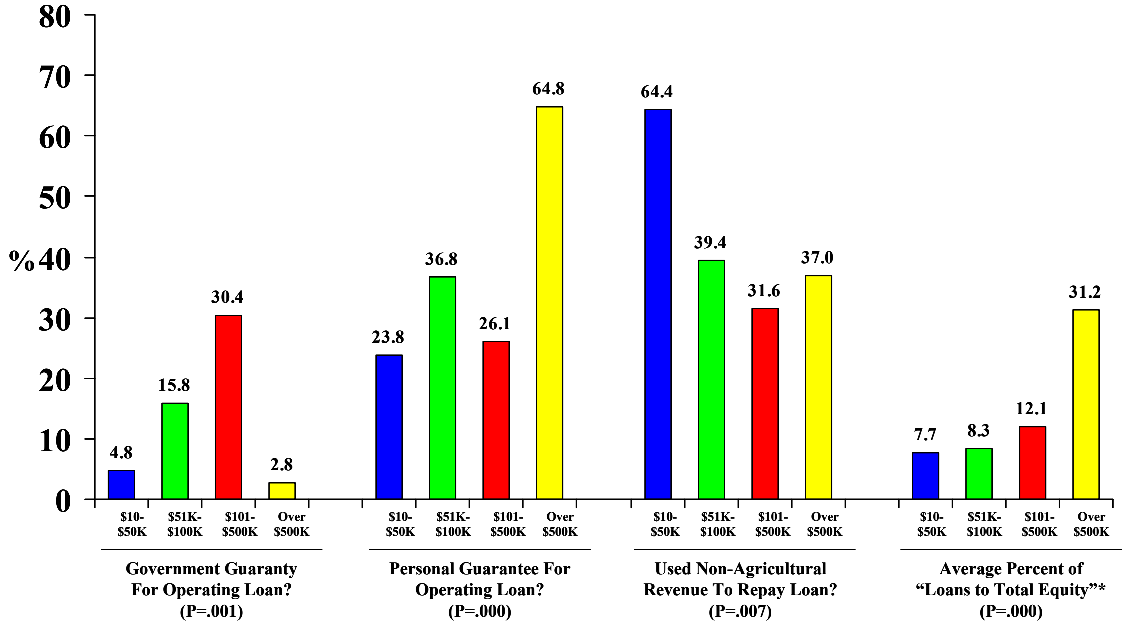
Figure 112: Significant Differences in Responses by Revenue (1 of 2)



- Results by number of workers, number of acres and number of livestock, where significant, parallel results exactly by revenue and therefore are not reported.

Sample Base: All respondents (N=400)

Figure 113: Significant Differences in Responses by Revenue (2 of 2)



*** The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the four levels are: 32.7, 30.4, 40.4, 42.1 (P=.244)**

- Results for average percent of "loans to total equity" by number of workers, number of acres and number of livestock, where significant, parallel results exactly by revenue and therefore are not reported.

Sample Base: All respondents (N=400)

- Special note regarding "Personal Guarantee": If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Figure 114 presents significant differences in responses by primary SIC code. The Figure makes it clear that operations involving primarily crops are more likely to have a loan, primarily because they are more likely to have an operating loan.

Figure 114: Significant Differences in Responses by Primary SIC Code

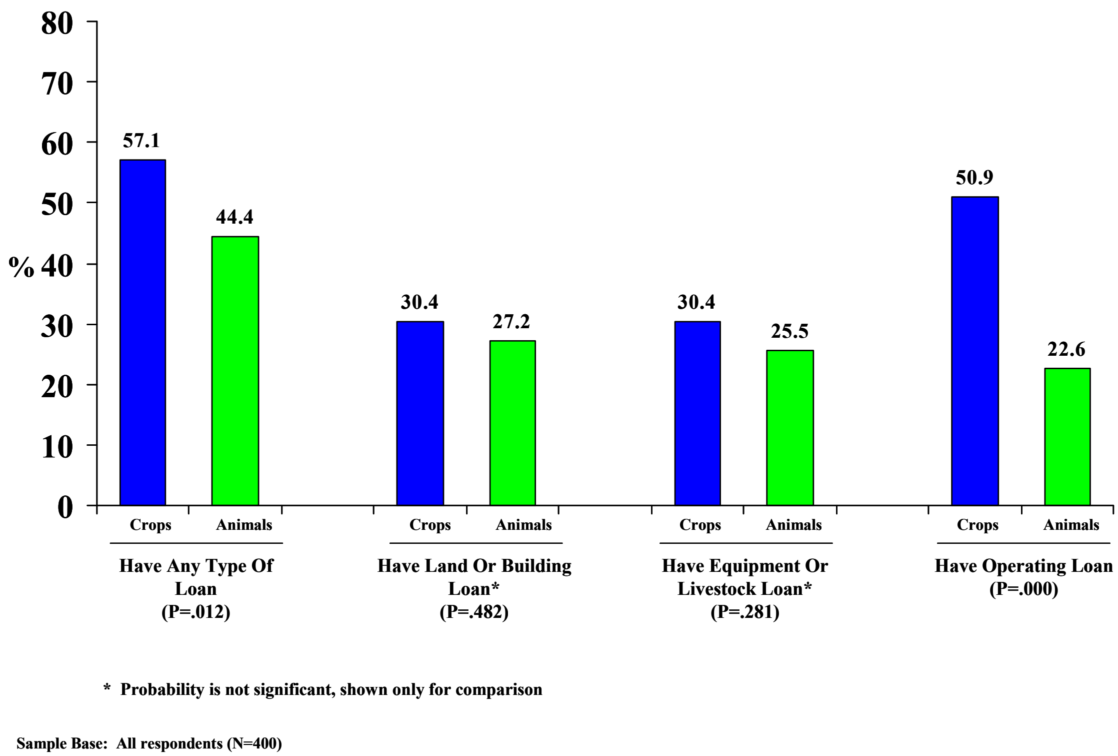
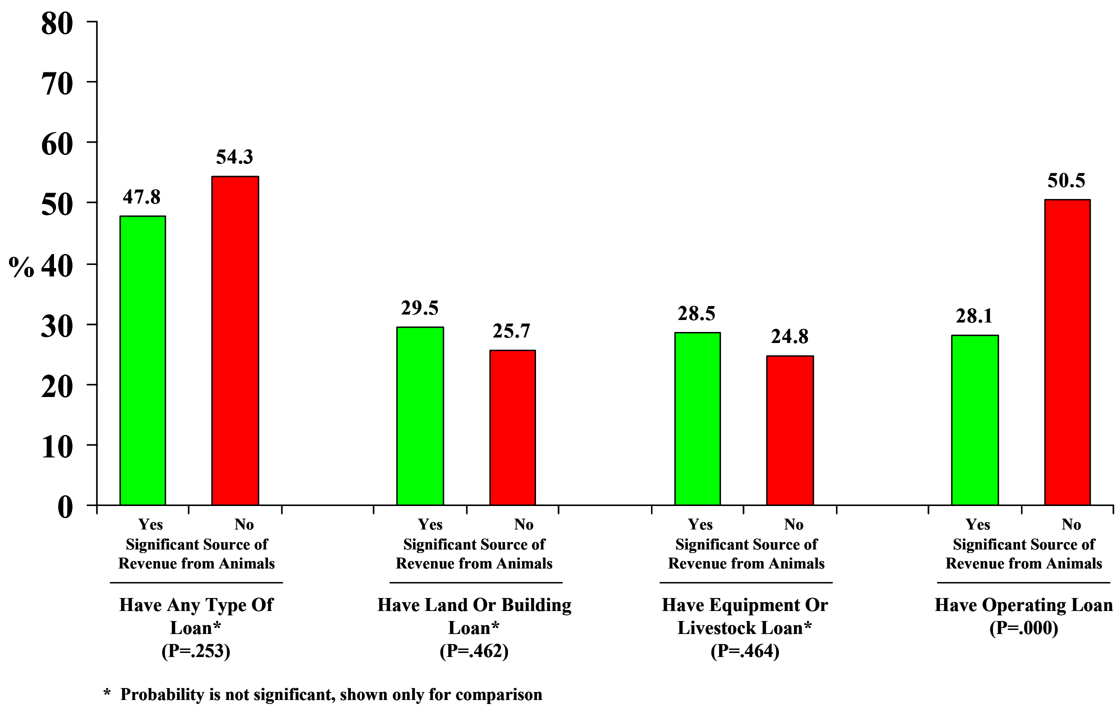


Figure 115 presents significant differences in responses between those respondents with a significant source of revenue from animals and those that do not.

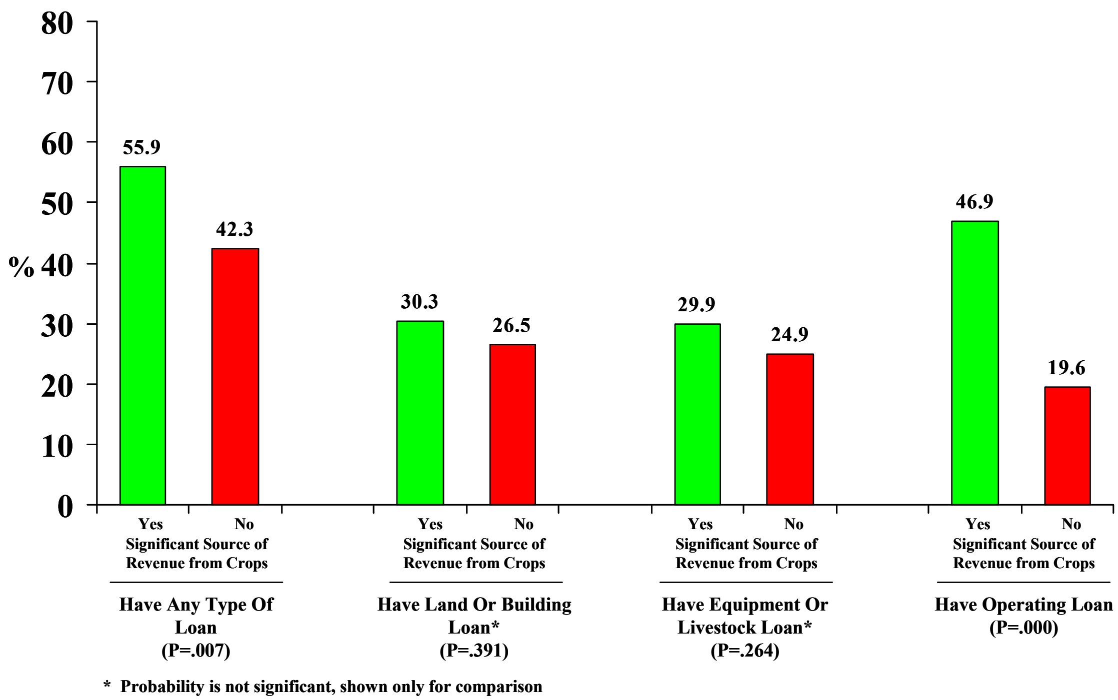
Figure 115: Significant Difference in Responses by "Whether a Significant Source of Revenue is from Animals"



Sample Base: All respondents (N=400)

Figure 116 presents significant differences in responses between those respondents with a significant source of revenue from crops and those that do not.

