

POLICIES OF FINANCING LIVESTOCK PROGRAMS  
BY COMMERCIAL BANKS IN KANSAS

by

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A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

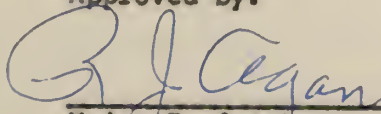
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## INTRODUCTION

Banking in America began with the achievement of independence. The first chartered bank in 1781 was established with the hopes of providing financial support for the Revolutionary effort. Additional banks were started in major cities by merchants, and for thirty years banks grew conservatively in number. By 1820 there were 300 banks; by 1840 there were 1,000; and by 1860 bank numbers had swelled to nearly 2,000.<sup>1</sup>

The amount of credit in existence in 1860 was about \$800 million, equal to about 10 per cent of the nation's stock of productive capital assets. Bank credit extended freely into the formation of merchants' inventories which were vital to the economy. Credit also penetrated deeply into the agriculture area which was producing 60 per cent of material output and employment.<sup>2</sup>

Once the Civil War was over, America began a long period of economic growth. This growth occurred despite interruptions caused by business depressions of the 1870's, 1890's and the decade of the 1920's. Living standards paralleled the economic growth.<sup>3</sup>

In the postwar years from 1945 to 1960 American agriculture posted an impressive record of capital formation and technological

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<sup>1</sup>Paul B. Prescott, Financing American Enterprise, (New York: Harper & Row Publishers, 1963), p. 16.

<sup>2</sup>Ibid., p. 17.

<sup>3</sup>Ibid., p. 64.

record. Farm output increased 30 per cent, yet the number of man-hours of farm labor required to produce it dropped from nineteen million to eleven million. Americans were able to enjoy the highest standards in the world in food and fiber. At the same time this high standard of living was achieved by devoting nearly 90 per cent of the labor force to non-agricultural pursuits.

This revolution in farm production was due to technological changes and from the greatly increased use of credit. Between 1945 and 1960 farmers were able to double their use of mechanical power and machinery largely through the use of \$16 billion of net borrowing. By using credit more extensively farmers were able to take advantage of important biological and chemical developments. Commercial banks were the largest single suppliers of farm credit, supplying one-third of farm borrowing.<sup>1</sup>

One of America's greatest sources of strength since gaining it's independence has been a sound progressive agriculture. Scientific achievement and technology changes have resulted in improved efficiencies in production and marketing.

If one were to take a realistic look at agriculture today, one would need to include not only farms, but also feed mills, fertilizer plants, farm machinery plants, food processing plants, farm supply stores, retail stores, and many other farm related businesses.

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<sup>1</sup>Paul B. Prescott, Financing American Enterprise, (New York: Harper & Row Publishers, 1963), p. 225.



These businesses would need to include the processing, transporting, and distributing of farm products which provide services used by farm families. Thus, agriculture has become highly commercialized and interwoven with other segments of our economy.

Although agriculture has remained a relatively constant part of the total economy, the "agribusiness" or "off-the-farm" portion has become increasingly important. The vital role of American agriculture in our economy is portrayed by the fact that seven million farm workers support a total population of approximately 188 million people. The bulk of the farm workers come from one and one-half million commercial farms. Keeping farm workers in step with the growing population will be the key to success.

Capital investment per farm and farm worker has increased seven-fold during 1943 to 1963. Total assets in agriculture exceed \$210 billion.<sup>1</sup> Agriculture was truly big business. Agriculture's big investments and heavy cash flows can be fulfilled by commercial banks. Financial needs of farmers can be met because of our American banking system which links vast financial resources and services of metropolitan areas with rural America. Our banking system provides the opportunity for banks in small and medium sized towns to utilize these financial

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<sup>1</sup>American Bankers Association, "Better Agricultural Banking," A Report prepared by the Agricultural Committee of the American Bankers Association, (New York: American Bankers Association, 1963), p. 5.

resources for development of local resources.<sup>1</sup>

The concern in agriculture has been whether management has kept pace with such factors of production as land, labor, and capital. Farming success has not usually been an accident but rather the result of expert execution of a well thought out, soundly financed plan of operation.<sup>2</sup> Wilcox and Cochrane expressed concern for management by farmers when they wrote:

Farming is a way of life rather than a business occupation for a substantial number of farm families.<sup>3</sup>

Thus, in agricultural areas a progressive banker must demonstrate qualities of leadership in several ways. Such a banker not only has been depended upon for judgments and opinions regarding matters related to general business but must also be up to date on practices and conditions influencing farming decisions. In this unique position the banker has been able to counsel regarding the wise use of credit in balancing the factors of production-- land, labor, capital, and management.<sup>4</sup>

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<sup>1</sup>American Bankers Association, "Better Agricultural Banking," A Report Prepared by the Agricultural Committee of the American Bankers Association, (New York: American Bankers Association, 1963), p. 11.

<sup>2</sup>Farm Credit Banks of Wichita, "Financing Farm and Ranch Activities," (Wichita: Farm Credit Banks of Wichita, 1962), p. 11.

<sup>3</sup>Walter W. Wilcox and Willard W. Cochrane, "Economics of American Agriculture," (New Jersey: Prentice-Hall, Inc., 1960), p. 39.

<sup>4</sup>American Bankers Association, op. cit., p. 10.

## DEFINITIONS OF TERMS USED

The list of terms which follows was adopted for the purposes of this study only. Although the terms may have other meanings, it was for the purposes of this study that the list of terms which follows be used only in the manner in which they are described.

Agriculture. For the purpose of this study the term agriculture was interpreted as Webster stated when he wrote:

Agriculture is the art or science of cultivating the ground and raising and harvesting crops, often including also feeding, breeding, and management of livestock.<sup>1</sup>

Throughout this report farming and agriculture were synonymous.

Agricultural representative. For the purpose of this study the term "agricultural representative" was interpreted as meaning an employee of a commercial bank whose background, training, and experience had prepared him to extend credit and other banking services to farm families and agriculturally related businesses. Agricultural representatives may have been either part time employed or fully employed by their respective banks.

Approved livestock systems. Approved livestock systems was interpreted as meaning a systematic carefully planned method of producing livestock. Experimentation findings and farm experience have proven systems of livestock production to be produced efficiently and are more likely to be profitable than poorly planned or unplanned operations.

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<sup>1</sup>Websters New International Dictionary of the English Language (second edition; Springfield, Massachusetts: G. & C. Merriam Company, 1958), p. 52.

Collateral. Confined to this report the term "collateral" was interpreted as meaning property or security of value pledged by a borrower to assure the payment of the loan. Except for unsecured loans, borrowers usually pledge livestock, crops, machinery, or other personal property.

Commercial bank. Confined to this report the term "commercial bank" was interpreted as meaning a bank engaged in the ordinary functions of providing checking and saving accounts; mortgage and home improvement loans; consumer credit; personal farm and business loans; clearing and transferring funds; trust and investments; and a variety of travel, safe deposit and miscellaneous financial accommodations.

Credit. Throughout this investigation, the term "credit" was interpreted as meaning simply an arrangement whereby one person contracted for temporary possession and use of another's financial resources and paid interest for this use.

Livestock systems. For the purpose of this study the term "livestock system" was interpreted as meaning a systematic, carefully planned method of producing livestock, however, it may not be proved by experiment stations as to efficiency or profit aspects.

Livestock programs. Livestock programs was interpreted throughout the report as being synonymous with the term livestock systems.

Livestock programs in Waterville community. For the purpose of this study the following livestock programs were selected as those being most commonly used in the Waterville community: (1) cow herd and

feeder calf system; (2) deferred full feeding system; (3) plainer grades of beef and dairy steer system; (4) sow and litter system; and (5) feeder pig system.

Rounded number. For the purpose of this report all fractions below .50 were dropped and all fractions of .50 and above were increased to the next whole number.

Quality livestock. Throughout the report of this investigation, the term "quality livestock" was interpreted as meaning the sum total of characteristics which make up a commonly accepted ideal animal.

Revolving term credit. For the purpose of this study the term "revolving term credit" was interpreted as meaning credit which was extended to a borrower for a short term, and who receives an additional amount of credit to finance the same livestock system to its completion, or to begin a new phase of the system. A farmer using a deferred system in Kansas often purchases feeder cattle before he has sold his fat cattle. Such a borrower has used revolving term credit.

Short term lending. Short term lending was interpreted as meaning credit which was extended to a borrower for a term of zero to six months.

Term lending. For the purpose of this study the term "term lending" was interpreted as meaning credit which was extended to a borrower for a term of seven months to ten years.

## THE PROBLEM

Justification of the Problem. One of the most important problems facing commercial banks in the 1960's in the use of agricultural credit has been their policies regulating the usage of agricultural credit. Commercial banks in America have varied widely in the financial services they provide to farmers. The American Bankers Association has encouraged farm families to use such services as checking accounts for the safe and accurate handling of cash flow to handle their business; saving accounts for thrift or emergency purposes; safe deposit boxes for the keeping of valuable papers; business loans for expanding livestock, property improvements, and operating expenses; and loans for family emergencies. To provide a complete financial program in many agricultural areas has involved other special services such as management of farms, trusts, tax and estate planning, and investment accounts.<sup>1</sup>

Commercial banks have obtained the services of a professional man trained in agriculture to improve the agricultural credit policies of the bank and to draw farmers closer to the bank. Although policies of banks vary considerably, the purpose of these specialists has been to align credit with other practices of the individual bank.

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<sup>1</sup>American Bankers Association, "Better Agriculture Banking," A Report prepared by the Agricultural Committee of the American Bankers Association, (New York: American Bankers Association, 1963), pp. 10-11.

Farmers are important customers of business and industry. Knowledge, not only of what services which banks should offer but also what policies should be used when extending these services to best serve the needs of today and tomorrow's farmers, has become imperative.

Statement of the Problem. It was the purpose of this study (1) to determine the policies of financing livestock programs by commercial banks of Kansas employing agricultural representatives and (2) to find out what implications these policies held for the Citizens State Bank of Waterville.

Procedures followed. The information for this report was obtained by mailing a questionnaire to commercial banks in Kansas having agricultural representatives. A list of Kansas banks having agricultural representatives was secured from the Kansas Bankers Association.

