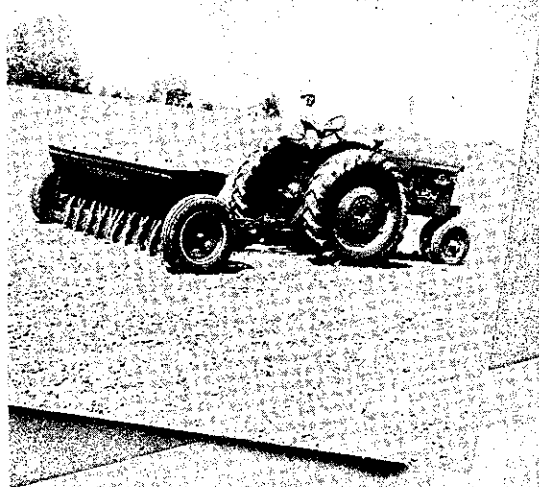
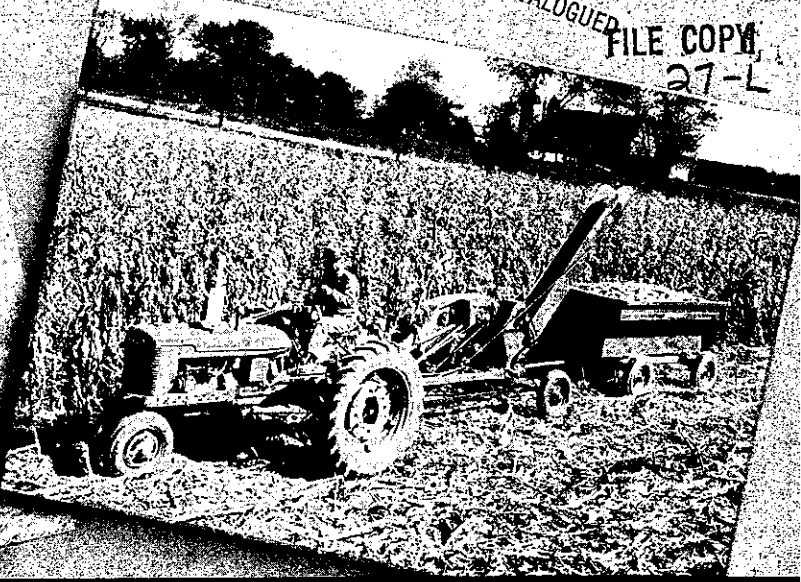
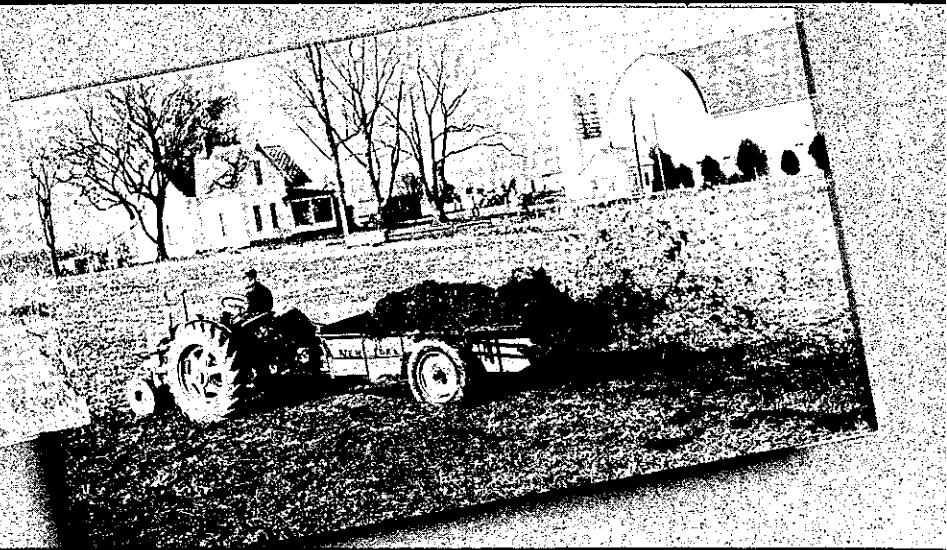
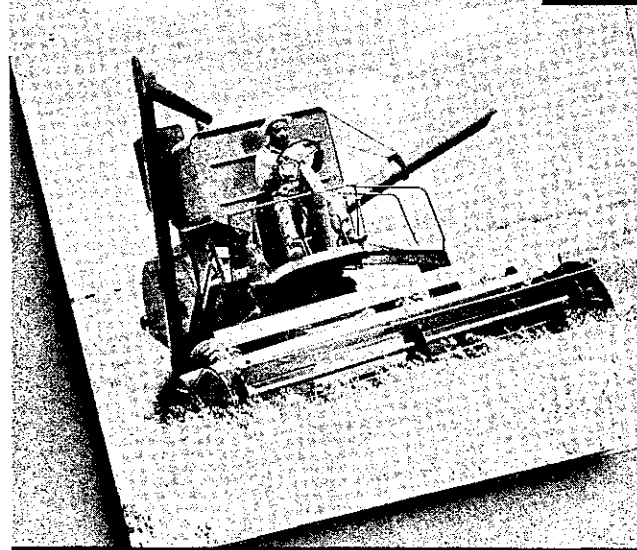


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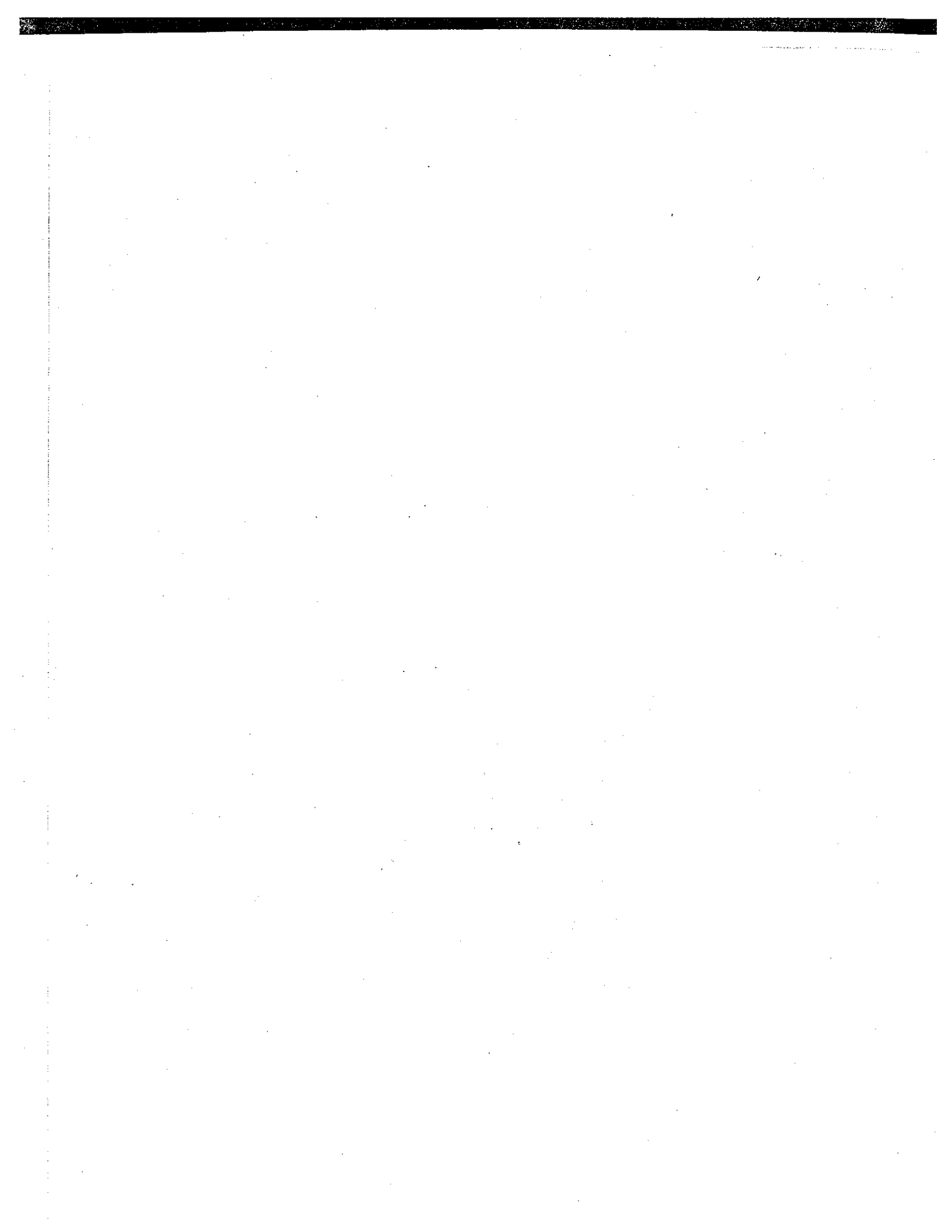
# *Farm Equipment Financing By Banks*



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*Prepared by*

INSTALMENT CREDIT COMMISSION  
AGRICULTURAL COMMISSION



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# *Farm Equipment Financing By Banks*

Credit Requirements and Operating Procedure

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THE AMERICAN BANKERS ASSOCIATION

New York, New York

1956

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# *Introduction*

SINCE 1940, farmers' total investment in machinery has been second only to the value of their real estate. During the last 15 years, prices of farm machinery have doubled and farm wages have quadrupled. Farmers are going to continue to invest in labor-saving equipment.

Mechanized farms are the counterparts of the highly advanced industrial and business establishments of the community. Mechanization brought about a higher output per farm worker over the past few decades and, in recent years, an increasing investment in agricultural equipment has substantially increased each worker's production.

Farm equipment financing is an important and permanent part of sound agricultural credit. Commercial banks in many sections of the country have had satisfactory experience with this type of instalment credit. There is a continued need for broader credit coverage to the end that useful and economic manufacturers' products reach productive users on a sound and well-financed basis.

This type of financing provides the means by which both the farmer and the equipment dealer contribute to the growth and prosperity of their community.

The nature of farm equipment makes it readily adaptable to purchase on the instalment plan. It is an income-producing asset, and usually can pay for itself as it is being used. It is relatively standard in character, is repossessible, and resalable.

With these thoughts in mind, the Instalment Credit Commission and the Agricultural Commission of the American Bankers Association conducted an up-to-date study—which forms the basis for this manual—of the most practical methods and operating procedures for financing farm equipment. The study covers the principles involved in the financing of farm equipment and represents in broad outline some of the methods successfully used by banks. An attempt has been made to cover completely direct equipment loans to farmers as well as the financing of the dealer's inventory requirements and the purchase of notes and contracts resulting from his retail credit sales.

This manual is intended as a guide to assist those banks not now engaged in this banking function to understand it better. To the many banks already extending this type of credit, the manual may present some helpful ideas. In either event, this material should be supplemented by sound, sensible lending policies and standards of practice. Above all, these policies and standards must be tailored to meet the needs of the individual community if they are to benefit banks and widen the services now rendered to the farmer, the dealer, and the manufacturer.

All forms, charts, and figures contained in this manual are intended for illustration purposes only. The basic forms required should be carefully prepared by your counsel. Statutory requirements should be fully considered, and the forms should be drawn to cover every possible contingency.

# *Retail Financing*

## **GENERAL**

Two broad types of bank credit are used to finance the purchase of farm equipment. Under the first, the bank deals directly with the farmer who plans to purchase equipment. This type of transaction becomes a single direct loan which may be secured by the pledge of the equipment and other chattel property or may be made unsecured on the financial statement and earning capacity of the borrower. Under the second, the purchase of the equipment may be financed through a dealer who has discounting arrangements with the local bank.

Farm equipment financing is another form of time sales financing, whether it is done on a direct lending basis or by purchasing contracts from dealers. The obligation is the result of a purchase by the farmer and a sale by the dealer of merchandise which will be paid for on an instalment basis. The purchaser and the dealer agree on terms providing for a cash down-payment with the balance to be payable in monthly or other periodic instalments at a later date.

## **DIRECT EQUIPMENT LOANS TO PURCHASERS**

Under the direct loan method, only two parties are involved—the farmer-borrower and the bank. Such direct loans are mainly governed by the usual credit factors: the borrower's or purchaser's responsibility and reputation; the need for the equipment; the ability of the obligor to liquidate the indebtedness satisfactorily; and, finally, the type and quality of the equipment securing the loan.

Direct farm equipment financing has certain advantages for both the lender and purchaser. The banker and the farmer have concurred that the loan will be a good investment for both the borrower and the lender. If a farmer has his credit lined up, he can buy machinery on its merits rather than on the credit terms available through a dealer. Many times, the cash purchaser is in a much better bargaining position to trade in old equipment or to purchase items from several dealers. When the farmer gets his credit direct from a bank, a closer credit relationship is established. This often leads to a better understanding of the farmer-borrower's problems and a better evaluation of the creditworthiness of the farmer's present and future needs.

In direct bank lending, repossession and disposal of farm equipment in case of delinquency and default is the lending bank's problem. The retail dealer has been paid and is under no obligation to repossess, recondition, or resell the equipment. However, this need be no problem if the loans are sensibly made on the basis of the borrower's credit characteristics. When repossession appears to be a possibility, the bank should reexamine all the factors involved; then, if a situation appears hopeless and there is no other solution, the bank should proceed immediately to repossess and sell the asset pledged.

## **FINANCING DEALER RETAIL SALES**

Instalment-sales financing may be defined as the advance of funds against paper arising from instalment sales. The obligations resulting from the transaction are sold to the financ-

ing institution. This is commonly referred to as indirect financing.

In indirect dealer-bank financing, the credit arrangement is between the farm equipment dealer and the equipment purchaser. The dealer originates the transaction and creates a time sales financing contract which, if acceptable, is subsequently sold by assignment to the financing bank. The initial cost of the equipment less the value of a trade-in or a cash down-payment plus the carrying charges is generally referred to as the "time sales price."

The indirect method of financing demands specialized treatment and knowledge; therefore, special attention should be given to the dealer and the part he plays in the transaction. Any indirect financing must consider all factors and all parties involved. Such financing must be good for the purchaser or borrower, the bank, and the dealer. With full consideration given to these important factors, the financing arrangements are likely to meet with reasonable success. The banker must do a good credit job in the first place and not rely on the dealer's endorsement to "bail out." If a bank obtains a finance charge, it has a responsibility to the dealer and to the purchaser to do an efficient collection job in order to protect the dealer and also the community from adverse conditions.

When a bank engages in indirect financing, proper evaluation of the following factors is important:

1. Character or moral risk of dealer
2. Ability of the dealer to conduct his business on a profitable basis
3. His financial responsibility
4. Dealer's sales methods
5. Dealer's service policy
6. Predication of sales in terms of productive use:
  - (a) Does the equipment fit the farm?
  - (b) Does the purchaser have the ability to pay?
  - (c) Will the equipment pay for itself as it is used?

A thorough understanding of this dealer-bank relationship is of utmost importance if it is to last.

#### THE APPLICANT

Regardless of which financing approach is developed—direct or indirect—the following basic credit factors should be considered by a bank in order to arrive at a proper decision to extend credit: (1) a thorough knowledge of the farmer, his business ability, past record, and integrity; (2) the efficiency of his farm operations; (3) family unity, integrity, and industry; (4) size of farm business; (5) diversification of production; (6) labor efficiency; (7) crop yields and soil fertility; and (8) production per animal.

In considering an equipment-purchase transaction, the bank should give careful consideration to the potential value of the equipment to the purchaser. If it can be reasonably determined that he needs it, the evaluation of the following factors will assist in arriving at the credit decisions: (1) ability of the purchaser as a farmer; (2) initial investment in the equipment; (3) probable increase in income or decrease in operating expenses through its use; (4) financial support through other assets; and (5) the assurance of a crop.