Figure 116: Significant Differences in Responses by "Whether a Significant Source of Revenue is from Crops"

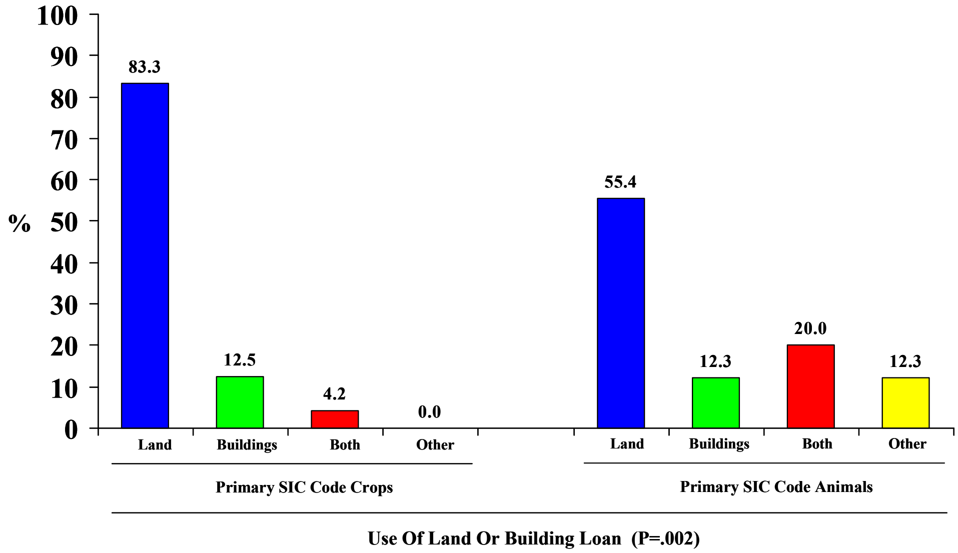


- Because the results by "Primary SIC Code" so perfectly parallel the results by "Revenue Source" the remainder of the significant differences are reported by "Primary SIC Code" only.

Sample Base: All respondents (N=400)

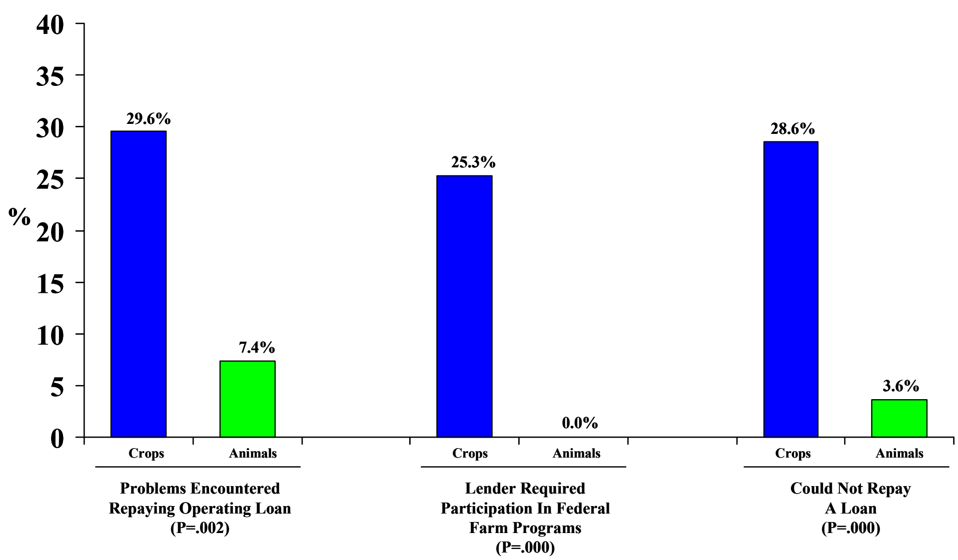
Figure 117 and Figure 118 present significant differences in responses by primary SIC code. Figure 118 shows operations primarily involving crops are more likely to have encountered problems in repaying, and the only group required to participate in farm programs and is the group more likely to not be able to repay a loan.

Figure 117: Significant Differences in Responses by Primary SIC Code (1 of 2)



Sample Base: All respondents (N=400)

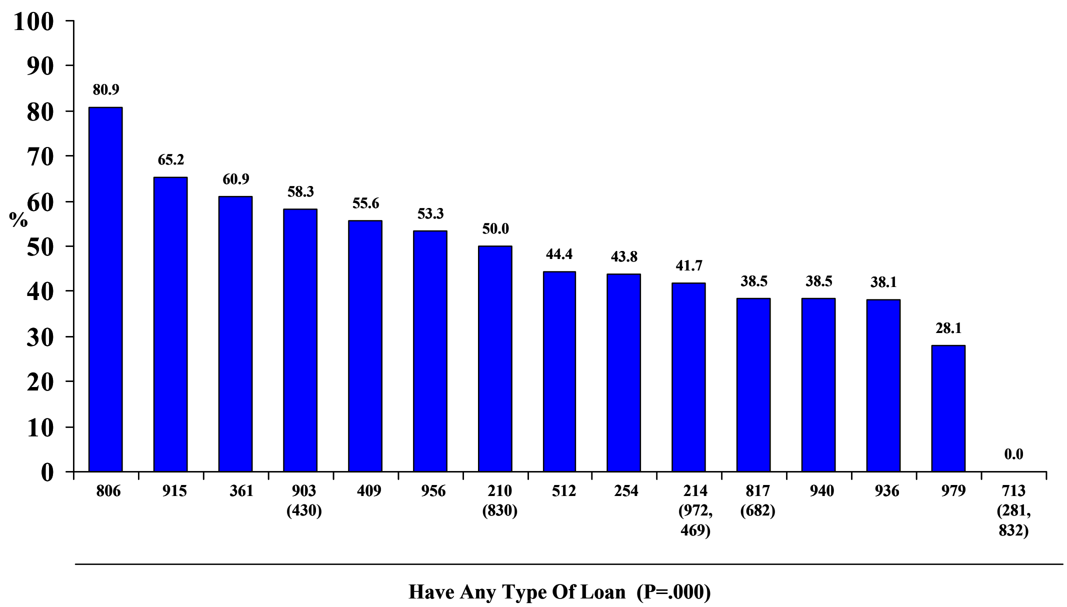
Figure 118: Significant Differences in Responses by Primary SIC Code (2 of 2)



Sample Base: All respondents (N=400)

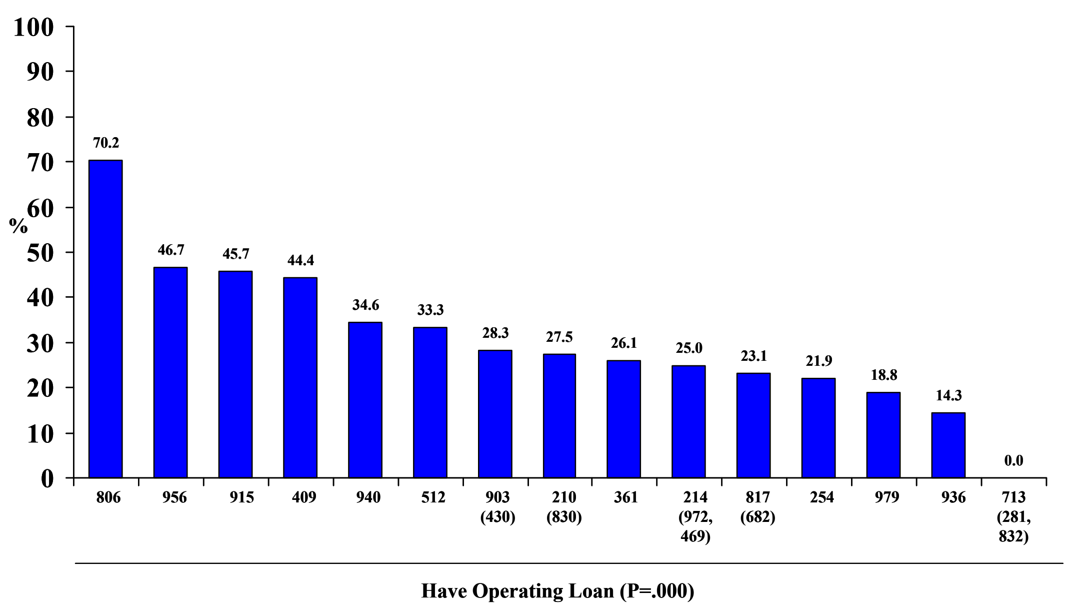
Figure 119 and Figure 120 present significant differences in responses by region.

Figure 119: Significant Differences in Responses by Region (1 of 2)



Sample Base: All respondents (N=400)

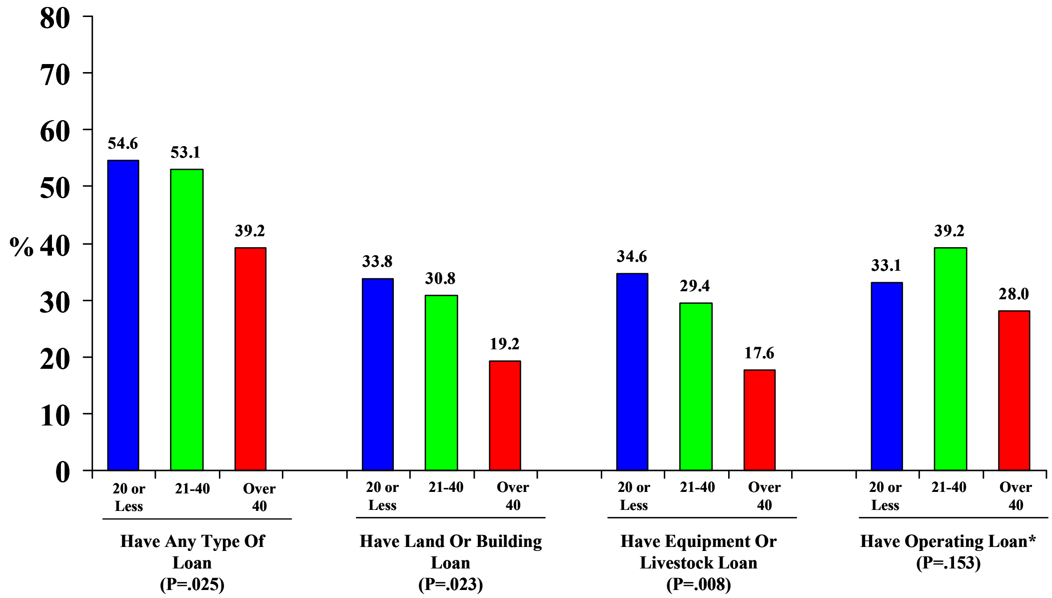
Figure 120: Significant Differences in Responses by Region (2 of 2)



Sample Base: All respondents (N=400)

Figure 121 and Figure 122 present significant differences in responses by years in operation. Clearly, the older operations are more likely to have either retired debt or simply work without it.

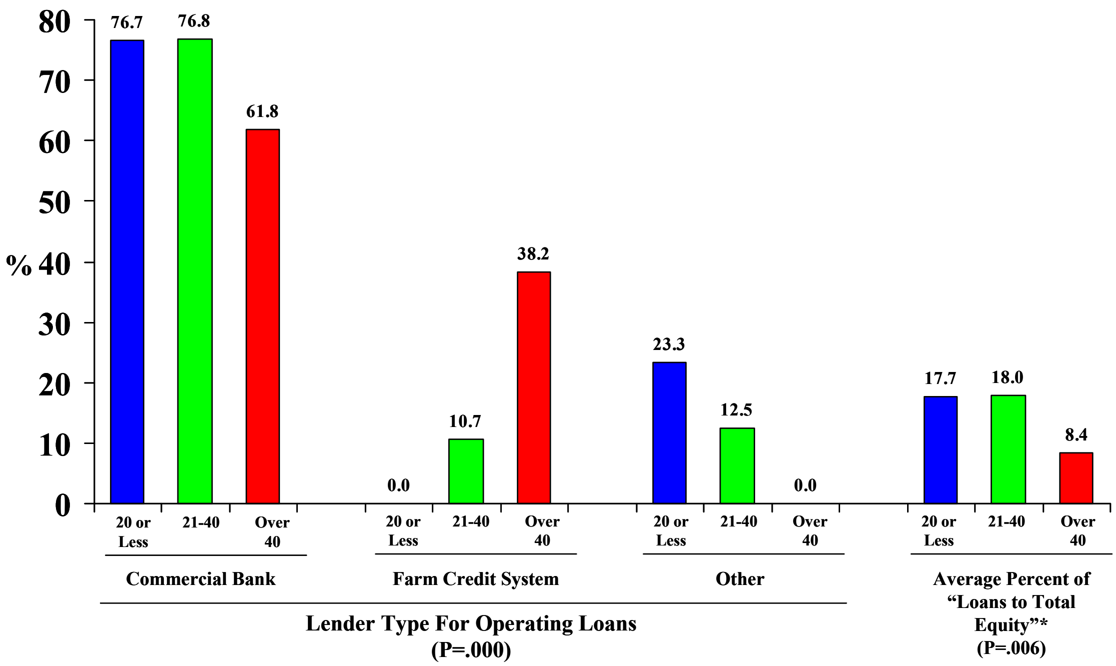
Figure 121: Significant Differences in Responses by Years in Operation (1 of 2)