A list of questions which were of importance to the officers of the Citizens State Bank and approved by the advisor, Professor Raymond J. Agan, were mailed to all agricultural representatives of commercial banks in Kansas. A cover letter stating the purpose of the survey was included. Questionnaires were sent to a total of sixty banks in Kansas having agricultural representatives.

Commercial banks were asked to return the questionnaire by February 28, 1964. Sixty per cent of the banks had returned their questionnaires by this date. An additional letter was sent March 5, 1964, to the banks who had not returned their questionnaires. A second date of March 14, 1964, was requested after which no questionnaires

returned were tabulated in this report. A total of forty-four or 73 per cent of the banks had returned their questionnaire by March 14, 1964. Due to conflicting time the remainder of the agricultural representatives were not contacted again.

= A summary of the survey findings were then submitted to the officers of the Citizens State Bank. The officers determined what implications were needed for the policies of agricultural credit by the Citizens State Bank.

Limitations of the Study. Research on this problem included only those banks having agricultural representatives in Kansas. No attempt was made in this study to survey other commercial banks in Kansas or in any other state. Although livestock systems varied widely as to their useage between communities, banks were asked to evaluate five selected livestock systems. Five livestock systems were selected because the officers of the Citizens State Bank of Waterville felt that these were most commonly found in the community. Further, no attempt was made to evaluate the view points given by the agricultural representatives of commercial banks.

Finally the implications of policies of financing livestock programs was applied to the Citizens State Bank of Waterville only. These implications were not intended to be applicable to any other commercial bank in Kansas.



## REVIEW OF SELECTED LITERATURE

Research in the field of agriculture credit has been extensive. This section of the report reviews the literature which was examined in connection with the study. Included was a selected list of literature which has been written in the field of agricultural financing by commercial banks. The review was concerned with the literature which covered the trends between 1953 to 1963.

Research has been concerned with credit extended by commercial banks in the United States and Kansas. However, research has not been concerned with those commercial banks in the United States or Kansas employing agricultural representatives.

The economics of agriculture has been the concern of several agricultural lending agencies. The American Bankers Association and the Kansas Bankers Association have exercised concern in the field of agriculture credit by conducting several studies. This report reviews the selected literature in the following categories: (1) real estate and non-real estate credit trends of the United States and Kansas; (2) trends in the Kansas economy; (3) policies of Kansas banks; (4) sources of credit competition for banks; and (5) future changes for commercial banks.

Trends of Real Estate and Non-Real Estate Credit. The role credit has played in the economy was clearly emphasized by Wehrly when he wrote:

Throughout the history of the world, access to credit has been an important part of the farm business structure. While the use of credit has contributed to the development of agriculture, the misunderstanding and misuse of credit has caused hardship to farm families, disruption of farm business, and losses to farm lenders.<sup>1</sup>

Peterson and Doll in their work entitled "Farm Loans" stated that commercial banks have long been recognized as an important source of credit for non-real estate loans to farmers. Of the \$15 billion of non-real estate loans held by the major lending agencies on July 1, 1956, all operating banks in the United States accounted for approximately 72 per cent of the total outstanding loans. A large portion of these loans were extended primarily for a short term basis and were used for the purposes of conducting the farm business through only one production period.<sup>2</sup>

In real estate lending Peterson and Doll reported that commercial banks lagged behind other lending agencies. In the Tenth Federal Reserve District, which includes the states of Kansas, Oklahoma, Nebraska, Wyoming, Colorado, and part of New Mexico, as of June 20, 1956, commercial banks accounted for 9.3 per cent of the total loan volume in agricultural real estate loans. Life insurance companies and Federal Land Banks were the principal lending agencies. Commercial banks have not invested funds in farm real estate for many reasons. Primarily though, legal limits may not permit a country bank to extend the required amount to a single

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<sup>1</sup>James Samuel Wehrly, "Debt Loan Capacity of Farms" (unpublished Doctor's thesis, Purdue University, Indiana, 1962), p. 3.

<sup>2</sup>C. A. Peterson & R. J. Doll, "Farm Loans," A Study of Agricultural loans of Commercial Banks in the Tenth Federal Reserve District (Kansas City: Federal Reserve Bank, 1957), p. 10.

borrower, and real estate mortgages require longer maturity. Funds from demand deposits may not warrant such investments.<sup>1</sup>

The 1960 Sample Survey of Agriculture determined the source of each operator's largest major real estate debt as well as the source of his largest non-real estate debt. Regarding the survey Hesser, Doll and Sullivan reported that the farm operators were divided into six commercial economic classes and three non commercial economic classes as follows:<sup>2</sup>

<u>Economic Class of Farms</u>	<u>Value of Farm Products Sold</u>
<u>Commercial Farms</u>	
I-----	\$40,000 to over
II-----	20,000 to 39,999
III-----	10,000 to 19,999
IV-----	5,000 to 9,999
V-----	2,500 to 4,999
VI-----	50 to 2,499
<u>Non Commercial Farms</u>	
VII-----	Part-time
VIII-----	Part-retirement
IX-----	Abnormal

Summarizing the survey, Hesser, Doll, and Sullivan stated:

Principal sources held 95 per cent of all the major real-estate debt of farm operators and 84 per cent of non real-estate and related debt. These relatively high proportions indicate that

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<sup>1</sup>C. A. Peterson & R. J. Doll, "Farm Loans," A Study of Agricultural Loans of Commercial Banks in the Tenth Federal Reserve District (Kansas City: Federal Reserve Bank, 1957), p. 28.

<sup>2</sup>Leon F. Hesser, Raymond J. Doll and Gary F. Sullivan, "Farm Debt, as Related to Economic Class of Farm," (Kansas City: Federal Reserve Bank, 1964), p. 4.

farmers tended to use a single source for their real-estate credit and, to a lesser extent, a single source for their non-real-estate credit.

Individuals from whom farms were purchased were the most important source of major real-estate debt--providing 29 per cent of the total of the largest debts. The three major institutional lenders -- Federal land banks, commercial banks, and insurance companies-- each provided about 18 per cent.<sup>1</sup> Commercial banks provided a larger dollar volume of real-estate debt to class I and II, and III and IV categories than to class V-IX, but were relatively less important than other lenders as a source of debt, since the first two categories each used a substantially larger dollar volume of real-estate debt than did operators in the class V-IX category.

Commercial banks provided about 40 per cent of the largest non-real estate and related debt of farm operators; merchants and dealers about 19 per cent; and production credit associations (PCA's) 18 per cent.<sup>2</sup>

In attempting to determine the type of loans made by commercial banks, Peterson and Doll found that short term loans make up the largest portion of agricultural loans. Banks in the Tenth District extended 56 per cent of their credit for short term periods. Loans were made for the purpose of buying feeder livestock and for meeting current operating and family expenses.

Although short term loans for current operating and family expenses loans were six times the number of feeder livestock loans, in size they were not the largest loans. Buying feeder livestock loans averaged \$5,461, about five times larger than the average size for current operating expenses which averaged \$1,040.<sup>3</sup>

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<sup>1</sup>Leon F. Hesser, Raymond J. Doll, and Gary F. Sullivan, "Farm Debt, As Related to Economic Class of Farm," (Kansas City: Federal Reserve Bank, 1964), p. 16.

<sup>2</sup>Ibid., p. 18.

<sup>3</sup>Ibid., p. 11.

Trends in the Kansas Economy. Hartley and Schrock in their study entitled, An Evaluation of Commercial Banking In Kansas, expressed concern whether or not Kansas banks were in a position to meet the needs and demands of their communities. Those bankers attempting to seek the answer need to be aware of the recent trends in Kansas economy in relation to population changes, agriculture, and agriculture financing change.<sup>1</sup>

Hartley and Schrock reported that:

During the past decade, the State's population grew by 14 per cent, yet the 7 per cent decrease experienced by rural areas permitted urban areas to grow by 34 per cent. The 1960 data shows that 39 per cent of Kansas population lived in rural areas as compared with the United States average of 30 per cent.<sup>2</sup>

Furthermore Hartley and Schrock stated that just how long banks within counties representing a net population loss can continue to provide adequate bank services is a question that merits study. If communities continue to experience a net population loss, there is some probability that this will cause a negative pressure on the bank's balance of payments. This negative pressure also causes banks to lose their credit creating ability. In some areas agriculture may require a strong source of bank credit.<sup>3</sup>

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<sup>1</sup>Philip B. Hartley and Robert D. Schrock, "An Evaluation of Commercial Banking In Kansas," An Internal Report to the Kansas Bankers Association (Lawrence: Kansas, 1964), p. 86.

<sup>2</sup>Ibid., pp. 88-89.

<sup>3</sup>Ibid., pp. 97-98.

During the period of 1953 to 1963, bank data revealed by Hartley and Schrock, indicated Kansas agricultural loans increased 60 per cent, while all banks in the United States showed an increase of 43 per cent, and neighboring states showed a 58 per cent increase. Although an examination of the dollar volume of agriculture showed a fluctuation both above and below the 1953 level, the data did reveal the relative importance of agriculture in Kansas. Total agricultural loans in all Kansas banks totaled \$287 million while in 1963 agricultural loans had climbed in excess of \$459 million.<sup>1</sup>

Hartley and Schrock also reported that in 1960 thirty per cent of the total personal income was attributed to agriculture while 70 per cent was attributed to other sectors of the Kansas economy. Statistics also reveal that 22 per cent of all workers in Kansas were farming, plus an additional 15 per cent who were in business related to farming.<sup>2</sup>

Regarding family income Hartley and Schrock found that in 1961 Kansas received 49 per cent of its income from crops, 45 per cent from livestock, and 6 per cent from government payments. Between 1945 and 1961, Kansas has increased the amount of bushels of grain sorghums harvested by an approximate five-fold increase. Hartley and Schrock stated:

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<sup>1</sup>Philip B. Hartley and Robert D. Schrock, "An Evaluation of Commercial Banking In Kansas," An Internal Report to the Kansas Bankers Association, (Lawrence: Kansas, 1964), pp. 21-22.

<sup>2</sup>Ibid., pp. 99-100.

