

FINANCING ALASKA'S FARMS

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ALASKA AGRICULTURAL EXPERIMENT STATION

Bulletin 35
May 1964

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SUMMARY — — — —

Analysis of financial records made available by 93 Alaska farmers and homesteaders and information provided by financing agencies shows that farm credit in 1960 had improved considerably since mid-decade. Although ample credit seemed available for existing production levels, little risk money was at hand for setting up new farms.

If Alaska continues to grow at the 1960 rate an annual expansion of farm credit resources of \$500,000 to \$750,000 appears needed.

A major problem facing lenders is to coordinate credit extension between agencies, observing limitations imposed by market demands for local products. Major complaints voiced by borrowers are that terms are still too short and that interest rates are excessive.

RECOMMENDATIONS — — —

° In extending credit to expand production, the requirements and limits of available markets must be observed. Fostering production beyond market demands jeopardizes existing enterprises and may lead the new farmers to economic disaster.

° Borrowers and lenders must recognize the need for improving production efficiency and reducing costs. Greater consideration should be given to "managerial capacity" in loans for expansion. Increased size and production at high costs and low efficiency can prove more a burden than an asset.

° Many loans have been made piecemeal to take care of immediate needs. Farmers and lenders should cooperate in establishing a definite loan program focused on the development and operation of a profitable business. This generally will require more supervision by the lenders than has been practiced.

FINANCING ALASKA'S FARMS

COMMERCIAL FARMING in Alaska has developed primarily since World War II, stimulated by growth of large military establishments near Anchorage and Fairbanks. Although some agricultural activity dates back to the original Russian colonies, farm products were largely for home use, only a small amount being sold or traded by the grower directly to the consumer. A large build-up of military forces in Alaska provided markets for dairy products, potatoes and fresh vegetables. These markets made commercial farming feasible. Today's market for Alaska's farm products is confined to that consumed by the local population of less than a quarter million people. Aside from small quantities of wool and reindeer meat, export of Alaska's agricultural products elsewhere is not economically feasible at this time.

The earliest farm credit in Alaska was that offered by merchants and commercial banks. This credit was primarily extended on the borrower's reputation rather than on his productivity as a farmer. The first large source of agricultural credit geared to farm needs was that provided by the Alaska Rural Rehabilitation Corporation (ARRC) organized in 1935 an agency of the Department of Interior. Its original activities were chiefly focused on the Matanuska Colony. In 1953 the ARRC was removed from federal supervision and has since operated statewide under local administration. Farmers Home Administration activities were extended to Alaska in 1938 and are today the state's largest single source of agricultural credit. The first and only agriculturally oriented commercial bank in Alaska was organized in Palmer in 1947. The state-administered Alaska Agricultural Revolving Fund was established in 1953, while the Federal Land Bank made its first loans in Alaska in 1959.

Agricultural credit in Alaska, a new area with many adverse production and marketing conditions,

has some features uncommon in other parts of the United States. Most farms have been developed in a single generation starting with raw forested land. Most farmers have migrated to Alaska in the last twenty years, many with limited previous experience. New settlers have usually started with an inadequate land base and little capital, and with little prospects for income from farming during their initial years of development. Many would-be farmers have left or turned to other employment. The few who have stayed and developed going enterprises have had to make extensive use of whatever credit was at hand. Total available credit has been limited and often not of the type or terms best suited to encourage development of a sound agricultural economy.

Problems of agricultural credit in Alaska are not confined simply to a need for more lending capital. Available capital must be put to work where it will do the greatest good, not only for the borrower but for the overall development of a stable agriculture geared to market demands and needs of the state. With

Table 1.—Distribution of farms and study sample in Alaska's railbelt, 1960.

Kind of Unit	Kenai Peninsula	Matanuska Valley	Tanana Valley	Total
Homesteads surveyed* number	10	11	9	30
Commercial farms —				
In area ----- number	13	95	26	134
Surveyed ----- number	8	44	11	63
In area ----- per cent	10	71	19	100
Surveyed ----- per cent	13	70	17	100

*Total number of occupied homesteads was unknown.

a limited resource this may mean making fewer loans, but loans that are adequate in amount and on terms that permit the development of economically sound farm units.

The objectives of this study were (1) to determine the capital requirements and debt repayment ability of major farm types, (2) to determine the type and availability of agricultural credit in Alaska, and (3) to develop recommendations as a basis for improving Alaska's agricultural credit system. This information has been accumulated chiefly for Alaska's agricultural borrowers and lenders. Emphasis is on production, rather than processing, distribution and marketing. Records were collected for the year 1960 and all inventories, prices and values are as of December 31, 1960. While conclusions are drawn primarily on one year they appear generally applicable for a longer period of time.

Because of the large size of the state, its widely scattered settlement, highly localized markets, and the remote locations of a few agricultural enterprises the study was confined to Alaska's railbelt. Some comparisons have been made between the Kenai Peninsula, the Matanuska Valley and surrounding area, and the Tanana Valley. This region con-

tains 62 per cent of the state's population and produces 89 per cent, by value, of all farm products grown in the state.

Information from the principal lending agencies was obtained by personal interview. A mail questionnaire was sent to all commercial banks in the state and personal interviews held with those banks that reported a substantial volume of agricultural credit business. All information from farmers was obtained by personal interviews.

"Farms" were classified in two broad categories — commercial farms and beginning homestead farms. The latter group was made up primarily of places in their early stages of development. Incomes in this group were derived chiefly from non-farm employment, actual farm receipts being relatively small. Although many will never develop into full-time commercial farms, this group represents a large segment of the state's rural population which aggressively seeks agricultural credit. Data for this group is presented separately from the commercial farms.

The exact number of homesteads in the railbelt was unknown. A reasonable estimate would be around 300, of which a 10 per cent sample was selected. No attempt was made

Table 2.—Distribution of commercial farms and study sample in Alaska's railbelt, 1960*.

Item	Dairy	Vegetable	Poultry	General	Total
In area ----- number	76	25	13	20	134
Surveyed ----- number	38	11	3	11	63
In area ----- per cent	57	19	10	14	100
Surveyed ----- per cent	60	18	5	17	100

*In this and all following tables "vegetable farms" include those enterprises with 20 acres or more of potatoes, or 10 acres or more of green vegetables, or a combination of 15 or more acres of green vegetables or potatoes.

to analyze homesteads by type as their volume of farm business is small and intent is usually vague.

Commercial farms were subdivided into four types based on primary farm enterprise — dairy, vegetable, poultry and general. Dairy farms derived their principal income from milk sales; all farms in this class milked 15 or more cows. Vegetable farms included those with 20 acres or more of potatoes, or 10 acres or more of green vegetables, or a combination of over 15 acres of vegetables and potatoes. Poultry farms had 500 or more layers. General farms had 50 acres or more of feed crops or were making the major portion of their income from a combination of farm enterprises. At the time

the sample was drawn, there were 134 commercial farms meeting the described criteria in the railbelt area. Schedules were obtained from 63 of these farms — a 47 per cent sample. Distribution of the sample by sub-areas is shown in Table 1. Table 2 shows the distribution of commercial farms by types of enterprise.

THE FARMERS

Commercial farmers in the sample ranged in age from 18 to 71 years, the average being 43.6 years. The homesteader group was about one year younger. Both homesteaders and commercial farmers in the Tanana Valley were about five years younger than farmers in the other two areas. According to the U. S. Census of Agriculture for 1959 the

Table 3.—Age of Alaska farmers surveyed compared to the national average.

Age	Homestead		Commercial farms				National
	only	Dairy	Vegetable	Poultry	General	All	average
	Per Cent						
Under 25	3.3				9.1	1.6	1.7
25 to 34	16.7	7.9	9.1		9.1	7.9	11.0
35 to 44	43.3	44.8	45.4	33.3	63.6	47.7	22.0
45 to 54	26.7	36.8	36.4	67.7		31.8	26.7
55 to 64	6.7	7.9	9.1		18.2	9.5	21.9
65 & over	3.3	2.6				1.6	16.8
	Years						
Avg. age	42.5	43.9	44.9	45.7	40.6	43.6	50.5

Table 4.—Number of years Alaska's farmers have occupied their places compared to the national average.