Many farm equipment loans cannot be amortized on a regular monthly basis, as instalment loans are generally amortized. All farm loans should be arranged so that payments coincide with the time income is received. Match payments with income periods. In dairy sections, farm machinery loans are frequently set up on a monthly repayment schedule, with payments of a fixed amount per month or, in some instances, with the understanding that a fixed percentage of the milk check will be applied each month. Delinquencies and losses are much lower when loans are amortized since periodic payments materially reduce the chance that income will be spent for the purchase of other items. Repayments should be realistic and geared to farm income. Remember the farmer and his family will take their living out of the farm income **first**.



## **THE CREDIT STATEMENT**

An application form similar to Form No. 1 on page 8 may be used. Any application form must be brief and complete, yet easy to prepare and understand. This type of form can be used advantageously when a bank is approached directly by the farmer-customer and when the local equipment dealers offer their customers' paper to the bank. This form provides a complete detail of the transaction and, when properly filled out, enables a bank to conduct its investigation, evaluate the borrower's or purchaser's credit and financial responsibility, and arrive at a credit decision with minimum delay.

A bank is justified in obtaining full knowledge of the borrower or purchaser in order to appraise properly a request for credit. The policy of the lender should permit handling any application on its merits. In the majority of instances, the bank can evaluate the risk and credit with little difficulty; if not, adequate information should be obtained.

When a loan is solely for the purchase of farm equipment, certain other considerations must be taken into account. Assuming that the equipment being purchased is the only asset pledged, careful consideration must be given to down-payment provisions, type of lien, terms and length of contract, repayment provisions, insurance, and interest or finance charges. With certain exceptions, the provisions apply to a direct loan to a farmer as well as to his note purchased from a retail dealer.

## **CREDIT STANDARDS**

### **DOWN-PAYMENT PROVISIONS**

Financing a farm business is essentially similar to financing any other type of business. The down-payment philosophy does not apply in those instances in which a bank finances the overall business of a farmer. When this is the case they will not develop very much business if they always expect the borrower to pay a standard down-payment. Rather, farmers' requests should be con-

sidered on an overall credit basis and should be judged on the basis of need, debt picture, and ability to pay.

However, when the bank is not well acquainted with the borrower or is not doing a general financing job for him, it is more justified in taking an instalment credit viewpoint and in relying partly on repayments and partly on the salvage value of the asset pledged.

When the purchase of equipment is the only purpose of the loan, the borrower or the purchaser is expected to pay part of the purchase price from his own resources. In an equipment loan of this type, the borrower's equity is established through a down-payment. The stated down-payment may not always indicate equity, therefore, more attention should be given to the dealer's wholesale cost and the amount being financed compared to it. This procedure will assure equity, particularly when the amount financed is less than the dealer's laid-down cost. When purchasing retail notes from dealers, the lenders must know that a real down-payment has been made and not established through a second lien on the equipment or through credit on the dealer's books.

Terms may vary somewhat depending on the type of equipment sold, whether it is new or used, the hazards involved, and the purpose for which the equipment is to be used. In all cases, except when the bank is doing general financing, the terms should be based on a down-payment sufficient to establish a reasonable equity at the time of purchase. A standard monthly repayment plan, as in the financing of other types of consumer durable goods, should be used where monthly income is available. When income is received on another basis, then payments should be so scheduled.

A farmer buys equipment expecting to pay for it through the increase in income or decrease in expenses made possible by the use of the equipment. Repayment must be geared to a productivity-return basis—that is, to periods when income is available. As-

Form No. 1 — Purchaser's Statement

PURCHASER'S STATEMENT

(date) \_\_\_\_\_ 19\_\_

For the purpose of obtaining credit in the purchase of \_\_\_\_\_  
 I make the following statement in writing as to my financial condition as of this date:

| I OWN                      |          | I OWE                         |          |
|----------------------------|----------|-------------------------------|----------|
| Cash in Bank               | \$ _____ | To _____ Bank                 | \$ _____ |
| Government Bonds           | \$ _____ | Due _____ 19__                |          |
| Milk Cows                  | \$ _____ | On Livestock; Due _____ 19__  | \$ _____ |
| Other Cattle               | \$ _____ | On Machinery                  | \$ _____ |
| Hogs                       | \$ _____ | Due _____ 19__                |          |
| Sheep                      | \$ _____ | On Autos and Trucks           | \$ _____ |
| Horses                     | \$ _____ | Due _____ 19__                |          |
| Farm Machinery             | \$ _____ | Mortgage on Crops             | \$ _____ |
| Motor Trucks               | \$ _____ | Due _____ 19__                |          |
| Automobiles                | \$ _____ | Cash Rent                     | \$ _____ |
| Harvested Crops on Hand    | \$ _____ | Due _____ 19__                |          |
| Other Personal Property    | \$ _____ | Taxes                         | \$ _____ |
| Real Estate (listed below) | \$ _____ | Other Debts                   | \$ _____ |
| Total Assets               | \$ _____ | Real Estate Mortgages (Total) | \$ _____ |
|                            |          | Total Indebtedness            | \$ _____ |

**DESCRIPTION OF REAL ESTATE**

| NO. ACRES | COUNTY | STATE | SECTION | TOWNSHIP | RANGE | MORTGAGE | MORTGAGE | TITLE IN THE NAME OF |
|-----------|--------|-------|---------|----------|-------|----------|----------|----------------------|
| _____     | _____  | _____ | _____   | _____    | _____ | _____    | _____    | _____                |
| _____     | _____  | _____ | _____   | _____    | _____ | _____    | _____    | _____                |
| _____     | _____  | _____ | _____   | _____    | _____ | _____    | _____    | _____                |

IS ANY INTEREST IN PERSONAL PROPERTY LISTED CLAIMED BY OTHERS? \_\_\_\_\_ IF SO, DESCRIBE \_\_\_\_\_

IS CROP CONSISTS OF \_\_\_\_\_ A. WINTER WHEAT, \_\_\_\_\_ A. SPRING WHEAT, \_\_\_\_\_ A. CORN, \_\_\_\_\_ A. RYE, \_\_\_\_\_ A. FLAX, \_\_\_\_\_  
 \_\_\_\_\_ A. OATS, \_\_\_\_\_ A. COTTON, \_\_\_\_\_ A. RICE, \_\_\_\_\_ A. SOYBEANS, \_\_\_\_\_ CROP INSURANCE YES  NO

ACRES RENTED \_\_\_\_\_ CASH OR GRAIN \_\_\_\_\_ WHEN DUE \_\_\_\_\_ NAME AND ADDRESS OF LANDLORD \_\_\_\_\_

AGE \_\_\_\_\_ MARRIED \_\_\_\_\_ NO. OF DEPENDENTS—OVER 12 \_\_\_\_\_ UNDER 12 \_\_\_\_\_ HAVE YOU EVER HAD ANY GOODS REPOSSESSED FROM YOU \_\_\_\_\_ IF SO, BY WHOM \_\_\_\_\_ HAVE YOU EVER TAKEN BANKRUPTCY \_\_\_\_\_

BANK WITH \_\_\_\_\_ ADDRESS \_\_\_\_\_

REFERENCES: (NAMES OF RELIABLE BUSINESS FIRMS FROM WHOM RECENT PURCHASES HAVE BEEN MADE ON CREDIT) \_\_\_\_\_ POST OFFICE ADDRESS \_\_\_\_\_

WORKING SPACE FOR MATCHING PAYMENTS WITH INCOME

| INCOME AND PAYMENTS    | JAN. | FEB. | MAR. | APRIL | MAY | JUNE | JULY | AUG. | SEPT. | OCT. | NOV. | DEC. |
|------------------------|------|------|------|-------|-----|------|------|------|-------|------|------|------|
| SOURCE                 |      |      |      |       |     |      |      |      |       |      |      |      |
| ESTIMATED GROSS INCOME |      |      |      |       |     |      |      |      |       |      |      |      |
| 19__ PAYMENTS          |      |      |      |       |     |      |      |      |       |      |      |      |
| SOURCE                 |      |      |      |       |     |      |      |      |       |      |      |      |
| ESTIMATED GROSS INCOME |      |      |      |       |     |      |      |      |       |      |      |      |
| 19__ PAYMENTS          |      |      |      |       |     |      |      |      |       |      |      |      |

I live in \_\_\_\_\_ County and \_\_\_\_\_ Township; I have lived here \_\_\_\_\_ years. My post office address is \_\_\_\_\_

I hereby affirm that the above is an accurate and complete statement of my affairs as of this date.  
 (Signed) \_\_\_\_\_

Dealer completes below this line

DESCRIPTION OF GOODS TO BE FINANCED

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

STATEMENT OF TRANSACTION

|   |          |          |
|---|----------|----------|
| Total cash selling price, including sales tax | \$ _____ | \$ _____ |
| Less cash down payment                        | \$ _____ | \$ _____ |
| Less trade-in allowance                       | \$ _____ | \$ _____ |
| Net unpaid balance to be financed             | \$ _____ | \$ _____ |
| Add carrying charges                          | \$ _____ | \$ _____ |
| Gross amount of contract                      | \$ _____ | \$ _____ |
| Payable as follows: _____                     |          |          |
| Other information: _____                      |          |          |

(Signed) \_\_\_\_\_

(Dealer)

suming a reasonable down-payment has been made, this planning of payments to coincide with availability of income is one of the keys to successful farm equipment financing. Terms will vary in certain sections of the country, particularly in areas dependent principally upon a single crop. It is recommended that each bank arrange its requirements to terms and conditions that reflect local conditions.

Banks and equipment manufacturers which have had many years of experience with this type of credit recommend a minimum down-payment of 33 1/3 per cent with a tendency toward higher down-payments in certain areas. In the case of heavier, more specialized equipment, down-payments from 33 1/3 per cent to 50 per cent appear justifiable. Machinery values decline rather rapidly during the first few years of use; therefore, down-payment provisions must be sufficiently high to maintain equity well above resale value.

#### **LENGTH OF CONTRACT — TERMS**

There are no fixed rules regarding the maximum liquidation period on farm equipment loans. Frequently one-fourth of the estimated productive life of the equipment establishes the maximum period. For example, if a tractor is expected to last approximately 10 years, some banks may set up the loan to run for 24 to 30 months. If obsolescence or rapid depreciation, resulting from unusual wear and tear, is a problem for a particular machine, the repayment period should be somewhat shorter. Banks once tended to make repayment terms on farm equipment credit too short; now they believe unduly short repayment terms are not advantageous to either the lender or the borrower. While terms of repayment running from 24 to 30 months appear sound, each request should be considered upon its own merits and be tailor-made to fit the individual circumstances and situation. It may not always be possible to follow a set standard policy; therefore, to be realistic, a credit

policy must be flexible to give weight to the factors involved.

#### **INTEREST OR FINANCE CHARGE**

Some bankers believe that interest or discount charges on direct equipment loans should be no different from those on other farm production loans. Other lenders believe that farm equipment is no different than the farmer's automobile or truck which is generally financed on a flat-rate basis and not on a simple-interest arrangement. Careful scrutiny of the farm operator's financial position, the farm operation, and the farmer's ability to pay is considered more important than the overall rate of interest.

In most instances, interest charges are somewhat higher on indirect loans through dealers. Contracts purchased from the dealer may be carried by the bank either for a finance charge which is included in the total time price, or on a simple-interest basis. Rates are agreed upon with the dealer and made a part of the bank-dealer agreement. Interest rates on new equipment vary from 5 to 8 per cent simple interest to from \$4 to \$6 per hundred per year depending on territory and circumstances. Generally, new equipment will carry a lower rate than used. A minimum charge on dealer contracts and, where statutes permit, also on direct loans, is usually provided on smaller transactions which might be unprofitable to handle otherwise. The general practice has also been to add filing fees to the charges.

#### **TYPE OF LIEN**

Where the borrower or purchaser meets the terms agreed upon, a chattel mortgage on the equipment itself should provide sufficient security. When credit is below usual quality standards, most lenders obtain a pledge of additional assets.

In some states, banks may choose between the use of a chattel mortgage (Form No. 2 on pages 10, 11) and a conditional sale contract (Form No. 3 on page 13), depending on the nature of the transaction. A conditional

## MORTGAGE OF CHATTELS

Know All Men by These Presents, that \_\_\_\_\_  
of the Township of \_\_\_\_\_ County of \_\_\_\_\_ State of \_\_\_\_\_  
hereinafter called the Mortgagor, being justly indebted to \_\_\_\_\_  
of \_\_\_\_\_ hereinafter called the Mortgagee, in the sum of  
\_\_\_\_\_ Dollars, \$ \_\_\_\_\_, has, for the purpose of securing  
the payment of said debt, bargained, sold, assigned and set over, and by these presents does bargain, sell, assign and  
set over unto the Mortgagee, its successors, assigns and legal representatives forever, all that certain personal property  
located in the Twp. of \_\_\_\_\_ County of \_\_\_\_\_ State of \_\_\_\_\_  
described as follows, to wit:

| QUANTITY | MAKE AND KIND | MODEL | SERIAL No. | MOTOR No. |
|----------|---------------|-------|------------|-----------|
|          |               |       |            |           |
|          |               |       |            |           |
|          |               |       |            |           |
|          |               |       |            |           |
|          |               |       |            |           |

together with all added and substituted parts, equipment and repairs placed upon the property during the life of this mortgage, whether because  
of necessary repairs or otherwise, to have and hold, all and singular, the goods and chattels above bargained and sold, or intended to be bargained  
and sold, unto the said Mortgagee.

TO HAVE AND TO HOLD the same unto the said mortgagee, its executors, administrators, heirs, successors,  
and assigns forever.

PROVIDED ALWAYS, that if the said mortgagor shall well and truly pay or cause to be paid at maturity, a  
certain promissory note of even date herewith for the sum of \$ \_\_\_\_\_, in \_\_\_\_\_ monthly instalments  
of \$ \_\_\_\_\_ each, followed by one instalment of \$ \_\_\_\_\_, the first instalment to be paid on  
the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and one instalment on the \_\_\_\_\_ day of each month  
thereafter; or in instalments as follows:

| AMOUNT OF<br>INSTALMENT | DUE DATE OF<br>INSTALMENT | AMOUNT OF<br>INSTALMENT | DUE DATE OF<br>INSTALMENT |
|-------------------------|---------------------------|-------------------------|---------------------------|
|                         |                           |                         |                           |
|                         |                           |                         |                           |
|                         |                           |                         |                           |

until the entire sum is paid, together with interest on any of said instalments after maturity at the highest legal contract rate per annum per-  
mitted by law, all according to the tenor and effect of said note, then this conveyance shall be void, otherwise to remain in full force.  
The mortgagor further covenants that failure to adequately insure, default of payment, misuse, sale or attempt to sell, or to remove from  
county, or where now located, or his bankruptcy, shall constitute a condition broken and that said mortgagee or order may take said property into  
said possession and dispose of same at private or public sale, and deduct from the proceeds the expense of such sale, and the amount then due upon  
said claim with interest and costs thereon, rendering the surplus money, if any, to said mortgagor or assigns. Otherwise the property is to  
remain in the peaceable possession of said mortgagor until conditions are broken as aforesaid.  
All pronouns used herein, shall be deemed and construed as masculine, feminine or neuter gender, and as singular or plural persons, accord-  
ing to the gender or number of person or persons to whom they respectively apply.

IN WITNESS WHEREOF, the said Mortgagor has hereunto set his hand this \_\_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_.

Witness \_\_\_\_\_  
Witness \_\_\_\_\_  
(Mortgagor) (Buyer) Signs above

### NOTE

No. \_\_\_\_\_ Due \_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ Ohio, \_\_\_\_\_, 19\_\_\_\_.  
(City)

For value received I promise to pay to the order of \_\_\_\_\_  
the sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_),  
at the office of \_\_\_\_\_  
in \_\_\_\_\_ monthly instalments of \$ \_\_\_\_\_ each, followed by one instalment of \$ \_\_\_\_\_,  
the first instalment to be paid on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and one instalment on the  
\_\_\_\_\_ day of each month thereafter; or in instalments as follows:

| AMOUNT OF<br>INSTALMENT | DUE DATE OF<br>INSTALMENT | AMOUNT OF<br>INSTALMENT | DUE DATE OF<br>INSTALMENT |
|-------------------------|---------------------------|-------------------------|---------------------------|
|                         |                           |                         |                           |
|                         |                           |                         |                           |
|                         |                           |                         |                           |

until the entire sum is paid, together with interest, on any of said instalments after maturity at the highest legal contract rate per annum per-  
mitted by law.