The significance of this change in sorghum output is related to the quantity of feed grain as the basis for feeding more livestock.<sup>1</sup>

Although agriculture represents a position of relative importance in our Kansas economy, and farming in the 1960's has required high investments, perhaps the Agricultural Commission of the American Bankers Association were most correct when they wrote:

The real function of credit is to assist in placing the tools and materials of production in the hands of those who can make an effective and profitable use of them.<sup>2</sup>

Policies of Kansas Banks. The American Bankers Association stated emphatically that bank management should outline a policy for extending credit for farm families and related business in order to make a profitable use of credit. Policies require banks to collect their thoughts as to nature and types of deposits, balance and investment portfolios, individual lending limits, types of farming, and general agricultural outlook. A management of such factors enables a bank to stay with its borrowers in periods of low income providing financial assistance until income improves.<sup>3</sup>

Ely, in his article entitled "What Changes in Commercial Loan

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<sup>1</sup>Philip B. Hartley and Robert D. Schrock, "An Evaluation of Commercial Banking In Kansas," An Internal Report to the Kansas Bankers Association (Lawrence: Kansas, 1964), p. 101.

<sup>2</sup>American Bankers Association, "Agricultural Production Financing," A Report Prepared by the Agricultural Commission of the Bankers Association (New York: American Bankers Association, 1951), p. 5.

<sup>3</sup>Ibid., p. 12.

Policies," stated that policies need to be embedded in several banking fundamentals and geared to the needs of the community.<sup>1</sup> As a final word of caution, Ely stated, it is important to note that what might be a sound loan at one point may suddenly deteriorate in quality through no fault of the banker or the customer. Crop failures, labor difficulties, and changing styles of inventories are just a few of the factors banks must consider when planning loan policies.<sup>2</sup>

Although banks vary widely as to their policies regarding the length of loans, Peterson and Doll reported that banks in the Tenth District in 1956 wrote 65 per cent of their dollar volume of notes with maturities varying from demand up to seven and one-half months. This compared to 68 per cent of the dollar volume for all bank loans made to farmers. Notes written with maturities seven and one-half to thirteen and one-half months represented 15 per cent, compared with 18 per cent for all loans, while notes written for more than thirteen and one-half months totaled 20 per cent, compared with 14 per cent for all notes.<sup>3</sup>

From those results Peterson and Doll stated that:

It was rather evident that commercial banks use a renewal method to lengthen the maturity of loans of farm borrowers.<sup>4</sup>

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<sup>1</sup>J. Wallace Ely, "What Changes In Commercial Loan Policies," Bankers Monthly, 81:26, February, 1964.

<sup>2</sup>Ibid., p. 24.

<sup>3</sup>G. A. Peterson and R. J. Doll, "Farm Loans," A Study of Agricultural Loans of Commercial Banks on the Tenth Federal Reserve District (Kansas City: Federal Reserve Bank, 1957), p. 22.

<sup>4</sup>G. A. Peterson and R. J. Doll, "Farm Loans," A Study of Agricultural Loans of Commercial Banks in the Tenth Federal Reserve District (Kansas City: Federal Reserve Bank, 1957), p. 22.



Short term loans were made with the understanding that the note would be renewed at maturity if the funds were not available. Planned renewals among notes were more frequent than had been renewed one or more times. The percentage of planned renewals was relatively high for all purposes, however; planned renewals for real estate had the highest proportion of planned renewals.<sup>1</sup>

Regarding the loan deposit ratio Hartley and Schrock described its role when they wrote:

The loan-deposit ratio gives some measurement of the degree to which banks have used their resources to accommodate the credit needs of their customers.<sup>2</sup>

Hartley and Schrock further reported that in the 1962 data Kansas had a 46 per cent loan deposit ratio which was lower than all commercial banks in the neighboring states of Colorado, Nebraska, Missouri, and Oklahoma. Colorado with a 56 per cent was the highest. Kansas had the highest ratio of investments to total assets which was 40 per cent.<sup>3</sup>

Hartley and Schrock offered a challenge for every Kansas banker to conduct a complete study of his community to determine if bank management was deliberately rejecting credit-worthy borrowers in order to net in an excessive cushion of government obligations when they wrote:

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<sup>1</sup>Ibid., pp. 22-23.

<sup>2</sup>Philip B. Hartley and Robert D. Schrock, "An Evaluation of Commercial Banking in Kansas," An Internal Report to the Kansas Bankers Association (Lawrence: Kansas, 1964), p. 143.

<sup>3</sup>Ibid., p. 144.

Kansas banks have shown some preference for government obligations and a tendency to allocate a lower proportion of their resources to the accommodation of the credit needs of Kansas. Furthermore, it can be argued that the relatively low cash position of the Kansas banks is not a result of being fully "loaned up", but rather the result of carrying a higher proportion of liquid investment.<sup>1</sup>

In an evaluation of individual communities for the determination of such policies as loan deposit ratio and others, bank management should be aware of what Ely wrote when he stated:

No matter what level loans may reach, a due regard for the needs of the deserving customer rules out any attempt to formulate a rigid loan policy.<sup>2</sup>

Sources of Credit Competition. The American Bankers Association reported in their study, Trends In Agricultural Banking, that between 1958 and 1962 forty per cent of all banks in America had experienced competition for agricultural loans. Less than 4 per cent of all the commercial banks suggested that competition had decreased during this period.<sup>3</sup> More than one-half of those experiencing competitions reported increased competition from Farm Credit Administration and the Federal Land Bank. These agencies were the highest source of competition in

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<sup>1</sup>Philip B. Hartley and Robert D. Schrock, "An Evaluation Of Commercial Banking In Kansas," An Internal Report to the Kansas Bankers Association (Lawrence: Kansas, 1964), p. 144.

<sup>2</sup>J. Wallace Ely, "What Changes In Commercial Loan Policies," Bankers Monthly, 81:26, February, 1964, p. 23.

<sup>3</sup>American Bankers Association, "Trends in Agricultural Banking," A Report Prepared by the Agricultural Committee (New York: American Bankers Association, 1962), p. 15.

the Plains region by two-thirds and were the lowest in the West by one-fourth per cent. Government agencies were most frequently mentioned as competition in the East, insurance companies in the West, and dealer credit unions in the Corn Belt.

The American Bankers Association further stated that the banks main method of meeting the competition in all regions of the United States, except the South was through direct solicitation, and in many situations by employing farm specialists. General overall improvement ranked second, followed by improved lending practices, advertising, and business development.<sup>1</sup>

Regarding the Federal government agencies which provide a source of credit to Kansas economy, Hartley and Schrock listed the Federal Land Bank's Farmers Home Administration and the Production Credit Association. During the 1954-1963 period, data by Hartley and Schrock showed that Federal land bank loans in the United States increased 159 per cent, while in Kansas they increased 150 per cent. In Kansas the increase was represented by a \$66,874,000 increase. During the same period the Farmers Home Administration increased its loans 151 per cent while Kansas increased 105 per cent. The Kansas increase represented a \$6,910,000 increase. Most significant was the growth of Production Credit Association which showed a 239 per cent increase during the 1954-1963

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<sup>1</sup>American Bankers Association, "Trends in Agricultural Banking," A Report by the Agricultural Committee (New York: American Bankers Association, 1962), pp. 5-6.

period. In Kansas Production Credit Association loans increased 338 per cent. This increase represented an increase of \$26,306,000.<sup>1</sup>

Perhaps commercial banks can find some solution in what Hartley and Schrock wrote:

The bank which offers the most complete service and convenience to the community will tend to lose less of its deposits.<sup>2</sup>

Future Changes For Commercial Banks. Hartley and Schrock stated that Kansas agriculture may well have some adverse effects upon commercial banks in the future. Some banks may feel the effect of their credit creating ability because of the decline of trade for the agricultural sector of the economy. Some areas may feel the squeeze while an expansion in the non-agricultural sectors may tend to reduce the squeeze. Farmers trading in larger towns may mean by-passing not only small towns but the small banks within these towns.

Hartley and Schrock offered a solution when they wrote that these trends require a closer bank-farm relationship, specialized loan officers who understand the production and marketing of speciality crops and strong sources of credit due to a greater dependence upon the market for the single source of credit. Furthermore, the trend will require banks willing and able to extend longer term credit if needed. If Kansas

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<sup>1</sup>American Bankers Association, "Trends in Agricultural Banking," A Report by the Agricultural Committee (New York: American Bankers Association, 1962), pp. 61-66.

<sup>2</sup>Ibid., p. 13.

banks do not provide the source of credit needed, other forms will develop or take the place of bank financing.<sup>1</sup>

Gish best summed up the challenge for commercial banks when he wrote:

Since modern farming has seemingly produced a new breed of farmers who are bigger and more complex, a new breed of bankers needs to arise to meet the credit needs of farmers. The complexity of agriculture makes it necessary for banks to employ well trained farm specialists. Banks must offer more complete financial service including full programming, record keeping, and counseling.<sup>2</sup>

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<sup>1</sup>Philip B. Martley and Robert D. Schrock, "An Evaluation of Commercial Banking In Kansas," An Internal Report to the Kansas Bankers Association (Lawrence: Kansas, 1964), pp. 107-109.

<sup>2</sup>Norville R. Gish, "Changing Times Present New Challenge for Agriculture Bankers," Bank News; 62:28, December, 1963.

POLICIES OF FINANCING LIVESTOCK PROGRAMS  
OF COMMERCIAL BANKS IN KANSAS HAVING  
AGRICULTURAL REPRESENTATIVES

This section of the report presents for examination the results of the questionnaire which was sent to sixty commercial banks in Kansas which had agricultural representatives. Forty-four, or 73 per cent of the banks had returned their questionnaires by the deadline date of March 14, 1964. In this section is reported the results of the forty-four banks which returned the questionnaire. In this section is also reported the implications of the questionnaire to the Citizens State Bank, Waterville, Kansas, regarding the policies of agricultural credit.

As an introduction, agricultural representatives were asked if their agricultural lending was governed by a set of written policies. Six, or 14 per cent of the banks, answered yes, they used written policies, while thirty-eight or 86 per cent answered no, they did not use written policies regulating agricultural credit.

Commercial banks were then asked if they had arrangements with insurance companies for long term credit programs. Twenty-eight, or 64 per cent of the banks, had formed arrangements with insurance companies, while sixteen, or 36 per cent, had not formed arrangements with insurance companies to handle long term credit programs.

