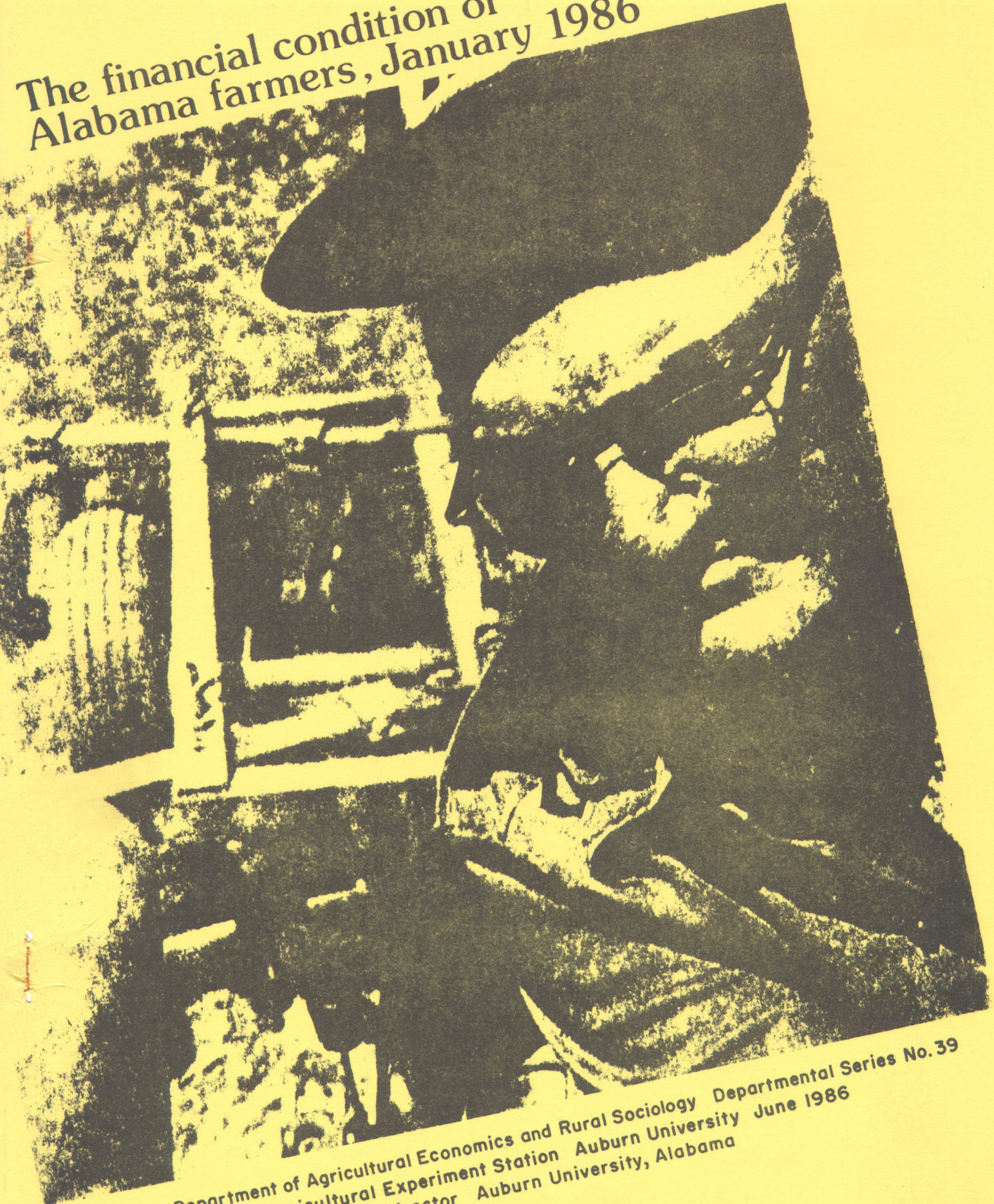


# The financial condition of Alabama farmers, January 1986



Department of Agricultural Economics and Rural Sociology Departmental Series No. 39  
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David H. Teem, Acting Director Auburn University, Alabama





THE FINANCIAL CONDITION OF ALABAMA FARMERS, JANUARY 1986

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Information contained herein is available to all without regard to race, color, sex, or national origin.