* Probability is not significant, shown only for comparison

Sample Base: All respondents (N=400)

Figure 122: Significant Differences in Responses by Years in Operation (2 of 2)

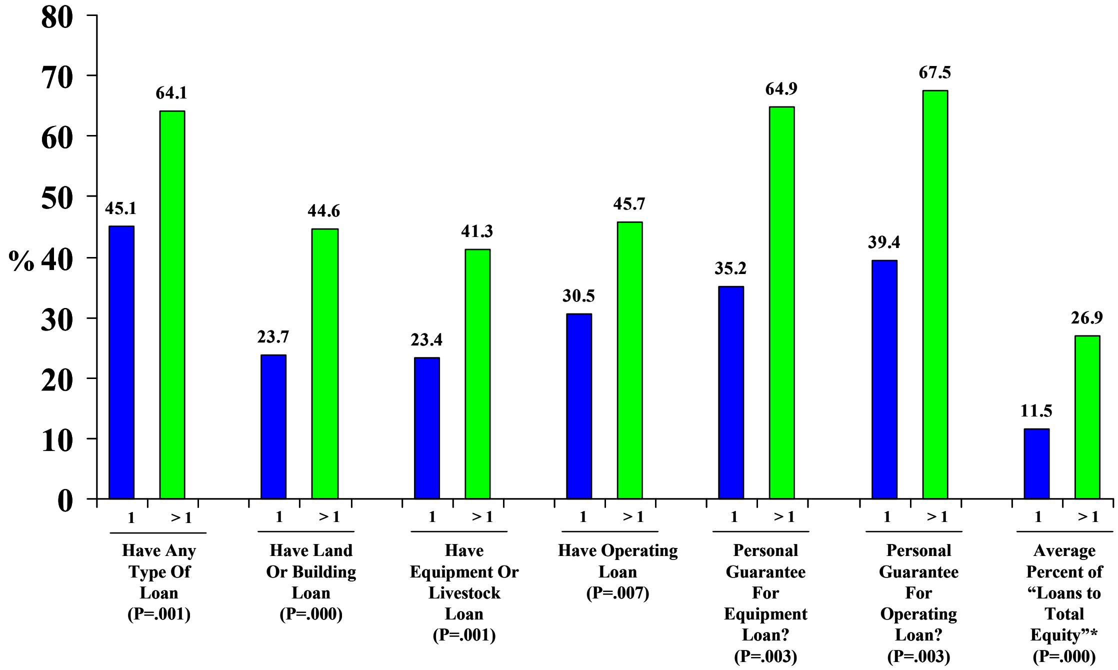


*** The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the three levels are: 42.7, 39.2, 29.6 (P=.129)**

Sample Base: All respondents (N=400)

Figure 123 presents significant differences in responses by number of separate agricultural enterprises. The Figure shows that those operations with a number of separate enterprises are more likely to have loans of all types, have to offer personal guarantees, and be more highly leveraged.

Figure 123: Significant Differences in Responses by Number of Separate Agricultural Enterprises



*** The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the two levels are: 32.9, 49.8 (P=.001)**

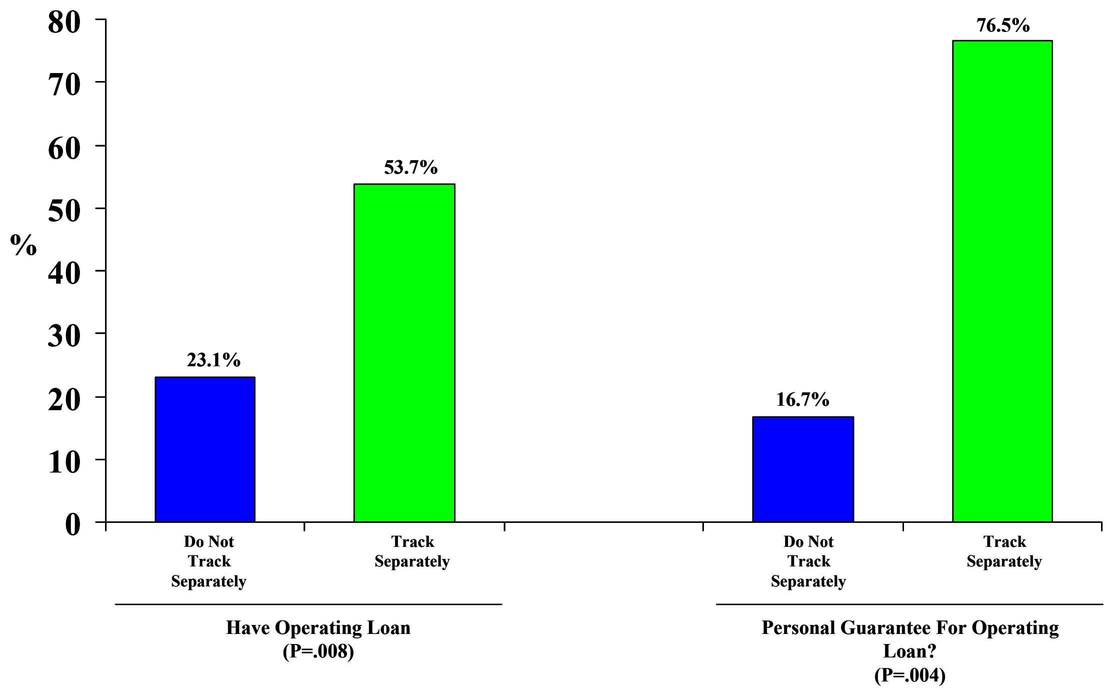
- Operating loan average amount is $142,430 for those with 1 enterprise; $710,111 for those with over 1 (P=.001).

Sample Base: All respondents (N=400)

- Special note regarding "Personal Guarantee": If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Figure 124 presents significant differences in responses based on whether or not a respondent tracked profitability for each of their enterprises separately.

Figure 124: Significant Differences in Responses by Tracking Profitability for Each Enterprise Separately

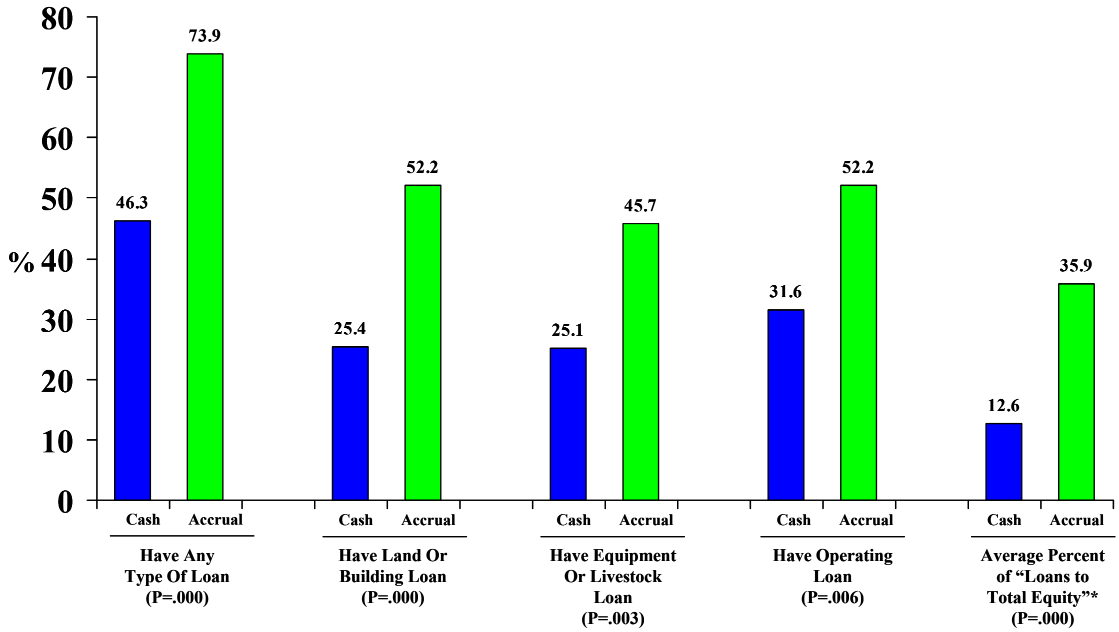


Sample Base: All respondents with more than one agricultural enterprise (N=92)

- Special note regarding "Personal Guarantee": If their operation was in the form of a sole proprietorship any loan would by definition involve personal liability, but they may not have responded affirmatively.

Figure 125 presents significant differences in responses based on whether or not a respondent operated on a cash or accrual basis.

Figure 125: Significant Differences in Responses by Whether They Operate on a Cash or Accrual Basis



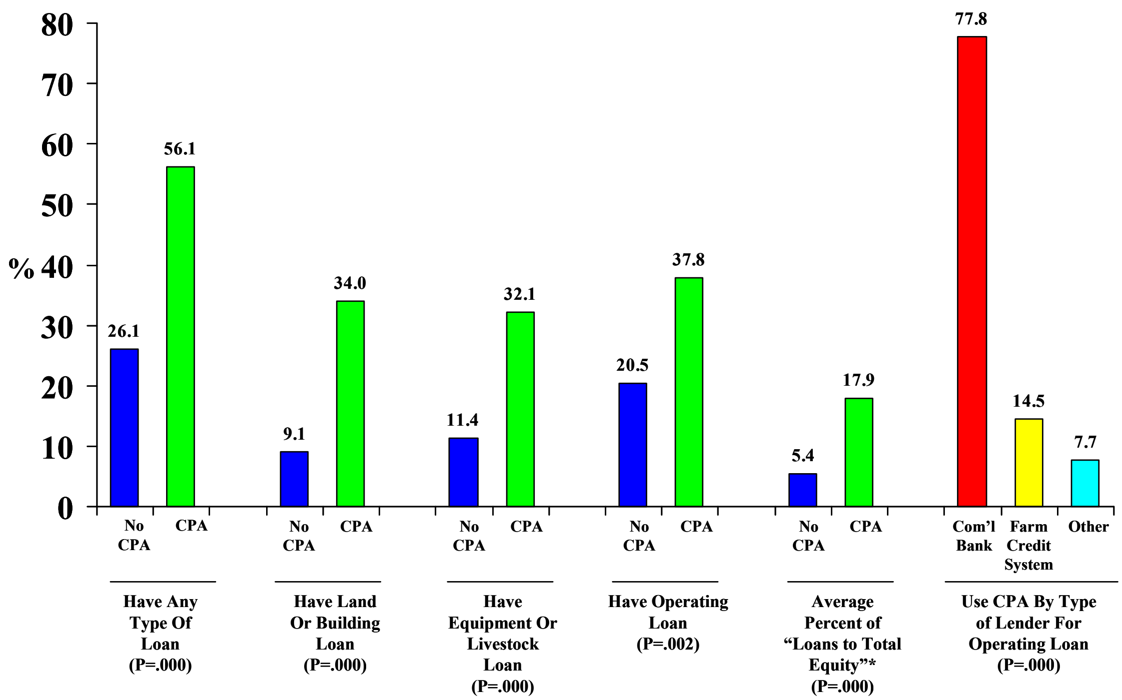
*** The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the two levels are: 34.4, 57.1 (P=.000)**

- Land/building loan average amount is $647,486 for those operating on a cash basis; $4.2 million for those operating on an accrual basis (P=.000).

Sample Base: All respondents (N=400)

Figure 126 presents significant differences in responses based on whether or not a respondent used a CPA.