Two banks, or 5 per cent, answered yes to the question of forming separate affiliated credit corporations to handle agriculture lending; however, forty-two banks or 95 per cent answered no that they had not formed separate affiliated credit corporations.

Agricultural representatives were asked what per cent of their bank's agricultural loans were secured by a credit life insurance plan. Data in Figure I shows that forty-four of the banks have an average of 13 per cent of their loans secured by a credit life insurance plan.

Since the loan deposit ratio gives some measurement of the degree to which banks have used their available resources to accommodate the credit needs (see page 19), banks were asked what per cent of their total deposits were allocated for loan purposes. Figure II (see page 27) shows that forty-four commercial banks in Kansas had an average loan deposit ratio of 54 per cent.

Regarding the type of agricultural lending, commercial banks were asked to check one practice which best described their policy of agricultural lending. Data showed that nineteen, or 43 per cent, used short term credit, twenty, or 45 per cent, used revolving term credit, and three, or 7 per cent, used term lending. Two banks did not reply.

To determine the length which livestock loans were made by commercial banks, agricultural representatives were asked to estimate their per cent of outstanding livestock loans as to the length made. Figure III, (see page 28) shows that commercial banks made an average of 8 per cent of their livestock loans for three months or less. Figure IV (see page 29) presents the outstanding loans made for four to six months and shows that banks made an average of 68 per cent of livestock loans for four to six months.

F R E Q U E N C Y O F S C O R E S

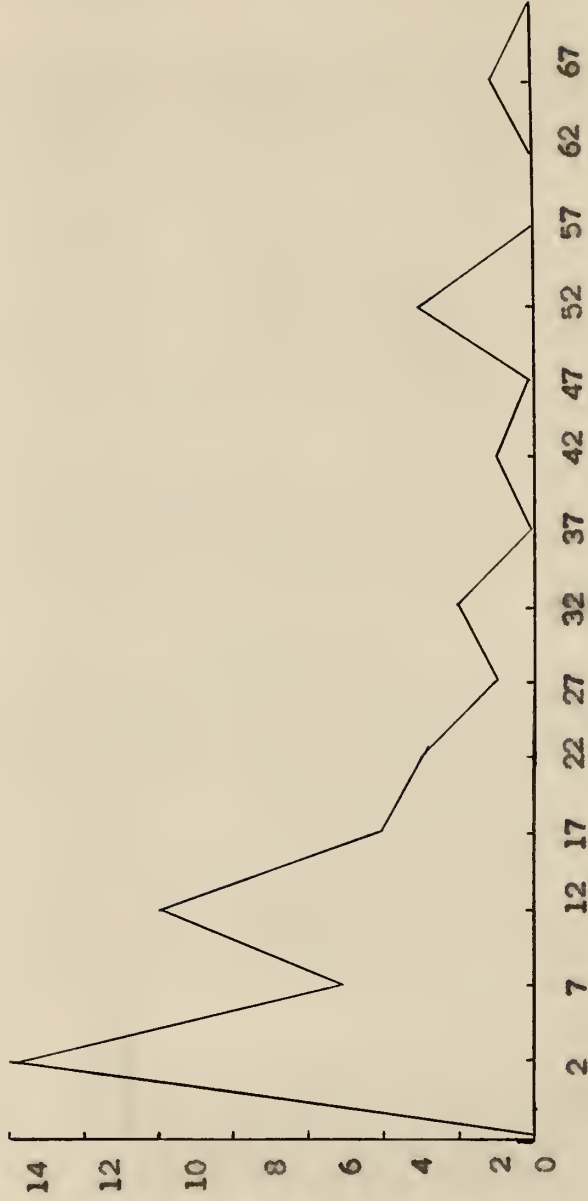
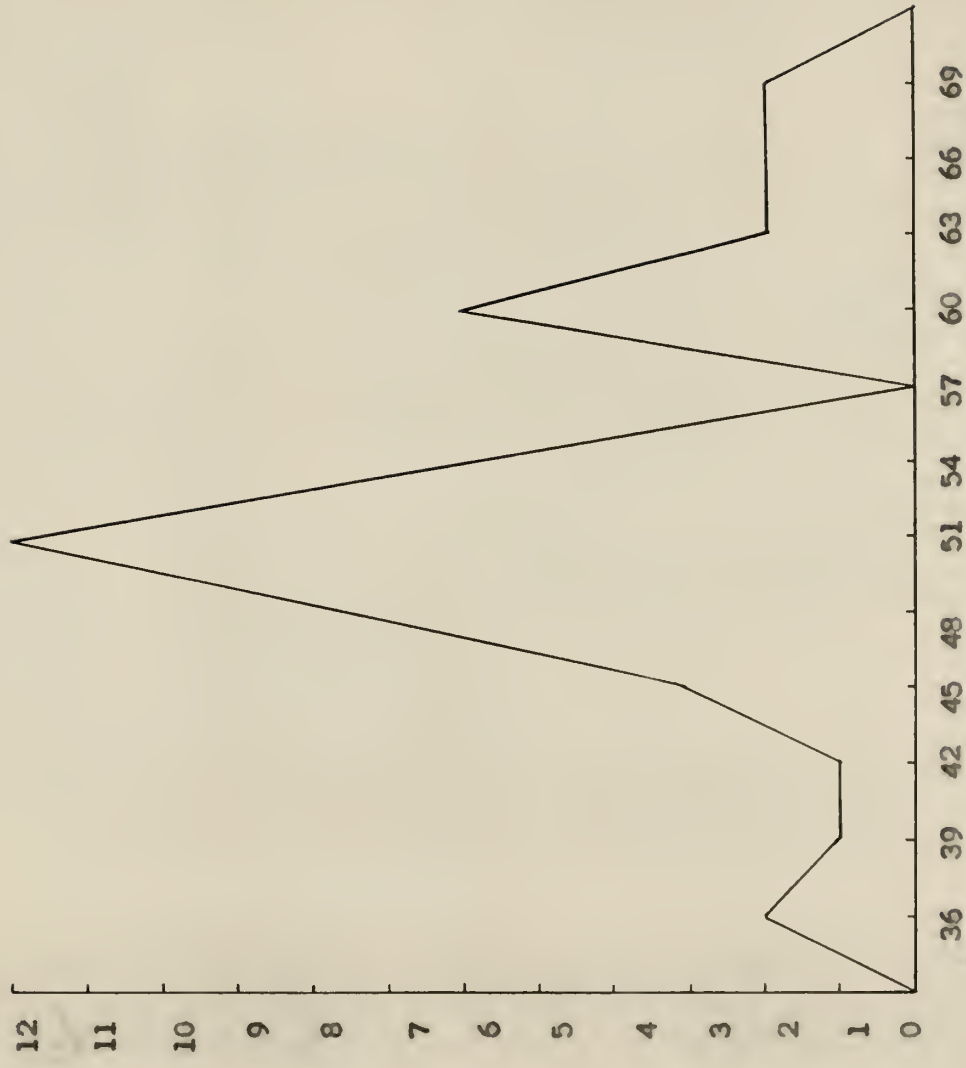


FIGURE I  
FREQUENCY POLYGON OF SCORES OF 44 BANKS REGARDING  
AGRICULTURE LOANS SECURED BY A CREDIT  
LIFE INSURANCE PLAN