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## INTRODUCTION

The deteriorating financial condition of farmers across the nation has received much public attention in recent years. There has been considerable media exposure of this topic through newspapers, magazines, radio, TV, and even the movie screen. Financial characteristics of the farming sector continue to undergo significant changes. Depressed market and financial conditions that have persisted since the late 1970's have placed many farmers under tremendous financial and family stress. Interest costs, in particular, have taken progressively larger portions of the farmers' income. The cost-price squeeze and declining land values have increased the total debt burden and forced some farmers out of business. Other farmers are being forced to address the ramifications of potential economic failure unless they gain major financial concessions or make significant changes in their farming operations.

At the same time, there are farmers who continue to maintain profitable farming operations. However, many do not seem to have the enthusiasm that existed during the early and mid-1970's when markets were booming and the agricultural economy looked quite promising.

Confusion seems to exist as to the true financial condition of Alabama farmers. This survey was conducted to provide readers a more objective evaluation of the financial condition of farmers in the State.

## PROCEDURE

Data were collected during December 1985 and January 1986 using a mail survey. The survey involved a random systematic sampling of 1,500 farmers across the State. The purpose of the survey was to determine the overall financial condition of Alabama farmers. Several items were explored and analyzed, including asset values, levels of debt, loan payment delinquencies, interest expense, and other selected key financial indicators. The questionnaire used is presented in Appendix A.

The 54 percent response to the initial mail and follow-up phone surveys was excellent, providing 810 usable questionnaires. The sample of farmers represented approximately 25,000 farms in Alabama having gross agricultural receipts of \$5,000 or greater, and/or exceeding 30 acres in size. The sample was not designed to represent the following types of farming operations: those specializing in timber, greenhouses, nurseries, or turf farms; operators of small tracts who contract with poultry integrators and produce no (or very little) other agricultural commodities; and those farms that were already out of business by the end of 1985.

It is pointed out that survey responses reflected the financial condition of farmers at a fairly specific time (December 1985 - January 1986). Some respondents indicated they had recently paid off or refinanced their operating loans; hence the



total debt picture might be different from that for other times of the year.

Data are presented in summary form so that no one individual respondent might be identified. Summaries are reported by agricultural production area, Figure 1., 1985 gross sales, acres operated, net cash income or loss, major enterprises, land purchases within the past 10 years, and plans to continue farming.

#### SURVEY RESULTS

Significance of Agricultural Debt. There is a common perception today that those who farm have a large debt burden. Based on the survey responses, however, 45.1 percent of the farmers reported having no debt. It is quite likely that some of these farmers may have, in fact, incurred debt during the past year(s), but their farms were debt-free at the time of the survey, figure 2.

The remaining 54.9 percent of the farmers reported varying degrees of farm indebtedness. The debt-to asset ratio (D/A) is a commonly used measure to gauge the extent of the firm's indebtedness or the general overall financial condition of farmers. This ratio reflects the portion of a farmer's value (or assets) that is necessary to cover existing debt. A debt-to-asset ratio of 40 percent or greater suggests that a farmer may be experiencing financial difficulties. This particular threshold, however, should not be used exclusively of other