If any of said instalments be not paid when due then all unpaid instalments hereof shall, at the option of the holder hereof, immediately  
become due and payable, without notice or demand. All of the parties hereto, including sureties, endowers and guarantors hereby severally waive  
presentment for payment, notice of non-payment, protest, notice of protest and diligence in bringing suit on any party hereto, and all endowers  
and guarantors hereon consent that the time of payment may be extended from time to time after maturity without notice to them.

The holder hereof, and if there be more than one, each makes authorize any Attorney-at-Law to appear for such holder in any Court of  
Record in the State of Ohio or in any other state or territory of the United States after this note becomes due and waive for such holder the laying  
and service of process and confess judgment against such holder or against such holder and any one or more of the other parties liable on this  
note for whom appearance has so been entered in favor of the holder hereof for the amount then appearing due, together with costs of suit, and  
thereupon to waive all errors and all rights of appeal and stay of execution, but no such judgment or judgments against less than all said parties  
shall be a bar to a subsequent judgment or judgments against any one or more of said parties against whom judgment has not been obtained herein  
and this warrant of attorney to confess judgment is a joint and several warrant of attorney.

This note is secured by Chattel Mortgage of even date herewith.

Witness \_\_\_\_\_  
Witness \_\_\_\_\_  
(Mortgagor) (Buyer) Signs above

**AFFIDAVIT OF MORTGAGEE**

STATE OF \_\_\_\_\_ }  
 COUNTY OF \_\_\_\_\_ } ss.

THE UNDERSIGNED, being first duly sworn, says that he is the \_\_\_\_\_ of \_\_\_\_\_ (agent, partner, officer), the within named Mortgagee, that the amount of the claim which said mortgage is given to secure \$ \_\_\_\_\_ and that it is just and unpaid; and that said mortgage has been given in good faith to secure the same.

SWORN TO before me and subscribed in my presence, this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

Notary Public

---

**MORTGAGE OF CHATTELS**

From \_\_\_\_\_

To \_\_\_\_\_ Dealer

**DEALER'S ASSIGNMENT AND WARRANTY**

For value received, the undersigned does hereby sell, assign and transfer to \_\_\_\_\_

(Name of Bank)  
 hereinafter referred to as "Bank" or "the Bank," his, its or their right, title and interest in and to the within mortgage, herewith submitted for purchase by the Bank, and the property covered thereby and authorizes said Bank to do every act and thing necessary to collect and discharge the same.

The undersigned certifies that said mortgage arose from the sale of the within described property, warranting that the title to said property is now vested in the undersigned free of all liens and encumbrances and that the undersigned has the right to assign such title; that the said property is as represented to the mortgagee of said property by the undersigned and that the statements made by the mortgagee of said property on the Purchase Statement form attached hereto are true to the best of his knowledge and belief of the undersigned.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

By \_\_\_\_\_  
(Dealer Firm Name)

sale contract is used only when there is an actual sale of the farm equipment and the transaction originates with the dealer. It is a conditional contract between the purchaser and the seller. The bank can purchase it only when it is assigned by the seller. The assignment form usually is printed on the reverse side of the conditional sale contract.

Some banks prefer to handle equipment transactions on a conditional sale contract basis because repossession of equipment is much simpler with this type of instrument than with a chattel mortgage. When the bank has concluded its direct loan arrangements with the farmer-applicant, it calls the equipment dealer, informs him of the terms and

arrangements agreed upon, asks him to prepare the contract form, and assures him that the bank will purchase the contract when it is so presented. If the dealer is not a bank customer, the bank prepares the sales contract papers, arranges for their execution by the dealer and the purchaser, and then buys the paper from the dealer, usually on a non-recourse basis.

When financing farm equipment through notes secured by a chattel mortgage, care is taken to see that the title to the equipment is in the name of the borrower. Usually, in such cases, the check to the dealer contains a special endorsement similar to the following:

In full payment of the balance due on a 19 \_\_\_\_\_, model \_\_\_\_\_, serial number \_\_\_\_\_, motor number \_\_\_\_\_, sold to \_\_\_\_\_ (purchaser), subject only to chattel mortgage in the amount of \$ \_\_\_\_\_ in favor of the \_\_\_\_\_ (name of bank).

A chattel mortgage and lien search of the proper public records is advisable to determine whether any prior lien exists on the equipment. Usually, a copy of the conditional sale contract or chattel mortgage must be filed or recorded if the lender wants the protection the law provides.

In all cases where the purchase of farm equipment is being financed and where registration is required under the state laws, the purchaser should sign an application for the certificate of title, evidence of ownership, or whatever registration is required by law to show that title is vested in him, subject to the lien of conditional sale or chattel mortgage in favor of the bank.

*Because of the differences in the various state laws regarding conditional sale contracts, chattel mortgages, and other forms of lien instruments, it is imperative that the bank's attorney or the state bankers association be consulted and the proper forms adopted. After determining what these requirements are, operations can be geared to the proper procedure. Statutory requirements must be fully understood. By conforming to the law, the bank will have maximum protection.*

### **BANK CONTRACTS WITH FARM EQUIPMENT DEALERS**

Banks usually purchase farmers' notes from dealers under one or a combination of several arrangements. The contract between the dealer and the bank should permit reasonable termination by either. If cancellation involves reduction of the dealer's reserve, care should be taken to insure that the bank has ample protection through retention of adequate re-

serves. All dealers who have agreed on the basis of financing their own and their customers' needs should understand the plan—that is, the rate, down-payment, terms, credit information desired, reserve and repossession arrangements, and other pertinent features. An agreement should be signed covering the finance plan chosen. The most commonly used arrangements are: (1) Full Endorsement Plan, (2) Limited Recourse Plan, (3) Repurchase Plan, (4) Nonrecourse Plan, and (5) Mutual Reserve Plan.

**Full Endorsement Plan.** Under this arrangement, the dealer is fully liable to the bank for all defaulted obligations bearing his endorsement. In some cases, the dealer endorses each contract with full recourse. In other cases, through an executed master agreement, the full responsibility of the dealer is set forth so that he has the same responsibility he would have if he individually endorsed each contract. (See Form No. 4 on page 14.)

When making loans direct to farmers to purchase farm equipment, each loan stands on its own merits. In purchasing conditional sale contracts from dealers, the same sound banking principles should apply. The buyer must have the capacity to pay for the equipment. Even though the paper is fully endorsed by the dealer, a bank should insist that every transaction be sound. Thorough analysis of the ability to repay and the financial condition of the farmer-purchaser is essential.

A full-recourse arrangement makes the dealer the primary creditor. This arrangement can easily lull the lender into a false sense of security—and this sense of security, in turn, can lead to bad credit practices on the part of both the dealer and the lending institution.

It should be noted that representatives of dealers and farm equipment manufacturers handling many millions of dollars of paper over a period of years are convinced it is not sound to buy customers' contracts from dealers on a full-recourse basis. Their theory is

**CONDITIONAL SALE AGREEMENT**

This Agreement, made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, between

(Dealer's Name) of (Dealer's Address)  
 first party, his or its successors, or assigns (hereinafter called "Seller"), and (Buyer's Name)  
 at \_\_\_\_\_ in \_\_\_\_\_ second party (hereinafter called "Buyer")  
 (Buyer's Street Address) (Buyer's Town and State)

WITNESSETH: THAT the Seller in consideration of the payments, agreements, and conditions contained herein which on the part of the Buyer are to be made, done and performed has this day delivered and agreed to sell and the Buyer has this day agreed to buy from the Seller, but upon the conditions hereinafter recited, to the Buyer the following Passenger or Commercial Car, or Tractor (hereinafter called the "Car"):

| MAKE | Type of Body | Model Letter or Number | Manufacturer's Serial Number | Motor No. | No. Cylinders | Advertised Horse-Power | If Truck Tons Capacity | Year Model | List Price | Selling Price |
|------|--------------|------------------------|------------------------------|-----------|---------------|------------------------|------------------------|------------|------------|---------------|
|------|--------------|------------------------|------------------------------|-----------|---------------|------------------------|------------------------|------------|------------|---------------|

with extra equipment, for the sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_.)  
 (Total Cost to Buyer)

The Buyer has this day paid to the Seller \_\_\_\_\_ Dollars (\$\_\_\_\_\_.)  
 (Total Payment Made)

and the Buyer agrees to pay to the Seller, or order \_\_\_\_\_ Dollars (\$\_\_\_\_\_.)  
 (Total Balance to Be Paid)

balance, in installments as follows:

|                                 |                                    |  |
|---------------------------------|------------------------------------|--|
| \$_____ One month after date    | \$_____ Nine months after date     | \$_____ Seventeen months after date    |
| \$_____ Two months after date   | \$_____ Ten months after date      | \$_____ Eighteen months after date     |
| \$_____ Three months after date | \$_____ Eleven months after date   | \$_____ Nineteen months after date     |
| \$_____ Four months after date  | \$_____ Twelve months after date   | \$_____ Twenty months after date       |
| \$_____ Five months after date  | \$_____ Thirteen months after date | \$_____ Twenty-one months after date   |
| \$_____ Six months after date   | \$_____ Fourteen months after date | \$_____ Twenty-two months after date   |
| \$_____ Seven months after date | \$_____ Fifteen months after date  | \$_____ Twenty-three months after date |
| \$_____ Eight months after date | \$_____ Sixteen months after date  | \$_____ Twenty-four months after date  |

with interest from \_\_\_\_\_ until paid at the rate of \_\_\_\_\_ per cent per annum, payable \_\_\_\_\_ as evidence by a promissory note (not as payment, but as evidence of the amounts to become due hereunder) made by the Buyer to the order of the Seller, bearing date hereof and maturing on the due dates of said respective installments. Any extensions or assignments of this agreement or said note shall not waive any condition herein contained.

Title to the Car and extra equipment shall not pass by delivery to the Buyer but shall remain vested in and be the property of the Seller or Assigns until the purchase price has been fully paid. Buyer agrees to operate and control said Car in conformity with all laws and Ordinances and to indemnify and save harmless the Seller from any and all loss, or damage to persons or property caused by said Car or by the use and operation thereof to which the Seller might possibly be subjected.

Buyer agrees and acknowledges that the within contract covers all conditions and agreements between the parties, that the loan, injury or destruction of said Car shall not release said Buyer from payment as provided herein. Buyer hereby acknowledges receipt of and accepts the Car, having first examined and tested the same and found same in sound condition, and agrees to keep the Car insured against loss and damage, by insurance companies acceptable to the Seller for not less than the amount owing, and until fully paid, payable to and to protect the interest of the Seller, and the Seller may place, continue and renew said insurance for the Buyer at the Buyer's expense if the Seller so elects.

Buyer agrees to pay all taxes, license fees or charges against said Car and to keep same in good condition, and that any equipment, repairs or accessories placed upon said Car shall be at Buyer's expense and become a component part thereof and included in the terms of this Agreement. Buyer further agrees not to use or permit said Car to be used for passenger hire.

Buyer further agrees that he will not use or cause or permit to be used the car, truck, or tractor herein mentioned for the transportation of liquor, wines or any other beverage, for personal or commercial use, prohibited by any Federal or State statute to be transported, and it is hereby agreed that should the car, truck or tractor hereinafter described be used for such purpose or any other unlawful purpose, it shall be considered as a default under the agreement, whether or not there shall be a default under any other terms or conditions thereof, which shall entitle the holder hereof to immediate and continued possession of the car, truck or tractor herein described.

Should the Buyer fail to keep and perform any or all his agreements herein contained, and to promptly pay at maturity any and all sums hereunder, or if said Car is removed or attempted to be removed from the State in which the Buyer now resides, or to be otherwise disposed of, or if Buyer shall lend, sell or encumber, or shall attempt to sell or encumber said Car or in case of misuse or abuse thereof, or whenever the Seller or his assigns shall deem the debt insecure, said Seller may without any demand or notice take possession of said Car and equipments, wherever found and without process of law, and all rights of the Buyer hereunder shall cease and terminate thereupon absolutely. Buyer does hereby expressly waive any right of action against the Seller, growing out of the removal, repossession or retention of said Car or otherwise, and hereby consents that upon any default (or in the event that the Buyer, for any reason gives up or loses possession of the Car), all unpaid balance of said purchase price and note representing the same shall forthwith become due and payable. Buyer agrees that all payments made shall be held to and be retained by Seller as liquidated damages for the nonfulfillment of this Agreement, for loss in value of the Car, and for the rental value thereof.

Seller may, by suit or otherwise, enforce payment of said note, and no legal proceedings with respect thereto shall be deemed any waiver of said right of Seller to take possession on default or breach as aforesaid. Upon the Seller as taking possession of the Car, Seller may sell the Car as public or private sale at any time thereafter without any notice to the Buyer, and said Seller may become the purchaser thereof, and if the proceeds thereof are insufficient to pay all sums remaining unpaid hereunder and the expense caused by such repossession, removal, transportation, storage, title and sale, including a reasonable attorney's fee, incurred in taking possession of said Car, or in or about the sale thereof, or in collecting in any manner any sums which may be due and owing hereunder, Buyer agrees to pay any deficiency as damages for use of said property. The waiver or indulgence of any default shall not operate as a waiver of subsequent default. Time is of the essence of this agreement.

This agreement shall apply to and bind the heirs, executors, administrators and assigns of the Buyer, and shall inure to the benefit of the Seller, Seller's heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF the parties hereto have set their hands and affixed their seals to this Agreement in triplicate, the day and year first above written and the buyer hereby acknowledges the receipt of a full and true copy hereof.

Witness: \_\_\_\_\_ (Buyer Sign Here) (Seal)

Address: \_\_\_\_\_ (Seal)

Witness: \_\_\_\_\_ (Dealer Sign Here) (Seal)

Address: \_\_\_\_\_ By \_\_\_\_\_ (Owner, Officer or Firm Member) (Seal)

**Schedule of Payments:**

| MONTHS AFTER DATE |                 | Date           |
|-------------------|-----------------|----------------|
| \$_____ 1 mo.     | \$_____ 13 mos. | _____ 10 _____ |
| \$_____ 2 mos.    | \$_____ 14 mos. |                |
| \$_____ 3 mos.    | \$_____ 15 mos. |                |
| \$_____ 4 mos.    | \$_____ 16 mos. |                |
| \$_____ 5 mos.    | \$_____ 17 mos. |                |
| \$_____ 6 mos.    | \$_____ 18 mos. |                |
| \$_____ 7 mos.    | \$_____ 19 mos. |                |
| \$_____ 8 mos.    | \$_____ 20 mos. |                |
| \$_____ 9 mos.    | \$_____ 21 mos. |                |
| \$_____ 10 mos.   | \$_____ 22 mos. |                |
| \$_____ 11 mos.   | \$_____ 23 mos. |                |
| \$_____ 12 mos.   | \$_____ 24 mos. |                |

For Value Received at the time or times stated in Schedule of Payments hereon, \_\_\_\_\_ promise to pay to the order of \_\_\_\_\_ (Dealer's Name Here)

\_\_\_\_\_ DOLLARS (\$\_\_\_\_\_.)  
 (Total balance to be paid)

at \_\_\_\_\_

With interest from \_\_\_\_\_ until paid at the rate of \_\_\_\_\_ per cent per annum, payable \_\_\_\_\_

I, we, do hereby authorize, irrevocably, any attorney to appear for me, us, after maturity of the whole or any part hereof in any court of record in the United States, in term time or vacation, and to waive the issue and service of process and to contest a judgment against me, us, in favor of the payee or any subsequent holder hereof, for such amount as may appear to be unpaid hereon, together with costs, collection expense and attorney's fees, which we agree to pay, and to release all error and waive all right of appeal. I, we, hereby waive presentment, protest, notice of protest and all benefit of valuation, appraisal and exemption laws. This note becomes immediately due and payable (less any payments made hereon) in event of nonpayment at maturity of any payment scheduled hereon.