Figure 126: Significant Differences in Responses by Whether They Use a CPA

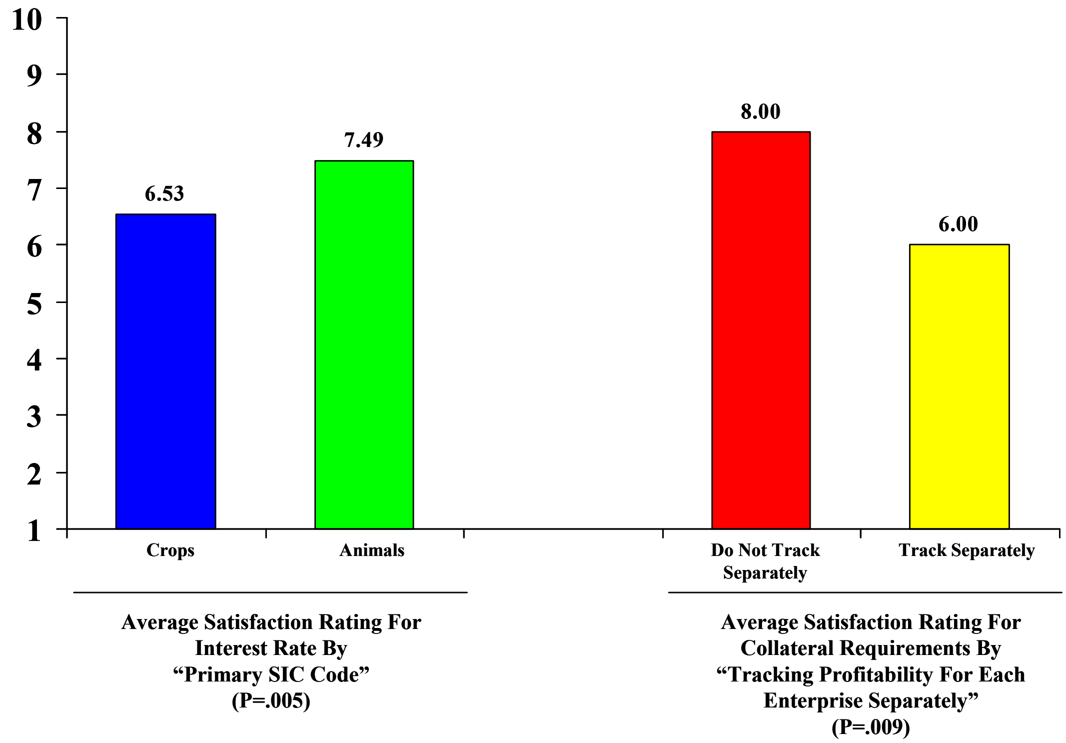


* The calculation includes all agricultural respondents, both those with and without debt. Considering only those agricultural producers with loans, the percentage averages for the two levels are: 34.8, 38.5 (P=.663)

Sample Base: All respondents (N=400)

Figure 127 presents significant differences in satisfaction ratings based on respondents' primary SIC code and whether or not they tracked profitability for each of the enterprises separately.

Figure 127: Significant Differences in Satisfaction Ratings



Sample Base: All respondents (N=400) and All respondents with more than one agricultural enterprise (N=92)

Appendix 1: Financial Supports For Agricultural Producers

This section outlines the various financial supports available to agricultural producers.

Federal Government Supports:

Federal government has supported farmers via price supports and other methods of financing since the 1930's.

The United States Department of Agriculture (USDA) has identified the following areas that formulate the nation's agriculture policy:

- trade policy,
- enhancing the infrastructure,
- farm sector policy,
- conservation and the environment,
- rural communities,
- nutrition and food assistance, and
- program integration.

Why a sophisticated approach to agriculture is necessary when formulating the policy for the issues mentioned above: consumer driven agriculture, a global economy, technological innovation, and agricultural diversity[14].

Disaster Assistance: http://www.fsa.usda.gov/pas/disaster/default.htm

Emergency Conservation Program (ECP) – billed as assistance for rehabilitation. Only those farmers who have had their operations adversely affected by a natural disaster which created new conservation problems are eligible for this program. Assistance under this program is capped at 64% of the rehabilitation costs. The county FSA committees determine eligibility after an on-site inspection and review of the damage.

Noninsured Crop Disaster Program (NAP) – covers the impact of natural disasters for crops that are uninsured. The natural disaster must have diminished 50% of the expected harvest or prevented the farmer from planting 35% of their potential acreage. This program only covers losses in excess of 50% of the expected value of the crop.

Emergency Haying and Grazing Assistance – an assistance program applicable for grazing areas that have experienced a natural disaster. This program stipulates the opening up of Conservation Reserve Program acreage for areas that need additional grazing land due to the loss, or unavailability, of normal grazing land due to natural disasters. Decisions are made on a county-wide basis.

Conservation: http://www.fsa.usda.gov/dafp/cepd/default.htm

Conservation Reserve Program (CRP) – this is a voluntary program that allows farmers to take tracts of land out of production for conservation purposes. Furthermore, the government will compensate farmers for their participation in the conservation program based on expected agricultural production

[14] Food and Agricultural Policy: Taking Stock for the New Century. USDA, September 2001.

of the land, and will provide up to 50% of the initial costs incurred establishing the conservation framework. Contracts for this program typically last for 10-15 years.

Conservation Reserve Enhancement Program (CREP) – billed as a program that provides "incentive payments for installing specific conservation practices." CREP is a joint program that combines the goals of the federal and state government in a venture that is designed to improve the environmental aspects of the local area.

Emergency Conservation Program (ECP) – designed to benefit farmers whose operations are negatively impacted by natural disaster which, in turn, cause new conservation problems.

Environmental Quality Incentives Program (EQIP) – seeks to advise the management of the farmer's natural resources and farming techniques in an environmentally friendly manner. Cost-share payments and incentive payments are available under the EQIP program.

Price Supports: http://www.fsa.usda.gov/dafp/psd/default.htm

Farm Storage Facility Loan Program – loans to grain producers for the upgrade or construction of storage facilities. Eligible borrowers under this program must produce a grain from the specified roster of federally approved grains and, among other requirements, must have suitable credit, must have crop insurance, and must adhere to the National Environmental Policy Act Regulations.

Wheat:

- *Direct Payments* – direct payments for wheat were capped at certain levels for the years 1996 to 2001. However, the 2002 Farm Bill specifies that payment rates of .52 cents per bushel shall be in effect from 2002 to 2007. Payments are not made until the producer has entered into a production agreement and will not be disbursed until October 1 of the crop year.
- *Counter Cyclical Payments* – these payments will be made available whenever the effective price is less than the target price. Eligible farmers receive a payment (equal to payment rate x payment acres x payment yield). The target prices for counter-cyclical wheat payments are as follows: $3.86 per bushel in 2002-2003 and $3.92 per bushel in 2004-2007.

Feed Grains (i.e. corn, grain sorghum, barley, and oats):

- *Direct Payments* – direct payments for feed grains were capped at certain levels for the years 1996 to 2001. However, the 2002 Farm Bill will alter the amount appropriated to farmers for the years 2002 to 2007. The payment plan is as follows:
  - Corn: .28 cents per bushel
  - Grain Sorghum: .35 cents per bushel
  - Barley: .24 cents per bushel
  - Oats: .024 cents per bushel
- *Counter Cyclical Payments* - these payments will be made available whenever the effective price is less than the target price. Eligible farmers receive a payment (equal to payment rate x payment acres x payment yield). The target prices for counter cyclical payments for feed grains are as follows:
  - Corn: $2.60 per bushel for 2002-2003 and $2.63 per bushel for 2004-2007
  - Grain Sorghum: $2.54 per bushel for 2002-2003 and $2.57 per bushel for 2004-2007
  - Barley: $2.21 per bushel for 2002-2003 and $2.24 for 2004-2007

    - Oats: \$1.40 per bushel for 2002-2003 and \$1.44 for 2004-2007

Soybean:

- *Direct Payments* – direct payments for feed grains were capped at certain levels for the years 1996 to 2001. However, the 2002 Farm Bill will alter the amount appropriated to farmers for the years 2002 to 2007. The rate for soybeans is .44 cents per bushel.
- *Counter Cyclical Payments* – these payments will be made available whenever the effective price is less than the target price. Eligible farmers receive a payment (equal to payment rate x payment acres x payment yield). The target prices for soybeans are \$5.80 per bushel in 2002-2007.

Dairy – the Secretary of Agriculture was authorized to reimburse dairy producers for lost revenues because of concerns of pesticides in consumer milk. These 'indemnity payments' are only appropriated to those dairy producers who were forced to remove their stocks of dairy products from consumer outlets due to concerns about pesticide contamination, nuclear fallout, and toxicity. The Secretary was further authorized to pay out the proceeds of the program until the resources were fully depleted.

Minor Oilseeds:

- *Direct Payments* – direct payments for oilseeds were capped at certain levels for the years 1996 to 2001. However, the 2002 Farm Bill will alter the amount appropriated to farmers for the years 2002 to 2007. The rate for oilseeds is .008 cents per pound.
- *Counter Cyclical Payments* – these payments will be made available whenever the effective price is less than the target price. Eligible farmers receive a payment (equal to payment rate x payment acres x payment yield). The target prices for oilseeds are .098 cents per pound in 2002-2003, and .101 cents per pound in 2004-2007.

Farm-Stored Peanut Program – in accordance with federal mandates, the production quota for peanuts in 2001 was capped at 1,180,000 tons. The average support to peanut farmers in 2001 was \$610 per ton for domestic edible use and \$132 per ton for all other uses.

Beneficial Interest & LDPs – defines that a producer must maintain a 'beneficial interest' in a certain commodity for the producer to be eligible to receive a loan deficiency payment (LDP's). The producer's 'beneficial interest' in a commodity is defined by the following: control of the commodity, risk of loss, and title of the commodity.

CMA Process – this program targets cooperative marketing associations in an attempt to offset some expenses associated with marketing the cooperative's outputs while also encouraging the formation of such cooperatives.

Special Programs:

Apple Market Loss Assistance Program – a \$75 million loss program available to apple producers for the 2000 harvest. The application period for this program began on April 29, 2002, and the specific appropriations will be determined after the extent of assistance and number of participants is realized.

Honey Recourse Loan Program – a program offering recourse loans to honey producers in the United States for losses incurred in their honey operations during the 2000 calendar year.

Lamb Meat Adjustment Assistance Program – has an allocation of \$26 million to offset the financial distress experienced by lamb producers due to poor market conditions. Payments have been finalized at $18 per lamb, provided that sufficient funds are available, as long as the lamb is less than 18 months old, has produced no offspring, and meets other animal health criteria.

Disaster Assistance: http://www.fsa.usda.gov/pas/disaster/default.htm

Emergency Loan Assistance (EM) – are available to farmers who live in an area declared by the president to be a disaster area. Furthermore, the farmers must have experienced a loss of at least 30% from their expected output and must have the collateral to qualify for the loan. The loan money may be used for myriad everyday expenses such as paying for the family's living expenses, reorganizing the farm's debt, and restoring lost property.

Farm Loans: http://www.fsa.usda.gov/dafl/default.htm

Guaranteed Loans – loan guarantees are divided into two separate functional areas: operating loans and farm ownership loans. The loans vary on the expected use of funds that the farmer will put the money to, but the eligibility for the Operating Loans and the Farm Ownership Loans are identical. The FSA will guarantee 90% (in certain instances 95%) of loans not exceeding $759,000 provided that the borrower has, among other things, good credit history, not more than three loan defaults with the FSA, nor delinquent on any other federal obligation.

Direct Loans – multiple options to choose from in the federal direct loans area. They are capsuled below.