Period	Homestead only		Commercial farms				National average
	Dairy	Vegetable	Poultry	General	All		
	Per Cent						
Under 5	63.3	7.9	27.3	33.3	18.2	14.3	17.7
5 to 9	30.0	39.4	18.2	66.7	36.4	36.5	17.5
10 & over	4.4	52.7	54.5	-	45.4	49.2	64.8
	Years						
Average	14.4	10.0	10.1	6.3	11.1	10.1	15.0

average age of all United States farmers was 50.5 years. Over 70 per cent of Alaska's farmers were in the age range of 35 to 54 years as compared with less than half the nation's farmers. Alaska had fewer younger and older farmers than in the nation as a whole.

Commercial farmers in the sample had been on their Alaska farms an average of 10.1 years while the homesteader group's average occupancy was only 4.4 years. This difference in length of occupancy stems from a rapid turnover in homesteaders and the fact that a considerable number of years is required to develop a commercial enterprise. The 1959 Census reported an average occupancy of 10 years for all Alaska farmers as compared with a national average of 15 years.

Most farmers in the sample came to Alaska during the past 15 years. Of the 93 farmers and homesteaders surveyed only two had been born in Alaska and only one had acquired his farm from his parents or relatives. Commercial farmers had lived in Alaska for an average of 14 years (having arrived in 1947) while the homesteader group had been in Alaska nine years. This indicates that members of both groups had spent an average of 4 or 5 years in Alaska before occupying their present place. A prospective farmer often needs a few years to become acquainted with the area and to accumulate funds to start farming.

Before coming to Alaska 83 per cent of the commercial farmers had some previous farm experience as compared to 63 per cent of the

Table 5.—Year of arrival in Alaska of farmers in the study sample.

Period	Homestead only		Commercial farmers				All
	Dairy	Vegetable	Poultry	General	All		
	Per Cent						
Before 1940	16.7	15.8	18.2	-	18.2	15.8	
1940 to 1944	6.7	10.5	9.1	-	18.2	11.1	
1945 to 1949	13.3	44.7	45.4	33.3	36.3	42.9	
1950 to 1954	26.7	26.4	18.2	33.3	18.2	23.9	
1955 to 1960	36.6	2.6	9.1	33.3	9.1	6.3	
	Year of arrival						
Average	1951	1947	1947	1951	1944	1947	

Table 6.—Source of 1960 income of Alaska farmers in study sample.

Income source	Commercial farms						All
	Homestead only	Dairy	Vegetable	Poultry	General		
	Number of farms						
Over 75% from farm	1	34	6	1	6	47	
25 to 75% from farm	2	1	3	-	1	4	
Under 25% from farm	26	2	1	2	3	8	
Semi-retired	1	1	1	-	1	3	

homesteaders. A little less than two-thirds of the commercial farmers and 40 per cent of the homesteaders had been raised on farms, while 17 per cent of the former and 37 per cent of the latter had no previous farm experience. Of the commercial farmers, those operating dairy and general farms had the most experience, vegetable and poultry farmers the least. Only 22 per cent of all farmers had never worked at another occupation.

Dairy farmers had the largest families (averaging 5.1 persons) while general farmers had the smallest (3.1 persons). Homesteader families were slightly smaller (4.2 persons compared with 4.4 for commercial operators). There were only five bachelors among the commercial farmers and all were engaged in general farming.

The number of persons regularly helping on the farm (both family

and hired labor) was greatest on the dairy farms (2.6 persons) and smallest on the general farms and homesteads (1.7 persons). Dairy farms also made the greatest use of hired labor with approximately half employing one or more full-time hired men.

Principal income (that source yielding over 75 per cent of net income) for 75 per cent of the commercial operators was from farming while only one of 30 homesteaders reported farming as his chief source of income. Off-farm employment furnished most income for 86 per cent of homesteaders as compared with 13 per cent of commercial farmers.

Only two of the 63 commercial farmers rented all of the land they were using in 1960. The rest were nearly evenly divided between full owners and those who both owned

Table 7.—Size of Alaska farm families in study sample, 1960.

Number in family	Commercial farms						All
	Homestead only	Dairy	Vegetable	Poultry	General		
	Number of farms						
1	3				5	5	
2	3	4	2	1	1	8	
3 & 4	12	12	5	1	1	19	
5 & 6	8	14	4	1	3	22	
7 or more	4	8			1	9	
	Number of persons						
Mean	4.2	5.1	3.8	4.0	3.1	4.4	

Table 8.—Land ownership of Alaska farmers studied, in 1960.

Land ownership	Homestead only	Commercial farms					All
		Dairy	Vegetable	Poultry	General		
		Number of farmers					
Own all land	30	11	9	3	7	31	
Both own and rent		26	1	-	4	30	
Rent all land		1	1	-	-	2	
Total	30	38	11	3	11	63	

and rented land — 71 per cent rented some land as opposed to only 24 per cent of all other commercial farmers. A majority of rentals were on a yearly cash basis. In a few cases (less than 20 per cent) improvement of the land used or a share of the crop was accepted as rent. No homesteader rented land.

Among the commercial farmers, purchasing was the most common method of acquiring land. Half had purchased all of the land they owned while less than a third acquired all their owned land by homesteading. One farmer had obtained his farm from his parents, and the rest had purchased some land in addition to that homesteaded. Two farmers who were members of the Matanuska Valley Colony are included in this last group. One of the "homesteader" group had purchased all of his land while another had purchased some land in addition to that he had

homesteaded. The remaining 28 homesteaders had acquired all of their land through homesteading.

A breakdown by area showed 64 per cent of the commercial farmers in the Matanuska Valley and 36 per cent in the Tanana Valley had purchased all of their land. All farmers on the Kenai Peninsula had homesteaded.

Among commercial farmers 83.6 per cent of all land used was owned, the rest being rented. Purchases accounted for 52.6 per cent of the total land farmed while 27.7 per cent had been acquired by homesteading. The dairy farmers as a group made the greatest use of rented land and the poultry and vegetable-potato farmers the least.

The average size commercial farm was 258 acres, 124 acres being cultivated. Although general farms were largest, dairy farms had the most cultivated acreage (grazing

Table 9.—Methods by which the study group had acquired their land.

Method	Homestead only	Commercial farms					All
		Dairy	Vegetable	Poultry	General		
		Number of farmers					
Purchased all land	1	25	3	2	2	32	
Homesteaded & purchased	1	5*	2	-	2	9	
Homesteaded all land	28	7	5	1	6	19	
Acquired land from family		-	-	-	1	1	
Total	30	37	10	3	11	61	

*Includes two dairymen who obtained land through the Matanuska Valley Colony.

Table 10.—Size of farms in the study sample, in 1960.

Land	Homestead — — — — Commercial farms — — — —					
	only	Dairy	Vegetable	Poultry	General	All
	Average number of acres					
Total land						
All	148	219	145	69	316	216
Tilled	27	114	44	22	94	94
Rented land						
All		52	18		44	42
Tilled		40	10		23	30
Owned land						
All	148	271	163	69	360	258
Tilled	27	154	54	22	117	124

land leased from the Bureau of Land Management was not included in calculating the size of farms). Poultry farms were the smallest both in total and cultivated acres. On the average 48 per cent of the land in commercial farms was cultivated. Of rented land, 71 per cent was cultivated compared to only 43 per cent of owned land. Only 18 per cent of land on homesteads was considered cultivated, no crops being harvested from over half of this cultivated land in 1960.

INCOME AND REPAYMENT ABILITY

Net farm income (gross income minus all expenses and depreciation on buildings and equipment) accounted for only 53 per cent of the

total net income of the commercial farmers studied. Off-farm wages contributed 29 per cent and returns from other businesses and assets contributed the remaining 18 per cent. Dairy farmers were the only group who received over half of their net income from farming. Potato-vegetable farmers received half their income from farming, the rest being equally divided between wages and income from other businesses and assets. Poultry farmers showed a net loss on their farm business and realized a net income only from non-farm wages. Homesteaders received 96 per cent of their income from off-farm wages and showed a small loss on their farming operations.

A comparison of the three farming

Table 11.—Source of farm income on various kinds of Alaska farms in 1960.