Signed \_\_\_\_\_ (Buyer) (Seal)

No \_\_\_\_\_ (Seal)

FULL INDORSEMENT DEALER AGREEMENT

TO:

The undersigned proposes to sell to you conditional sale contracts, chattel mortgages and leases, together with any notes accompanying the same, and other documents representing deferred payment purchases of merchandise sold by the undersigned (all of which instruments are hereinafter referred to as "Contracts"), as the undersigned may obtain and as may be acceptable to you. In order to induce you to purchase the Contracts, the undersigned hereby makes the following representations, warranties, agreements and covenants to and with you for the purpose of your reliance thereon.

1. You will pay the undersigned for each Contract purchased from the undersigned an amount equal to the time balance of the Contract, less your finance charges as set forth in the rate chart in effect at the time of your purchase of any Contract, less any holdback, such holdback, if any, to be payable in accordance with the terms of a supplementary agreement executed by the parties hereto. Each Contract shall be assigned to you with recourse against the undersigned, and you may execute such assignment in the name of the undersigned, if the undersigned omits in any case to execute the same in connection with any Contract delivered to you. If there shall be default in the payment by the purchaser of any two installments on any Contract assigned to you, or if the equipment covered by said Contract may be repossessed under terms of said Contract, the undersigned agrees to repurchase such Contract from you, and will pay therefore in cash an amount equal to the unpaid balance on the Contract, less the unearned finance charge.

2. The undersigned agrees to provide and maintain service in accordance with standard practices and policies as established by the manufacturers of any equipment covered by Contracts assigned by the undersigned to you.

3. The undersigned hereby warrants, represents and agrees that each Contract offered by the undersigned to you in accordance with the terms hereof will be a valid deferred payment obligation for the amount or amounts therein stated, covering equipment free and clear of all encumbrances which the undersigned has a legal right to select, and that no dispute, offset or counterclaim exists between the undersigned and the purchaser of such equipment, and that the equipment so sold, delivered and installed in accordance with the terms of the Contract assigned to you and the description or descriptions therein contained is in all respects true and correct and the purchaser or purchasers therein named are bona fide and have legal capacity to make such Contract. The undersigned agrees that no part of any installment payable under said Contract shall be loaned directly or indirectly by the undersigned to the purchaser or purchasers.

4. The undersigned hereby waives presentment, demand for payment and notice of nonpayment, protest, notice of dishonor, notice of default, or any other demand or notice whatsoever in connection with any contract, negotiable instrument, agreement or document of whatsoever nature, transferred, assigned or endorsed by the undersigned to you, and consents to any and all extensions of time in connection with any and all payments to be made under and pursuant to any of the aforementioned documents without in any way affecting or limiting the liability of the undersigned as herein provided. Where the undersigned is obligated under the terms hereof to repurchase any Contract, no formal tender for repurchase shall be necessary, and until we shall pay the repurchase price as herein provided you may continue to make collection of the amounts due or to become due under such Contract. The waiver of any default by you shall not operate in any way as a waiver of any other or subsequent defaults.

5. You shall have the sole right to make collections on all Contracts assigned to you, and the undersigned will not solicit or make any collections except pursuant to your written request or written instruments to make such collections. Where any repossession is made by the undersigned for you, the undersigned will hold such repossessed equipment or the proceeds thereof, in the event of sale thereof, in trust for your benefit, and will deliver or pay the same to you on demand without charge. The undersigned will forward to you promptly all communications, inquiries or remittances which the undersigned may receive in reference to any of the Contracts assigned to you, and you may audit the books and records of the undersigned relating to the Contracts assigned to you. If the undersigned shall fail to pay to you any sum due from the undersigned within ten (10) days after your demand therefor, or if the undersigned ceases to do business as a going concern, or makes an assignment for the benefit of its creditors, or shall be adjudged a bankrupt, or a receiver be appointed for the undersigned or of the property of the undersigned, or a petition or answer asking for the reorganization of the undersigned is approved by any court, the undersigned, on the happening of any of said events will forthwith become obligated to repurchase from you all of the Contracts theretofore purchased and assigned to you by the undersigned, including any paper purchased under any other agreement, and will pay you an amount equal to the aggregate unpaid balance due thereon, less the unearned finance charges. If the undersigned shall fail to repurchase any or all of the Contracts as in this paragraph provided for the period of ten (10) days after receiving written demand for such purchase from you, then you are hereby authorized to sell at any time thereafter on at least five (5) days' written notice to the undersigned, at either public or private sale, any or all of the Contracts hereinbefore referred to, and you may be a purchaser thereof at any such public sale. The net proceeds realized upon any such sale or sales, after deducting all expenses in connection therewith, including reasonable attorney fees, if any are incurred, shall be applied against the repurchase price, which the undersigned is obligated to pay under and by virtue of the terms of this paragraph. If, in connection with such sale the amount realized thereon should not be sufficient to repay such purchase price, then the undersigned shall pay any such deficiency, and if a surplus should result from any such sale or sales, the surplus shall be paid to the undersigned. The undersigned hereby irrevocably authorizes you to supply any omissions in any documents executed by the undersigned in connection herewith. Either party hereto may terminate this agreement at any time by written notice to the other of such termination, but such termination shall not affect any obligations or transactions hereunder which arose prior to the receipt of notice of such termination.

6. This agreement shall be binding upon the undersigned, and the successors, heirs, executors, administrators or assigns of the undersigned, and shall inure to the benefit of you and your successors and assigns.

7. This application is made to you in duplicate, and will become the Contract between you and the undersigned upon your executing the acceptance at the foot hereof.

8. No provision hereof shall be modified or altered except in writing executed by both of the parties hereto.

ACCEPTED:

(Dealer).....  
(Corporate, Individual or Firm Name)

By.....

By.....  
(Owner, Officer or Partner — state which)

At:....., 194.....

(Address of Dealer)



that the dealer should be relieved largely from the credit aspects of the business and should concentrate on selling and servicing. They believe that banks may tend to lean too heavily on the recourse crutch rather than on the quality of the credit. Good credit will always be the prime requisite for making a time sale.

**Limited-Recourse Plan.** The limited - recourse plan is an arrangement whereby the liability of the dealer is limited as to time or amount on individual or aggregate contracts bought by the bank. (See Form No. 5 on page 16.)

Under this plan, the dealer as well as the lender has a responsibility for the quality of the credits granted. This type of agreement usually provides for a reserve or holdback of a certain percentage of the face amount of the note (commonly 3 to 5 per cent). This amount is credited to a dealer's reserve account and is accumulated until it equals, say, 5 to 7 per cent of the outstanding balance of all contracts. When this holdback reserve account exceeds the agreed percentage of the dealer's outstanding obligations, the bank can then pay out at periodic intervals the amount of the excess reserves.

Generally, under a limited-recourse arrangement, the bank—to be assured that the dealer has made a sound sale—makes an agreement with the dealer whereby he has full liability on a contract until a certain percentage of the time price has been paid by the buyer. After the stipulated amount has been paid, the dealer is released from his liability on the transaction. The number of payments normally equals about 25 to 30 per cent of the contract. Some banks have arranged an equipment tie-in agreement with the dealer in which the dealer agrees to repossess, make necessary repairs at cost, and exert an effort to resell the merchandise. Most banks, under such an agreement, also charge the reserve account for any deficiencies that may be incurred after the sale of the equipment.

Limited recourse may be applied on seasonal payments on the basis that the dealer

is relieved after the first payment is made. The agreement may provide that the aggregate of liability on paper sold to the bank will not exceed a certain dollar amount or a percentage of the aggregate. In some instances, 5 to 10 per cent has been worked out between the parties. Under a limited-recourse arrangement, the dealer may agree to purchase repossessed farm equipment from the bank for the unpaid balance of the contract or for a certain percentage thereof. There should be agreement on who assumes the responsibility to pay the cost of any necessary legal action.

**Repurchase Plan.** Under this arrangement, the dealer agrees to repurchase repossessed farm equipment for the unpaid balance of the contract. Certain legal and technical objections of the full endorsement plan are avoided. Different types of arrangements may be made under this plan. The bank can assume the responsibility for any legal action necessary. The dealer can agree to make the actual physical repossession (See Form No. 6 on page 17). Also, either a portion (a holdback) can be retained from the proceeds of the balance financed, as previously mentioned under limited recourse, or a reserve set up out of the finance charge. The accumulation and distribution of this latter reserve is accomplished in a manner similar to that explained under the limited recourse plan. The great advantage in both the limited recourse and repurchase plans is the moral effect upon the dealer as these plans put the dealer on a participation basis with the bank and make it to the dealer's advantage to reveal to the bank all the true facts, good or bad.

**Nonrecourse Agreements.** On nonrecourse arrangements, lenders naturally must be more selective in their purchases of paper than when they rely partly or entirely on endorsement arrangements. Under a nonrecourse agreement, there is no recourse to the dealer if the purchaser defaults. He is absolutely discharged from any liability the moment the

## LIMITED RECOURSE DEALER AGREEMENT

THIS MEMORANDUM OF AGREEMENT between

hereinafter called "Bank," and  
hereinafter called "Seller,"

**WITNESSETH:**

Seller proposes to sell to Bank such conditional sale contracts, chattel mortgages and/or leases, together with the accompanying notes, agreements and other documents representing deferred payment purchases of merchandise (not including apartment house, commercial or used equipment, or merchandise) sold by Seller, (all of which instruments are hereinafter collectively referred to as "Contracts"), as may be acceptable to Bank. In order to induce Bank to purchase the Contracts, Seller hereby makes the following representations, warranties, agreements and covenants to and with Bank, knowing that Bank will rely upon the same.

1. The Contracts submitted to Bank will be upon the form approved by Bank. The price stipulated in each Contract will include finance charges as per the chart furnished by Bank.
2. All Contracts offered by Seller to Bank will be valid deferred payment obligations for the amounts therein stated covering merchandise, free and clear from all liens and encumbrances, which Seller has a legal right to sell. No disputes, offsets or counterclaims exist between Seller and the purchaser named in any Contract offered for sale by Seller to Bank. The merchandise and equipment described in said Contract was sold, and delivered by Seller as mentioned in said Contract, and the description of such merchandise or equipment is in all respects true and correct. The purchaser or purchasers named in each Contract are bona fide, and have legal capacity to enter into such Contract, and that the down payments mentioned in any such Contract shall be in cash, and not in its equivalent unless so provided in the Contract. No part of any instalment or instalments shall be loaned directly or indirectly by Seller to the purchaser or purchasers named in the Contract.
3. Seller shall provide and maintain service in accordance with the standard practices and policies established by the manufacturers of the merchandise covered by any Contract.
4. Seller, upon demand will without charge to Bank, cooperate in enforcing the purchaser's obligations under any Contract sold to Bank, pursuant to the terms hereof, and will, upon Bank's request and without charge to Bank, repossess any merchandise upon default of the purchaser thereof, and at Bank's direction either deliver the same to Bank or hold the same in storage, free from any storage charges. Any such repossessed merchandise held by Seller shall be held or stored by Seller subject to Bank's control and direction.
5. The agreed purchase price shall be paid to Seller or credited to his account when the paper is purchased, and thereupon full title to the paper shall pass to Bank. If an amount in excess of the purchase price plus the discount computed according to the agreed discount rate is realized by Bank on such paper, the amount so realized shall be applied as follows:
  - (a) To satisfy any past due indebtedness of Seller to Bank arising under this agreement or otherwise; and
  - (b) Any remaining balance of such excess above ..... percentum of the unpaid balance on the contracts then outstanding, so long as Seller is solvent, shall be paid or credited to Seller on the ..... day of each month during the life of this agreement.
6. Each Contract shall be assigned to Bank with recourse, and Bank may execute any such assignment in the name of Seller, if Seller shall in any case omit to execute such assignment. Such recourse shall continue in reference to any Contract sold to Bank until the first ..... monthly instalments shall have been paid by purchaser named in each Contract, as provided in said Contract, within thirty (30) days of their respective maturity dates, and the assignment of such Contract shall thereafter be deemed to be without recourse, except that Seller shall not be relieved of or from any liability for the breach of any warranty, representation, covenant or agreement herein contained, or contained in any assignment, instrument of transfer or endorsement made in connection with any such Contract. In case of the breach of any such warranty, representation, covenant or agreement hereinbefore referred to, or in case of default by the purchaser named in any such contract while recourse against the undersigned continues, Seller will on demand repurchase the contract or contracts concerned for the unpaid balance owing on any such Contract and all other damages, costs or expenses paid or incurred on account of or by reason of any such breach or default, less unearned discount.
7. In the event that the purchaser of a ..... (as defined by Bank) defaults, and Bank does not inform Seller of the location of said merchandise within ninety (90) days from the due date of the oldest unpaid instalment, the Seller is forthwith relieved from his obligation to pay the balance of any such delinquent contract.
8. Seller hereby waives presentment, demand for payment and notice of nonpayment, protest, notice of dishonor, notice of default, or any other demand or notice whatsoever in connection with any contracts, negotiable instruments, agreements or documents executed, transferred, endorsed or delivered in connection with any transactions hereunder, and Seller hereby consents to any and all extensions of the time or times of payments provided in any such contracts, negotiable instruments, agreements or documents, and hereby consents to Bank making any compromise which Bank may see fit with any purchaser named in any contract purchased by Bank under the terms hereof, all without in any way impairing or affecting the liability of Seller hereunder.
9. Either party hereto may terminate this agreement at any time by written notice to the other of such termination, but such termination shall not relieve either party from its obligation hereunder with respect to any contract purchased prior to the receipt of notice of such termination.
10. This Agreement shall be binding upon Seller, and the successors, heirs, executors, administrators or assigns of Seller, and shall inure to the benefit of Bank and Bank's successors and assigns.
11. No provision hereof shall be modified or altered except in writing executed by both of the parties hereto.

Dated .....

(Seller) .....

**BANK**

By ..... Title

By ..... Title

By ..... Title

REPURCHASE AGREEMENT

This Agreement made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by and between National State Bank, hereinafter called Bank, and \_\_\_\_\_,

hereinafter called Dealer,

WITNESSETH :

That in consideration of the mutual covenants herein contained, Bank agrees to purchase from Dealer such conditional sales contracts, notes, and chattel mortgages received by Dealer for the sale of merchandise as are acceptable to Bank, under the following terms and conditions:

1. Dealer does hereby warrant, represent, and covenant that all contracts offered by Dealer to Bank will be valid deferred payment obligations for the amounts therein set forth, covering the sale of merchandise owned by Dealer (free of encumbrances), which Dealer has a legal right to sell; that such contracts are not subject to any disputes, offsets, or counterclaims; that the descriptions of said merchandise, or services rendered, therein contained are in all respects true and complete; that the purchasers named on all such contracts are bona fide and have legal capacity to make such contracts; that the down-payments made by the purchasers named in such contracts have been made in cash and not its equivalent unless otherwise mentioned in such contracts and that no part thereof has been loaned directly or indirectly by Dealer to the purchasers; that the carrying charges added to the purchase price of the merchandise have been correctly represented to the purchaser; and that on the date of each assignment the merchandise mentioned in the contract assigned has been delivered and completely installed.

2. Dealer agrees to provide and maintain service on all merchandise described in contracts subject to this agreement, in accordance with standard practices and policies.

3. Dealer agrees that Bank may charge \$\_\_\_\_\_ per hundred dollars per year of the net purchase price of merchandise described in each contract purchased hereunder; and said charge shall not be less than \$\_\_\_\_\_ for any contract so purchased.