- *Farm Ownership Loans* – to be used purchasing farmland, purchasing/renovating farm buildings, or conservation endeavors. The borrower may realize a loan of up to $200,000.
- *Operating Loans* – may be used to offset expenses associated with the operation of the farm. This can include the purchase of livestock, tractors, seed, etc. The loan may not exceed $200,000.
- *Beginning Farmer and Rancher Loans* – as the title indicates, this loan program is intended for those farmers and ranchers who are entering agriculture as their primary source of income.
    - *Farm Ownership Loan for a beginning farmer/rancher* – in addition to the criteria stated above for Farm Ownership Loans, the borrower must have operated a farm or ranch for 3 to 10 years, have a farm that is 25% the size of an average farm in their county, and must be related by family if they intend to form a corporation.
    - *Operating Loan* – in addition to the criteria stated above for an Operating Loan, the borrower must have operated the farm or ranch for 10 years or less, and must be related by family if they intend to form a corporation.
- *Down Payment Farm Ownership Loans for Beginning Farmers* – this program is designed to assist young farmers to get started and also allow the retiring farmer a means of transferring their land to the next tenant. For this program to be an option the applicant must: make a 10% or more down payment on the property involved, be interested in a property that is valued at $250,000 or less. The FSA will then finance 30% of the value for a fixed term (10 years) at a fixed rate (4%). The remainder of the loan, not to exceed 60% of the value of the land, can be guaranteed up to 95% by the FSA. Furthermore, the FSA allows beginner farmers the first shot at government acquired farm equipment.
- *Loans to Socially Disadvantaged Farmers/Ranchers* – these are loans reserved for members of an ethnic group whose group has experienced some form of prejudice based purely on the characteristics of that group without regard to the individual.

- *Youth Loans* – available to youths aged 10 to 20 years of age, who live in a town of less than 10,000 people. This program is designed to assist youths who belong to 4-H, Future Farmers of America, or similar organizations. The loan amounts are detailed as 'modest.'

Federal Farm Bill of 2002 compared to the Farm Bill of 1996 (http://www.ers.usda.gov/Features/farmbill/).

Major provisions of the 2002 Farm Bill include:

- Higher loan rates for most crops.
- Direct payments for wheat, feed grains, cotton, and rice (previously called production flexibility contract payments).
- Expanded eligibility for direct payments to producers of oilseeds and peanuts.
- Additional payments (called counter-cyclical payments) to farmers when commodity prices fall below their target prices.
- An option for producers to update the bases and yields used to calculate counter-cyclical payments.
- New programs for dairy, pulse crops (dry peas, lentils, and chickpeas), peanuts, honey, wool, and mohair.
- Reauthorizing the Conservation Reserve Program and expanding the acreage cap from 36.4 million acres to 39.2 million acres.
- Authorizing the Grassland Reserve Program at 2 million acres for restored, improved, or natural grassland, rangeland, and pastureland, including prairie.
- Authorizing a Conservation Corridor Demonstration Program on the Delmarva Peninsula in parts of Delaware, Maryland, and Virginia.
- Authorizing the Conservation Security Program to assist producers in maintaining or adopting practices on private agricultural land and to incidental forested land.
- Reauthorizing the Wetlands Reserve Program and increasing the acreage cap to 2.275 million acres.
- Reauthorizing the Environmental Quality Incentives Program and increasing the funding from about $200 million to $400 million this year, ranging to $1.3 billion in fiscal year 2007
- Reauthorizing the Wildlife Habitat Incentive Program and increases the funding to $85 million by fiscal year 2007.

Source: USDA website, http://www.fsa.usda.gov/pas/farmbill/readfaqs.asp?catcode=1&faqid=3

State of Texas Programs:

Grants http://www.agr.state.tx.us/iga/grants_funding/index.htm

Unless otherwise stated, all programs administered by the Texas Department of Agriculture through the Texas Agricultural Finance Authority (TAFA).

Urban Schools – A program designed to enhance urban students' awareness of agriculture via school gardens, water conservation, and other activities. A grant of no more than $2,500 shall be disbursed to eligible school districts that submit, and receive approval from, a request for proposal. Eligible school districts include any school district in Texas whose total student enrollment exceeds 49,000 students.

Integrated Pest Management – A research and development grant to explore the use of alternative methods of pest control other than traditional pesticides. The Texas Department of Agriculture awarded $300,000 to 26 different institutions in 2002, with the objective of exploring non-traditional methods for pest eradication and prevention. Those programs are as follows:

- Cotton Ginning Impacts on Boll Weevils ($35,000)
- Using Flames to Control Weeds in Cotton and Corn ($11,081)
- Cotton Plant Compensation Due to Insect Loss ($9,350)
- Intensive vs. Survey Scouting for Cotton Insects ($14,740)
- Impact of Boll Weevil Eradication on Beneficial Insects ($16, 753)
- Cotton Fleahopper Management ($5,995)
- Educating Elementary Students about IPM ($726)
- Weed Management in Corn ($8,263)
- Diseases in Watermelons, Squash and other Cucurbit Crops ($10,857)
- Non-chemical Weed Control in Cotton ($6,647)
- Cotton Stalk Destruction Methods ($5,602)
- Vegetable Management Manuals ($19,800)
- IPM Internship Program ($37,000)
- Controlling Beetles in Sunflowers ($2,045)
- Controlling a Major Pest in Sunflowers ($14,960)
- Controlling Corn Pests ($11,460)
- IPM Manual for Texas School Districts ($14,992)
- Conservation Tillage's Affect on Insect Populations ($5,940)
- Conservation Tillage's Affect on Weed and Insect Populations in Cotton ($9,697)
- Pest Control in Cotton ($4,598)
- Natural Pest Control in Cotton ($11,892)
- Cotton Pest Control ($14,732)
- Fleahopper Control in Cotton ($4,598)
- Fungus Control of Cotton Aphids ($6,992)
- Biological Control of Citrus Blackfly ($5,500)
- Pink Bollworm Control ($10, 780)

Specialty Crop and Product Development – An applied research and product development grant program originating in the federal government, but administered by the Texas Department of Agriculture, that assist specialty crop producers in the state of Texas. Specialty crops are defined as any crop that is not wheat, feed grains, oil seeds, cotton, rice, peanuts, or tobacco. The TDA received $2.66 million and has allocated the appropriation in the following manner:

- Marketing 44%
- Pest and Disease 25%

- Research 16%
- Nutrition 15%

Surplus Agricultural Products – A grant that assists non-profit entities in the collection and distribution of excess agricultural goods for the use at food banks and other charitable organizations within the state. The $500,000 grant was awarded to the Texas Association of Second Harvest Food Banks in Austin.

Weather Modification Program – Matching grants, totaling approximately $2 million in FY2002, are made available to political subdivisions for rain stimulating (i.e. cloud seeding) programs through this program established in 1997 by the Texas Legislature. Currently, there are 10 such participants in the program stretching from the Panhandle to Laredo covering 51 million acres.

GO TEXAN Partner Program (GOTEPP) – A matching fund program for producers, commodity boards, cooperatives, and small businesses who participate in the GO TEXAN marketing campaign. Interested parties must submit a proposal outlining their costs and expected impact on the sales of Texas agricultural products. GO TEXAN is the marketing program of the Texas Agricultural Department promoting Texas goods.

Loans **–** http://www.agr.state.tx.us/iga/grants_funding/index.htm

Loan Guaranty Program – A program administered by TAFA to provide guarantees for loans which are disbursed by lending institutions to producers who are engaged in innovative, value added propositions. The amount of the guarantee will range from $30,000 to $1 million, but will not exceed 50% of the loan value or $1 million. In other words, if a loan for $1.2 million is approved for the guaranty program, only $600,000 may be guaranteed under this program. However, if a loan for $3.0 million is approved, only $1 million would be made available for the guaranty (rather than 50%, or $1.5 million, of the loan amount).

Direct Loan Program – A direct loan provided by TAFA based upon an assessment of the borrower's status that the borrower, lender, and TAFA conclude that a direct loan from the state will be the best financing option available. The borrower must show that the loan will be used for agricultural purposes within the state, and that the loan will positively impact the agricultural community. The amount of the loan may not exceed $250,000.

Loan Participation Program – Assistance to lending institutions through the purchase of undivided interest in a loan made by a lender. The project for which the original loan was made must meet certain requirements regarding enhancements to the agricultural community prior to TAFA's agreement to purchase the undivided interest. The amount of the undivided interest may not exceed $5 million.

Young Farmer Loan Guaranty Program – Loan guarantees to eligible applicants aged 18 to 39 who are principals in an agricultural related business. The funds may be used for working capital or for any agriculture related business endeavor. The amount of the guaranty may not exceed the lesser of $250,000 or 90% of the total loan amount.

Farm & Ranch Finance Program – Assistance to eligible applicants to purchase land that will be put to full time agricultural use. The applicant must show that the land will be used for agricultural purposes, have a net worth of less than $400,000, and have three years of relevant agricultural experience. The loan amount will not exceed 95% of the appraised value of the land, 95% of the purchase price, or $250,000, whichever is less.

Linked Deposit Program – A program designed to encourage lending institutions to lend below market rates for certain eligible projects. Eligibility for these projects includes:

- Processing and marketing agricultural crops in the state
- Alternative crops grown in the state
- Producing agricultural crops in the state, where the prices of those crops have been negatively impacted by natural disasters
- Utilizing water conservation as a tool in the production of agriculture in the state
- Water conservation projects
- Providing non-agricultural goods or services in a rural area

The maximum amount for these loans is set at $250,000. The only exception is for the processing and marketing loans, which has a cap of $500,000.

Rural Development Finance Program – A program designed to benefit those who wish to locate a non-agricultural business in rural areas that will provide significant benefits for the aforementioned rural area. The loan may be used to purchase real estate, improvements for existing structures, equipment, and working capital. The guaranty amount will be at least $100,000 but will not exceed $1 million. The maximum guaranty is set at 50% of the loan amount, 50% of the total cost of the project, or $1 million, whichever is less.

Texas Capital Fund:

Main Streets Improvements Program – Provides financial assistance to non-entitlement cities for public improvements as a means for attracting business to those cities. The infrastructure improvements eligible include such projects as: water and sewer facilities, traffic signals and signs, and sidewalk construction/improvements to name but a few. The awards range in size from $50,000 to $150,000 and must have matching funds.

Real Estate Development Program – Focuses on attracting new business development in non-entitlement communities for primarily low-to-moderate income individuals. The business must be developing permanent jobs for the community. The awards range in size from a minimum of $50,000 to a maximum of $750,000, and may not exceed 50% of the total project cost. The businesses, however, must produce 10% of the equity if they intend to operate for more than 3 years, or 33% of the equity if their timeframe is less than 3 years.

Infrastructure Development Program – Similar to the *Main Streets Improvements Program* in that it allows funds to be utilized for infrastructure improvements for businesses which are committed to create permanent jobs for low and moderate income persons in non-entitlement communities. The awards run from $50,000 to $750,000 and may not exceed 50% of the total project cost. Furthermore, the business benefiting from this arrangement must provide 10% of the equity for the project.

Appendix 2: Comments from the Expert Interviews:

Interview #1

Current State of Affairs:

The current state of affairs for the agriculture industry is that they are in dire straits. Agriculture is marginal from the profitability standpoint. The drought of the last five years has contributed to the lack of profitability. A lot of farmers have gone out of business, and a lot of the others are on the borderline. A lot of folks are having trouble getting financing – it's a touch and go situation.

Larger operations have a little more access to financing just by the virtue of their size and their history.

Whatever the size of the operation, there are unique financial dilemmas that have to be addressed.

A lot of enterprises have been losing equity over the years. The performance of the past few years has impeded access to capital.

Outside income has helped support some of these operations. Not only is there a problem with equity and lack of profitability, they are having cash flow problems.

Risk factors get so high that the lenders are cutting the farmers off.

Four main areas that affect profitability: weather, market factors, management tactics, and production efficiencies. Weather and market conditions are factors that cannot be controlled, but better management tactics could be taught to the farmers.

To weight the four main areas affecting profitability (based on personal opinion):

Management – 15%.

Production efficiencies – 15%.

Weather – 35%.

Market conditions – 35%.

Recommendations for the formation of public policy:

To help them be more successful in business – can't do anything about the market or the weather. Risk management is built in to all the aforementioned factors, and has been addressed to a certain degree with Farm Assist. A major issue is education; to make the farmers become better financial managers. Those programs that help with market and production risk would be beneficial.