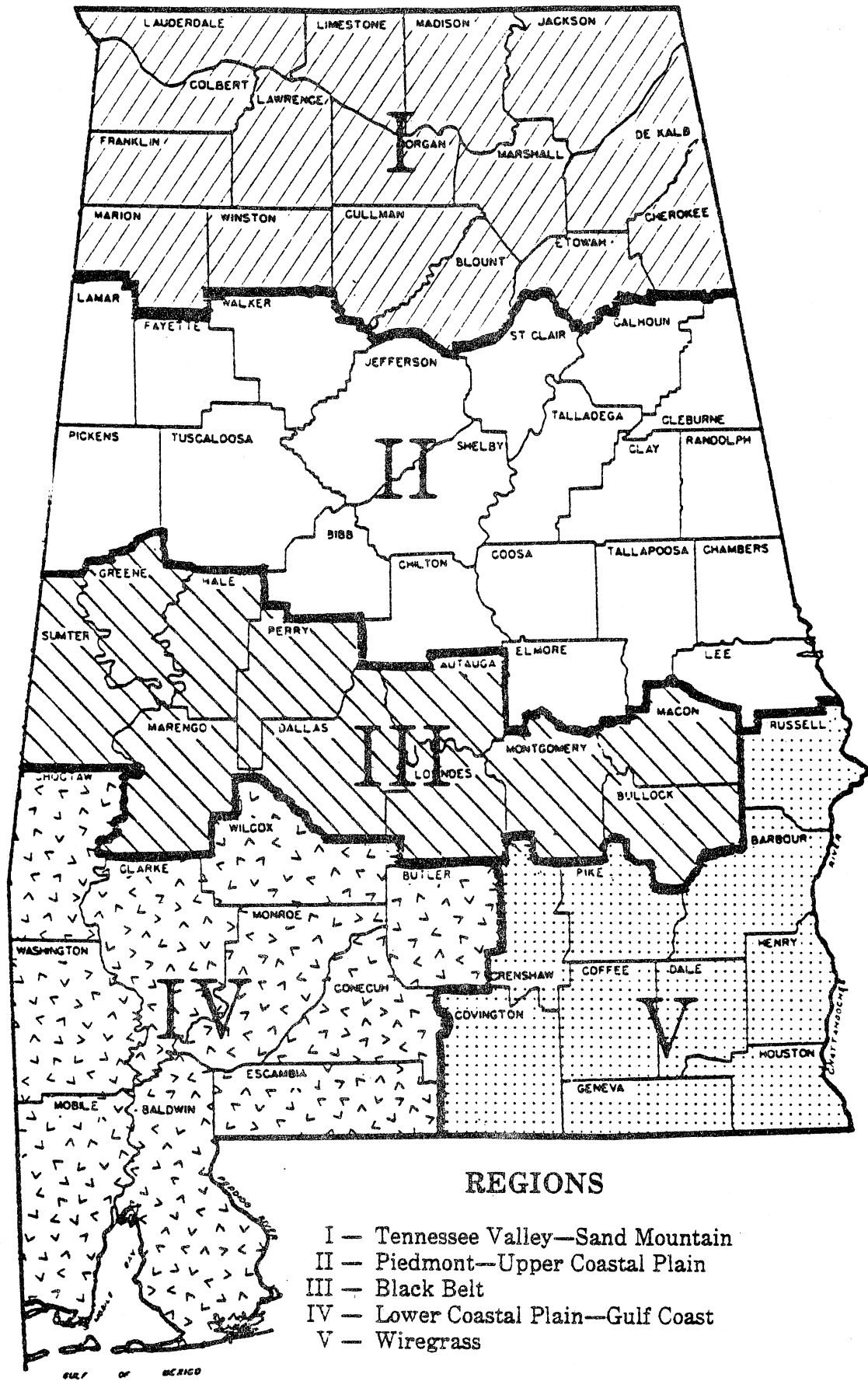


Fig. 1. Alabama Agricultural Production Regions

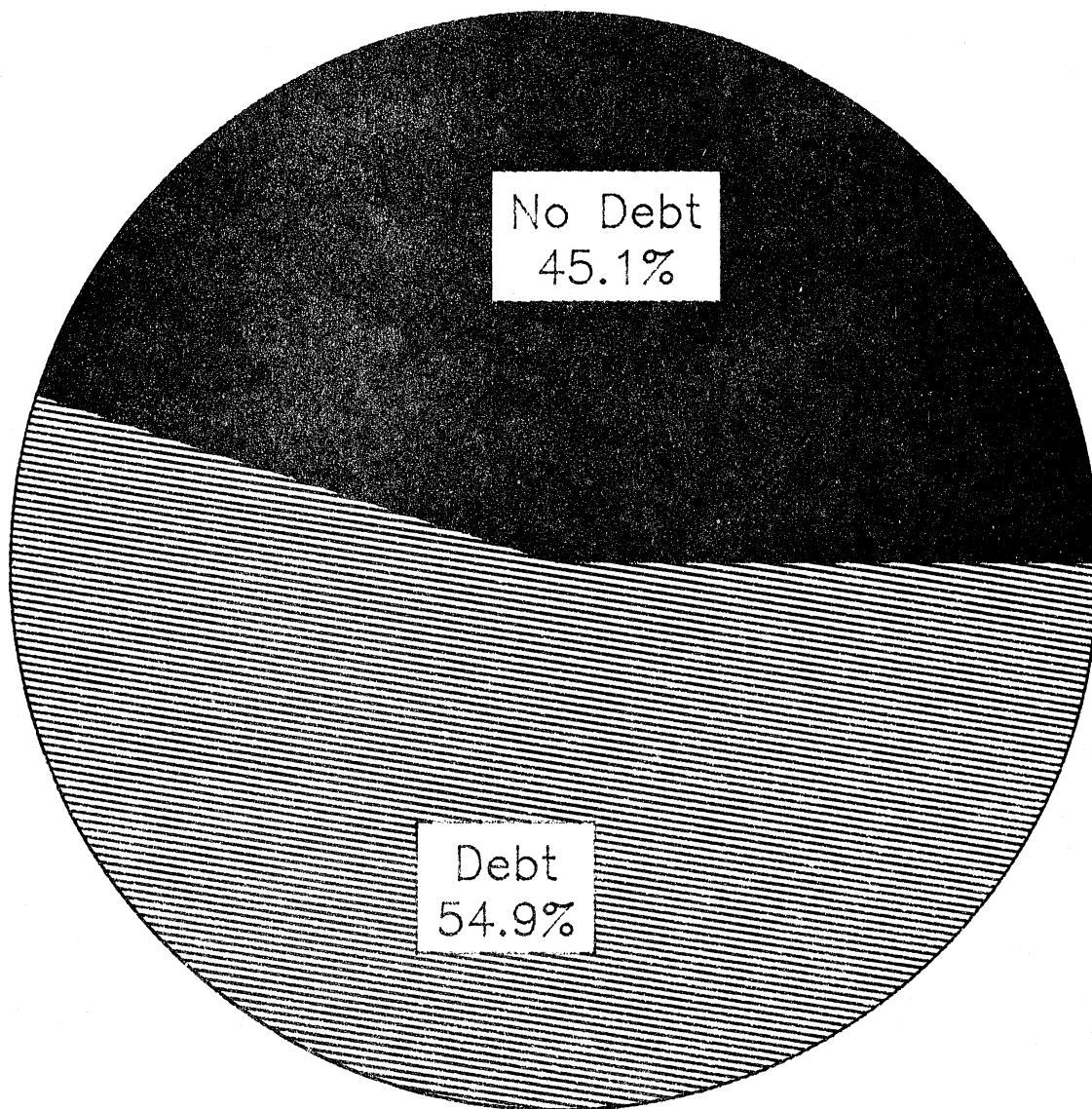


Fig. 2. Portion of Survey Respondents With and Without Debt, Alabama, January, 1986.

financial ratios and profitability analyses in gauging the farmer's financial condition.

The average D/A ratio for Alabama farmers who responded to the survey was 24.4 percent, slightly lower than the 29.4 percent reported for nine Midwest states.<sup>1</sup> However, of those farmers having debt, about half (47.8 percent) had D/A ratios of 40 percent or greater, figure 3. This represents 26.3 percent of all survey respondents, and approximately 6,500 Alabama farmers. Many of these farmers are experiencing cash flow difficulties. A debt-to-asset ratio in excess of 70 percent usually indicates that a farmer may soon be facing insolvency: 13.1 percent of the indebted farms in this survey fell in the 70+ percent category.

The general conclusion, based solely on the D/A ratios from this survey, was that about half of the farmers have debts, and approximately half of those who are in debt are potentially facing financial difficulties.

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<sup>1</sup>The nine states included Illinois, Iowa, Kansas, Michigan, Missouri, Nebraska, North Dakota, Ohio, and Wisconsin. The D/A ratio ranged from 21.2% for Ohio to 36.9% for Iowa.