4. All contracts, notes, or chattel mortgages purchased hereunder shall be in form and shall include terms, covenants, and conditions acceptable to Bank. Each such contract shall be properly executed by Dealer and the purchaser. All assignments thereon, regardless of the provisions thereof, shall be subject to this agreement of Dealer to repurchase such contracts, as hereinafter provided.

5. When the purchaser named in any contract purchased by Bank hereunder shall be in default of a payment due thereon for a period of \_\_\_\_\_ days or more, Dealer promises and agrees to repurchase such contract from Bank on demand and to pay therefor the unpaid balance owing on such contract, including all sums of principal, interest, and charges due and to become due, less a pro rata rebate of charges over and above Bank's minimum charge. Dealer also agrees that Bank shall be under no obligation to sue or proceed against the purchaser under such delinquent contract and hereby waives the provisions of Section 2849 and 2850 of the Civil Code of the state of California.

6. If Dealer ceases to do business as a going concern, or if a petition in bankruptcy or insolvency is filed by or against Dealer or for the appointment of a receiver, or if a creditor's committee is named for Dealer, or if Dealer makes an assignment for the benefit of creditors, or if an attachment or execution is levied upon the property of Dealer and such attachment or execution is not released within a period of ten days from and after any such levy, or if Dealer shall fail to repurchase any such contract within ten days after demand therefor is made on Dealer, then and upon the happening of any such event and from time to time thereafter Dealer shall, upon demand from Bank, immediately repurchase from Bank any or all contracts purchased by Bank hereunder which are delinquent at the time such demand is made, the purchase price of each such contract to be the amount owing on each such contract as described in paragraph 5 hereof.

7. Bank shall be under no duty to notify Dealer of any default on the part of Dealer with reference to the terms of this agreement or to notify Dealer of any default on the part of the purchasers mentioned in contracts sold by Dealer to Bank, and Bank shall not be required to make formal tender or demand for the repurchase of contracts pursuant to this agreement. Dealer hereby agrees that Bank may continue to make collections on any account to be repurchased, until the payment of the repurchase price, and Bank may extend the time of payment or make any compromise, adjustment, modification, or alteration that it deems reasonable without notice to or the consent of Dealer and without in any manner affecting the obligations of Dealer to repurchase any contracts pursuant to this agreement.

8. Bank agrees to provide insurance protection of the interests of Dealer only (Vendor's single interest coverage, which does not cover the interest of the purchaser of the merchandise), against loss caused by fire, theft, or transportation of all equipment or other personal property covered by contracts sold by Dealer to Bank hereunder and against embezzlement in the case of all domestic equipment or appliances.

9. Dealer agrees that Bank may withhold from the net purchase price of all contracts purchased hereunder \_\_\_\_\_ per cent of the net unpaid balance of each contract at the time of the purchase thereof, and may retain the sums so deducted as security for the faithful performance of the terms and conditions of all or any such contracts by the purchasers. Bank may retain all sums so withheld until all such contracts shall have been paid in full or repurchased by Dealer, subject, however, to the right of Bank at any time and from time to time to apply the whole or any part of the aggregate amount of the sums so retained to the satisfaction and discharge of Dealer's obligations hereunder. All amounts so withheld may, at the discretion of Bank, be reduced from time to time by release to Dealer.

10. Dealer agrees not to accept payments or tender of payments made to it by a purchaser under any contract sold to the Bank hereunder and will refer such purchaser to Bank.

11. This agreement may be terminated at any time by either party upon notice in writing to the other, provided, however, that such termination will not impair or affect the liability or obligations of Dealer to Bank under this agreement on account of any contract purchased or transaction had hereunder prior to the time such notice is given.

IN WITNESS WHEREOF the parties hereto have executed this agreement on the day and year first herein written.

(Dealer)

By \_\_\_\_\_ NATIONAL STATE BANK

By \_\_\_\_\_

bank buys the paper.

The manufacturer usually provides a performance warranty on all new equipment, and the dealer undertakes to assemble and adjust the equipment and to instruct the purchaser in its proper operation and care. Generally, under a nonrecourse agreement, the dealer does the physical work of repossessing, reconditioning, and reselling the equipment and is reimbursed by the lender for the costs of performing these services. The nonrecourse arrangement is not popular and should be used with extreme caution. This is because of the degree of selectivity of the individual risk, which naturally places limitation upon the selling dealer. Many times, this type of plan is tied in to what is generally known in the field as a "nonrecourse-repurchase agreement." (See Form No. 7 on page 19.)

**Mutual Reserve Plan.** This plan may be applied in two ways. Under the first method, a reserve is created by retaining a certain percentage (holdback) of the net proceeds on each contract purchased. While the manufacturers' cash discount for prompt payment varies, it is not uncommon for the dealer to receive a cash discount of up to 5 per cent if he pays the manufacturer for the equipment immediately. Thus, the dealer can authorize the bank to retain an amount up to 5 per cent on the balance of the contract without having to create the reserves out of his own cash.

Under the second method, a reserve may also be created, either with or without a holdback, by setting aside a percentage of the finance charge in a reserve account. To illustrate: if the equipment dealer charges 8 per cent simple interest to the buyer, and if one-fourth of the total charge, or 2 per cent, is transferred to a reserve account for the dealer, the bank would then have a net yield on the paper of 6 per cent simple interest. If the reserve is accumulated out of the finance charge on the contract, there may also be a holdback of 5 to 10 per cent on

each transaction until an agreed-upon minimum reserve account balance is reached.

In many banks, the reserve is accumulated until it equals from 5 to 10 per cent of the aggregate unpaid balances of any dealer's discounted paper. The bank then remits to the dealer the amount of reserve in excess of the stipulated minimum. There are several advantages to this plan. The dealer sells his paper without recourse, yet a sufficient reserve is created to protect the bank against losses. The substantial amount in the reserve account builds up for the dealer and he receives all that money when and if his paper pays out in full.

In any arrangement, the reserve or holdback should be applicable on every transaction. Therefore, the agreement should provide that a stipulated amount be held in relation to the outstanding obligations. The dealer's liability differs from the reserve account in that the former is a percentage of contracts in each year, while the latter is maintained as a percentage of contracts outstanding. This percentage of contracts outstanding is reflected in the dealer's reserve account which should not be less than \$250 to \$500. On larger transactions and on volume dealers, perhaps \$2000 to \$3000 would be a more realistic minimum reserve. This minimum-dollar-reserve base has been found to be adequate, but it will depend on the type of paper purchased and the credit hazards involved. In some cases, a somewhat larger minimum may be justified.

The mutual reserve plan is approved by many manufacturers and has a special appeal to many large dealers; however, it is not effective unless the dealer creates a sufficiently large volume of paper so that adequate reserves are built up not only to protect the bank in case of loss but to give the dealer incentive to see that his paper is liquidated with a minimum loss to the bank.

It should be pointed out that the major difference between the repurchase plan and the mutual reserve plan is in the dealer's ob-

## Dealer Agreement

(Without recourse)

TO: ..... (Name of Plan)  
 ..... (hereinafter called the Distributor)

Gentlemen:

We proposed to sell to ..... hereinafter referred to as the Bank, such conditional sales contracts, together with the accompanying notes, agreements, and other documents representing deferred payment purchases of merchandise sold by us (all of which instruments are hereinafter collectively referred to as "contracts"), as we may obtain and as may be acceptable to the Bank. In order to induce the Distributor to lend its influence in the creation and maintenance of appropriate discount facilities at the Bank, we hereby make the following representations, warranties, and covenants to and with you, knowing that you will rely upon the same:

1. All contracts submitted for purchase will be on the Bank's approved forms. The price stipulated in each contract will include finance charges as per chart furnished by the Bank.

2. We hereby warrant, represent, and covenant that all such contracts offered by us for sale will be valid deferred payment obligations for the amounts therein set forth, covering NEW merchandise owned by us free and clear of all encumbrances, which we have a legal right to sell; that such obligations are not subject to any disputes, offsets, or counterclaims; that we have sold, delivered, and installed the merchandise therein mentioned; that the descriptions of said merchandise therein contained are in all respects true and complete; that purchasers therein named are bona fide and have legal capacity to make such contracts; that the down-payments made by the purchasers whose contracts we offer to the Bank for sale shall be in cash and not its equivalent unless otherwise mentioned in said contracts and that no part thereof shall be loaned directly or indirectly by the undersigned to the purchasers; and that on the date of each assignment the merchandise mentioned in the contract assigned has been delivered and completely installed and that the said merchandise has not been sold to one of our employees or a member of our family or household.

3. We agree to provide and maintain service on all merchandise sold by us in accordance with the standard practices and policies as established by the Distributor and, if requested, will furnish a surety company bond or other satisfactory guaranty for the performance of such obligations.

4. Upon demand we will cooperate in enforcing purchasers' obligations upon any default by the purchasers and will, upon request of said Bank and at our expense, repossess any such merchandise and hold same for the Distributor or its nominee at my/our place of business or warehouse, free of any storage charges.

5. It is understood that for each accepted contract, the Bank will pay us a sum equal to the unpaid face amount of the contract less the required finance charges and less a deduction of a without-recourse fee calculated on the cash balance of each contract as prescribed by Bank, provided the purchaser shall have made a down-payment in accordance with Bank's requirements.

It is expressly understood and agreed that such assignment without recourse shall not be deemed to relieve us of or from any liability for the breach of any warranty, representation, covenant, or agreement herein contained or contained in any instrument of assignment and/or indorsement. In case of any such breach, we shall on demand pay the unpaid balance owing on the contract affected by such breach or default and all other damages, costs, and expenses paid or incurred on account of or by reason of such breach or default.

Regardless of any breach of this agreement, in the event the retail sales price of merchandise sold under any of said contracts, for any reason, shall be in excess of the established retail sales price (as determined by Distributor) and the purchaser under any such contract shall default, then, upon demand, we will pay to you or Bank the amount of such contract in excess of said established retail selling price.

6. We hereby waive presentment, demand for payment, notice of nonpayment, protest, notice of default, and any other demand or notices whatsoever in connection with any contracts, negotiable instruments, agreements, or documents transferred and/or indorsed, and we hereby consent to any and all extensions of time granted to or compromises made with the purchasers under said contracts or any other person, without impairing our liability or obligations.

7. Either of us may terminate this agreement at any time by writing to that effect to the other; but such notice shall not affect any obligation hereunder on the part of either of us which arose out of the purchase of contracts hereunder prior to the termination.

8. It is understood that this agreement shall apply only to products approved by you and that all the representations, warranties, covenants, and agreements herein contained are for and shall inure to your benefit and your respective successors and assigns, and shall be binding upon us, our successors and assigns.

9. The warranties, representations, covenants, and obligations of this agreement shall inure to the benefit of the Bank, and the Bank may enforce this agreement, or any provision hereof, as a third party beneficiary, and no modification of this agreement, or any provision hereof, shall be valid or effective without the written consent of the Bank.

Dated....., 19.....

DEALER:

APPROVED:

By .....  
 (Signature of Owner, Partner, or Officer)

.....  
 (Distributor)

By .....

.....  
 (Address of Dealer)

ligation to repurchase for cash at the unpaid balance each item repossessed under the former plan.

The various plans outlined stress that the bank is a financial institution and the dealer is a merchandiser. The merchandising responsibility is solely the dealer's. It is therefore proper for a dealer to enter into an agreement with the bank to repurchase, repossess, recondition, store, or resell distressed equipment.

#### DEALER RESERVE

Regardless of all reasonably good judgment exercised in selling and collecting, an occasional loss through repossession or other cause may occur. Even though the contracts are accepted on a nonrecourse basis, the general practice is to provide a reserve account out of the finance charge or out of the unpaid balance of a contract (holdback), or both. This places funds at the disposal of the bank to protect it against possible losses.

A reserve is generally known as an amount held out of the finance charges whether matched or unmatched by the dealer. A holdback represents a portion of the advance or unpaid balance normally due the dealer.

The reserve account should be proportionate to the amount of paper bought under a sound credit and collection program. If the reserve is deducted from the face amount of the note and is unnecessarily high, it may result in depriving the dealer of needed working capital. The reserve provisions should provide protection, simplicity, and flexibility. (See Form No. 8—Reserve Agreement—on page 21.)

#### RESERVE DISTRIBUTION

As the obligations are liquidated, the dealer's reserve account is adjusted and distribution is made to him each six months or at other intervals. Generally, the dealer's reserve balance should exceed an agreed percentage (5 to 10 per cent) of the unpaid balance of paper outstanding which is current

or not more than 14 days delinquent, plus 100 per cent of the unpaid balance of paper which is 15 days or more delinquent, before distribution is made. To illustrate:

July 1

|   |             |
|---|-------------|
| Unpaid balance paper purchased                  | \$50,450.00 |
| Less unpaid balance of delinquent accounts      | 3,742.00    |
|   | <hr/>       |
| Balance current accounts                        | \$46,708.00 |
| 10% reserve needed                              | 4,670.00    |
|   | <hr/>       |
| 100% unpaid balance of delinquent accounts      | 3,742.00    |
|   | <hr/>       |
| Reserve in excess of this amount is distributed | \$ 8,412.00 |

When a small volume of contracts is handled for a dealer, a minimum reserve should be required below which no refunds are given. Should the dealer discontinue submitting contracts, then reserves are distributed only after all accounts have been paid out. In some instances, the reserves remain intact until the outstanding balances equal the reserve—then, reserve disbursement is made only in the amount that is in excess.

#### RECORDING AND COLLECTIONS INDIVIDUAL LEDGER CARD

For each account, an individual ledger card should be prepared which will provide the essential information on each transaction as well as the payment record thereof. (See Form No. 9 on page 22.) Some types are used in a machine-posting operation while others are used for posting by hand. Loan balances can be prescheduled by showing reducing balances or the accumulated payments. A tray or file with sets of dividers or file-card guides numbered from one to 31 for each day of the month is about all the equipment needed for filing ledger cards. The cards are filed according to account numbers behind the divider markers for each day of the month on which payments fall due. A controlling account by class of

RESERVE AGREEMENT

TO:

In reference to and as part of..... between us, dated....., (hereinafter referred to as agreement) you shall credit to a reserve account amounts equal to... per cent of your finance charges or an amount equal to..... per cent ( ) of the unpaid balance at the time of your purchase of any contract. Said reserve account shall be under your exclusive control, and the amounts shall at all times stand as security for the faithful performance of the obligations of the undersigned assumed under the agreement and under any and all assignments of contracts pursuant to the terms of the agreement. In the event of any default on the part of the undersigned with respect to any of the aforesaid obligations on the part of the undersigned, or in the event of the filing of a petition in bankruptcy by or against the undersigned, or the commencement of any action or proceeding for the appointment of a receiver of the undersigned, or in the event you shall at any time deem yourself insecure for any reason whatsoever, the amount in said reserve account may be forthwith applied by you upon any of the obligations of the undersigned under the agreement, or under and by virtue of any assignment of any contract made by the undersigned. If on the..... day of....., and the..... day of....., of each year, the undersigned shall not be in default in reference to any of the aforementioned obligations, then you shall pay to the undersigned such part of the reserve account as is in excess of..... per cent (..%) of the then aggregate unpaid balances outstanding on contracts purchased from the undersigned by you. Only at such times of payment of reserves by you (and not prior thereto) may the undersigned have the amount then to be paid applied as a credit on repurchase or other obligations.

(Dealer).....  
(Corporate, Individual or Firm Name)

By.....  
(Owner, Officer or Partner—state which)

.....  
(Address of Dealer)

ACCEPTED:

By.....

At:....., 195...