Education helps with the access to capital as well as production efficiencies. Too many of the farmers are in their fifties or sixties and don't have any net worth accumulations and don't know it. Any encouragement from policy makers to help the farmers improve their analytical skills and the financial capabilities along with anything they could do to improve access to capital would be welcome.

The banking system is set up fairly well. The regulatory environment is needed to keep the banks in business and prevent bank failures.

Improve the farmer's efficiency.

Some traditional banks are not friendly towards the agriculture sector. Agriculture does not make up a large percentage of their portfolio and therefore it's difficult to sell an ag loan to a traditional bank over some other type of loan.

There would be some educational opportunities for the people in the banks who don't understand the agricultural production processes. There have been stories of banks turning down loans because they don't understand the production or they don't have faith in the farmer's management capabilities.

There are a lot of alternative sources of financial services. Expand guaranty programs in the Texas Department of Agriculture. Let people know about the young producer loans and guarantees. That way we can introduce younger people to farming because there is a need to replace the aging farmer.

Questions for the interviews:

Current questions in the survey include: current loans, loan experience, how they feel about the application process and guarantees, interest rates, amortization schedules, types of loans, payment schedule, credit checks, and their overall experience with the loan process.

A lot of farmers don't put together financial documents such as income statements, balance sheets, cash flow analyses, etc. Ask what kind of information they have to submit to get a loan. Ask about financial documents such as who prepares financial statements…is there a CPA who works with the farmer?

Ask how they make their financial investment decisions. Most farmers report on a cash basis so if they're making financial management decisions based on their income tax information then they don't have an accrual adjusted basis to go by which is going to be misleading. Figure out the level of financial management or financial sophistication.

Ask how many enterprises are on their farm/ranch. Ask them if they determine the profitability of each of the different enterprises separately.

Interview #2

Current State of Affairs:

Must meet requirements of whatever institution they are trying to work with. There is no problem with credit availability. If a farmer had a good business history and the lending institution felt like they could secure the loan, the lending institution would not have a problem approving the loan.

The new farm bill gave some relief to the bankers. They need the cash flows; the operating loans must produce the cash flows. The subsidies are important as far as generating the cash flows.

Questions for farmers to be included in survey:

As far as the access to credit is concerned a lot of the problem is the level of financial information that the farmers currently have: the financial information in terms of financial statements. Where are they, financially? Where will lenders ask them to go? Historically, farmers and ranchers don't feel like they have to provide the information to the lender that other small businesses must disclose in order to get loans. Farmers are inclined to think that because they farm they don't have to disclose financial information. Lenders should require, and are making progress in requiring, better, more complete financial information from the farm customers.

Farm Assist (FARM) is a good program. Texas Tech is involved with Standardized Performance Analysis (SPA). SPA tries to create benchmarks from historical information. Jim McGrann at A&M developed the cow/calf SPA in livestock in the 80's. McGrann developed a database and is working with cow/calf producers. People at Texas Tech and Texas A&M developed the SPA for crop producers. The crop SPA has to look at the whole farm situation, multiple enterprises, multiple farm units, and multiple geographic concerns. It's a much more complicated process than the cow/calf SPA program. The project has been under way for 5 or 6 years.

No need to worry about the availability of credit with a well designed business strategy, the need is for education in the development of business plans. Credit is there. Commercial banks are looking for good loans, they do not care about loans dealing with agriculture or not dealing with agriculture. If the borrowers can show the security for the loan, the banks will make the loan.

The Farm Credit System is comprised of the PCA's and Federal Land Bank. These institutions are quasi-federal agencies, they are cooperatives. Farm Services Agency (FSA which is the old FMHA) provides direct federal lending and guarantees. Commercial banks also offer agricultural lending.

An example of non-traditional lending is the fact that John Deere is making loans. There is not a problem finding a source of lending opportunities, the problem is showing the lenders that security is there for the loan.

Farmers should have to show credible sources of security for loans. Farmers need to be able to understand the business side, but the accountants are providing this information. Cash accounting is the norm with agriculture because we can report our federal income taxes on a cash basis, but we need to get to an accrual basis accounting.

SPA emphasizes the need to be on an accrual basis not cash basis. Evaluate true alternatives. Would like to see more stable funding for SPA.

Bring ag producers to a higher level with regard to their sophistication and their ability to develop better business plans and provide financial information.

SPA has found funding through Cotton Incorporated and through the profit initiative with Grain Sorghum Now, but SPA needs more stable funding. A proposal was sent to Cotton Inc., but the needs for SPA are about $150,000 to $200,000 annually which they are not able to afford. Need a full-time individual to gather a set of participants (25-50) throughout the state that they can work with on a continual basis to develop the benchmarking.

Alternative paths of production can change the farmer's perspective about changing crop offerings. Look at probabilities, and that is where Farm Assist with its forward looking perspective is a good tool. The best of both worlds would be to combine SPA (back looking) and Farm Assist (forward looking).

<u>Agricultural Lending History:</u>

Federal Reserve Bank publishes quarterly survey of agricultural credit conditions in the 11th federal reserve district. The data goes back to 1993. It shows demand for loans, funds available for lending, loan-deposit ratios, interest rates, fixed variables, intermediate term loans, real estate values, and the general description of the agricultural lending conditions. It is the quarterly survey of agricultural credit conditions. The person responsible for the survey right now is John Thompson (work phone is 214.922.5191).

The Fed and the comptroller of public accounts should have a wealth of information about agricultural lending. The only issue about the information is its availability and accessibility.

Interview #3

<u>Current State of Affairs:</u>

First handlers are totally dependent on the government farm assistance.

Texas is a high risk area of production – primarily weather related (ex. hail, drought, floods, etc.). There are areas of the country with extensive irrigation or favorable weather patterns or fertile soils that allow them to produce crops under most conditions.

Many areas in Texas have been irrigated over time, but that is being reduced because of dropping water tables and/or competition for water. The non-ag competition, particularly near urban areas, (e.g. golf courses) for water has a higher marginal value for water. The rice industry is not competitive in Texas because agriculture is not the most profitable use for water in Southeast Texas (specifically Houston). Impact of runoff issues affecting the dairy industry toward the Bosque watershed. The dairy industry cannot grow because of all the phosphorus in the water.

Federal government subsidies carry the business - farm program assistance in the form of price subsidies primarily. The farmers take what the market gives them (e.g. cotton around 30 cents a pound, but it takes 60 cents per pound to produce it). Marketing loan assistance keeps the farmers solvent. Conservation programs pay them to take ground out of production.

The system encourages overproduction. The system says that to maximize the benefits of the program, you must produce. Multi-peril insurance programs are government subsidized. They are supposed to be actuarially sound, but they are sold more in high-risk areas because the subsidy makes it more of a safe investment.

From a financial institution perspective - without programs, it would not make sense to make most farm loans. Government programs take a lot of risk away. Intensive – heavy row crops, heavy population rates, large fertilizer, and/or higher value crops which need water and a price risk assurance to put that kind of cash investment into the crop and the government provides the underpinning for that.

The most productive areas in Texas are irrigated. Irrigation is being threatened because water is being used faster than it is being replenished.

Significant portions of farm payments are capitalized into land values. A lot of the commercial production in this state is on rented land. A less risky environment and/or profitable enterprises will bid up the cash rents on the land that they're farming. That is the collateral (hard assets such as land, machinery, or livestock).

Estimates circulated (not published anywhere) that land values in South Plains, Coastal Bend Area, and other areas would have fallen by 60% if the government was not involved. The competition would not have been present to bid up land prices. Domino effect of market overreaction would occur if somebody got shut off from credit and were forced to sell assets, there would be the compound problem of increased supply coupled with reduced demand as a result of reduced income expectations.

Questions to ask farmers:

Texas has bi-modal, large commercial scale farms and small part-time farms (retirees or weekend farmers). There may be some more segments other than the bi-modal approach. There are mega-farmers, the cactus feeders, the feedlots, and the King Ranches, or the family farmers that should be considered.

Farmers are getting older, who will replace them. Agricultural industry is heading toward true commercial farming. Farms should be no different than any small business. There ought to be a management and ownership succession plan in place for those large commercial farming enterprises.

There are state and federal programs in place to encourage young farmers, but what is really needed is a program to focus on transitioning the ownership of the assets of the operation to the younger generation of family members or to employees of the bigger operations (ex. allowing those employees to buy equity stakes in the operations).

Don't need more new farms. Need better business management and more experience on the existing farms.

Single biggest demand on farm land in Texas is for recreational purposes.

Value-added agriculture such as positioning, differentiating a product, further processing, and alliances is lacking coherent business plans and management capabilities of the farmer and not on the availability of financing. Need more emphasis on training for entrepreneurship. How to put together a solid business plan, what does the competition look like, and so on, are education issues that need to be addressed.

The lenders would be there if the borrowers had coherent, convincing business capabilities.

The state programs are focused on the wrong areas. More good would be served by targeted education plans to help people create viable plans.

<u>Recap:</u>

- Succession plan for the farming enterprise
- Business sense

The state encouraging Ostrich ownership was an example of bad entrepreneurship incentive. There was no end market for it. Those who got in early and got out early benefited. However, there was no long-term potential for that market.

There is a disconnect between private investors and the farming community. The Farm Credit System should have more of a centralized resource to bring private equity investors into the fold.

<u>Recommendations for policy makers:</u>

The state should push the FARM assistance program. It can help to assess risk based capital requirements for lending institutions. This will eventually filter down to smaller financial institutions. The FARM assistance program is a simulation model that does multi-year cash flows and income forecasts. It uses the individual firm's own financial structure and takes ten-year yield histories and ten-year price volatility to determine forecasts. Minimizing the portfolio risk is important. This model allows them multiple variables to build consolidated cash flow models. It can use variability that is unique to each operation. It's tied to specific geography and it's multi-dimensional.

Commodity agriculture production is moving the same way heavy manufacturing moved. Lower land costs, lower labor costs, water considerations will move production to developing countries (ex. Brazil, eastern Europe, and even China). Texas will be at a comparative disadvantage because production will move to places with better soil, better weather patterns and so forth.

We are in a denial state. We are kidding ourselves.

Interview #4

<u>Current State of Affairs:</u>

The producers got hit three different times – if they lost true income off the farm, if they were a land owner, and if they were an owner of equipment. They got hit with a triple dip. It was similar to the stock market.

Of these categories: price, managerial expertise, weather, and productivity, the number one concern above all would be the price. The weather would be right below the price. If there was just enough bad weather to reduce the commodity they were growing and not zero it out, then the producer suffered because when a commodity is zeroed out to complete devastation the farmers make money through crop insurance and other federal assistance. But, if a producer has a yield that does not qualify them for the crop insurance and they have to go to market with a low production level and then the prices also go down, the farmers get killed.

Next would be managerial expertise and then combine weather and productivity. Price is way above all, but those are the four major components.

These factors are true across the nation. There are places in Texas like in Wellington that have dry land and were producing peanuts under quota. They were getting insurance windfall year in and year out and had been better off than others. There have been portions of the state that have had the right mixture of price and product to remain profitable.

Idalou has grown peanuts. However, Idalou has not had enough experience to get the insurance yield raised up, so now due to the water conditions they prevent the producers from meeting historical yields and thus preclude them from obtaining insurance payments.

Another issue to be discussed would be the US Ag Policy and specifically, the Farm Bill/Farm Insurance Programs. The insurance programs have allowed some producers to be better off than they should have been. And, that is going to change and the producers are wary of that change.

And another element of the price issue is trade. Currently, the US averages 62% tariffs on exports, but only applies 12% tariffs on foreign imports. When the dollar was weaker against the European currencies, these tariffs were not as much of an issue, but the dollar strengthened relative to those currencies and the tariffs were not adjusted accordingly and that has contributed to the imbalance of trade. A policy recommendation for the federal government would be to balance out the currencies and level the trade imbalance.