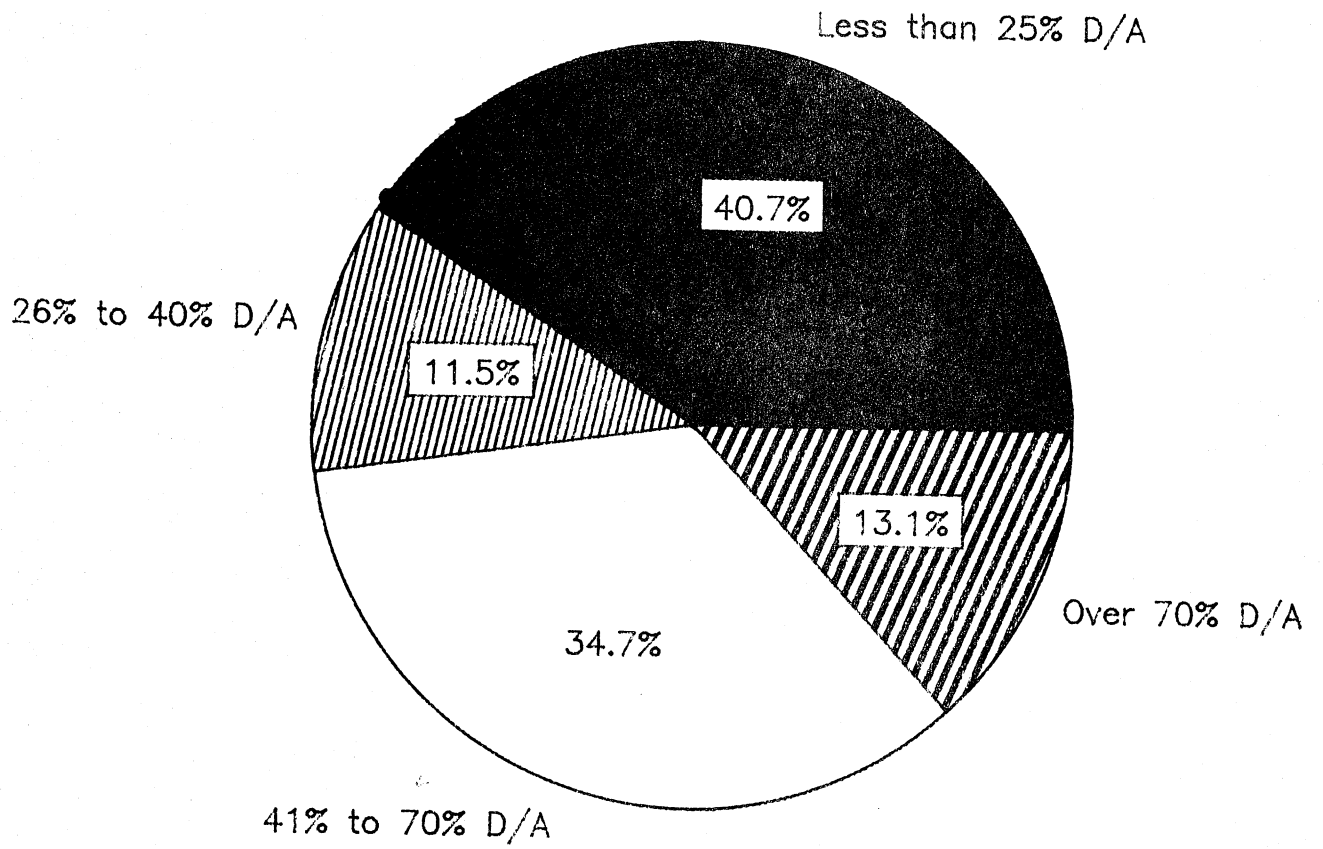


Fig. 3. Debt to Asset Ratios (D/A) for Alabama Farmers With Debt, January, 1986.

## Selected Characteristics

### Agricultural Production Areas

Tables 1 through 7 contain data which describe the general size, enterprise, and location characteristics of the respondent's farms. The portion of farmers with debt ranged from 49.8 percent in the Piedmont - Upper Coastal Plains area to 59.5 percent in the Limestone Valley - Sand Mountain area, table 1.