Form No. 9 — Individual Ledger Card

| FILE NO.   |          | DUE DATE |                       | ACCOUNT NO.             |                                  |
|--|----------|----------|-----------------------|-------------------------|----------------------------------|
| PAYABLE IN<br>INSTALLMENTS OF \$<br>INSTALLMENTS OF \$<br>INSTALLMENTS OF \$ |          |          |                       |                         |                                  |
| DATE OF CONTRACT   |          |          | DATE ACQUIRED         |                         |                                  |
| INSTALLMENT SCHEDULE   |          |          |                       | ORIGINAL UNPAID BALANCE |                                  |
| PAYMENTS   |          |          |                       |                         |                                  |
| NO.  | DATE DUE | AMOUNT   | BALANCE AFTER PAYMENT | L. C.                   | RECEIPT FOR PAYMENT DATE RECD BY |
| 1  |          |          |                       |                         |                                  |
| 2  |          |          |                       |                         |                                  |
| 3  |          |          |                       |                         |                                  |
| 4  |          |          |                       |                         |                                  |
| 5  |          |          |                       |                         |                                  |
| 6  |          |          |                       |                         |                                  |
| 7  |          |          |                       |                         |                                  |
| 8  |          |          |                       |                         |                                  |
| 9  |          |          |                       |                         |                                  |
| 10   |          |          |                       |                         |                                  |
| 11   |          |          |                       |                         |                                  |
| 12   |          |          |                       |                         |                                  |
| 13   |          |          |                       |                         |                                  |
| 14   |          |          |                       |                         |                                  |
| 15   |          |          |                       |                         |                                  |
| 16   |          |          |                       |                         |                                  |
| 17   |          |          |                       |                         |                                  |
| 18   |          |          |                       |                         |                                  |
| 19   |          |          |                       |                         |                                  |
| 20   |          |          |                       |                         |                                  |
| 21   |          |          |                       |                         |                                  |
| 22   |          |          |                       |                         |                                  |
| 23   |          |          |                       |                         |                                  |
| 24   |          |          |                       |                         |                                  |
| 25   |          |          |                       |                         |                                  |
| 26   |          |          |                       |                         |                                  |
| 27   |          |          |                       |                         |                                  |
| 28   |          |          |                       |                         |                                  |
| 29   |          |          |                       |                         |                                  |
| 30   |          |          |                       |                         |                                  |
| 31   |          |          |                       |                         |                                  |
| 32   |          |          |                       |                         |                                  |
| 33   |          |          |                       |                         |                                  |
| 34   |          |          |                       |                         |                                  |
| 35   |          |          |                       |                         |                                  |
| 36   |          |          |                       |                         |                                  |

|   |               |                            |                |                              |
|---|---------------|----------------------------|----------------|------------------------------|
| SL AL FH VL SF EG MD IC AD                              |               | ACCOUNT NUMBER             |                | LETTER                       |
| AMOUNT OF LOAN  |               | PC-12-7,584                |                |                              |
| 600.00  |               |                            |                |                              |
| M O R S   |               |                            |                |                              |
| JAN   | FEB           | MAR                        | APR            | MAY                          |
| JUN   | JUL           | AUG                        | SEP            | OCT                          |
| NOV   | DEC           |                            |                |                              |
| 12  |               |                            |                |                              |
| MR. JOHN DOE<br>1234 MAIN STREET<br>NEW YORK, 12, N. Y. |               |                            |                | NUMBER OF PAYTS<br>12        |
|   |               |                            |                | MONTHLY PAYMENTS<br>\$ 53.19 |
| TOTAL   |               | INTEREST                   | AMOUNT OF LOAN | DATE OF LOAN                 |
| 638.28  |               | 38.28                      | 600.00         | 12/12/53                     |
| AGE   |               | 30                         |                |                              |
| MAX. FINES  |               | BRANCH NO.                 | RATE           | TERM                         |
| 12.00   |               | 1                          | 6              | 12                           |
|   |               | PREVIOUS ACCOUNT NO.       |                |                              |
| A   | FINES         | MONTHLY PART. ON PRINCIPAL | DATE PAID      | SHORT BALANCE                |
| T.  | DUE PAID DATE | DUE DATE ACCT. DEPT.       | UNPAID BALANCE | DATE AMOUNT                  |
| 1   |               | JAN. 54 38.28              | 638.28         | JAN 1 2                      |
| 2   |               | FEB. 54 32.39              | 585.09         | FEB 1 2                      |
| 3   |               | MAR. 54 26.99              | 531.90         | MAR 1 2                      |
| 4   |               | APR. 54 22.08              | 478.71         | APR 1 2                      |
| 5   |               | MAY 54 17.67               | 425.52         | MAY 1 2                      |
| 6   |               | JUN 54 13.75               | 372.33         | JUN 1 2                      |
| 7   |               | JUL 54 10.32               | 319.14         | JUL 1 2                      |
| 8   |               | AUG 54 7.38                | 265.95         |                              |
| 9   |               | SEP 54 4.93                | 212.76         |                              |
| 10  |               | OCT 54 2.97                | 159.57         |                              |
| 11  |               | NOV 54 1.49                | 106.38         |                              |
| 12  |               | DEC 54 .50                 | 53.19          |                              |
| CLOSING ENTRIES   |               |                            |                |                              |
| UNPAID BALANCE 1  |               |                            |                |                              |
| LATE CHGS. + 2  |               |                            |                |                              |
| TOTAL 3   |               |                            |                |                              |
| INTEREST REFUND - 4                                     |               |                            |                |                              |
| NEW LOAN 5  |               |                            |                |                              |
| TOTAL (3-4) 6   |               |                            |                |                              |
| PROGRESS 7  |               |                            |                |                              |
| NEW LOAN 8  |               |                            |                |                              |

loan on which the total of the day's new loans are debited or added to the outstanding balance, and the total of the day's payments are credited or subtracted, should be maintained on a card in the front of each tray. As payment records or coupons are received, they are sorted according to due date and account number. If balances are prescheduled, the posting can be done simply by debiting the line conforming to the payment being made. The daily postings should be checked by an old and new balance proof, or by making a list of payments posted on the ledger cards which is then balanced against the payment journal. Past-due accounts are transferred to the delinquent section, usually kept in the front sections of the tray.

PAYMENT RECORD

The type of payment record set up for the purchaser will depend on various factors such as: (1) whether income is derived in such manner as to justify monthly payments; (2) whether the obligation is to be liquidated in one or two or more lump-sum payments; and (3) whether arrangements are made to liquidate the obligation in instalments other than monthly, seasonally, or annually. This procedure is entirely a matter of bank policy. Coupon payment books appear to be a commonly used method of recording and remitting payments. (See Form No. 10 on page 24.)

When a loan is made or when a note and contract is purchased, the coupon payment



record is sent to the borrower or purchaser. The bank should call the obligor's attention to the payment-due dates, the amount of each payment, and the full amount of the obligation. When the contract has been purchased from a dealer, the bank should, in addition, advise the customer that the transaction has been assigned by the dealer to the bank. Unless the arrangement is a special one, the bank should also advise the obligor or purchaser that payments are to be made to the bank only.

#### **PAYMENTS COLLECTED BY DEALER**

Occasionally, a bank will permit a dealer to make collections. The frequency with which these collections are turned in to the bank depends upon such factors as the type of dealer, his financial responsibility, and his experience. Any deviation from regular practices should be avoided. The obligor should be notified that the bank is the holder in due course.

The ideal method of collection is to have all payments made directly to the bank. If other methods are adopted, proper safeguards and precautions must be exercised. A purchaser, by making payments to the dealer, believes he is living up to the terms of the agreement. Actually, payments are not final against his obligation until so recorded on the bank's records. If a dealer defaults, the obligor and the bank will find themselves in an unenviable and strained situation. The bank should make periodic verification of the balance owing direct with the borrower.

#### **COLLECTION PROCEDURE**

Most banks financing farm equipment know the importance of prompt, alert, and efficient collection effort. When seasonal payments are involved, pre-notice at least 30 days in advance of payment date is recommended. Where paper is purchased from a dealer, the procedure should include an advice to him regarding his delinquent accounts. (See Form No. 11 on page 25. If the dealer

is informed on delinquent accounts, he will often be helpful in effecting collections. It is not considered advisable to authorize a dealer to collect payments as this procedure may indicate an agency relationship and the bank thereby assumes responsibility. Even though the dealer is not directly responsible for the collection of the contracts, he should cooperate, because any slow or defaulted accounts will be charged against his reserve account.

Instalment collecting includes handling from the first past-due notice to bringing the account up to date or repossessing the equipment pledged. There are many necessary considerations in establishing a collection procedure, such as individual collection follow-up of borrowers who do not respond to notices; education of borrowers to pay promptly, thereby offsetting collection expense; and the important factor of minimizing the number and disposition of repossessions.

In handling monthly amortized obligations, an automatic set of notices has been found quite effective in reducing the number of delinquencies. These notices constitute the most important feature of collection follow-up. Usually the farmer-purchaser or borrower will not let his obligation be delinquent without explaining the reasons. Under such circumstances, it may be possible to arrive at some working arrangement which will be of mutual benefit to the obligor and the bank and which will result in proper liquidation of the account.

If the account continues in arrears after the final notice has been sent to the borrower or purchaser, personalized attention is usually necessary. The proper bank officer should make every attempt to determine the cause of the delinquency and should make every effort to work out the situation to the satisfaction of all parties concerned. If all such efforts do not bring satisfactory results, he should take prompt action to protect the bank's interest. Delay in resolving delinquencies can result in substantial losses.

Form No. 10 — Coupon Book

|   |         |       |       |      |   |         |       |  |  |           |      |      |      |      |     |      |      |      |       |      |      |      |
|---|---------|-------|-------|------|---|---------|-------|--|--|-----------|------|------|------|------|-----|------|------|------|-------|------|------|------|
| <p style="text-align: center;">PAYMENT<br/>NO. <b>1</b></p> <p style="text-align: center;">When officially stamped, this stub is<br/>a receipt for payment of the amount<br/>perforated.</p> <p style="text-align: center;">Amount of Payment Due</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">DOLLARS</td> <td style="width: 50%; border-bottom: 1px solid black;">CENTS</td> </tr> <tr> <td style="height: 40px;"></td> <td></td> </tr> </table> <p>Late Charges \$ _____</p> <p>Received by _____<br/>TELLER</p> | DOLLARS | CENTS |       |      | <p style="text-align: right;">BANK</p> <p style="text-align: center;">Personal Credit Division</p> <p>ACCOUNT NUMBER _____</p> <hr/> <p style="text-align: center;">PAYMENT DUE</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">DOLLARS</td> <td style="width: 50%; border-bottom: 1px solid black;">CENTS</td> </tr> <tr> <td style="height: 40px;"></td> <td></td> </tr> </table> <p style="text-align: right;">PAYMENT No. <b>1</b></p> <p style="text-align: center;">Late Charges<br/>of \$ _____ collected</p> <p style="text-align: center;">This payment is due on<br/>the date shown on the<br/>inside front cover in the<br/>month punched below.<br/><b>Maintain Your Credit By<br/>Prompt Payments</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td rowspan="2" style="width: 30px; text-align: center; vertical-align: middle;">MONTH DUE</td> <td style="width: 40px; text-align: center;">JAN.</td> <td style="width: 40px; text-align: center;">FEB.</td> <td style="width: 40px; text-align: center;">MAR.</td> <td style="width: 40px; text-align: center;">APR.</td> <td style="width: 40px; text-align: center;">MAY</td> <td style="width: 40px; text-align: center;">JUNE</td> </tr> <tr> <td style="text-align: center;">JULY</td> <td style="text-align: center;">AUG.</td> <td style="text-align: center;">SEPT.</td> <td style="text-align: center;">OCT.</td> <td style="text-align: center;">NOV.</td> <td style="text-align: center;">DEC.</td> </tr> </table> <p style="text-align: center;">PAID BY</p> <p><input type="checkbox"/> CASH</p> <p><input type="checkbox"/> MO. ORDER</p> <p><input type="checkbox"/> CHECK ON</p> | DOLLARS | CENTS |  |  | MONTH DUE | JAN. | FEB. | MAR. | APR. | MAY | JUNE | JULY | AUG. | SEPT. | OCT. | NOV. | DEC. |
| DOLLARS   | CENTS   |       |       |      |   |         |       |  |  |           |      |      |      |      |     |      |      |      |       |      |      |      |
|   |         |       |       |      |   |         |       |  |  |           |      |      |      |      |     |      |      |      |       |      |      |      |
| DOLLARS   | CENTS   |       |       |      |   |         |       |  |  |           |      |      |      |      |     |      |      |      |       |      |      |      |
|   |         |       |       |      |   |         |       |  |  |           |      |      |      |      |     |      |      |      |       |      |      |      |
| MONTH DUE   | JAN.    | FEB.  | MAR.  | APR. | MAY   | JUNE    |       |  |  |           |      |      |      |      |     |      |      |      |       |      |      |      |
|   | JULY    | AUG.  | SEPT. | OCT. | NOV.  | DEC.    |       |  |  |           |      |      |      |      |     |      |      |      |       |      |      |      |

**IMPORTANT INFORMATION**  
*Please Read Carefully*

Name \_\_\_\_\_ Payments of \$ \_\_\_\_\_ on the \_\_\_\_\_ day  
payable in \_\_\_\_\_ instalments as follows: Payments of \$ \_\_\_\_\_ on the \_\_\_\_\_ day  
of each month punched at the bottom of each coupon herein.

This book is furnished for your convenience in making your monthly payments on the correct due date. Please use coupons in their consecutive order. Keep the due date of each monthly payment in mind, as advance notices of payments due are not sent.

**A coupon must accompany every payment made.** If you make a payment in person, the teller will detach the coupon and receipt for the payment on the stub. In making a payment by mail, detach the **first unpaid** coupon and send it with your check or money order, in which case your check or money order will constitute a receipt. **Do not send cash by mail. Do not mail book.**

Payment in person or by messenger may be made at any office listed on the back cover.

**Payments by check or money order should be addressed and mailed to \_\_\_\_\_, New York, N. Y.** Checks or money orders drawn by yourself should be payable to \_\_\_\_\_ Bank. Checks of individuals payable to your order or to the Bank and indorsed by you also are acceptable. Checks and money orders, by whomsoever drawn, payable to anyone other than yourself or the Bank are not acceptable.

All checks, drafts, money orders, etc., will be credited subject to collection and final payment.

Any change in your home or business address should be immediately reported by use of the forms provided on the last pages in this book. Immediately report the loss of this coupon book.

Whenever communicating with the Bank regarding your account, always refer to your account number.

**Lateness in making payment:** Section 108 of the New York State Banking Law provides that in case a payment shall remain unpaid for a period in excess of five days from its due date, the bank may charge four cents for each dollar due, not exceeding Two Dollars as to any one payment.

\_\_\_\_\_  
(BANK)

**REPOSSESSION AND DISPOSITION**

State laws vary in regard to taking possession of collateral under a conditional sale contract, chattel mortgage, or bailment lease.

Each bank must seek local legal guidance on the question.

As the dealer has facilities for bringing in repossessed equipment, together with a service

shop and personnel to handle reconditioning, it may be preferable for him to take over such equipment after legal title and possession is established. It may be to the advantage of both the bank and the dealer for the latter to make all physical repossessions. The bank not only avoids the complications of repossessions, servicing, and storing, but the dealer protects the market for the equipment he originally sold.

In the main, dealers will agree to bring in to their shops repossessed equipment and to recondition, store, and resell it. Since the bank holds the original borrower's or purchaser's unpaid contract, full proceeds of the sale should be remitted to the bank for distribution and application: first, for payment of the dealer's reconditioning and handling expense; second, for the recovery of legal expenses incidental to repossession and clearing title; and third, for liquidation of the original obligation.

Should the remainder of the resale proceeds not be sufficient to fully cover the unpaid balance of the obligation, the deficiency is chargeable to the dealer's reserve account to the extent originally specified in the bank-dealer agreement. In the absence of such an agreement, the deficiency would be charged to the bank's own Reserve for Bad Debt account. When a profit is realized, it may be

paid to the dealer if the balance in his reserve account is above the prescribed level and, if not, his reserve account is credited. The bank must make certain that this practice does not violate state laws. The foregoing will apply only if the bank and the dealer arrangements so specify and are made under a reserve contract.

The question of who should benefit from the profit on repossessed merchandise presents a legal and a public relations problem which each bank must consider.