F r e q u e n c y o f S c o r e s

FIGURE II

FREQUENCY POLYGON OF SCORES OF 44\* BANKS ON LOAN DEPOSIT RATIO

\*Five banks reported flexible ratio; two banks, no reply

F r e q u e n c y o f S c o r e s

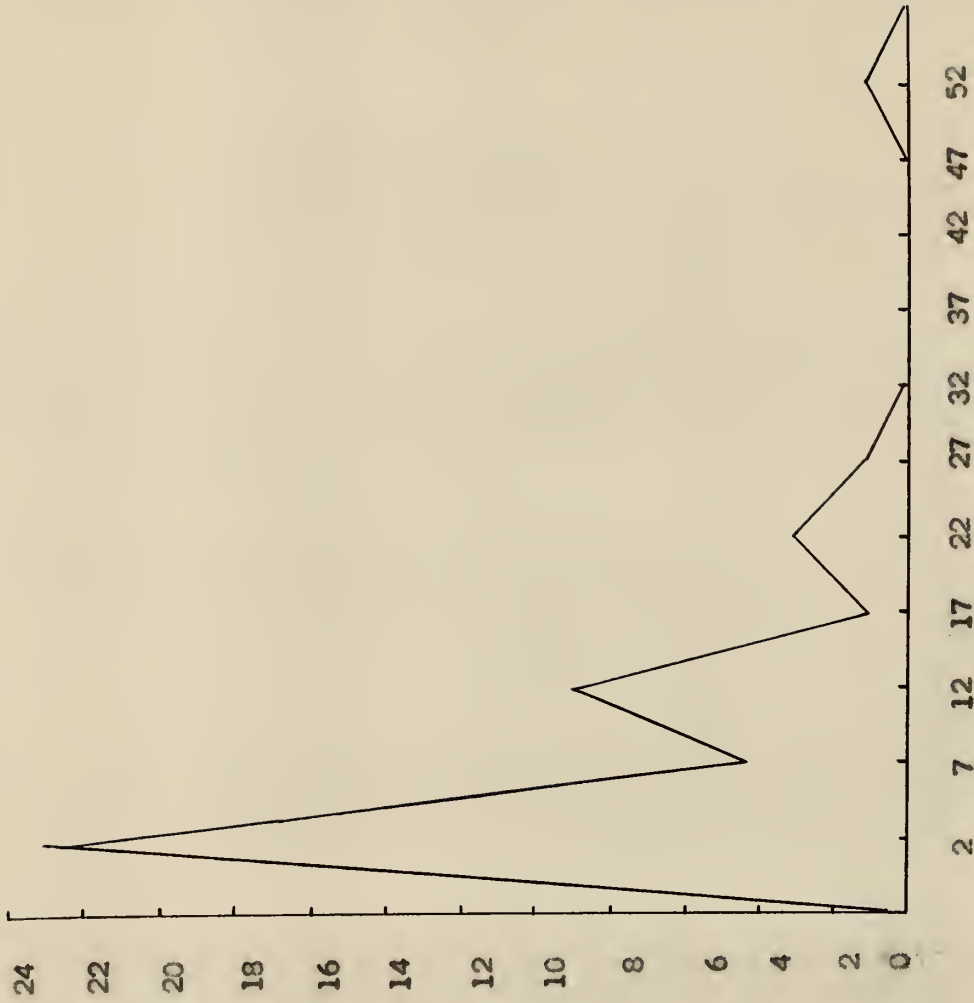


FIGURE III

FREQUENCY POLYGON OF SCORES OF 44\* BANKS  
ON LOANS MADE FOR THREE MONTHS OR LESS

\*No reply from two banks

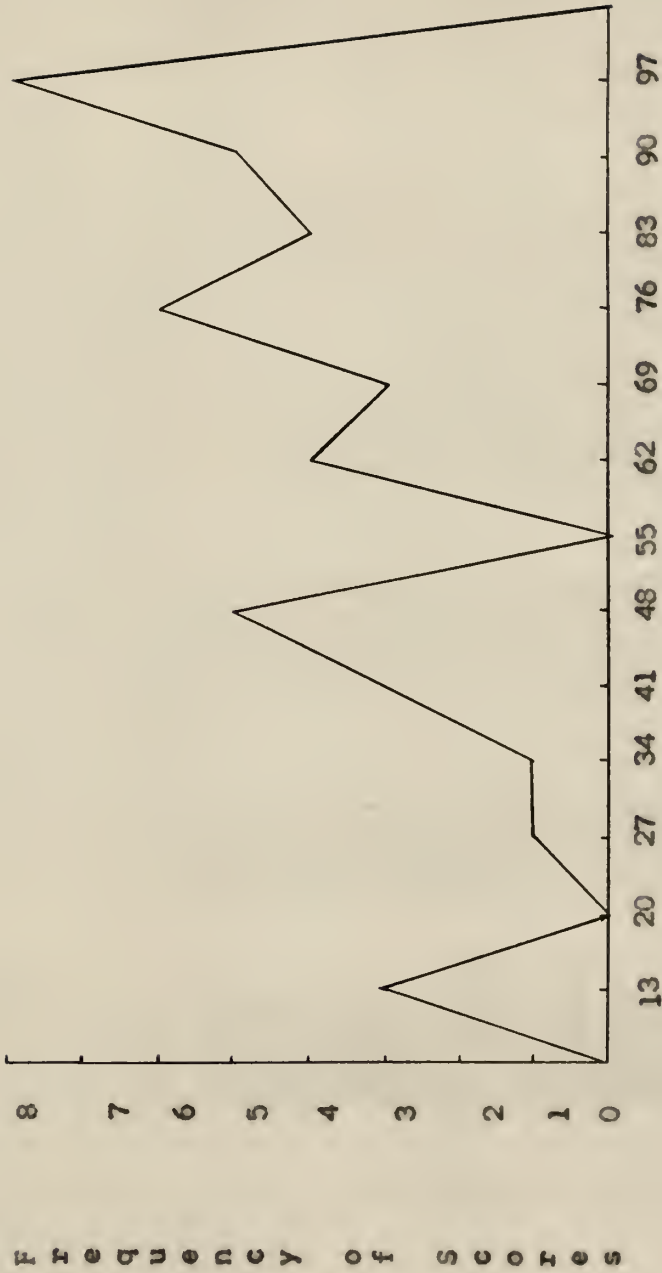


FIGURE IV

FREQUENCY POLYGON OF SCORES ON 44\* BANKS  
ON LOANS FOUR TO SIX MONTHS

\*No reply from one bank

Data from Figure V shows that commercial banks made an average of 21 per cent of their livestock loans for seven months on one year. Figure VI (see page 32) contains those loans made for more than one year. Data shows that commercial banks made an average of 3 per cent of their livestock loans for more than one year.

Agricultural representatives were asked to check the time which their livestock loans were reviewed. Table I provides the data on the time which banks review their livestock loans. Looking at the statistics, Table I shows that 85 per cent of the banks had reviewed their livestock loans by six months. Nine per cent of the banks required a longer time of one year to review the loans.

TABLE I  
COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
POLICIES REGARDING THE REVIEW OF LIVESTOCK LOANS

Time Reviewed	N*	%
Every three months. . . . .	13	30
Every six months. . . . .	24	55
Once a year . . . . .	4	9
Never . . . . .	0	0
Periodically. . . . .	1	2
When situation arises . . . . .	1	2
Monthly . . . . .	1	2

\*Number is 44 commercial banks.

F r e q u e n c y o f S c o r e s

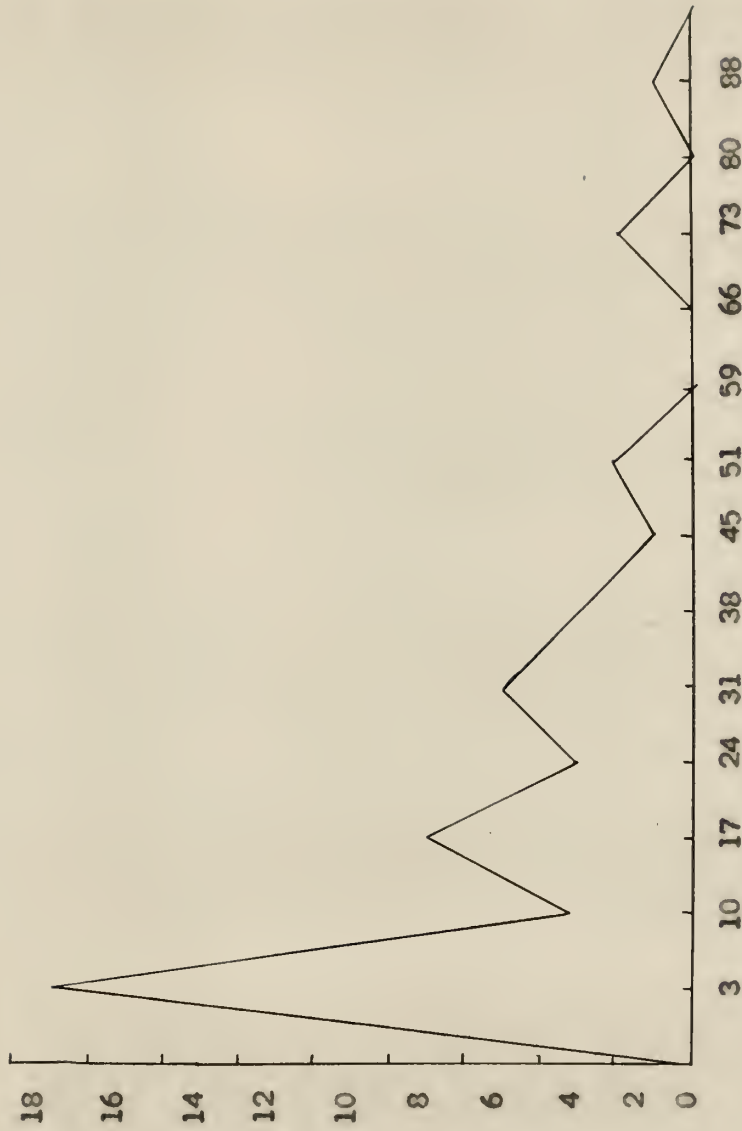
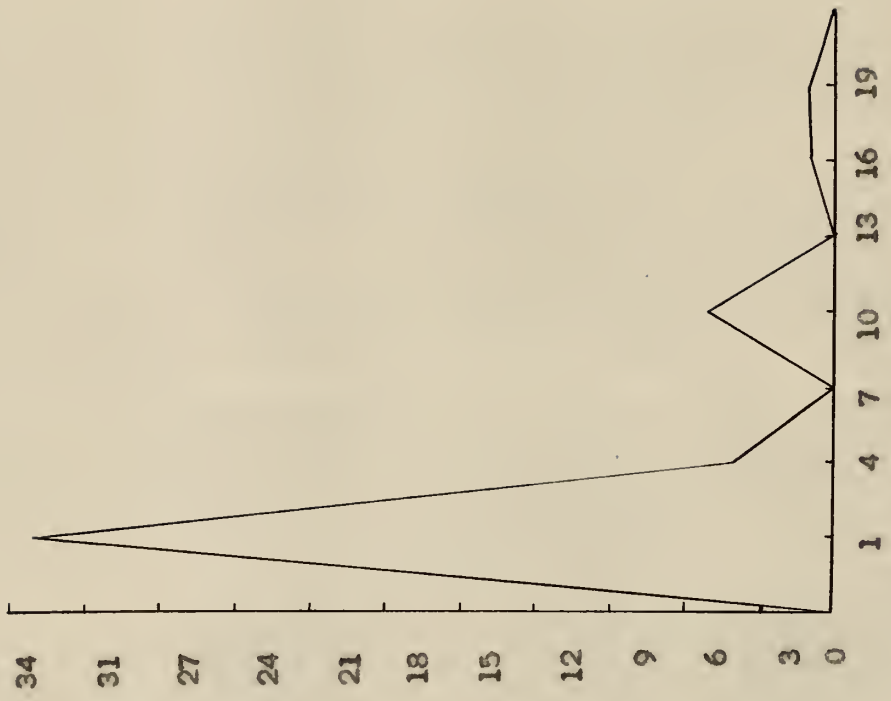


FIGURE V

FREQUENCY POLYGON OF SCORES ON 44 BANKS  
ON LOANS SEVEN MONTHS TO ONE YEAR



F r e q u e n c y   o f   S c o r e s

FIGURE VI

FREQUENCY POLYGON ON SCORES OF 44 BANKS  
ON LOANS MORE THAN ONE YEAR

Sources of credit competition for commercial banks were revealed in Table II. Banks were asked which one of the institutions was the final sources of credit of loans lost to Production Credit Associations, Federal Land Banks, Farmers Home Administrations, and insurance companies. In Table II it is shown that banks experienced the most competition from Farmers Home Administration, 30 per cent, and secondly, Production Credit Association, 27 per cent.

TABLE II  
COMMERCIAL BANKS HAVING AGRICULTURE REPRESENTATIVES  
SOURCES OF CREDIT COMPETITION

Other Financial Institutions	N*	%
Production Credit Association	12	27
Federal Land Bank	3	7
Farmers Home Administration	13	30
Insurance Companies	1	2
Others specified		
Little competition	1	2
No competition	1	2
All institutions competitive	1	2

\*No reply from 12 banks.