Income source	Homestead — — — — Commercial farms — — — —					
	only	Dairy	Vegetable	Poultry	General	All
	Per cent of farm income					
Feed crops	18.2	2.7	6.4		83.4	9.0
Vegetable & potatoes	38.3	*	99.4	0.9	0.4	14.7
Milk		95.0			3.5	67.5
Eggs	12.1	0.1		94.4	0.1	6.0
Meat	6.4	1.7	0.1	4.7	5.6	1.9
Miscellaneous**	24.0	0.5	0.1		7.0	0.9

*Less than 1 per cent.

**Includes custom work, wood products, government payments and so forth.

Table 12.—Farm income, off-farm earnings and debt repayment ability of Alaska farmers in the study group for the year 1960.

Item	Homestead	Commercial farms				All
	only	Dairy	Vegetable	Poultry	General	
Net cash						
farm earnings*	\$-417	\$7438	\$6653	\$1403	\$2474	\$6147
Less depreciation	461	2041	1814	1738	1530	1897
Net farm income	-878	5397	4739	-335	944	4250
Off-farm earnings ...	4614	2034	2397	2333	3425	2355
Other asset						
& business income ...	245	1012	2379		2586	1477
Total net income	3981	8443	9505	1998	6955	8082
Less income taxes** ..	223	1040	1508		1315	1090
Less family						
living allowance†	3818	4636	3454	3636	2818	4000
Available for debt reduction						
From total earnings ...	-40	2767	4543	-1638	2822	2992
From farm						
earnings only	None	379	825	None	None	None

*Gross farm receipts less all expenditures except depreciation.

**Includes Alaska income tax calculated at 16 per cent of the federal tax. Exemptions were based on the average family size for each kind of farm as earlier defined.

†Family living expenses are calculated at \$909 per person in family as determined for each kind of farm.

areas revealed that only in the Matanuska Valley were the sampled farmers primarily dependent upon their farm income. In both the Tanana Valley and Kenai Peninsula, farm operations showed a net loss when depreciation was deducted. In both of these areas wages were the primary source of income.

All of the commercial farms were highly specialized, deriving their income from a single line of production. Even on the general farms there was very little diversification, feed crops produced for sale contributing 83 per cent to the gross farm income. Of the other three classes over 95 per cent of the farm income was derived from a single enterprise.

Limited farming on homesteads was more diversified with potatoes and vegetables yielding the most returns.

In extending farm credit a prime consideration is how much money the farmer will have left after meeting all expenses (including interest) that might be applied to debt repayment. In arriving at this capacity, consideration must be given not only to his net income but allowance must be made for the support of his family* and payment of federal and state income taxes. After subtracting all expenses (including taxes and family living) only the dairy and vegetable farmers had any income left from farming that could be applied to debt retirement. If income

*An analysis of FHA borrowers' records in Alaska showed that their typical family spent \$909 per person to cover living expenses.

from off-farm sources is included, all but poultry farms had some debt repayment ability.

The amount of indebtedness that farmers may safely incur is complicated by a number of factors. Prices received for farm products sold is probably the most unstable of these. In dairying a 5 per cent drop in milk prices in 1960 would have more than eliminated farm income left after payment of all farm and family expenses; a 15 per cent decline would have left nothing for debt repayment, even with the addition of non-farm income. Rate of repayment has a direct bearing on total amount of debt a farmer can safely incur. Short-term debts decrease while long-term loans increase the total indebtedness a farmer can assume. Stage of farm development, age and health of the farmer and family, personal ambition and abilities are among other considerations influencing the situation — all difficult to evaluate in dollars and cents.

A wide variation in repayment ability was found between the three parts of the railbelt. Only farmers in the Matanuska Valley realized a net return from farming after de-

ducting all expenses and depreciation. They also had the highest repayment potential. Tanana Valley farmers were lowest with less than 10 per cent as much. Off-farm wages were a major source of income in both the Tanana Valley and Kenai Peninsula. Kenai Peninsula farmers enjoyed the greatest returns from non-farm businesses and other assets. It was this additional income that gave them a greater repayment capacity than that possessed by the farmers in the Tanana Valley.

ASSETS AND DEBTS

Farm assets accounted for 75 to 90 per cent of the total assets of the commercial farmers surveyed. Dairy farmers had the highest ratio of farm assets to total assets, vegetable farmers the lowest. Non-farm assets generally consisted of about two-thirds physical property (including other land holdings not a part of the operated farm) and about a third in the form of financial assets.

Farm real estate accounted for over 58 per cent of the farm assets of all farmers and homesteaders. Vegetable farmers had the greatest investment in real estate, although both dairy and general farms were

Table 13.—Farm income, off-farm earnings and debt repayment ability of the commercial farm group, by areas, for the year 1960.

Item	Kenai Peninsula	Matanuska Valley	Tanana Valley
Net cash farm earnings* -----	\$ 498	\$8211	\$1711
Less depreciation -----	980	2048	1958
Net farm income -----	-482	6163	-247
Off-farm earnings -----	4293	1467	4521
Other asset & business income	2210	1556	771
Total net income -----	6021	9186	5045
Less income taxes** -----	770	1328	399
Less family living allowance -----	3182	4091	4272
Available for debt reduction -----	2069	3767	374

See footnotes under table 12.

larger in size and had more acres cultivated. This higher investment reflects value attributed to better land, better roads and closer proximity to the markets of Anchorage, Palmer and Fairbanks. Despite their being largest in total acreage general farms had, next to poultry farms, the lowest real estate value of all commercial farms. General farms were the most distant from markets, were least accessible by road, their buildings were usually poor and a higher percentage of their land was marginal or uncleared. Land represented 70 to 80 per cent of the real estate value on all but the poultry farms which had about 60 per cent of their value in buildings.

After real property, machinery and equipment were the next most important assets on all but the dairy farms where livestock ranked sec-

ond and machinery third. Total investment in machinery and equipment was greatest on dairy farms and least on poultry farms which had very little machinery other than poultry equipment. When machinery assets were measured in terms of investment per cultivated acre dairy farms were lowest at about \$80 and vegetable farms highest at nearly \$200. Livestock investment ranged from 20 per cent of all assets on dairy farms to less than 1 per cent on vegetable-potato farms.

Not included in financial assets are equities held in farm cooperatives. These equities, representing patronage dividends, are payable 10 years from the date the dividend is declared, being used during the intervening period as operating capital by the cooperative. Because payment of these equities has not always been

Table 14.—Average assets of 93 Alaska farms and homesteads in 1960.

Kind of assets	Homestead — — — — Commercial farms — — — —					
	only	Dairy	Vegetable	Poultry	General	All
Physical assets						
Farm real estate	\$16,920	\$56,318	\$57,255	\$41,037	\$43,202	\$53,464
Livestock	366	19,135	93	5,407	2,601	12,269
Machinery						
& equipment	3,861	13,385	10,862	7,815	10,350	12,150
Crops & supplies	340	7,395	9,914	1,589	10,820	8,156
Total farm assets	\$21,487	\$96,233	\$78,124	\$55,848	\$66,973	\$86,039
Other farms	1,167	2,266	None	None	327	1,424
Non-farm						
physical assets	4,557	4,433	16,486	3,433	8,882	7,267
Total other assets	\$ 5,724	\$ 6,699	\$16,486	\$ 3,433	\$ 9,209	\$ 8,691
Financial assets						
Cash	\$ 1,248	\$ 1,267	\$ 6,053	\$ 816	\$ 988	\$ 2,033
Stocks and bonds	243	557	2,391	27	352	816
Accounts receivable ..	743	536	1,156	3,067	715	796
Life insurance*	686	1,210	526	2,367	1,145	1,134
Miscellaneous	None	118	None	500	None	95
Total financial assets ..	\$ 2,920	\$ 3,688	\$10,126	\$ 6,773	\$ 3,200	\$ 4,874
GRAND TOTAL	\$30,131	\$106,620	\$104,736	\$66,054	\$79,382	\$99,604
Cooperative equities ..	\$ 10	\$11,158	\$ 3,203	\$ 4,166	\$ 2,882	\$ 7,991

*Cash value of policies held by the farm family.