### REPURCHASE OF CONTRACTS BY DEALERS

On occasion, a dealer may find it advisable to repurchase a contract. The user may want to trade equipment covered under the obligation before the original balance is completely liquidated. Or, in another instance, the dealer may recognize that the sale will ultimately result in a repossession, and prefer to handle the repossession himself. Again, the dealer may prefer to cancel his agreement and repurchase all outstanding obligations. In such situations, the bank should protect itself and retain the suggested minimum fee to cover, at least in part, acquisition, collection, and handling costs.

### Form No. 11 — List of Delinquent Accounts

| DELINQUENT PURCHASER LIST  |             |                |            |                         |         |
|--|-------------|----------------|------------|-------------------------|---------|
| DEALER _____   | No. _____   | Date _____     |            | Type of Equipment _____ |         |
| THE FOLLOWING IS A LIST OF YOUR PURCHASER'S ACCOUNTS WHICH ARE MORE THAN ONE MONTH IN ARREARS. THESE PURCHASERS HAVE NOT RESPONDED TO OUR MANY REQUESTS FOR PAYMENT. WE, OF COURSE, WILL CONTINUE TO FOLLOW THEM CLOSELY FOR COLLECTION BUT, UNDOUBTEDLY, YOUR COOPERATION AT THIS TIME WILL BE OF REAL VALUE IN BRINGING THESE ITEMS SATISFACTORILY UP TO DATE. |             |                |            |                         |         |
| PURCHASER'S NAME   | ACCOUNT No. | PAST DUE SINCE | PAST DUE   |                         | REMARKS |
|  |             |                | 30-60 DAYS | OVER 60 DAYS            |         |
|  |             |                |            |                         |         |
|  |             |                |            |                         |         |
|  |             |                |            |                         |         |

# Inventory Financing\*

## GENERAL

Probably no two business men in any agricultural community have a greater mutuality of interest than the local equipment dealer and the bank. Both are working for the welfare of the farmer because his prosperity largely determines their success. There appears to be no question that every dealer prefers to make "good deals," especially in the sale of his higher-priced machines where the greatest amount of credit is involved. When close cooperation exists between the dealer and the bank, with both working to obtain proper information regarding operations and needs of prospects so as to make proper selection of customers, the financing experience generally has been satisfactory to the bank.

When the dealer needs bank credit to maintain a proper farm equipment inventory, an arrangement can be made to borrow on a floor plan operation. A bank should be prepared to handle inventory financing if it expects to get business, direct or indirect, arising out of retail sales. Close relationship and cooperation between the bank and the dealer may result in additional credits to finance new construction, modernize store and service shop, or to enable the dealer to take advantage of cash discounts.

One difficulty in inventory financing is that many types of equipment have rather limited seasonal use. In such instances, individual plans must be worked out. It might be well to study carefully the inventory financing plans for dealers that have been used by different equipment manufacturers. In considering inventory financing, banks should ascertain the dealer's normal inventory turnover in a season, including a reasonable

sample stock of the equipment for sale.

On standard equipment which is not seasonal, such as tractors, wagons, and milking machines, the maturities on inventory loans usually are set up for four to six months with privilege of renewal. Many banks restrict the original advance to no more than 90 per cent of the dealer's laid-down cost. It would be good business to obtain a 10-per cent reduction from the dealer on each maturity date and to require that the obligation be liquidated in full by the second selling season.

## EVALUATING THE DEALER

Under inventory financing, the dealer must always pay off his bank obligation concurrent with or before the sale of the equipment. Unless a sale is for cash, the proceeds of the conditional sale contract, or other deferred payment instrument on the equipment sold, are applied to the floor plan obligation.

In doing business with equipment dealers, several factors must be kept in mind. The dealer must be a good moral risk; there must be reasonable evidence that he has the ability to manage his business on a sound basis; he should have adequate records to reveal the condition of his business; and he must have sufficient capital exclusive of the financing of inventory and retail sales to operate his business on a normal and safe basis.

## METHODS

Broadly speaking, there are at least three methods by which inventory financing has been handled satisfactorily: (1) trust receipts, (2) chattel mortgages, and (3) conditional sales contracts.

\*The terms "inventory financing," "floor plan financing," and "wholesale financing" are synonymous.

The statutes of some states do not recognize the validity of any of these methods. As pointed out previously, any bank contemplating wholesale financing should consult with its attorney and state association to ascertain correct legal procedure. The bank should contact the equipment manufacturers and make known its intention to operate in the equipment financing field. There should be a full discussion of the contemplated program so that the manufacturer will be in a position to lend its assistance in establishing a satisfactory bank-dealer relationship.

### TRUST RECEIPT

This instrument (Form No. 12 on pages 28, 29, 30) has been used extensively in equipment financing and, in many jurisdictions, has been accepted as a bona fide ownership of the merchandise as security for the credit advanced. A trust receipt is an instrument in writing evidencing a contract between a lender and a borrower. The lender agrees to release specified property, and the borrower agrees to hold the property in trust for the lender and to use it in a specified manner. The borrower is usually granted permission to sell the property, in which event he also agrees to account to the lender for the proceeds.

In a true trust receipt transaction, there are three parties: the *seller* (manufacturer), the *buyer* (dealer), and the *bank*. This instrument is ordinarily used when a dealer wishes to purchase merchandise from a manufacturer and wants the transaction financed. One essential requirement of a true trust receipt is that the bank derive its title, *not from the buyer, but from a third party, usually the manufacturer*, although this is not technically necessary in states having the Uniform Trust Receipts Act. Even in these states, care should be taken to see that the legal title actually passes to the bank in accordance with the state law. The bank then permits the dealer to have physical possession

of the goods without passing title to him; it retains such title as security.

*It is extremely important that the laws of the respective states be clearly understood and that proper financing forms are adopted.* A bank should not initiate any practice or adopt any forms without first consulting its attorney.

In some jurisdictions which do not have the Uniform Trust Receipts Act, this instrument has been variously construed as a chattel mortgage or conditional sale contract and is subject to filing or recording statutes applicable to such instruments. In other jurisdictions, statutes requiring a record of every instrument whereby an interest is retained and possession is delivered to another would seem broad enough to include trust receipts. In still other jurisdictions, it has been held that trust receipts are neither chattel mortgages nor conditional sale agreements and are valid without filing or recording. However, in the case of a true trust receipt, it has been held valid in general without recording—that is, the courts have held that it does not come within the statutory definition of a chattel mortgage or conditional sale contract, which instruments are ordinarily required to be placed on record in order to prevail against the dealer's creditors.

Under the Uniform Trust Receipts Act, filing is accomplished by sending a statement signed by the lender and the dealer to the secretary of the state or some other proper officer. This statement, in effect, says that the lender and the dealer are doing or expect to do business on the trust receipt plan with regard to a particular type of merchandise. (See Form No. 13 on page 31.) The security interest of the holder of a trust receipt (the lender) is valid as against the creditors of the dealer for 30 days after the delivery of the goods without the necessity of filing. At the end of the year, or before, the filing may be extended for another year by filing a similar statement.

Because of the joint effect of Section 9(2) (b) of the Uniform Trust Receipts Act and

TRUST RECEIPT

TO

(hereinafter called Entruster)

Received from Entruster each of the chattels described and listed on the reverse side hereof, which are hereby acknowledged to be complete with standard attachments and equipment, in consideration whereof the undersigned Trustee agrees to hold the same, together with all substituted parts, in trust for Entruster and return the same, on demand, in good order and unused, but with liberty to exhibit the same, and, having first obtained Entruster's written consent, to sell the same for the account of Entruster for cash and for not less than the minimum sale price listed on the reverse side hereof.

Trustee agrees that: upon sale of any of the said chattels, immediate notification thereof will be given Entruster; the proceeds of each and every sale will be kept in trust for the Entruster in a trust account separate and apart from Trustee's funds; the proceeds of each and every sale will be immediately delivered to Entruster; a separate record of each chattel delivered to Trustee under this and under any like receipt and of the proceeds thereof when sold will be kept and maintained at Trustee's cost and expense; to furnish to Entruster, upon demand, a true and complete report of all sales and other transactions connected with Trustee's business; to permit and allow Entruster, by its duly accredited representatives, to examine Trustee's books and records and the chattels in Trustee's possession under this or any other trust receipt at any time; the said chattels shall not be rented, mortgaged, pledged, encumbered, used for demonstration, operated or otherwise used by Trustee; no use shall be made of the said chattels prior to the sale thereof as hereinabove authorized; no sale thereof shall be made except as Trustee and as hereinabove authorized; the Entruster's title and/or security interest in said chattels is fully preserved until the payment of Trustee's note of even date herewith.

Should Trustee fail to pay said note, or in the event of the Trustee's bankruptcy, insolvency or receivership, or should the Entruster deem itself insecure, or should said chattels, or any one or more thereof, be in danger of misuse, loss, seizure or confiscation, Entruster is hereby authorized to enter upon any premises at any time, with or without legal process or notice, and repossess itself of said chattels or the proceeds thereof. Upon repossession for any cause, Entruster shall dispose of said property under and in pursuance of the Uniform Trust Receipts Act of the State of \_\_\_\_\_ or Entruster, at its option, may declare the Trustee's interest in said chattels forfeited and Trustee's obligation hereunder and under said promissory note terminated and cancelled, and may retain all sums paid by Trustee on said note and hereunder.

This trust receipt and such note or notes as is or are executed and delivered simultaneously herewith shall be fully negotiable and assignable. Each is a separate instrument apart from the other and the negotiation or assignment of either or both shall in no wise affect or terminate the trust. In the event the factory shall reduce the wholesale price of any such chattel, Trustee shall pay to Entruster on the date of such reduction an amount equal to such reduction. If Entruster shall find it necessary to protect or enforce its rights hereunder by legal proceedings or otherwise, Trustee agrees to pay promptly all taxes, costs, charges, expenses and disbursements, including a reasonable attorney's fee, if permitted by law. No modification of or addition to the terms hereof shall be binding upon Entruster unless written hereupon and signed by an officer thereof. This trust receipt, a copy of which Trustee has retained, is drawn in conformity with the Uniform Trust Receipts Act of the State of \_\_\_\_\_ approved \_\_\_\_\_ and all provisions of said Act are fully a part hereof as if set out herein at length.

(CONTINUED ON REVERSE SIDE)

**TRUST RECEIPT (Continued from reverse side)**

| MAKE  | Type of Equipment | Model Number | Cabinet Serial Number | Motor Serial Number | Invoice Price | Minimum Sale Price |
|-------|-------------------|--------------|-----------------------|---------------------|---------------|--------------------|
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
|       |                   |              |                       |                     | \$            | \$                 |
| Total |                   |              |                       |                     | \$            | \$                 |

..... 19....., Trustee  
 (Town) (State) (Date) (Dealer)

..... By.....  
 (Witness) (Individual, Partner or Officer) (Title)

**PROMISSORY NOTE**

\$....., 194.....  
 ..... after date, I (we) promise to pay to the order of ..... at its  
 ..... Branch in ..... Dollars,  
 together with a reasonable attorney's fee (15% if permitted by law) should this note be placed in the hands of an attorney for collection.

The Makers, Endorsers, and all parties to this note hereby waive presentation and demand, notice of demand, protest and notice of protest and non-payment thereof.

Value Received, with .....  
 Interest at 6%

Due ..... Address .....

**BILL OF SALE**

For value received the Undersigned has sold, assigned, transferred and delivered to  
the following described chattels, together with all attachments thereto and equipment thereof:

| MAKE  | Type of Equipment | Model Number | Cabinet Serial Number | Motor Serial Number | Invoice Price |  | Minimum Sale Price |  |
|-------|-------------------|--------------|-----------------------|---------------------|---------------|--|--------------------|--|
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
|       |                   |              |                       |                     | \$            |  | \$                 |  |
| Total |                   |              |                       |                     | \$            |  | \$                 |  |

To have and to hold the same as the absolute property of \_\_\_\_\_ its successors and assigns. The Undersigned warrants that it is the true and lawful owner of said chattels; that they and each of them are free and clear of all encumbrances; that it has lawful right to sell the same; and that it will warrant and defend the title thereof against all claims and demands of all persons.

IN WITNESS WHEREOF, the Undersigned has hereunto set hand and seal this \_\_\_\_\_ day of \_\_\_\_\_ 194

.....(L.S.)  
(Seller)

By.....(Individual, Partner or Officer) (Title)



**Form No. 13 — Statement of Trust Receipt Financing**

| <b>STATEMENT OF TRUST RECEIPT FINANCING</b>  |  |
|--|--|
| The entruster,<br>of business within this state is at.....Street,  | whose chief place<br>of business is at.....Street, |
| is or expects to be engaged in financing under trust receipt<br>transactions the acquisition by the trustee..... |  |
| .....(Dealer), whose chief place of business<br>within this state is at.....                                     |  |
| of goods of the following description.   |  |
| (Entruster)  |  |
| By.....  | Vice President                                     |
| Dated.....19.....  | Dealer (Trustee)                                   |
| By.....  | Title  |

SIZE — 8½" x 11"

Section 60a of the Bankruptcy Act relating to voidable preferences, it is mandatory that, in order to avoid the transactions being set aside if the dealer becomes bankrupt, banks file notices of trust-receipts financing with no undue delay. In this connection, a bank cannot wait for the 30-day period specified in the Uniform Act.

Likewise, if a state does not have the Uniform Act, but does have provision for filing trust receipts, filing should be promptly made.

**CHATTEL MORTGAGE**

When an equipment dealer requires financing assistance towards his purchase, some banks secure such advances by a chattel mortgage on the equipment. In the use of a chattel mortgage (Form No. 14 on pages 32, 33), there is always the possibility of double financing, and careful attention must be given to verification of the dealer's title and possession of the merchandise before the credit is consummated, and to absolute determination that equipment is free of all liens and encumbrances. When the bank is satisfied that, in exchange for the credit, it has a first lien on the equipment, the credit transaction is completed. The chattel mortgage should be recorded by the bank as protection against the creditors of the dealer and also as

protection against the purchasers. It is also advisable to obtain a manufacturer's invoice to determine actual cost to the dealer so that any extension of credit will be held within a given percentage of the dealer's cost.

**CONDITIONAL SALE CONTRACT**

In a few states, it may be deemed advisable to use a conditional sale contract instead of the previously described instruments. This type of transaction takes the place of an ordinary sale except that the title to the equipment does not pass to the buyer until a particular event takes place, such as the payment of a specified part or the whole of the purchase price. The conditional sale differs from a chattel mortgage in that the legal title is retained by the seller as security, whereas a chattel mortgage is given by the legal owner of the chattel.

The participation of a bank in a conditional sale transaction will ordinarily arise only when the bank purchases the seller's interest in a contract of conditional sale, or takes an assignment of the seller's interest as collateral for a loan to the seller. Before purchasing or taking an assignment of the vendor's interest, the bank should determine the validity and effectiveness of the vendor's contract. The bank should also ascertain whether the vendor has complied with the statutory requirements as to filing. If the vendor is not the manufacturer of the goods sold, the bank should satisfy itself of the absence of superior rights in the merchandise.

**CHECKING OF EQUIPMENT**

Checking of equipment is a very important part of inventory financing and should not be done haphazardly. At least once each month (or more frequently if desired) at irregular intervals, a representative of the bank should inspect and satisfy himself that the dealers have on hand the items described in the collateral papers. The equipment may be on display in the retail establishment or stored in a warehouse. In any event, the check should

Form No. 14 — Chattel Mortgage (in triplicate)

FLOOR PLAN CHATTEL MORTGAGE

This Mortgage, Made by and between \_\_\_\_\_ of the \_\_\_\_\_ of \_\_\_\_\_, County of \_\_\_\_\_ State of \_\_\_\_\_, hereinafter called "Mortgagor," and

hereinafter called "Mortgagee."