Data on the frequency of personal visits to farmers by a staff representative was presented in Table III. A comparison of visits made by a staff representative shows that 50 per cent of the banks visited their farmers once per year. Data also revealed that 100 per cent of the banks made visits to some of their farm customers some time during the year.

TABLE III  
FREQUENCY OF COMMERCIAL BANKS HAVING AGRICULTURAL  
REPRESENTATIVES VISIT TO FARMERS

Frequency of Visit	N	%
Once per year	22	50
Twice per year	11	25
Three times per year	1	2
Never	0	0
Others specified		
As occasion requires	4	9
Large loans every three to four months; others once per year	1	2
Hope to visit once per year	1	2
Trouble spots, frequent; others never	1	2
When happen to be in area	1	2
Some	1	2
Seldom	1	2

NOTE: Per cent rounded to the nearest whole number.



Agricultural representatives were then asked to rank selected factors which determined how often a visit was made by a staff representative. Table IV shows 52 per cent of the banks ranked new customers either first or second; 36 per cent ranked amount of loan either first or second; 43 per cent ranked management programs either first or second; 20 per cent ranked request by farmer either first or second; and 16 per cent ranked policy of bank either first or second.

TABLE IV  
COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
REGARDING PREFERENCE OF VISITATIONS

Selected factors	Ranking of Preference									
	1		2		3		4		5	
	N*	%	N	%	N	%	N	%	N	%
New Customers	14	32	9	20	3	20	4	9	0	0
Amount of loan	8	18	8	18	6	14	5	11	9	20
Management program	10	23	9	20	5	11	6	7	6	14
Requested by farmer	2	5	7	15	7	16	8	18	12	27
Policy of bank	3	7	4	9	5	11	14	32	10	23

\*No reply, seven banks

No visitation program was reported by one bank

Commercial banks were asked to check the agricultural services which were provided by their bank. Data showed that 100 per cent of the banks provided at least one of the services listed in Table V, however, none of the banks provided all of the services listed. Table V shows that 98 per cent of the banks provide financial support for farm group activities, and 20 per cent of the banks determined income tax for farmers.

TABLE V  
SERVICES EXTENDED TO FARMERS BY COMMERCIAL BANKS  
HAVING AGRICULTURAL REPRESENTATIVES

Services	N	%
Income tax	9	20
Financial support to farm group activities	43	98
Permit staff participation	40	91
Assist farmers	23	52
Provide direct mailing services	29	66
Furnish farm account books	16	36
Advertise special agricultural services	32	73
Sponser Agricultural meetings	33	75

The question of what policy the bank uses when a loan application exceeds the banks legal limit was asked. Table VI presents the banks policy regarding loans which exceed the banks limits. Data shows that 84 per cent of the banks handled the loan on a participation basis with correspondent banks. Two per cent of the banks reported that the loans were lost to other institutions.

TABLE VI

COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
POLICY AS TO LOAN APPLICATION EXCEEDING LIMIT

Methods Used	N*	%
Entire loan handled by correspondent banks	0	0
Loan handled on participation basis with correspondent banks	37	84
Loans lost to other institutions	1	2
Others specified		
No help needed	1	2
Kansas banking laws	1	2
No loans exceeding limits	2	5

\*No reply from two banks

The per cent of farmers who obtained complete financial service from their bank was presented in Figure VII. An examination of the statistics presented shows 81 per cent of the farmers obtained complete financial service from their banks.

Regarding financial service agricultural representatives were then asked to rate selected reasons why farmers did not receive complete financial service from their bank. The ratings by commercial banks was presented in Table VII (see page 40). Examination of Table VII reveals that 20 per cent of the banks rated lending limits either completely unsatisfactory or rarely unsatisfactory, and 45 per cent of the banks rated collateral either completely unsatisfactory or rarely unsatisfactory. Forty-six per cent of the banks rated character as either completely unsatisfactory or rarely unsatisfactory. Nine per cent of the banks rated interest rate as either completely satisfactory or rarely unsatisfactory; and 50 per cent of the banks rated management ability as either completely unsatisfactory or rarely satisfactory as reasons why farmers did not receive complete financial service.

F r e q u e n c y   o f   S c o r e s

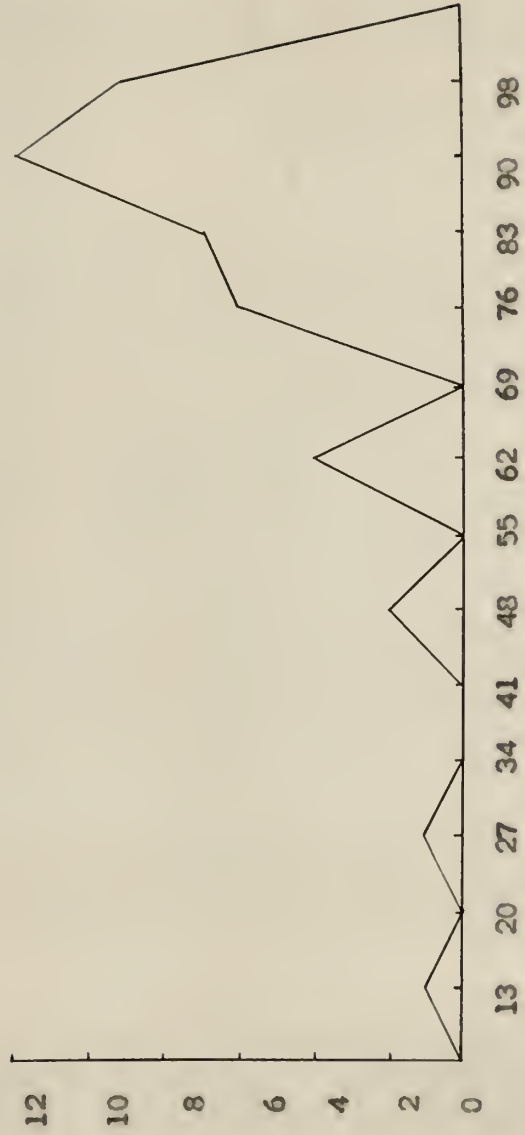


FIGURE VII

FREQUENCY POLYGON ON SCORES OF 44\* BANKS REGARDING FARMERS OBTAINING COMPLETE FINANCIAL SERVICE

\*No reply from two banks

TABLE VII

COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
 RATING OF REASONS WHY FARMERS DID NOT  
 RECEIVE COMPLETE FINANCIAL SERVICE

Selected subjects	Completely unsatisfactory		Rarely unsatisfactory		Acceptable		Usually acceptable		Highly satisfactory	
	N	%	N	%	N	%	N	%	N	%
Lending limits*	4	9	5	11	5	11	17	39	6	14
Collateral*	8	18	12	27	3	7	14	32	0	0
Character*	3	7	17	39	7	16	7	16	3	7
Interest rate**	1	2	3	7	19	43	10	23	10	23
Management ability***	6	14	16	36	10	23	5	11	1	2

NOTE: Per cent rounded to nearest whole number

\*No reply from seven banks

\*\*No reply from one bank

\*\*\*No reply from six banks

Considering those agricultural loans which were permitted to exceed their normal limits, banks were asked to rate selected characteristics as reasons for exceeding loan limits. Table VIII shows that 84 per cent of the banks rated character as excellent; 68 per cent rated collateral as excellent; 73 per cent of the banks rated management ability as excellent; 43 per cent of the banks rated net worth statement as excellent; and 66 per cent of the banks rated repayment ability as excellent as reasons for exceeding loan limits. None of the banks rated any of the selected characteristics as poor.

TABLE VIII

COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
RATING OF REASONS FOR EXCEEDING LOAN LIMITS

Selected characteristics:	Excellent		Average		Poor	
	N*	%	N	%	N	%
Character	37	84	3	7	0	0
Collateral	30	68	10	23	0	0
Management ability	32	73	8	18	0	0
Net worth statement	20	43	20	43	0	0
Repayment ability	29	66	11	25	0	0

\*Three banks reported no loans exceed the limit, one bank did not reply

Table IX shows the variation which commercial banks rated the methods used in financing livestock programs. Data shows that 91 per cent of the banks rated mortgages either always used or frequently used in financing livestock loans. Fifty-nine per cent of the banks rated loans made only on approved livestock systems either as always used or frequently used. Table IX further illustrates the variation which banks rated methods of financing livestock programs.

TABLE IX

COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
RATING OF POLICIES USED IN FINANCING LIVESTOCK PROGRAMS

Livestock Programs:	Always		Frequently		Occasionally		Seldom		Never	
	used		used		used		used		used	
	N*	%	N	%	N	%	N	%	N	%
100 per cent loans are made on brood cows if farmer has pasture	1	2	13	30	15	34	12	27	2	5
100 per cent loans are made on feeder cattle, pigs, boars, and bulls	1	2	18	41	12	27	10	23	2	5
Loans are made only on quality livestock	2	5	10	23	18	41	8	11	5	11
Loans are made only on approved livestock systems	6	14	19	43	11	25	26	14	1	2
Mortgages are accepted for livestock loans	17	39	23	52	3	7	0	0	0	0

\*one bank did not reply



Credit tools used by agricultural representatives was presented in Table X. Banks used the credit statement 93 per cent of the time either regularly or often. Data further revealed that 64 per cent of the banks used visitations to farms either regularly or often. Eighty-five per cent of the banks used a repayment plan either regularly or often.