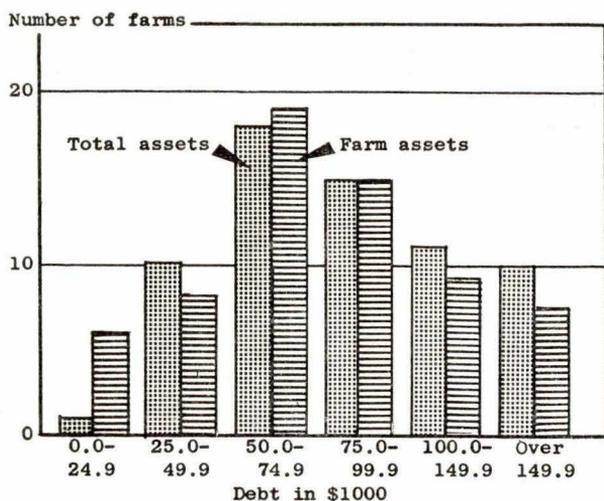


Figure 1.—Distribution of 63 commercial farms by total assets and by farm assets as of 1960.

made on the due date many farmers and lenders consider them of questionable value. Some equities offered for sale at a 50 per cent discount have aroused little interest among

investors. These equities had a total face value of \$503,000 for the 63 commercial farmers and \$300 for the 30 homesteaders. Matanuska Valley farmers held 97.6 per cent of all

Table 15.—Average assets of 63 commercial farms by area in 1960.

Kind of asset	Kenai Peninsula	Matanuska Valley	Tanana Valley
Physical assets			
Farm real estate	\$ 27,428	\$ 55,484	\$ 64,320
Livestock	3,657	15,592	5,242
Machinery & equipment	6,317	13,474	11,093
Crops & supplies	2,781	9,972	4,802
Total farm assets	\$ 40,183	\$ 94,522	\$ 85,457
Other farms	100	1,760	1,045
Non-farm physical assets	10,294	7,116	5,669
Total other assets	\$ 10,394	\$ 8,876	\$ 6,714
Financial assets			
Cash	\$ 1,819	\$ 2,074	\$ 2,021
Stocks and bonds	715	892	586
Accounts receivable	500	828	883
Life insurance cash value	1,004	1,030	1,647
Miscellaneous	188	102	None
Total financial assets	\$ 4,226	\$ 4,926	\$ 5,137
GRAND TOTAL	\$ 54,803	\$108,324	\$ 97,308

Table 16.—Average indebtedness of 93 Alaska farms and homesteads in 1960.

Kind of debt	Homestead — — — — Commercial farms — — — —					
	only	Dairy	Vegetable	Poultry	General	All
Real estate	\$ None	\$25,146	\$ 6,409	\$10,970	\$ 4,923	\$17,668
Chattel	1,843	13,408	1,961	4,065	3,278	9,178
Unsecured	431	3,938	788	5,695	844	2,932
Total	\$ 2,274	\$42,492	\$ 9,158	\$20,730	\$ 9,045	\$29,778

equities, the remainder being held by Tanana Valley farmers.

A comparison of commercial farms by area shows the Matanuska Valley had the most farm and total assets. Kenai Peninsula farms had less than half the farm assets found in the other two areas. Real estate accounted for 58 per cent of total farm assets in the Matanuska Valley and 75 per cent in the Tanana Valley. The higher real estate values of Tanana Valley farms in the sample were largely attributable to some farms located close to Fairbanks where they reflected values of surrounding subdivided and residential areas. Assets in machinery and equipment ranked second to real estate in the Tanana and Kenai areas. In the Matanuska Valley, where dairying predominated, investment in livestock was greater than in machinery.

Commercial farmers owned total (farm and non-farm) assets ranging from \$25,000 to slightly over \$300,-

000. The largest number (27 per cent) had assets in the \$50-to-\$75 thousand range, with the average falling in the next most common range of \$75-to-\$100 thousand which accounted for 25 per cent of the farms. Farm assets ranged from \$18 to \$290 thousand with the largest group (29 per cent) falling in the \$50-to-\$75 thousand range and the average being in the next largest group (24 per cent) in the \$75-to-\$100 thousand range.

Debts were classified into three main categories (1) real estate loans secured by farm real estate and usually of several years duration, (2) chattel loans on crops, livestock, machinery and other moveable farm property, usually for a period of one year or more and (3) unsecured short-term debts usually from purchasing feed, fertilizer, supplies and other current farm operating expenses. Included in this last category were a few personal loans and expenses not exceeding 1 per cent of the total farm indebtedness.

Table 17.—Average indebtedness of 63 Alaska commercial farms by area in 1960.

Kind of debt	Kenai Peninsula	Matanuska Valley	Tanana Valley
Real estate	\$ 912	\$22,436	\$10,783
Chattel	563	11,181	7,432
Unsecured	298	3,528	2,459
Total	\$ 1,773	\$37,145	\$20,674

Mortgages or real estate loans were the primary source of farm credit among commercial farmers. Of the total farm indebtedness of \$1,876,000, real estate mortgages and loans accounted for \$1,113,000 (59 per cent). Principal use made of this credit was for farm development and improvements such as buildings, milk handling facilities and clearing new land. Other major uses of real estate loans were for purchasing land and consolidating and clearing other debts.

Chattel loans accounted for 31 per cent of all outstanding farm credit. They were used chiefly to purchase livestock and machinery. The remaining 10 per cent of farm debt was in the form of unsecured loans. Most of this was derived from open accounts with merchants and the farmer cooperative for feed and other day-to-day operating expenses. Poultry and dairy farms made greatest use of this credit, usually for feed purchases.

Less than half of the homesteaders had any outstanding farm debts. None of them at the time of the survey had any real estate loans. Chattel loans accounted for 81 per cent of their credit, and unsecured loans the balance.

Commercial farmers on the Kenai Peninsula had used little farm credit. Their average indebtedness was less than \$2,000 as compared with over \$20,000 for Tanana Valley and \$37,000 for Matanuska Valley farmers. In all areas over half of all farm credit was in the form of real estate loans. Chattel loans were next in importance. Unsecured loans were least important.

Of the 63 commercial farmers 55 had some indebtedness. Of the eight

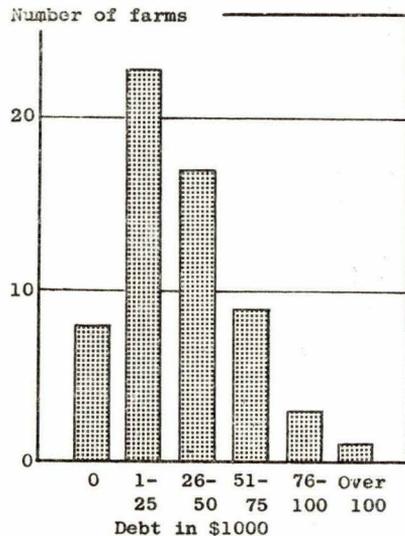


Figure 2.—Distribution of 63 commercial farms by total indebtedness as of 1960.

who had no debts, half were vegetable or potato growers, three were general farmers and only one was a dairyman. All but one of the debt-free operators had been farming in Alaska for over 15 years. The exception had an unusually large amount of capital when he started farming.

The indebtedness per farm of those with debts ranged from slightly over a thousand to a high of \$130,000. Of these farmers, 40 per cent had debts of less than \$25,000, the remainder had debts in excess of this amount.

More important than total indebtedness is the amount of debt in relation to assets and repayment ability. This is sometimes expressed in terms of a debt-asset ratio — that portion of the total farm assets which are indebted. For example, a farmer with no debts enjoys a 0.00 ratio while a farmer with a 0.34 ratio owes

Table 18.—Distribution of 63 commercial farms by debt-asset ratio in relation to farm assets in 1960.

Farm assets	Debt-asset ratio						Farms
	Mean	None	.01-.19	.20-.39	.40-.59	.60-.79	
1000 dollars							Number
Under 25	0.32	3	1	1	1	-	6
25 to 49	0.25	3	2	-	2	1	8
50 to 74	0.36	3	2	6	3	4	18
75 to 99	0.47	1	2	4	4	1	15
100 to 149	0.42	-	1	3	5	-	9
150 and over	0.25	1	3	1	1	1	7
Mean & totals	0.36	8	13	15	16	8	3

an amount equal to 34 per cent of his total farm assets. A debt ratio of less than 0.33 is usually considered a good financial risk. When a debt-asset ratio exceeds 0.60 principal and interest payments may become difficult. A few exceptional farmers who are top managers or have a stable off-farm income can handle a debt ratio of this size or larger. Debt-asset ratios above 0.80 are excessive under almost all conditions.