Among those farmers who reported debt, the average debt load per farm was \$138,037, with Black Belt farmers reporting the largest average total debt, \$169,689. Wiregrass farmers reported the lowest average total debt, \$123,206.

Average value of assets exceeded \$300,000 for the total sample of farmers and approached an average of \$400,000 for farmers who reported debt. Of the farmers having debt, those in the Lower Coastal Plains - Gulf Coast area reported the highest asset value, \$558,114. Black Belt farmers had the next highest value, with \$494,432. Asset values were lowest in the Wiregrass Area, \$318,397, and the Piedmont - Upper Coastal Plains area, \$310,406.

The differences in asset values among the areas can be attributed primarily to differences in size of farms. Average farm size among indebted farmers was 859 acres in the Black Belt and 550 acres in the Lower Coastal Plains - Gulf Coast area. The average size was only 258 acres in the Piedmont - Upper Coastal Plains area and 342 acres in the Wiregrass.

Table 1. Selected Characteristics of Respondents to Agricultural Finance Survey Classified by Alabama Agricultural Production Areas, January, 1986

Production area	Portion with debt Percent	Selected characteristics					
		Average total debt Dollars	Average value of assets Dollars	Debt-to-asset ratio Percent	Average acres operated Acres	Off-farm income av. amt. Dollars	Average ag. interest paid Dollars
----- All Respondents -----							
Limestone Valley-Sand Mountain	59.5	82,602	330,284	25.0	297	12,204	8,763
Piedmont-Upper Coastal	49.8	66,443	261,577	25.4	291	9,930	5,622
Black Belt	54.5	92,558	373,924	24.8	612	11,429	9,736
Lower Coastal-Gulf Coast	55.0	70,259	382,014	18.4	416	13,288	6,909
Wiregrass	53.6	66,061	269,979	24.5	339	10,125	7,008
State	54.9	75,772	310,135	24.4	352	11,189	7,610
----- Respondents with Debt -----							
Limestone Valley-Sand Mountain	100.0	138,762	425,880	32.6	373	14,090	14,569
Piedmont-Upper Coastal	100.0	133,482	310,406	43.0	258	16,585	11,168
Black Belt	100.0	169,689	494,432	34.3	859	17,223	16,702
Lower Coastal-Gulf Coast	100.0	127,848	558,114	22.9	550	14,843	12,567
Wiregrass	100.0	123,206	318,397	38.7	342	14,668	12,713
State	100.0	138,037	396,556	34.8	415	15,256	13,561

A comparison of average total debt and average value of assets gives the average D/A ratio for each production area. As mentioned earlier, the average D/A ratio for all farmers was 24.4 percent, but for farmers who reported debt it was 34.8 percent. Debt-to-asset ratios were highest in the Piedmont - Upper Coastal Plains, 43.0 percent, and Wiregrass, 38.7 percent. These high values were due in large part to lower values of assets.

Off-farm income was considerably higher among those farmers who had debt than for the entire group. The average interest rate paid by all borrowers, determined by dividing average interest paid by average total debt, was approximately 10 percent.

#### Gross Sales.

Both debts and assets tended to increase with the level of gross sales, table 2. Likewise the D/A ratio generally tended to increase with the level of sales with the exception of the \$100,001-250,000 sales category. This general trend suggests that farmers with larger sales volume have the larger debt problems. The data also indicate that the farmers in these higher sales categories were relying less on off-farm income; the exception is the \$250,001-500,000 sales category.

Gross sales and size of farm tended to increase together. Farms reporting sales of \$10,000 or less averaged 190 acres in size, while those farms reporting sales of over \$500,000 averaged 2,289 acres in size, table 2.