TABLE X

COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
RATING OF PROCEDURE FOR MAKING AN AGRICULTURAL LOAN

Credit tools	: Regularly used		Often used		Occasionally		Seldom		Never	
	N	%	N	%	N	%	N	%	N	%
Application form*	9	20	7	16	9	20	7	16	10	43
Credit statement**	34	77	7	16	0	0	2	5	0	0
Repayment Plan**	21	45	18	41	4	9	0	0	0	0
Budget of expected income and receipt**	5	11	8	18	17	39	9	20	4	9
Visit farm**	13	30	15	34	12	27	2	5	0	0
Submit loan to a committee***	4	9	15	32	13	30	8	18	2	5
Arrange insurance cover****	5	11	4	9	19	43	11	25	1	2

\*No reply two banks

\*\*No reply from one bank

\*\*\*No reply from three banks

\*\*\*\*No reply from four banks

The importance in determining the repayment ability of an individual farmer in relation to selected characteristics was presented in Table XI. Banks were asked to rate the characteristics as to their importance in determining the repayment ability of an individual farmer. Table XI shows that 59 per cent of the banks rated collateral as being always important; 39 per cent of the banks rated complete and accurate records as always important; 61 per cent rated stable family relations as always important; 86 per cent of the banks rated management ability as always important; and 86 per cent of the banks rated character as always important in determining the repayment ability of an individual farmer. None of the banks rated the selected characteristics as never being important.

TABLE XI

COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
RATING OF CHARACTERISTICS OF REPAYMENT ABILITY OF A FARMER

Selected characteristics :	Always important		Frequently important		Sometimes important		Rarely important		Never important	
	N*	%	N	%	N	%	N	%	N	%
Collateral	26	59	14	32	3	7	0	0	0	0
Complete and accurate records	17	39	16	36	7	16	3	7	0	0
Stable family relations	27	61	8	18	8	18	0	0	0	0
Management ability	38	86	4	9	1	2	0	0	0	0
Character	38	86	4	9	0	0	1	2	0	0

\*No reply from one bank

Considering their present livestock loans, agricultural representatives were asked to rate selected livestock systems as to the per cent loaned and length of loan. Table XII revealed a wide variety of practices used by banks in financing selected livestock systems. Data reveals that 15 per cent of the banks provided 91 to 100 per cent financing for cow herd systems representing various lengths of time; 21 per cent of the banks provided 91 to 100 per cent financing for plain-er grades of dairy and beef representing various lengths of time; 21 per cent of the banks provided 91 to 100 per cent financing for sow and litter representing various lengths of time; and 25 per cent of the banks provided 91 to 100 per cent financing for feeder pigs representing various lengths of time.

TABLE XII

COMMERCIAL BANKS HAVING AGRICULTURAL REPRESENTATIVES  
 RATING OF SELECTED LIVESTOCK SYSTEMS AS TO THE  
 PER CENT LOANED AND LENGTH OF LOAN

Livestock systems	Length of loan	Per cent loaned					
		51-74		75-90		91-100	
		N	%	N	%	N	%
Cow herd*	0-3 mo.	0	0	0	0	0	0
	4-6 mo.	7	16	10	23	3	7
	7 mo.-1 yr.	5	11	8	18	2	5
	13 mo.-2 yrs.	0	0	3	7	0	0
	25 mo.-3 yrs.	0	0	1	3	1	3
Deferred full feeding system**	0-3 mo.	0	0	0	0	0	0
	4-6 mo.	3	7	5	11	2	5
	7 mo.-1 yr.	5	11	9	20	6	14
	13 mo.-2 yrs.	0	0	2	5	1	2
	25 mo.-3 yrs.	0	0	0	0	0	0
Plainer grades of beef and dairy**	0-3 mo.	0	0	0	0	1	2
	4-6 mo.	8	18	10	23	4	9
	7 mo.-1 yr.	4	9	8	18	1	2
	13 mo.-2 yrs.	1	2	0	0	0	0
	25 mo.-3 yrs.	1	2	0	0	0	0
Sow and litter***	0-3 mo.	0	0	0	0	0	0
	4-6 mo.	6	14	10	23	7	16
	7 mo.-1 yr.	1	2	4	9	2	5
	13 mo.-2 yrs.	0	0	1	2	0	0
	25 mo.-3 yrs.	0	0	0	0	0	0
Feeder pig****	0-3 mo.	2	5	0	0	0	0
	4-6 mo.	6	14	13	30	11	25
	7 mo.-1 yr.	0	0	0	0	0	0
	13 mo.-2 yrs.	0	0	0	0	0	0
	25 mo.-3 yrs.	0	0	0	0	0	0

\*No reply from four banks

\*\*No reply from five banks; no system, one bank

\*\*\*No reply from eight banks; no system, five banks

\*\*\*\*No reply from eight banks; no system, four banks

## IMPLICATIONS FOR THE CITIZENS STATE BANK OF WATERVILLE

This portion of the study projects the implications of the survey for the Citizens State Bank of Waterville. These implications were determined by the officers of the Citizens State Bank of Waterville.

The officers determined that the frequency of personal visits, which farm customers received by a staff representative or agricultural representative, be increased. The officers were of the opinion that in the past, time had not permitted a staff representative to make personal visits to farmers. Futhermore, the officers felt that farm customers should receive a personal visit at least once per year or as often as the farmer needs a personal visit.

The officers determined that with addition of an agricultural representative the bank was able to offer increased agricultural financial service to farm customers. Agricultural services were extended to include providing financial support to farm group activities, assisting farmers in selecting quality livestock by personal visitation, advertising special agricultural service rendered by the bank, and sponsoring agricultural meetings. The officers were of the opinion that extending such agricultural services resulted in improved financial return of livestock programs used in the Waterville community and also encouraged cash grain farmers to develop livestock programs.

Regarding the repayment plan of an individual livestock loan, the officers were of the opinion that farmers who were beginning a livestock system develop a long range livestock program plan. The officers agreed that the agricultural representative was to assist the farmer in the development of such a plan.

The officers were of the opinion that the agricultural representative of the bank was to be competent in extending credit not only to farmers but also to businesses related to farming.

## SUMMARY

The purpose of this study was to determine the policies of financing livestock programs by commercial banks in Kansas and to determine what implications were needed for the policies of extending agricultural credit by the Citizens State Bank of Waterville.

The data in this report was obtained through the use of a mailed questionnaire and by a meeting of the officers of the Citizens State Bank. Questionnaires were sent to sixty commercial banks having agricultural representatives. Reports were obtained from forty-four banks. Fourteen per cent of the banks used written policies for extending agricultural credit, while 86 per cent did not use written policies.

The commercial banks having agricultural representatives had an average loan deposit ratio of 54 per cent.

Regarding agricultural lending, data showed that 43 per cent of the commercial banks used short term credit, 45 per cent used revolving term credit, and 7 per cent used term credit.

Commercial banks made an average of 8 per cent of their livestock loans for three months or less, 68 per cent for four to six months, 21 per cent for seven months to one year, and 3 per cent for more than one year.

Fifty per cent of the banks reported visiting their farm customers once per year.

Ninety-eight per cent of the banks provided financial support for farm group activities, while only 20 per cent determined income tax for farmers.

Banks reported that on loans applications which exceed their loan limits, 84 per cent of the banks handled the loan on a participation basis with correspondent banks.

An average of 81 per cent of the farm customers of an individual bank received complete financial service from their bank.

Eighty-six per cent of the banks rated management ability and character as being always important in determining the repayment ability of an individual farmer.

Data revealed that banks displayed a variety of methods of financing selected livestock systems.

The implications of the survey results were determined for the Citizens State Bank of Waterville by its officers. The officers were of the opinion that farm customers should receive a personal visit by a staff representative or agricultural representative at least once per year. However, visits were made more frequently if farmers requested visits or if the officers felt that a visit was necessary.

Agricultural services extended to farm customers were increased to include providing financial support to farm group activities, assisting farmers in selecting quality livestock by personal visitation,



advertising special agricultural services rendered by the bank, and sponsoring agricultural meetings.

The officers were of the opinion when planning the repayment of a livestock loan, the agricultural representative was to assist the farmer in the development of a long range livestock program plan.

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APPENDIX

# Citizens State Bank

CAPITAL ACCOUNTS



\$200,000.00

Waterville, Kansas

COVER LETTER

February 15, 1964

**TO: Agriculture Representatives of Commercial Kansas Banks**  
**FROM: Citizens State Bank, Waterville, Kansas**  
**SUBJECT: Survey of Policies for Financing Livestock Programs  
by Commercial Banks in Kansas**

Galen Morley  
First National Bank  
Nortonville, Kansas

Dear Mr. Morley:

A sound progressive agriculture is one of America's greatest sources of strength. Keeping pace with the changing needs of farm credit has been a program of significance to you.

You, as an Agriculture Representative of your bank, are leading the way in setting the pattern of farmer banking services for the future. The writer is conducting a survey to determine what policies are being used by the leaders in agriculture credit.

The answers obtained on the enclosed questionnaire will be used to complete the partial requirements for a Master's Degree at Kansas State University. The identity of the individual bank is not sought, and if such identity is revealed, it will be held in strict confidence. Please mail the questionnaire in the enclosed envelope.

The scope of agricultural financing by commercial banks of Kansas lies in the answers you indicate on the survey.

Your expedient return will be deeply appreciated.

Sincerely,

Leslie A. Olson



SURVEY OF POLICIES FOR FINANCING LIVESTOCK PROGRAMS BY COMMERCIAL  
BANKS IN KANSAS

BANK \_\_\_\_\_ CITY \_\_\_\_\_ STATE \_\_\_\_\_  
YOUR NAME \_\_\_\_\_ YOUR TITLE \_\_\_\_\_

1. Is your bank's agricultural lending governed by a set of written policies?

\_\_\_\_\_ Yes  
\_\_\_\_\_ No

2. Does the bank have special arrangement with insurance companies for long term credit programs?

\_\_\_\_\_ Yes  
\_\_\_\_\_ No

3. Has the bank formed separate affiliated credit corporations to handle agriculture lending?

\_\_\_\_\_ Yes  
\_\_\_\_\_ No

4. What per cent of your agriculture loans are secured by a credit life insurance plan? \_\_\_\_\_ Per Cent.

5. What per cent of your total deposits is allocated for loan purposes?

6. Check one following practice which best describes your bank's policies regarding agriculture lending?

\_\_\_\_\_ Short term lending

\_\_\_\_\_ Revolving term credit

\_\_\_\_\_ Term lending

7. List the per cent of your outstanding livestock loans which are made for:

\_\_\_\_\_ Three months or less

\_\_\_\_\_ Four to six months

\_\_\_\_\_ Seven months to one year

\_\_\_\_\_ More than one year

8. Check the time your livestock loans are reviewed?

\_\_\_\_\_ Every three months

\_\_\_\_\_ Every six months

\_\_\_\_\_ Once a year

\_\_\_\_\_ Never

9. Estimate the amount of loans lost in loans made by other institutions.

10. Which one of the following institutions were the final sources of credit that were lost to other institutions?

\_\_\_\_\_ Production Credit Association

\_\_\_\_\_ Federal Land Bank

\_\_\_\_\_ Farmers Home Administration

\_\_\_\_\_ Insurance Companies

11. Check the frequency which farmers receive a personal visit by a staff representative.

\_\_\_\_\_ Once per year

\_\_\_\_\_ Twice per year

\_\_\_\_\_ Three times per year

\_\_\_\_\_ Four times per year

\_\_\_\_\_ Never

\_\_\_\_\_ Others specify \_\_\_\_\_

12. Rank the factors (1,2,3,4,5) which determines how often a visit will be made by a staff representative.

\_\_\_\_\_ New customer

\_\_\_\_\_ Amount of loan

\_\_\_\_\_ Management program of farmer

\_\_\_\_\_ Requested by farmer

\_\_\_\_\_ Policy of bank

13. Check the following agriculture services which are provided to farmers by your bank.

- Determine income tax for farmers
- Provide financial support for farm group activities 4-H, FFA, and others
- Permit staff participation in farm group activities
- Assist farmers in selecting quality livestock by personal visitation
- Provide a direct mailing service to farmers
- Furnish farm account books free to farmers
- Advertise special agricultural service rendered by bank
- Sponsor, agricultural meetings