The average debt-asset ratio of the 63 commercial farms was 0.36. Dairy farmers had the highest ratio (0.44) with poultry farmers next (0.37). Vegetable (0.12) and general farmers (0.14) had the lowest ratios. The average debt-asset ratio of none of

the farm types appeared excessive. When repayment ability is considered, poultry farmers appear to be a higher risk group than dairy farmers even though their debt-asset ratio is 0.07 lower.

Of more significance than averages is individual indebtedness. A third of the farms had a debt-asset ratio of less than 0.20, half were between 0.20 and 0.60, while the remaining 17 per cent ranged from 0.60 to a top of 0.89. Nine of the ten farmers with debt-asset ratios greater than 0.60 were dairymen.

Among the 30 homesteads only one had a debt-asset ratio greater than 0.30. This one case had over-extended his credit to a ratio of

Table 19.—Distribution of 63 commercial farms by debt-asset ratio in relation to farm debts in 1960.

Farm assets	Debt-asset ratio						Farms
	Mean	None	.01-.19	.20-.39	.40-.59	.60-.79	
1000 dollars							Number
None	0.00	8	-	-	-	-	8
Under 25	0.23	-	12	7	3	1	23
25 to 49	0.46	-	2	6	7	4	19
50 to 74	0.58	-	1	-	4	2	9
75 to 99	0.63	-	-	-	2	-	3
100 and over	0.60	-	-	-	-	1	1
Mean & totals	0.36	8	15	13	16	8	3

Table 20.—Sources of accumulated assets on 93 Alaska farms and homesteads as of 1960.

Source	Homestead — — — Commercial farms — — —					
	only	Dairy	Vegetable	Poultry	General	All
Starting assets	\$ 6,602	\$ 9,419	\$ 11,513	\$ 9,000	\$ 9,432	\$ 9,767
Earned by farming & improving farm	3,955	26,874	30,630	17,846	15,052	25,036
Earned by off-farm employment	7,187	11,301	17,181	9,978	12,377	12,453
Earned from other businesses	2,228	1,000	1,818	—	9,915	2,652
Gifts, inheritances	—	247	3,904	—	636	942
Capital appreciation	7,885	15,287	30,632	8,500	22,925	18,976
Total net assets	\$27,857	\$ 64,128	\$ 95,678	\$45,324	\$70,337	\$69,826
Borrowed capital	2,274	42,492	9,058	20,730	9,045	29,778
TOTAL ASSETS	\$30,131	\$106,620	\$104,736	\$66,054	\$79,382	\$99,604

1.01. From the record there appeared to be little chance of this homestead paying off. None of the other homesteaders appeared overly indebted.

Matanuska Valley farmers had the highest debt-asset ratio (0.39), Kenai farmers the lowest (0.04). Tanana Valley farmers were intermediate (0.24). None of these average ratios appear excessive. When considered in relation to repayment ability the highest risk group seems to be that of the Tanana Valley (table 13).

ACCUMULATION OF ASSETS

Commercial farmers in this study had average total assets (both farm and other) of approximately \$100,000. Since these farmers had been in business an average of only ten years it is of interest to find how they had accumulated their holdings. Total assets rather than farm assets are considered here because it was impossible to differentiate from the records available what earnings went for farm or non-farm assets.

All but one of the farmers had at one time or another made some use

Table 21.—Source of accumulated assets on 93 Alaska farms by area as of 1960.

Source	Kenai Peninsula	Matanuska Valley	Tanana Valley
Starting assets	\$ 7,943	\$ 10,790	\$ 7,004
Earned by farming & improving farm	10,426	29,549	17,609
Earned by off-farm employment	19,213	8,056	25,127
Earned by other businesses	563	3,695	—
Gifts and inheritances	3,000	314	1,955
Capital appreciation	11,884	18,775	24,941
Total net assets	\$53,029	\$ 71,179	\$76,636
Borrowed capital	1,774	37,145	20,674
TOTAL ASSETS	\$54,803	\$108,323	\$97,308

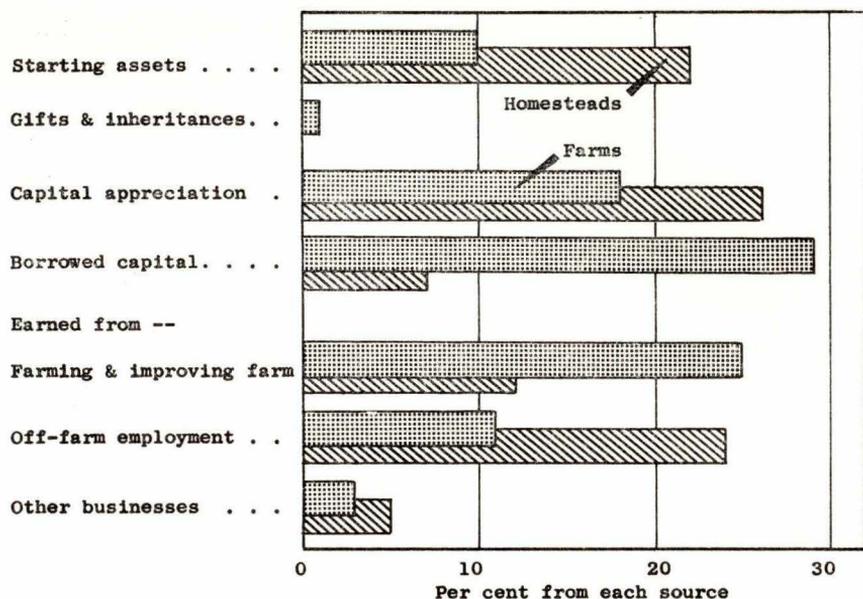


Figure 3.—Distribution of accumulated total assets by per cent from each source for 63 commercial farms and for 30 homesteads as of 1960.

of credit. In 1961 outstanding debts were equivalent to 30 per cent of total assets. The typical farmer had assets of about \$9,800 when he started farming in Alaska. This was usually comprised of personal property, farm equipment, life insurance and cash, all equivalent in value to about 10 per cent of present holdings. Capital appreciation, primarily derived from rising land prices (or market value of homesteaded land above proving-up and development costs) accounted for 19 per cent of current assets. A little less than 1 per cent was derived from gifts and inheritances. All of these assets were from sources other than actual earnings and had a combined value equal to 60 per cent of total 1960 holdings.

The remaining 40 per cent of the assets were earned by the farmer's

labor, but not solely from farming. Farm earnings and farm improvement accounted for 25 per cent of the total. Of this amount nearly two-thirds could be attributed to non-cash outlays in the form of personal labor in constructing buildings and fences, improving land after initial clearing, and raising breeding stock. Earnings from off-farm employment and other business and financial interests contributed the remaining 15 per cent of total assets. Less than a quarter of the accumulated total assets were attributable to cash earned while farming in Alaska.

While averages give a general picture of how farmers have accumulated their assets, considerable variation is noted among individuals. Excluding income from other businesses and financial assets, and from

Table 22.—Principal sources of farm credit in Alaska in 1960.

Source	Volume	Share
	\$1000	Per cent
Farmers Home Administration	906	21.4
Alaska Rural Rehabilitation Corporation	594	14.0
Alaska Agricultural Revolving Loan Fund	582	13.8
Federal Land Bank Association	675	15.9
Commercial Banks	824	19.5
Other*	650	15.4
TOTAL	\$4,231	100.0

*Estimated

gifts and inheritances, in individual cases other sources have contributed from zero to over 75 per cent of the present assets held by a particular farmer. The greatest asset accumulation from other businesses by any farmer amounted to less than 50 per cent of his total. In only one case did gifts and inheritances account for over 15 per cent. Most farmers reported no income from either of these sources.

A comparison of the means by which the various types of farms have accumulated their assets shows two striking differences. The principal source of assets for dairy farms had come from use of borrowed capital. On other kinds of farms the chief source had been from earnings and improvement made while the owner was actually engaged in farming. Another major difference was that vegetable and general farms had over twice as much capital appreciation as dairy and poultry farms.