<u>Availability of financing for agriculture in the state of Texas:</u>

The availability of loans is there. With enough good credit there are lending programs available. Fewer institutions are inclined to lend to producers of agriculture. The number of private institutions is declining, but the availability of funds is still there. A producer with good credit should have no problems obtaining loans. A qualified producer should be able to obtain credit.

The banks that are exiting the agriculture business are shifting their focus to metropolitan areas and focusing on real estate, consumer, or something else. Banks will have a hard time diversifying if they are rooted in rural communities because they are required to remain involved in their local community by the Community Reinvestment Act.

The safety net feature of the old farm program prior to the Freedom to Farm Act of 1996 was tied to production. The government mandated that for a producer to receive a certain price for a commodity, the producer had to leave a percentage of their viable cropland fallow. What the Freedom to Farm did is the government said they don’t care what the farmers plant. It does not matter what the price of the commodity is because the producer will receive decouple payments. Well, the decouple payments come in to play so that we fit into the ‘green box’ with the World Trade Organization. They should alter the box structure of the World Trade Organization. These farmers have not had a deterrent to produce more. They think that to break even they should plant more.

Questions for the interviews:

Current questions in the survey include: current loans, loan experience, how they feel about the application process and guarantees, interest rates, amortization schedules, types of loans, payment schedule, credit checks, and their overall experience with the loan process.

Agriculture problems are in the actual farming community. The ranchers and livestock producers are doing pretty good.

Questions ascertaining the profitability of each of the producer's enterprises would be a good idea.

Currently, the schools are a one-shot deal and not a continuing curriculum, and the government should investigate implementing the curriculum over a longer period of time whereby the producers are compelled to attend more classes over a continuing basis.

The younger lenders do not have the agriculture background and training for lending to agricultural businesses so training for them would be beneficial.

Interview #5

Current state of affairs:

Smaller banks, community banks that traditionally provide credit to their local farmers and ranchers are being taken over by larger, corporate banks like Wells Fargo, Bank of America, etc. Producers in those particular counties are probably not going to meet the big banks requirements, whereas before the people in the smaller banks knew the farmers, knew they were good people and would pay the loans back. For those larger banks, the ag lending is not where their interests lie, and they're not going to make a lot of their money in agriculture loans.

USDA did $265 million in loans from 2293 loans. They provided $180 million in loan guarantees. There were 978 direct operating loans for about $60 million. There were 56 direct farm ownership loans for $6.5 million; 278 direct emergency loans (for emergencies declared by the president or the Secretary of Agriculture) for $14.5 million; 21 seed loans (agri-biotech) $433,000; 870 guaranteed operating loans for $159 million, 90 guaranteed farm ownership for $25 million. In total there were 2293 loans for a total of $265 million.

Historical Data:

The Farm Credit Bank in Austin does a lot of agri-financing. Specific data on past financing is hard to find, but the past few years would be available. USDA is the central clearinghouse for federal financial and lending data.

Recap:

- Banks are being cautious.
- Big banks are taking over the smaller community banks and this does constrict the number of banks making agricultural loans.

In operating loans that were mentioned earlier, there is no distinction between capital purchases/livestock and seed, feed, or fertilizer. The real estate loans are just for purchasing land or real estate improvements. Farm ownership loans can be up to 40 years but lenders generally only go up to 20 years, broilers only go to 20 years because of the specialty type structures and facilities. Capital purchases under the operating loans for machinery go 7 years. Most lenders, when they are getting guarantees, under these type loans will go 5 to 7 years.

Recommendations:

The keys to the problems are lack of marketing plans by the producers. Prices are also a concern when generating the cash flow projections. The prices need to show the producers that they are going to breakeven and/or make progress on their term debt payments. Cotton, a big crop here in Texas, today is not generating income above their expenses. Even with the payments scheduled in the Farm Bill of 2002, the producers are not going to make progress on their term debt reduction. Producers are unable to pay.

In the '70's lenders secured loans with real estate. If they could not service their debt, they were living off the appreciation of their real estate. Lenders subsequently got burned in the '80's and so did the borrowers. You can't loan these guys out of debt.

Master Marketer Program is a good program. The most progressive producers will take advantage of these programs, but generally the producers have a shorter horizon and are focused just on the availability of the loan. Several people have been to Master Marketer, and have spoken positively about it.

The state has made some improvements in the management of the TAFA program, but they had some real problems getting their program off of the ground.

Interview #6

Current State of Affairs:

Current state of agricultural lending in Texas from a 30,000 foot view (i.e. big picture):

Problem with cotton because of amount of cotton in marketplace (oversupply) and what happens with the balance or imbalance of trade. People are struggling right now.

Anecdotal evidence from the Ag Coop Council of the state of cotton producers: There are stories of farmers approaching speakers after the seminars asking, "What are we going to do?" She makes certain that the farmer has cut costs, and they have some form of supplemental income. If they are probably not going to get a renewal on a loan, they will most likely have to sell land if they own it or lease parts of it out to big producers or seek employment off of the farm.

Many folks are struggling around the Lubbock area. Lubbock has a lot of dry land cotton farming. Businesses fail because of: lack of equity, poor business plans, lack of good management.

A lot of the problems in West Texas could be water related because the lenders in Southeast Texas do not have much trouble right now. Production is water related, but the actual marketing and the lack of the market thereof has everything to do with how much cotton is produced, how much is imported and how much is exported. The strength of the dollar, our trade policy, costs for producing cotton overseas, and the reasons listed above are all contributing factors to problems.

The problem is not the lending availability but the agriculture business itself.

There are fluctuations in the market, and right now agricultural loans are not attractive to a lot of banks because of the depressed agriculture economy.

Consolidation of banks has led to less personal touch with the borrower. Acquisition of smaller banks by regional, national banks will alter their focus in relation to risk management immediately.

Credit is available in a more formal, less personable way than it was available in the past. Presently, banks require financial statements, good credit history, business plans and the like in order to approve agriculture loans.

Policy Recommendations:

There should not be a support system for marginal performers. There is the need to be a good businessman in order to survive in today's climate.

If it was possible to change economic policy – balance of trade, dollar value relative to foreign currencies, some things would be changed. But, those things can't be changed at this level.

Recommendations:

- Do a better job of educating farmers.
- Provide them with marketing tools. Allow the farmers to understand the marketing tools, and use the marketing tools.
- Bring them along to be a professional farmer in today's world.
- Difference could be made over time.

Do not recommend:

- Don't want to loosen credit requirements.
- Don't want to lead to bank failures.

Lack of understanding the business side has led to a lot of failures. Need to analyze the business.

Anecdotal evidence exists of the extent of ignorance regarding balance sheets and trend lines.

People tend to think that parenting and farming are two natural professions, but there is a need to educate.

Can make a difference at the local level in a hands-on environment.

There are times when bankers need education about the agricultural lending industry. There are people who don't use the futures markets and options to protect themselves. There is a lack of an organizational marketing emphasis.

Education is very important.

One issue for producer lending is estate planning. We need a way to loan to offspring of farmers so they can buy the operations from their parents. If no relatives want to continue, we need to facilitate current employees with experience and promise to be able to buy into the operation.

We need a lease or other program with ownership expectations later on.

And, we need ways to facilitate entry-level farmers.

Interview #7

Current state of affairs of agricultural industry and the lending availability:

Just to clarify, when we talk about farmers and ranchers we are talking about the group that makes their livelihood on agriculture and not weekend or recreational farmers. The state of credit availability is good. There is plenty of credit available. Competition is really strong for good quality credit.

There is a definite dividing line between the strong creditworthy customer, the one that everybody is after, and those who are not creditworthy. That dividing line has widened over the last three years. Those who have increased focus on operating income, reducing expenses and becoming more efficient in their operations have really differentiated themselves.

The better the financial information, the more accurate the assessment can be. Of course there is that group born into wealth, who inherited their wealth. There is always going to be that group who is the exception to the rule. However, for the most part there are those people who are making their living off of borrowed money and with some amount of leverage.

We also attribute the widening of the gap as it relates to this geographic area (Southeast Texas) to the fact that we have not had a crop carry over debt in three years. Crop carry over debt is an annual renewable working line of credit (much like other businesses). Crop insurance for unforeseen disasters never covers all of their input operating costs. We have had three back to back to back years of no carry over debt which translates into positive cash flows for three years. We typically think that three out of every ten years we'll have some form of breakeven cash flows or negative cash flows. Those breakeven or negative years would be attributed to market and/or weather conditions.

Our customers are from all areas of agriculture: soybeans, cotton, corn, milo, and rice – all staples in the farming community in the state of Texas.

Suggestions for questions in the survey:

Have a representative sample from each type of operation. Similar to the farmers without any carry-over debt, we have had strong calf market prices. The people in the breeding livestock operations have been highly profitable the last three years. By and large those who have been watching their bottom lines have done well and really exemplified the widening of the gap discussed earlier. The highly leveraged, the poor operators are getting worse. Their payments are all going to the bank for interest or debt service because they're serviced up. That is contributing to the widening of the gap.

While the cow/calf guy has done well, the stocker feeders (feeder cattle operations), and the cattle on feed phase (the guys who feed them on lots until the end) have not done so well. The stocker feeders and the cattle on feed operations have been hurt, especially since 9/11. There has been a loss of beef demand after the 9/11 tragedy due to diet adjustments and altered dining preferences. High-end restaurants in the East have not been as strong buyers of beef.

Interview #8

Current State of Agriculture in Texas:

There are two markets for first handlers who make their living off of agriculture: age 40 and under and over the age of 40. The age 40 and under segment are generally struggling unless they have had strong capital and/or strong family support. The over 40 segment are probably okay, but they do have some issues. Their primary issues are: 5 years of very low commodity prices, the Freedom to Farm Act was not good for Texas in general (it was hard on cotton, wheat, grain farmers in Texas), and without the disaster programs, there would have been chaos.

Texas has a larger amount of the FSA money than any other state and that is because farmers here have had some issues.

Congressman Combest and Congressman Stenholm sent a letter to the members of Congress to pull some money out of the Farm Bill citing some statistical evidence, and they are extremely knowledgeable in the agriculture issue. They made the point that real income of farmers is lower than at any time since the Great Depression. They further stated that commodity prices are lower and other countries utilize tariffs to support their farmers. America has a cheap food policy and does not use tariffs. Some of the reason for the current state is the general stance of American agriculture policy.

Other countries protect their farmers with tariffs and subsidies. They perceive their agriculture as a national security issue. Most foreign countries do not have the capability to produce as much food as America does. American farmers had a profitable run exporting commodities after World War II due to the fact that Europe had been ravaged by war and Japan was rebuilding after the war. The American farmer was feeding a substantial portion of the international community, and a lot of those countries perceived that dependence on American food as a threat.

President Carter used grain as leverage with his wheat embargos. This example just proved to the rest of the world that if someone depended on the US for food we would use that against them.

The weather and foreign protection are major elements of agriculture.

In regards to running a farm like a business it should be considered that for a farmer looking at all the risks associated with running their farm, the fewest risks are present in securing government payments. They have to maximize their income and thus government assistance becomes the rational choice. In my opinion, some fraud is present and varies depending on the weather situation: in good weather the farmer will try to make the crop, but in bad weather they will just stop trying. There is fraud by degrees: proactive fraud versus reactive fraud.

Agriculture banks in Texas have a lower loan to deposit ratio than the banks in the cities. For quality credit there is more than enough money available.

Those that do not have quality credit could be determined by examining ratios of various farmers to sort out their particular quality level.

There were two bright, hard-working young men who had college degrees in the local community who couldn't make it in farming. And, that just shows that the plight of the Texas farmer is not confined to ill-equipped, lazy individuals, but has affected folks that one would normally think would be profitable.

Over capacity takes people out and that is not a popular option with the farming community. But, it is just a natural evolution.

One program that has really gained in popularity in West Texas is the Conservation Reserve Program (CRP); it reduces land available for a ten year interval and pulls that capacity out of production. And, as that land capacity is pulled out of production the rural population is diminishing. However, this may be the most promising way of doing things in order to keep the remaining farmers solvent.