Witnesseth, THAT said Mortgagor, as security for payment of the indebtedness hereinafter set forth, does hereby grant, sell, convey, mortgage, and confirm unto the said Mortgagee the following described personal property (which term shall include all substituted and additional parts, equipment, appliances and accessories now or hereafter placed upon it, whether because of necessity, repairs, or otherwise), to-wit:

| Make | Type of Unit | Model | Motor No. | Serial No. | Release Amount Per Unit |
|------|--------------|-------|-----------|------------|-------------------------|
|      |              |       |           |            | \$                      |

TOTAL \$ \_\_\_\_\_

The situs of the above property is hereby fixed as \_\_\_\_\_ TO HAVE AND TO HOLD THE SAME unto the said Mortgagee forever. The Mortgagor hereby covenants and agrees with the Mortgagee (a) that the Mortgagor is the owner of and is lawfully possessed of said personal property, and has good and lawful right to sell, mortgage, or convey the same as aforesaid; (b) that the same is free from all encumbrances; (c) that the Mortgagor will warrant and defend the same against the lawful claims and demands of all persons; (d) that Mortgagor will pay and discharge promptly when due all bills and/or claims arising for the repair, improvement, servicing, or storage of said personal property; (e) that Mortgagor will at all times keep said personal property in good repair and will not permit waste to occur; (f) that Mortgagor will not, without the prior written consent of the Mortgagee, sell, mortgage or otherwise dispose of or transfer said personal property or remove or cause or permit its removal outside of the state of its situs as fixed hereby; (g) that Mortgagor will prevent and avoid any attachment, garnishment or seizure of said personal property by any person other than the Mortgagee; (h) that Mortgagor will inform the Mortgagee immediately upon request at any time as to the location of the property and permit Mortgagee to examine it at any time; (i) that Mortgagor will until the indebtedness secured hereby shall have been paid in full keep the above described property insured against loss on account of fire and such other hazards as the holder hereof may direct. All such insurance shall be written in companies, through agencies and with policies which are satisfactory to the holder hereof and shall be payable to the holder as its interest may appear. As respects so much of the personal property above described, as consists of goods or merchandise for resale, Mortgagor agrees not to use, cause, or permit the use of said personal property for demonstration purposes or otherwise. In the event Mortgagor fails, neglects or refuses to perform any of the foregoing covenants and agreements, Mortgagee may take such action and advance such sums as in its discretion it deems necessary, or advisable to perform or obtain performance thereof, and the amount of all expenses incurred or paid by the Mortgagee in so doing shall become part of the indebtedness secured hereby and shall bear interest at the highest rate permitted by law from the date of such payment, which indebtedness Mortgagor hereby promises and agrees to pay on demand.

Provided, Nevertheless, That if the Mortgagor shall pay or cause to be paid to the Mortgagee the indebtedness in the amount of \_\_\_\_\_

\_\_\_\_\_ Dollars (\$ \_\_\_\_\_) with interest thereon, due \_\_\_\_\_ evidenced by a promissory note bearing even date herewith, signed by the Mortgagor and payable to the Mortgagee, or order, or any renewal or extension thereof, and any other indebtedness now or hereafter owing by Mortgagor to Mortgagee, then and from thenceforth these presents and everything herein contained shall cease and be null and void.

At any time when the Mortgagor is not in default in the payment of any sums secured hereby: (1) upon request by Mortgagor and payment to Mortgagee of the amount herein set forth as the "Release Amount Per Unit," the Mortgagee will release from the lien of this mortgage any one or more of the items of personal property to which such release amount relates; (2) any personal property subject to the lien hereof may be sold by Mortgagor in the normal course of retail trade, if Mortgagor is a dealer, for not less than the release amount thereof provided that Mortgagor shall immediately pay to Mortgagee for application upon the indebtedness secured hereby the entire proceeds of such sale, and until such payment, shall hold such proceeds in trust for Mortgagee and separate from Mortgagor's own funds and Mortgagor covenants and agrees to so hold and pay over such proceeds. Mortgagor hereby covenants and agrees that in case default shall be made in the due and punctual performance of any covenants and agreements with the terms of any promissory note evidencing the same, or in case default shall be made in the due and punctual performance of any covenants and agreements of the Mortgagor herein contained, then, and in any or either of the aforesaid cases, all of said indebtedness and the interest thereon shall, at the option of the Mortgagee, without notice of said option to anyone, become at once due and payable, anything in any note or in this Mortgage to the contrary notwithstanding; and the Mortgagee, in addition to all other rights or remedies now or hereafter provided for by law, shall thereupon have the right to take immediate and exclusive possession of the personal property, and every part thereof, and for that purpose may pursue the same or any part thereof, wherever it may be found, and also may enter any of the premises of the said Mortgagor with or without force or process of law, wherever the said personal property may be, or be supposed to be, and search for the same and, if found, to take possession of, and remove and sell, and dispose of said personal property, or any part thereof, at public auction, to the highest bidder, with such notice and in the manner provided by law, either at the place of taking possession or in the county wherein the Mortgagee has its principal place of business and furthermore the Mortgagor hereby authorizes the sheriff or other authorized public officer in the county where the said property or any part thereof may be located to take possession of the mortgaged property or any part thereof, to execute the power of sale herein granted, and to perform any and all other powers herein granted to the Mortgagee. At any such sale at public auction the Mortgagee may become the purchaser, and out of the money arising from such sale, retain all attorney's fees, costs and charges for pursuing, searching for, taking, removing, keeping, storing, repairing, advertising and selling such personal property and all liens thereon, together with the amount due and unpaid upon said indebtedness and interest, rendering the overplus of money arising from such sale, if any there shall be, unto said Mortgagor, which sale so made shall be a perpetual bar both in law and equity against the Mortgagor.

As herein used, the terms "Mortgagor" and "Mortgagee" shall include their respective heirs, administrators, executors, successors or assigns. Words used in this instrument in the singular number include the plural and the plural includes the singular. The undersigned Mortgagor hereby acknowledges the receipt from the Mortgagee of a true, correct and complete copy or duplicate of this mortgage.

In Witness Whereof, the Mortgagor has executed this Mortgage this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_

Signed, Sealed and Delivered in Presence of:

[Mortgagor]

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_, ss.

COUNTY OF \_\_\_\_\_

On this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, before me,

a notary public within and for said County and State, personally appeared \_\_\_\_\_ to me known (or proved to me on the oath of \_\_\_\_\_) to be the person described in, who executed, and whose name is subscribed to the within mortgage and acknowledged to me that he \_\_\_\_\_ executed the same as his, her or their free act and deed.

Notary Public

In and for \_\_\_\_\_ County and State of \_\_\_\_\_

My commission expires \_\_\_\_\_

**FLOOR PLAN CHATTEL MORTGAGE**

This Mortgage, Made by and between \_\_\_\_\_  
of the \_\_\_\_\_ of \_\_\_\_\_, County of \_\_\_\_\_  
State of \_\_\_\_\_, hereinafter called "Mortgagor," and

hereinafter called "Mortgagee."

Witnesseth, THAT said Mortgagor, as security for payment of the indebtedness hereinafter set forth, does hereby grant, sell, convey, mortgage, and confirm unto the said Mortgagee the following described personal property (which term shall include all substituted and additional parts, equipment, appliances and accessories now or hereafter placed upon it, whether because of necessity, repairs, or otherwise), to-wit:

| Make | Type of Unit | Model | Motor No. | Serial No. | Release Amount<br>Per Unit |
|------|--------------|-------|-----------|------------|----------------------------|
|      |              |       |           |            |                            |

\$

**CORPORATE ACKNOWLEDGMENT**

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ } ss.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_, before me a Notary Public within and for said County and State, appeared \_\_\_\_\_ and \_\_\_\_\_, to me personally known, who being by me duly sworn, did say that they are the \_\_\_\_\_ President and \_\_\_\_\_ Secretary, respectively, of

\_\_\_\_\_ a corporation located at \_\_\_\_\_; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors; and said \_\_\_\_\_ and \_\_\_\_\_ acknowledge said instrument to be the free act and deed of said corporation.

Notary Public, \_\_\_\_\_ County \_\_\_\_\_

My commission expires \_\_\_\_\_

[Notary's Signature]

**CORPORATE ACKNOWLEDGMENT**

[For us in Montana, North Dakota and South Dakota]

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ } ss.

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_, before me, a Notary Public within and for said county, personally appeared \_\_\_\_\_ and \_\_\_\_\_ known to me [or proved to me on the oath of \_\_\_\_\_] to be the \_\_\_\_\_ President and \_\_\_\_\_ Secretary [or \_\_\_\_\_], respectively, of the corporation

\_\_\_\_\_ [Official Capacity] that is described in and that executed the within mortgage [or who executed the within instrument on behalf of the corporation therein named], and acknowledged to me that such corporation executed the same.

Notary Public \_\_\_\_\_ County \_\_\_\_\_

My commission expires \_\_\_\_\_

[Notary's Signature]

SIZE — 8½" x 11"

be physical. When checking inventory, a record should be maintained and a copy given to the checker. (See Form No. 15 on page 35.) Alternating the checkers to safeguard against negligence and collusion is advisable. If the equipment has a serial number, it may also be advisable to supply the checker with only part of it and require him to fill in the balance of the number when he makes the check.

The frequency of checking will depend on the relationship with the dealer, but at no time should a bank condone slipshod dealer practice on checking policy. Reasonably short intervals of checking have been found to afford a maximum amount of protection. At times the equipment may be out on demonstration with prospective purchasers, often many miles from the dealer's place of business. If this amounts to any significant portion of the floor plan loan or if there is some suspicion regarding its existence, physical verification is recommended without fail.

#### **SALE OF EQUIPMENT**

When merchandise on a wholesale obligation is sold, the dealer must immediately settle with the bank for the amount owing on the piece of equipment.

The retail sale out of which a deferred obligation arises should be checked by the bank against the wholesale obligation outstanding for the dealer. This can be easily accomplished when the purchaser completes the request for credit by checking the invoice or sales memorandum to obtain full description of the equipment. When such equipment appears on a retail contract, the dealer should be notified and his check requested to pay for that piece. The proceeds of the retail transaction should be withheld until settlement is effected.

#### **INSURANCE**

The bank should determine whether the title passes to the dealer when the equipment leaves the factory. If this is the case,

then the dealer and the bank should arrange for insurance protection. The bank should require that the dealer carry proper and ample insurance on all equipment financed under a wholesale plan. The insurance should include an "open end" loss-payable clause for protection to the bank in event of unusual circumstances. The bank should hold the original policy and not just a memorandum.

#### **INTERBANK RELATIONS IN FARM EQUIPMENT FINANCING**

The agricultural mechanization program of recent years has created for many country banks a definite need for help in handling farm machinery sales contracts. Two situations may require city bank participation. If the country bank is carrying dealer paper on a repurchase basis, its legal loan limitation may not be sufficient to completely service the dealers' needs and it must find an outlet for contracts in excess of the amount it can lend to any single customer.

The total loan requirements of all its farm equipment dealer customers may exceed the amount the bank considers it should invest in one classification of loans, even though the bank may be operating under a non-recourse-reserve program. When this self-imposed limitation is reached, the country bank needs assistance from city banks if it is to offer continuous and complete service to dealers. The city bank may purchase a participation in all of one dealer's paper or the country bank may sell contracts outright to the city bank after reaching its limit. Under this latter plan, the city bank establishes a line of credit for dealers' notes and the local bank will submit contracts and supporting papers to the city bank as received.

City banks should have their forms used in connection with their farm implement financing program in cooperation with correspondent banks carefully prepared by legal counsel. Statutory requirements should be fully considered and the forms should be drawn to cover all possible contingencies.

City banks are not interested in competing

Branch (No. \_\_\_\_\_)

### INSPECTION REPORT AUTOMOBILE AND EQUIPMENT FLOORING

Dealer's name \_\_\_\_\_ Address \_\_\_\_\_

Date of this inspection \_\_\_\_\_ Date of previous inspection \_\_\_\_\_

| DATE FLOORED | MAKE | ARTICLE OR TYPE OF BODY | MOTOR NO. (IF AUTOMOBILE) | SERIAL NO. | SPEEDOMETER READING | AMOUNT OWING | REMARKS (NOTE ANY DEFECTS) |
|--------------|------|-------------------------|---------------------------|------------|---------------------|--------------|----------------------------|
|              |      |                         |                           |            |                     |              |                            |
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|              |      |                         |                           |            |                     |              |                            |

| RECAPITULATION OF THIS INSPECTION                            | No. of Units |
|--|--------------|
| Autos or equipment on hand.....                              | _____        |
| Autos or equipment sold and paid.....                        | _____        |
| Autos or equipment sold and not paid.....                    | _____        |
| Autos or equipment missing (explanation above under Remarks) | _____        |
| Total autos or equipment listed on this inspection           | _____        |

Physical inspection of the above automobiles or equipment has been made.

The motor and/or serial numbers were checked and are listed above.

The merchandise was in good condition and was on dealer's floor at the above address except as stated in REMARKS.

If any of the merchandise is reported sold, indicate whether our balance has been paid. If not, give complete details as to why not paid. Where automobile is covered, the branch should fill in the motor number only; the person checking should compare this number with the motor number on the car and fill in the serial number (if any) shown on the car.

Inspected by.....

with local banks, but will purchase retail paper in amounts over and above what the country banks wish to take. One city bank's plan in cooperation with its correspondent banks is as follows: The farm equipment dealer signs a dealer's contract with the city bank and thereby avails himself of the city bank's financing facilities. The retail paper is taken to the correspondent bank located near the dealer and the following documents are submitted: order form, conditional sale contract with note attached, purchaser's confidential statement, insurance policy or binder with loss-payable clause made to the city bank, and a calculation sheet.

The local bank then forwards these papers to the city bank with a letter giving an opinion of the credit standing of the buyer. When the contract submitted is approved, the city bank deducts the necessary charges

(including amount to be deposited in dealer's reserve) and remits the net proceeds to the dealer through the local bank. When payments mature, the city bank notifies its correspondent in ample time so that the local bank may notify the buyer who then makes his payment locally. Upon receipt of payment, the local bank transmits the amount received to the city bank and it is credited to the purchaser's account.

There is no charge to the dealer or to his customer for the service of the local bank in connection with the handling of retail paper. The correspondent bank is compensated by the city bank. Through the use of such a finance program, the dealer can offer a financing service that is reasonable in cost and has appeal to customers since all transactions, including payments and the placing of insurance, takes place locally.

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## *Conclusion*

Other things being equal, most bankers agree that a loan made for productive purposes and payable out of earnings is the most desirable type of credit instrument to have in the notecase. Farm equipment financing falls in this category. Paper to finance the purchase of farm equipment should be based on a sale made for productive purposes and one that can be retired out of earnings made possible through the use of the equipment. This principle was used years ago by manufacturers. The factory developed a credit plan of its own to move its product because banks were not aware of the potential. The theory as to its intrinsic soundness has been proved.

The increased interest of commercial banks in financing farm equipment has made it unnecessary for this credit to be handled by the manufacturer. Local banks are financing the purchase of farm equipment, and practically all manufacturers have arranged their programs to include bank financing. The farm equipment dealer benefits by being able to spend more time on merchandising and less on the credit aspects, and the bank obtains quality paper at a good rate. The community benefits by retaining the

business within its own area. Farmers feel more secure in financing with the local bank than in dealing with some distant institution.

Banks engaging in farm equipment financing must be prepared to render a complete service, not only to finance retail sales, but also to finance a reasonable inventory for the dealer. A complete service also involves an understanding of the farmer who buys the equipment as well as a thorough knowledge of the ability and integrity of the dealer. When a dealer needs any substantial amount of credit, it is only natural for him to place his retail contracts with the source that enables him to carry part of his stock of merchandise.

Insofar as the retail sale of farm equipment is concerned, this manual has treated both the direct and the indirect methods of financing. The direct method, or the direct loan of money to the farmer for the cash purchase of a piece of farm equipment, differs very little from the ordinary credit extension in technique. The indirect method may create more volume, but more technical attention is required to prevent losses.

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American Bankers Association

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AUTHOR

Farm Equipment Financing By Banks

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