The process by which homesteaders had accumulated their assets differed considerably from that of commercial farmers, as shown in figure three. Of the seven sources, capital appreciation made the largest single contribution to total assets. This increase in assets is mainly the differ-

ence between the cost of proving-up and developing the homestead and current appraised value. This difference was particularly large for a few places where the land had more than average value primarily due to location. While actual starting assets, measured in dollars, were a third smaller than for commercial farms they represented over twice as much of the present assets of the homesteaders. Practically all assets earned from farming and improving the homestead were derived from personal labor. Over twice the percentage of homestead assets were attributable to off-farm income and the proportional total assets derived from cash expenditures earned while on the homestead are approximately 10 per cent greater than for commercial farms. Credit has played a relatively minor role in the development of homesteads.

A comparison of accumulated assets of commercial farmers in the three areas closely reflects their state of farm development. Borrowed capital accounted for over a third of all assets on Matanuska Valley farms, a fifth on Tanana Valley farms, but less than 13 per cent on Kenai Peninsula farms. Earnings from farming and farm development was the second most important

Table 23.—Distribution of Alaska farm credit by areas in 1960.

Source	Kenai Peninsula*	Matanuska Valley	Tanana Valley
		Per Cent	
Farmers Home Administration -----	5	80	15
Alaska Rural			
Rehabilitation Corporation -----	3	95	2
Agricultural Revolving Loan Fund --	22	46	32
Federal Land Bank Association -----	-	94	6
Commercial banks -----	9	84	7
Other** -----	6	79	15
TOTAL -----	7.0	80.6	12.4

*Including all other areas of Alaska

**Estimated

source of assets for Matanuska farmers, while off-farm earnings were a comparatively minor source. In the other two areas, off-farm earning contributed the largest per cent of assets, capital appreciation being the next most important source. Capital appreciation was of greatest importance in the Tanana Valley where several farms were located close to Fairbanks. Land values on these farms reflected the growth of subdivision on surrounding lands.

CREDIT SOURCES

In 1960 five major sources of farm credit plus several minor ones were available to Alaska farmers and homesteaders. Leading credit sources were the Farmers Home Administration (FHA), the Federal Land Bank, the Alaska Rural Rehabilitation Corporation, the Alaska Agricultural Revolving Loan Fund and commercial banks. Among minor credit sources were the Alaska Veterans Loan Fund, savings and loan associations, credit unions, Matanuska Maid, Inc., merchants and individual lenders. Two major sources of agriculture credit found in other states — insurance com-

panies and production credit associations — were missing. Only two farm real estate loans have ever been made in Alaska by insurance companies, both through a local bank.

FARMERS HOME ADMINISTRATION — FHA is now the most important single source of farm credit in Alaska. In 1960, 21 per cent of all outstanding farm credit had been extended by FHA. FHA gained its leading position because it has had money to loan, a full range of credit (from long-term farm ownership loans to short-term operating and emergency loans) and reasonable interest rates. For a period of several years FHA was practically the only lender in Alaska making long-term (20 years or more) loans on farm real estate. Since 1960 FHA has expanded its operations and now has offices in Soldotna and Fairbanks in addition to the main office in Palmer. In addition to regular farm loans FHA has become very active in financing rural housing.

COMMERCIAL BANKS — In 1960 there were 18 commercial banks in Alaska. Approximately

Table 24.—Distribution of loans to Alaska farms in 1960.

Source*	Dairy	Commercial farms		
		Vegetable	Poultry	General
		Per cent		
Farmers Home	80	13	1	6
Rehabilitation Corporation	75	12	1	12
Revolving Loan Fund	52	20	7	21
Federal Land Bank	87	3	-	10
TOTAL	75	12	2	11

*Information was available only from these four agencies.

half of these banks made some loans to farmers. Most of the others were located in areas where there was little or no farming. While commercial banks accounted for 19 per cent of all credit extended to farmers, over 80 per cent was loaned by the bank located in Palmer. Most bank loans were on chattel or personal signatures, few real estate loans being made. The usual term was for three years or less but re-writing, additions and extensions were common practices. Bank loans for more than five years were rare. In making loans most bankers indicated their chief interest is the reputation of the borrower and his length of residency in the community.

ALASKA AGRICULTURAL REVOLVING LOAN FUND — The ARLF is a revolving loan fund, administered by the State of Alaska's Division of Agriculture headquartered in Palmer. This fund was originally established in 1953 by the Territorial Legislature initially appropriating \$200,000. By the end of 1960 the fund had grown through additional appropriations and earnings to nearly \$700,000. In 1960 this fund provided 14 per cent of Alaska's agricultural credit. Loans were made for periods ranging from 20

years for real estate and farm development to short-term seed and fertilizer loans of a year or less. Of outstanding loans in 1960 about half were for farm development with an average life of 10 years; 30 per cent were chattel loans with an average term of four years; and the rest were short term loans for one year or less. One of the original interests of the Legislature in establishing the loan fund was to encourage agricultural development by making financing possible in new areas where most lenders are reluctant to venture. In keeping with this aim the ARLF has been active throughout the state and is the only major lender with less than half of its funds loaned in the Matanuska Valley.

ALASKA RURAL REHABILITATION CORPORATION — The ARRC was organized by the federal government in 1935 to promote rural rehabilitation in Alaska. The act setting up the corporation designated nine incorporators including the Governor of Alaska, the President of the Alaska Railroad, Director of Territories (Department of Interior), three local businessmen and three Matanuska Valley farmers. The life of the corporation was set at 50 years unless dissolved

Table 25.—Indebtedness by source for 93 Alaska farms and homesteads in 1960.

Source	Homestead only	Commercial farms				All
		Dairy	Vegetable	Poultry	General	
Thousand dollars						
Farmers Home		521.3	35.5			556.8
Rehabilitation Corporation		129.8	6.4	17.5	14.1	167.8
Revolving Loan Fund	8.3	213.1	30.3	25.2	12.3	280.9
Federal Land Bank		231.9	8.0		53.0	292.9
Commercial banks	27.8	144.7	0.9	11.9	5.7	163.2
Other commercial lenders	1.1	61.0	13.0			74.0
Individuals		191.4	2.5	0.1	1.4	195.3
Local farm cooperative		71.3	1.2		6.1	78.6
Merchants and dealers	23.1	41.1	0.8	4.0	2.7	48.6
Others	7.9	9.1	1.1	3.5	4.2	17.9
TOTAL	\$68.2	\$1614.7	\$99.7	\$62.2	\$99.5	\$1876.0

in accordance with law. Any funds remaining after that time were to be offered to the Territory of Alaska as a gift or endowment for rural rehabilitation. Operations were supervised by the Department of Interior until 1953 when all federal control was withdrawn.

Between 1935 and 1938 the ARRC received federal appropriations of \$4,682,000. A large portion of these funds were spent initially for establishing and developing the Matanuska Valley Colony, clearing land and other rehabilitation activities. Presently the ARRC functions primarily as an agricultural credit agency. In 1960 the corporation had total assets of approximately \$850,000, some \$600,000 being devoted to farm financing. While making all types of farm loans from long-term real estate contracts to short-term operating loans, the trend in recent years has been primarily to short and intermediate term chattel and operating loans. Over 90 per cent of the corporation's lending has been concentrated in the Matanuska Valley.

FEDERAL LAND BANK — The FLB made its first loan in Alaska in August of 1959. Because of the relatively small volume of prospective business a local association was not established. Instead loans are made through the Whatcom County Washington Association. The manager of the Alaska Rural Rehabilitation Corporation serves as the local representative for the FLB. By the end of 1960 a total of 35 loans had been made in Alaska of which 32 (for a combined value of \$675,400) were still outstanding. Loans in Alaska are limited to a maximum of 20 years. They have been made only on farms in the Tanana and Matanuska Valleys.