Census data in rural areas should be without urban influences. As human population dwindles in those areas there will be a smooth transition.

<u>Recommendations:</u>

For the agricultural community, they need access to venture capital. When Governor Perry was Ag Commissioner, he was working on bringing value added corporations to Texas because Texas ships out a lot of commodities to be processed into the final product (the value added product). Location and expertise play a major role in this type of value added products. Need venture capital for farm products.

An example of these value added products is the Pace Company, the picante sauce. The hog production was not a big industry in Texas until a few hog farms sprouted up in the Panhandle: examples would be Right Brand Foods and Swift Premium Farms. For the chicken industry: Pilgrim's and Sanderson Farms. For the turkey industry: Plantation Farm.

To reiterate, venture capital is needed for the individuals who want to enter the value added arena.

Education is an important element, but some of those farmers are already more sophisticated than they are given credit for. For the small community banks the relationships with farmers create unique lending opportunities, meaning that those close relationships cut out the need for a lot of formal financial information and institutional paperwork.

To recap:

Texas needs to be a catalyst for generating opportunities for value added products. The American farmer faces a competitive disadvantage in the international community due to foreign tariffs. And, of course, many areas of Texas have regular weather issues that cause crop problems.

Appendix 3: Survey Instrument For Interviews With 400 Agricultural Producers

Lending to Agricultural Producers in Texas: 2002
(Draft 5 - July 16, 2002)

Interviewer Introduction

Hello. My name is ______________ and I am calling on behalf of the State of Texas. My company, Analytica, has been commissioned to do research on the availability, quality, and pricing of loans to agricultural producers in the state. By participating in this research you can help improve the climate for obtaining agricultural loans. The survey is completely confidential. At no time will your name be associated with any of the responses and a summary of results will be made available to you.

S1) First let me verify that you are primarily engaged in the production of ____________________
(Interviewer: Fill in blank with the SIC category description from the sample.)

1) Do you currently have one or more loans or lines of credit to support your farming (or ranching) operations?

_____ Yes _____ No

1a) (If No) If you had a loan within the last three years, in what year was the most recent loan repaid? Year __________ No loans _____

(For the questions which follow, please respond in terms of the last such loan you had. (Go to Q1b)) (If No loans in Q1a go to Q13)

(If Yes to Q1) Please indicate how many of the following types of loans you currently have.

1b) ____ How many loans do you currently have for land, buildings, or to make building improvements for the purpose of farming or ranching?

1c) ____ How many loans do you currently have to purchase equipment or livestock?

1d) ____ How many operating loans do you currently have to purchase feed, seed, or meet any other current operating expenses?

2) (If one or more major land/building loans) For the largest loan for land or building please describe the amount, the maturity, the rate, and the terms:

2a) Amount: ________________

2b) Loan amortization length: ________________

2c) Repayment terms: ________________

2d) Payment amount: ________________

2e) Interest rate: ________________

2f) Government guaranty or subordination agreement? _____ Yes _____ No

(If Yes, which government agency?) ____

2g) Specific purpose or use of loan: ____

2h) Type of lender: _____ Commercial Bank

_____ Farm Credit System

_____ Merchant or Dealer Credit (John Deere Credit, J.I. Case Credit, etc.)

_____ Life Insurance Company

_____ Credit Card (personal or business)

_____ Farm Service Agency

_____ Texas Department of Agriculture

_____ Other (Please specify.) ______________

(Could include credit union, savings bank or Small Business Administration)

2i) In what ways did you come to be aware of the institutions you approached for the loan?

____

____

2j) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Finding interested lenders: _____ None ________________________________

____

Applying for the loan: _____ None ____________________________________

____

Completing the loan applications: _____ None __________________________

____

Repaying the loan: _____ None _______________________________________

____

Refinancing the loan: _____ None _____________________________________

____

Any other problems: _____ None ______________________________________

____

2k) What was the loan-to-equity ratio? _____ %

2l) Was additional collateral required? _____ Yes _____ No

2m) Was a personal guarantee required? _____ Yes _____ No

2n) (For farmers) Did the lender require crop insurance? _____ Yes _____ No

2o) Did the lender require participation in one or more federal farm programs?

_____ Yes _____ No

3) (If one or more major equipment or livestock loans) For the largest loan for an equipment or livestock purchase please describe the amount, the maturity, the rate, and the terms:

3a) Amount: ________________

3b) Loan amortization length: ________________

3c) Repayment terms: ________________

3d) Payment amount: ________________

3e) Interest rate: ________________

3f) Government guaranty or subordination agreement? _____ Yes _____ No

(If Yes, which government agency?) ____

3g) Specific purpose or use of loan: ____

3h) Type of lender:
- _____ Commercial Bank
- _____ Farm Credit System
- _____ Merchant or Dealer Credit (John Deere Credit, J.I. Case Credit, etc.)
- _____ Life Insurance Company
- _____ Credit Card (personal or business)
- _____ Farm Service Agency
- _____ Texas Department of Agriculture
- _____ Other (Please specify.) ______________

(Could include credit union, savings bank or Small Business Administration)

3i) In what ways did you come to be aware of the institutions you approached for the loan?

____

____

____

3j) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Finding interested lenders: _____ None ________________________________

____

Applying for the loan: _____ None ____________________________________

____

Completing the loan applications: _____ None ____________________________

____

Repaying the loan: _____ None ____________________________________

____

Refinancing the loan: _____ None __________________________________

____

Any other problems: _____ None __________________________________

____

3k) What was the loan-to-equity ratio? _____ %

3l) Was additional collateral required? _____ Yes _____ No

3m) Was a personal guarantee required? _____ Yes _____ No

3n) (For farmers) Did the lender require crop insurance? _____ Yes _____ No

3o) Did the lender require participation in one or more federal farm programs?

_____ Yes _____ No

4) (If one or more operating loans) For the largest operating loan please describe the amount, the maturity, the rate, and the terms:

4a) Amount: _______________

4b) Loan amortization length: _______________

4c) Repayment terms: _______________

4d) Payment amount: _______________

4e) Interest rate: _______________

4f) Government guaranty or subordination agreement? _____ Yes _____ No

(If Yes, which government agency?) ______________________________

4g) Specific purpose or use of loan: ______________________________

4h) Type of lender:

_____ Commercial Bank

_____ Farm Credit System

_____ Merchant or Dealer Credit (John Deere Credit, J.I. Case Credit, etc.)

_____ Life Insurance Company

_____ Credit Card (personal or business)

_____ Farm Service Agency

_____ Texas Department of Agriculture

_____ Other (Please specify.) _____________

(Could include credit union, savings bank or Small Business Administration)

4i) In what ways did you come to be aware of the institutions you approached for the loan?

____

____

____

4j) Please describe any problems you encountered in finding interested lenders, in the process of applying for the loan, in the process of completing the loan applications, repaying the loan, or any other problems in the process.

Finding interested lenders: _____ None ______________________

____

Applying for the loan: _____ None ______________________

____

Completing the loan applications: _____ None ______________________

____

Repaying the loan: _____ None ______________________

____

Refinancing the loan: _____ None ______________________

____

Any other problems: _____ None ______________________

____

4k) What was the loan-to-equity ratio? _____ %

4l) Was additional collateral required? _____ Yes _____ No

4m) Was a personal guarantee required? _____ Yes _____ No

4n) (For farmers) Did the lender require crop insurance? _____ Yes _____ No

4o) Did the lender require participation in one or more federal farm programs?

_____ Yes _____ No

5) In terms of your experience at borrowing for your farming (or ranching) operations do you have any examples where your lender was especially helpful or understanding?

____

____

____

6) Thinking generally in terms of your overall experience with lending for agricultural production in the state of Texas please use a "1" to "10" scale to rate your satisfaction with the various steps in the process. Use a "10" to indicate you are "Extremely Satisfied" and a "1" to indicate "Extremely Dissatisfied". (Where ratings are below "7" get recommendations for changing.)

Rating

6a) Number of lending alternatives available and interested in lending. _____

Comments:____

____

6b) Application process and forms. _____

(If rating is below "7" verify whether there are problems with each lender type:

___ Commercial lender ___ Federal lender ___ State lender)

Comments:____

____

6c) Business financial statements (including budget and pro forma) required. _____

Comments:____

____

6d) Personal financial statements required. _____

Comments:____

____

6e) Collateral requirements, including loan-to-value equity ratio. _____

Comments:____

____

6f) Periodic reporting and/or inspection requirements. _____

Comments:____

____

6g) Interest rate. _____

Comments:____

____

6h) Other charges and fees. _____

Comments:____

____

6i) Repayment program. _____

Comments:____

____

6j) Lender knowledge and understanding of your business. _____

Comments:____

____

6k) Fairness and accuracy of your credit report. _____

Comments:____

____

6l) Elapsed time between closing and available funds. _____

Comments:____

____

6m) Overall rating of the entire lending experience. _____

Comments:____

____

7) Over the past three years have you been denied a loan to support your farming (or ranching) operations on one or more occasions?

_____ Yes _____ No

_____ (If Yes) How many times?

(If Yes) Please describe the reasons for denial.

____

____

____

8) Over the past three years have you had any occasions where you could not repay a loan?

_____ Yes _____ No

_____ (If Yes) How many times?

(If Yes) What did the lender do to collect?

____

____

____

9a) During the last 3 years, have you had to use revenue or income from a non-agricultural source to repay an agricultural loan?

_____ Yes _____ No

9b) (If Yes) Roughly what percent of your loan repayment had to come from non-agricultural sources? _____ %

10) Please describe to what extent your agriculture operation depends on programs from the federal and/or state government. (Potential issues: subsidies, price guarantees, loan guarantees, etc.)

____

____

____

11) If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agriculture **production** in the state what would those recommendations be? (Potential issues: land value, water rights, subsidies, etc.)

____

____

____

12) If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agricultural **lending** in the state what would those recommendations be?

____

____

____

(For No Loans)

13) If you needed a loan to support this operation do you think you could get one?

_____ Yes _____ No

(If No) And what would it be that would keep you from getting one?

____

____

____

14) Please describe to what extent your agriculture operation depends on programs from the federal and/or state government. (Potential issues: subsidies, price guarantees, loan guarantees, etc.)

____

____

____

15) If you could make any recommendations to the Texas State Legislature for changes to improve the climate for agriculture **production** in the state what would those recommendations be? (Potential issues: land value, water rights, subsidies, etc.)

____

____

____

Now we have some demographic questions that will be used to better understand the context of your answers. Please keep in mind that all of your specific information is completely confidential and will not be shared with anyone.

16) Which of the following crops or animals represent significant sources of revenue for your operation?

Poultry and eggs	_____
Hogs	_____
Sheep and goats	_____
Dairy cattle	_____
Beef cattle	_____
Fruits and tree nuts	_____
Vegetables, melons or potatoes	_____
Berry crops	_____
Citrus	_____
Wheat	_____
Rice	_____
Corn	_____
Soybeans	_____
Cotton	_____
Tobacco	_____
Other (Please specify)	_____ (_____________________)

17) Roughly how many people work in your operation? __________________

18) How many years has this business been in operation? __________________

19a) (For farmers) Approximately how many acres do you farm? __________________

19b) (For ranchers) Approximately how many livestock do you have? __________________

20a) How many separate agricultural enterprises do you have? __________________

20b) (If over 1) Do you track the profitability for each enterprise separately?

_____ Yes _____ No

21) Does your agricultural business primarily operate on a cash basis or on an accrual basis? _____ Cash _____ Accrual

22) Does a CPA prepare your books? _____ Yes _____ No

23) Roughly speaking, if you totaled all agricultural loans, what percent of your total equity would the loans represent? _____ %

24) Could you please tell me to which ethnic group the owner of this business belongs?

_____White/Caucasian _____African American/Black

_____Asian American _____Hispanic

_____ American Indian _____Other _____Refused (Do Not Read)

Thank you for your time and input.

25) Record:

SIC Code: ____________
County Code: ____________
Revenue/Sales Volume: ____________
Area Code: ____________
Phone #: ____________
Geographic Area: ____________

Email address for report: ______________________