14. Which one of the following statements comes closest to describing your bank's policy in regard to a loan application which exceeds your limit?

- Entire loan is handled by correspondent banks
- Loan handled on participation basis with correspondent banks
- Loan lost to other institutions
- Others specify \_\_\_\_\_

15. What per cent of the farmers, who obtain agriculture loans from your bank, do obtain complete financial service from you?  
 \_\_\_\_\_ Per cent.

Directions: In the following questions make a check (✓) on the line for each of the following items to indicate how you would rate the subject named.

16. Rate the following reasons why farmers did not receive complete financial service.

LENDING LIMITS

completely unsatisfactory	rarely satisfactory	acceptable	usually acceptable	highly satis- factory

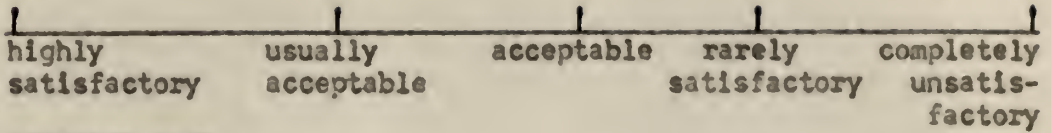
COLLATERAL

completely unsatisfactory	rarely satisfactory	acceptable	usually acceptable	highly satis- factory

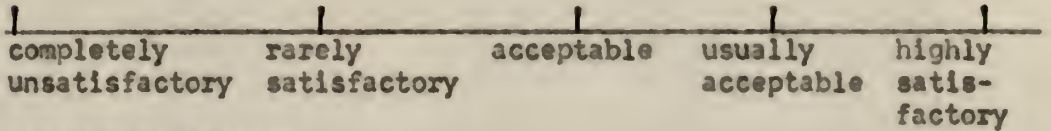


16. Continued

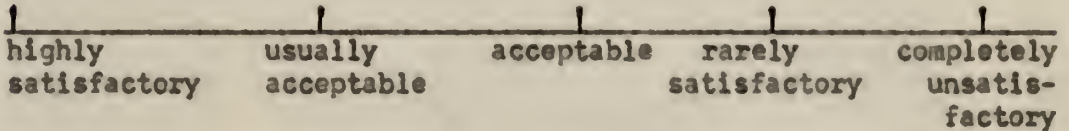
CHARACTER



INTEREST RATE



MANAGEMENT ABILITY



17. Considering those agriculture livestock loans which are permitted to exceed the normal lending limits, rate the characteristics as reasons for exceeding the limit.

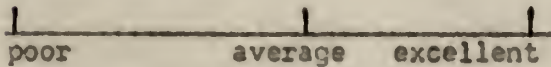
CHARACTER



COLLATERAL



MANAGEMENT ABILITY



NET WORTH STATEMENT



## 17. Continued

## REPAYMENT ABILITY

|-----|-----|  
 poor                      average                      excellent

## 18. Rate the following policies as to their usage in financing your livestock programs.

100 per cent loans are made on brood cows or brood sows if farmer has pasture and feed.

|-----|-----|-----|-----|  
 always    frequently    occasionally    seldom    never  
 used        used                      used        used        used

100 per cent loans are made on feeder cattle, pigs, boars, and bulls.

|-----|-----|-----|-----|  
 always    frequently    occasionally    seldom    never  
 used        used                      used        used        used

Loans are made only on quality livestock.

|-----|-----|-----|-----|  
 never        seldom                      occasionally    frequently    always  
 used        used                      used        used        used

Loans are made only on approved livestock systems.

|-----|-----|-----|-----|  
 always        frequently    occasionally    seldom    never  
 used        used                      used        used        used

Mortgages are accepted for livestock loans.

|-----|-----|-----|-----|  
 always        frequently    occasionally    seldom    never  
 used        used                      used        used        used

## 19. Rate the following steps which best describes your procedure for making an agricultural loan.

## APPLICATION FORM

|-----|-----|-----|-----|  
 regularly    often                      occasionally    seldom    never  
 used        used                      used        used        used

## 19. Continued

## CREDIT STATEMENT

never used	seldom	occasionally	often used	regularly used
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## REPAYMENT PLAN

never used	seldom	occasionally	often used	regularly used
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## BUDGET OF EXPECTED INCOME AND RECEIPT

regularly used	often used	occasionally	seldom	never used
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## VISIT FARM

regularly used	often used	occasionally	seldom	never used
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## SUBMIT LOAN TO A COMMITTEE

never used	seldom	occasionally	often used	regularly used
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## ARRANGE INSURANCE COVERAGE

never used	seldom	occasionally	often used	regularly used
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20. Rate the following terms as to their importance in determining the repayment ability of an individual farmer.

## COLLATERAL

always important	frequently important	sometimes important	rarely important	never important
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## COMPLETE AND ACCURATE RECORDS

never important	rarely important	sometimes important	frequently important	always important
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## 20. Continued

## STABLE FAMILY RELATIONS

always important	frequently important	sometimes important	rarely important	never important
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## MANAGEMENT ABILITY

never important	rarely important	sometimes important	frequently important	always important
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## CHARACTER

never important	rarely important	sometimes important	frequently important	always important
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21. Considering your present livestock loans, rate the following livestock systems as to the per cent loaned and length of loan by placing a check (✓) in the proper columns.

## Cow Herd and Feeder Calf System

	51-74%	75-90%	91-100%
0-3 months			
4-6 months			
7 months-1 year			
13 months-2 years			
25 months-3 years			

## Deferred Full Feeding System

	51-74%	75-90%	91-100%
0-3 months			
4-6 months			
7 months-1 year			
13 months-2 years			
25 months-3 years			

## 21. Continued

## Plainer grades of beef and dairy steers system

	51-74%	75-90%	91-100%
0-3 months			
4-6 months			
7 months-1 year			
13 months-2 years			
25 months-3 years			

## Sow and litter system

	51-74%	75-90%	91-100%
0-3 months			
4-6 months			
7 months-1 year			
13 months-2 years			
25 months-3 years			

## Feeder pig system

	51-74%	75-90%	91-100%
0-3 months			
4-6 months			
7 months-1 year			
13 months-2 years			
25 months-3 years			

POLICIES OF FINANCING LIVESTOCK PROGRAMS  
BY COMMERCIAL BANKS IN KANSAS

by

LESLIE A. OLSEN

B. S., Kansas State University, 1957

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AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

Department of Education

KANSAS STATE UNIVERSITY  
Manhattan, Kansas

1964

ABSTRACT OF POLICIES OF FINANCING LIVESTOCK  
PROGRAMS BY COMMERCIAL BANKS IN KANSAS

The purpose of this study was to examine the policies of financing livestock programs by commercial banks of Kansas having agricultural representatives. The study also determined the implications of the results of the survey findings for the Citizens State Bank of Waterville.

The results of this study were obtained through the use of a mailed questionnaire to sixty agricultural representatives of commercial banks in Kansas. Forty-four, or 73 per cent, of the banks returned their questionnaire.

The results of this study showed that 14 per cent of the banks used written policies for financing livestock programs, while 86 per cent of the banks reported they did not use written policies.

Data showed that commercial banks having agricultural representatives had an average loan deposit ratio of 54 per cent.

Forty-three per cent of the reporting banks used short term credit, 45 per cent used revolving term credit, and 7 per cent used term lending.

Commercial banks reported that an average of 8 per cent of their livestock loans were made for three months or less, 68 per cent were made for a period of four to six months, 21 per cent were made for a period of seven months to one year, and 3 per cent were made for more than one year.

The livestock loans were reviewed by the end of six months by 85 per cent of the banks.

Farm customers were visited once per year by 50 per cent of the banks. Two per cent reported visiting their farmers three times per year.

Financial support to farm group activities was provided by 98 per cent of the banks, while 20 per cent determined income tax for farmers.

Participation with correspondent banks was used by 84 per cent of the banks as a method of extending the loan. Agricultural representatives were asked to rate their reasons for exceeding their loan limit for a farmer. Eighty-four per cent rated character as excellent for exceeding the limit, while 43 per cent rated net worth statement as excellent as reason for exceeding loan limits.

Eighty-six per cent of the banks rated management ability and character as being always important in determining the repayment ability of an individual farmer.

The implications of the survey results were determined for the Citizens State Bank of Waterville by its officers. The officers were of the opinion that farm customers should receive a personal visit by a staff representative or agricultural representative at least once per year. However, visits were made more frequently if farmers requested visits or if the officers felt that a visit was necessary.



Agricultural services extended to farm customers were increased to include providing financial support to farm group activities, assisting farmers in selecting quality livestock by personal visitation, advertising special agricultural services rendered by the bank, and sponsoring agricultural meetings.

The officers were of the opinion when planning the repayment of a livestock loan, the agricultural representative was to assist the farmer in the development of a long range livestock program plan.