The FLB is probably the most highly selective agricultural lender operating in Alaska. Loans are made only on real estate and are based on about a third of present day land values. Most loans have been for refinancing and consolidating short-term loans. Because there has been a severe shortage of long-term money, many borrowers have been

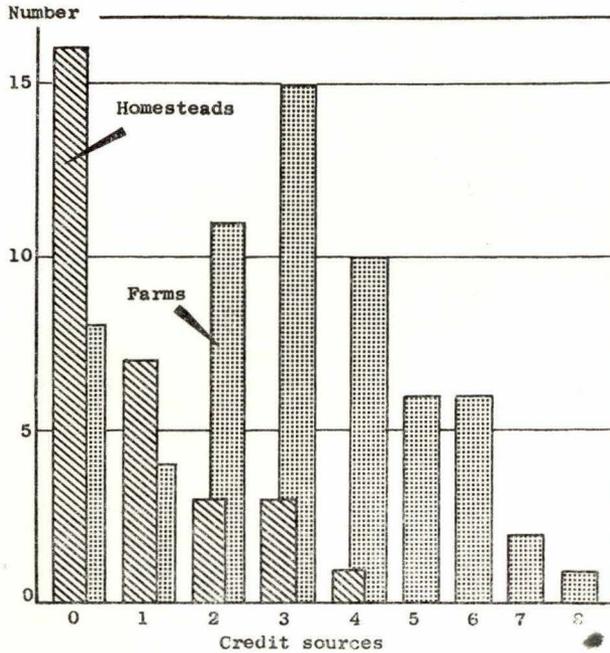


Figure 4.—Distribution of 63 commercial farms and 30 homesteads by number of credit sources used in 1960.

forced to use short-term capital, often from several sources, for real estate purchases and major farm improvements, with the hope they would be able to extend or refinance these loans before they expired. The entry of the FLB into Alaska provided needed refinancing funds. This in turn made more money available from other lenders for intermediate credit needs.

OTHER SOURCES — Among other sources of credit a leading one has been credit extended by individuals. Most often this type of credit is in the form of a mortgage or a real estate purchase contract. Often a person wishing to sell farm real

estate has been forced to sell by contract because few prospective purchasers have enough available cash. It is usually difficult or impossible for persons new to Alaska to find adequate financing for buying a farm. A reasonable estimate of this kind of credit extended by owner-sellers is between \$300 and \$350 thousand.

Merchants and dealers extending credit or selling on contract add another \$150 to \$200 thousand to Alaska's overall farm credit supply. The largest creditor among this group is Matanuska Maid, Inc. Feed, seed, fertilizer and supplies are the principal items sold on credit by this farm cooperative. Machinery and supplies

are the major items purchased on credit from other dealers and merchants.

Of the \$4,231,000 of outstanding farm credit in 1960 slightly under 81 per cent had been loaned to Matanuska Valley farmers. Farmers in the Tanana Valley area received 12 per cent, while the remainder had been loaned on the Kenai Peninsula and in other areas of Alaska. In the same year the Matanuska Valley produced 67 per cent of all agricultural products in Alaska, the Tanana Valley 17 per cent and the Kenai Peninsula and other areas 16 per cent. This comparison indicates that the Matanuska area was the best financed in the state. When such factors as markets, communication, location, and stability are considered it is easy to understand why this area appears more attractive to lenders. Of the various lenders who operate state-wide, only the state revolving loan fund ran counter to this trend.

Information on lending by type of farming was available from four agencies. Seventy-five per cent of the money loaned by these agencies

went to dairy farms. Poultry farmers had borrowed about 2 per cent of the total. The rest was nearly evenly divided between vegetable and general farmers. In the same year milk sales accounted for 51 per cent of all income from farm products, eggs 11 per cent. This comparison shows that dairymen received the greatest amount of financing in relation to products sold, poultry farmers the least.

There are a number of explanations for this lending pattern. For example, dairy farms had the greatest investment in farm assets of any of the farm types. At the same time they had higher repayment ability from farming than any except vegetable farmers. From the standpoint of the lender, loans to dairy farmers were attractive because repayment was usually by assignment of a certain amount of the bi-weekly checks collected directly from the milk processor. Interviews with various lenders revealed that dairymen and vegetable farmers consistently had the best repayment records. Lenders reported that nearly all of their

Table 26.—Use of various credit sources by 93 Alaska farmers and homesteaders in 1960.

Source	Homestead only	Commercial farms				
		Dairy	Vegetable	Poultry	General All	
		Number				
Farmers Home	0	16	2	0	0	18
Rehabilitation Corporation	0	19	2	1	2	24
Revolving Loan Fund	2	17	3	2	5	27
Federal Land Bank	0	12	1	0	2	15
Commercial banks	9	26	1	2	3	32
Other commercial lenders	1	9	1	0	0	10
Individuals	0	10	1	1	1	13
Local farm cooperative	0	18	1	0	1	20
Merchants and dealers	8	17	5	1	4	27
Others	5	9	2	1	1	13
TOTAL	25	153	19	8	19	199
Debt-free farms	16	1	4	0	3	8
Total number of farms	30	38	11	3	11	63

Table 27.—Average credit extended to individual Alaska farmers and homesteaders by source in 1960.

Source	Homestead		Commercial farmers		
	only	Dairy	Vegetable	Poultry	General All
Mean, thousand dollars					
Farmers Home	32.6	18.3	—	—	30.9
Rehabilitation Corporation	6.8	3.2	17.6	7.0	7.0
Revolving Loan Fund	4.1	12.5	10.1	12.6	2.4
Federal Land Bank	19.3	8.0	—	—	26.5
Commercial banks	3.1	5.6	0.9	5.9	1.9
Other commercial lenders	1.1	6.8	13.0	—	—
Individuals	—	19.1	2.5	0.1	1.4
Local farm cooperative	—	4.0	1.2	—	6.1
Merchants and dealers	2.9	2.4	0.2	4.0	0.7
Others	1.6	1.0	0.5	3.5	4.2

poultry loans were delinquent and poultrymen consistently had the poorest repayment record.

Interest rates paid by farmers generally ranged from 4 to 8 per cent. The rate on most commercial bank loans for the past several years has been 8 per cent, with occasional favorable real estate loans at 6 or 7 per cent. The lowest loan rates offered in 1960 were 4 per cent by FHA on rural housing loans and 4½ per cent by the state revolving loan fund on development loans. These two lenders make chattel and short-term operating loans at 5 to 6 per cent interest. Real estate loans by the Federal Land Bank have ranged from 5½ to 6 per cent interest. Most private real estate contracts are at 6 per cent. Merchants and dealers generally charge 8 per cent although some contracts run higher.

SOURCES OF CREDIT USED

To analyze where farmers had obtained credit, debts were classified by 10 different sources. In addition to the four major lending agencies and commercial banks listed above, other sources were individuals, the local farm cooperative, merchants and dealers, savings and loan assoc-

iations, credit unions, the Alaska Division of Veteran's Affairs and other creditors such as professional people, contractors, and taxing authorities (over-due taxes represent credit extension).

On December 31, 1960, the 63 commercial farmers in the study sample had a current indebtedness of \$1,876,006. The largest single source of credit for these farmers was FHA with \$556,833, or nearly 30 per cent of the total. Total credit extended by the four agricultural agencies (including FHA) was \$1,300,000 or 69 per cent of the total. Two other principal credit sources — individuals and commercial banks — accounted for 13 per cent and 9 per cent, respectively. Of the total extended to these farmers only 8 per cent was in the form of consumer credit for goods and services rendered.

In contrast to commercial farmers, the homesteaders had worked with only half as many credit sources. Commercial banks were their major creditors, supplying 41 per cent. The state's revolving loan fund was the only agricultural agency that had extended credit to

the homesteaders, supplying 12 per cent of their credit. Where consumer credit to commercial farmers represented only 8 per cent of their total, it accounted for over 45 per cent of that used by homesteaders.

Commercial banks were the credit source most frequently used by farmers. Of 55 farmers in the sample who had borrowed money, 32 had bank loans. These were chiefly chattel or short-term personal loans. The average loan per farmer (\$5,098) was the smallest for any of the lenders. The Alaska Rural Rehabilitation Corporation had loaned an average of \$6,992 to 24 farmers, also favoring intermediate and short-term loans. The state revolving fund made the greatest variety of loans, with an average of \$10,400 to 27 of the farmers. Real estate secured the 15 Federal Land Bank and 13 individual loans which averaged \$19,500 and \$15,000, respectively. The Farmers Home Administration, largest single source of farm credit, had extended loans to only 18 of the 63 sample farmers, their average loan exceeding that of any other agency (\$30,935). Of the FHA loans, 60 per cent was secured by real estate, the balance by chattels.

Nearly two-thirds of the 63 commercial farmers had used commercial credit. Merchants and dealers had extended credit to the largest number (37, for an average of \$1,800 per farmer) while the farm cooperative gave credit to 20 for an average of \$3,932. Borrowing by homesteaders was similar to practices of commercial farmers in that banks and merchants were the most frequently used credit sources. However the loans were smaller and from only half the sources patronized by commercial farmers.

Of 55 farmers with debts, less

than 10 per cent obtained all credit from a single source. Most farmers had used from 2 to 8 sources of credit, three sources representing a median. The most general pattern of borrowing was for a farmer to obtain a large real estate loan from one of the credit agencies or from an individual, chattel loans from his local bank, and to use consumer credit extended by the farm cooperative or by one or more merchants. Generally, the greater the amount of total indebtedness the more sources of credit were involved. An exception to this pattern was noted — farmers financed by FHA employed fewer sources of credit.

Less than half of the homesteader group had obtained credit. Of those with debts half had obtained all credit from a single source. The remainder had employed from two to four sources.

NEEDS AND OPINIONS

Farmers and homesteaders were asked a number of questions about their future plans, their needs for additional credit and what problems they had encountered or expected to encounter in obtaining credit.

Of the 63 farmers interviewed, 56 indicated they knew of changes and improvements needed in their business. Only 18 were able to give a fairly definite outline of adjustments they wished to make. Another 24 appeared to have a general idea of the changes they desired, while the remaining 12 farmers gave only broad or vague answers such as "add more cows" or "buy some new machinery". Of those indicating a need for changes, 47 estimated outlays exceeding \$5,000. Thirty-two of these farmers gave a reasonable estimate, costs involved and probable source.

The other 22 farmers had only a vague idea of costs, or indicated no estimate had been made. Two who planned changes said no out-of-pocket costs were involved.

Of 54 farmers planning or making changes or improvements in their businesses that required cash expenditures, 41 indicated they would need to borrow money. Of these, 40 said they were willing to borrow whatever amount was necessary. When asked if difficulties were anticipated in borrowing funds for improvements and changes, 26 said no, while 23 expected they probably would have trouble, and five were not sure. Nine of those anticipating difficulty in obtaining credit, explained they had already borrowed beyond their repayment limit. Seven said that obtaining additional money would probably hinge on whether or not FHA or the state loan fund had the money available.

When asked where they could most likely apply for a loan nine farmers stated they did not know and eight gave more than one source. The two most frequently named credit sources were FHA (20 times) and the Alaska Agricultural Revolving Loan Fund (14 times). These two sources were apparently preferred because of their low interest rates. Of the responding farmers 70 per cent already had loans with the agency they named.

The Federal Land Bank was mentioned six times. In five of these cases a loan from FLB would probably have meant a complete refinancing. Although the other farmer had a current FLB loan he had been approved at the time of his original loan for a considerably larger one.

Even though more farmers had borrowed from commercial banks than any other source, only six nam-

ed a bank as a likely source for financing future changes and improvements. Banks seemed to be considered only as a source of operating capital because of their usually higher interest rates and their shorter terms. Other sources of prospective credit named were the Alaska Rural Rehabilitation Corporation (5 times), the farmer cooperative (twice), the Rural Electrification Administration (twice), and a private individual (once).

The farmers were asked, "Please give your general views concerning the adequacy, cost and repayment terms of credit available to farmers in Alaska and state what improvements, if any, you think are needed." Eight gave no opinions or stated they did not know. The remaining 55 gave a total of 109 responses.

Two opinions most commonly expressed were that loans were for too short a period (24 times) and that interest rates were too high (23). Their statement about interest rates being excessive was qualified by eight farmers who specifically noted the lower terms of FHA and by two who mentioned the revolving loan fund. Interest rates on loans from these two sources were considered reasonable. The third most often expressed opinion (13 times) was that credit was too easily obtained. Ten farmers indicated they could not get enough credit while six pointed out that it was difficult or impossible to get adequate financing to start farming. A unanimous opinion expressed by all three poultry farmers was that the banks and lending agencies did not like the poultry business.

Other opinions concerning credit were that lending companies do not have enough money to loan (mentioned 13 times); management advice should accompany loans (3

times), loan agencies should get together to keep farmers from over-extending (3), more attention should be given to market requirements (2).

While 27 of the 30 homesteaders said they needed to make changes and improvements to develop their homesteads, only two had definite plans and cost estimates. A broad general plan of development was indicated by 13 of whom only six had an idea of costs. The rest were either vague or expressed no interest in developing a farm. All homesteads would have required developmental expenditures exceeding \$20,000. Of the 30 homesteaders 25 indicated they would need to borrow money for expenditures of this size. Only 13 expressed a willingness to borrow money for this purpose, while only four thought they would be able to borrow what was needed. The rest either expected extreme difficulty in borrowing or were not interested in borrowing. From comments expressed during interviews it was concluded that probably only nine homesteaders were actually interested in trying to earn a living from farming. Possibly 15 would like to reside on their homesteads if they could find employment nearby. The rest seemed interested only in the speculative value of their homesteaded land.

When asked where they would go to borrow money if they were to develop their homesteads, 13 did not know, while 8 replied they were not interested in borrowing. Lenders named as possible sources of credit were banks (5 times), FHA (4), Alaska Agricultural Revolving Loan Fund (3) and the Federal Land Bank (twice). One homesteader volunteered the information that he had all the money he needed.

When asked their opinions about supply, needs and availability of credit, 14 said they had none or did not know enough about Alaska farm credit to answer. Other opinions given were that credit is too hard to get (5 times), terms are too short (5) and interest is too high (5), negative opinions expressing disgust (4), lenders should be more selective (2), and "too easy to get enough credit to hang yourself" (1).

OPINIONS OF LENDERS

Banks were the only major source of farm credit that also had experience in non-farm loans. Asked how their repayment experience had been on farm loans as compared to other loans, bankers were about evenly divided in their opinions between "average" and "lower than average". One bank with the greatest volume of farm loans — the only commercial bank in the state with a trained agricultural specialist — indicated better repayment experience than with other loans.

A review of outstanding farm loans of the various agencies revealed that between 25 and 30 per cent were technically delinquent although the amount involved was less than 10 per cent. Lenders considered no more than 2 or 3 per cent of their loans were seriously delinquent. Over the years actual losses have been about 1 per cent. Fairly typical is the experience of one agency that over a ten year period realized losses of less than \$3,000 on a total loan volume of \$2 million. In relation to type of farming, delinquency rates were lowest for dairy and vegetable farms, highest for poultry farms. By areas, delinquency was lowest in the Matanuska Valley, highest in the Tanana Valley.

In considering loan applications, criteria most often cited were the borrower's reputation and repayment record, his length of residence in the community, collateral offered, and the income producing potential of his farm. For short-term loans most lenders gave little weight to other factors if the borrower had a good reputation for paying his bills on time. Length of residence was considered important because of the transient nature of a large portion of Alaska's population. It is particularly important in considering loans to homesteaders. Basing loans only on the character of the borrower has sometimes resulted in extension of credit beyond his repayment capacity. With the exception of the FHA and to a lesser degree the state's revolving loan fund, loans were often made piecemeal with little regard to the over-all development of profitable farming units.

One problem bothering some lenders was over-production. In some years farmers have harvested more potatoes and vegetables than can be

absorbed by local markets. Although such gluts are usually caused by an inadequate distribution system and are usually temporary, dumping and price cutting has often resulted. Losses to both farmers and lenders sometimes occur. For this reason some lenders have become reluctant to make crop loans that might lead to over-production of a particular commodity.

When predicting future needs for agricultural credit most lenders consider local markets and competition offered by imported foodstuffs. With this in mind, the lenders foresee the need for possibly a half to three-quarters of a million dollars per year of additional farm credit to sustain current growth. Most of this money would be put to work developing and consolidating existing farms into more economical units. Less than half would be used for bringing new farms into production. This estimate is for farm loans only. It does not include credit needs for rural housing or for processing and marketing facilities.