Table 2. Selected Characteristics of Alabama Respondents to Agricultural Finance Survey Classified by 1985 Gross Sales

1985 gross sales	Portion with debt	Selected characteristics					
		Average total debt	Average value of assets	Debt-to-asset ratio	Average acres operated	Off-farm income av. amt.	Average ag. interest paid
Dollars	Percent	- - - Dollars - - -		Percent	Acres	- - - Dollars - - -	
- - - - - All Respondents - - - - -							
10,000 or less	34.5	11,995	167,273	7.2	208	12,540	1,450
10,001-40,000	40.2	27,601	226,794	12.2	293	10,386	3,195
40,001-100,000	81.4	121,402	361,755	33.6	355	12,512	10,174
100,001-250,000	94.2	237,764	743,937	32.0	677	5,095	26,375
250,001-500,000	82.5	277,854	680,156	40.9	1,238	15,837	26,930
Over 500,000	100.0	555,044	1,207,822	46.0	2,289	8,778	55,438
- - - - - Respondents with Debt - - - - -							
10,000 or less	100.0	34,807	173,406	20.1	190	20,283	4,024
10,001-40,000	100.0	68,607	240,303	28.6	303	20,408	7,798
40,001-100,000	100.0	149,207	376,075	39.7	363	14,655	12,033
100,001-250,000	100.0	252,375	753,729	33.5	653	4,905	27,857
250,001-500,000	100.0	336,793	706,016	47.7	1,147	18,894	31,357
Over 500,000	100.0	555,044	1,207,822	46.0	2,289	8,778	55,438

### Acres Operated.

The D/A ratio was relatively low for those farms under 100 acres, table 3. The ratios increased for the 100-179 acre and 180-259 acre categories, declined for the 260-499 acre category, and increased again for those farms over 500 acres in size.

### Land Purchases.

Only 13.6 percent of the farmers had purchased land during the past 3 years and 40.9 percent had purchased land during the past 10 years, Table 4. Those who had purchased land had significantly higher values for all variables, except off-farm income.

For farmers with debt, there was very little difference in the D/A ratios of those who had purchased land and those who had not purchased land during the last 3 years. However, those who had purchased land 4 to 10 years ago had D/A ratios averaging 8 to 21 percentage points higher. This reflects the relatively higher priced land bought during the late 1970's and the decline in land values since the early 1980's. Average land value in Alabama in 1981 was 2.14 times the 1976 value but decreased over 15 percent between 1982 and 1985.

Table 3. Selected Characteristics of Alabama Respondents to Agricultural Finance Survey Classified by Acres Operated, January, 1986

Acres harvested	Selected characteristics						
	Portion with debt Percent	Average total debt ----- Dollars -----	Average value of assets -----	Debt-to-asset ratio Percent	Average acres operated Acres	Off-farm income av. amt. ----- Dollars -----	Average ag. interest paid -----
----- All Respondents -----							
1 to 49	37.7	4,983	95,624	5.2	35	9,967	492
50 to 99	36.9	6,580	171,218	3.8	77	8,172	1,146
100 to 179	43.2	28,396	159,595	17.8	131	11,071	3,059
180 to 259	65.4	118,455	268,058	44.2	213	11,189	10,760
260 to 499	54.6	44,613	349,957	12.7	361	11,601	4,271
500 to 999	77.5	153,167	565,961	27.1	651	12,586	16,394
1,000 plus	67.7	203,354	829,432	24.5	1,627	12,524	20,796
----- Respondents with Debt -----							
1 to 49	100.0	13,216	144,465	9.1	36	16,957	1,305
50 to 99	100.0	17,843	200,441	8.9	82	9,101	3,050
100 to 179	100.0	65,779	167,017	39.4	127	18,858	6,411
180 to 259	100.0	181,074	327,758	55.2	216	12,194	16,272
260 to 499	100.0	81,676	436,635	18.7	353	16,185	7,747
500 to 999	100.0	197,724	602,395	32.8	649	14,347	21,138
1,000 plus	100.0	300,302	941,211	31.9	1,678	17,017	29,994

Table 4. Selected Characteristics of Alabama Agricultural Finance Survey Respondents Classified by Whether They Purchased Additional Farmland During Specified Periods, January, 1986

Response to land purchase	Selected characteristics								
	Portion who pur- chased	Portion with debt	Average total debt	Average value of assets	Debt- to-asset ratio	Average acres operated	Off-farm Income av. amt.	Average ag. Interest paid	
	Percent	Percent	--- Dollars ---	--- Dollars ---	Percent	Acres	--- Dollars ---	---	
----- All Respondents -----									
Land Purchased During Last 3 Years									
No	13.6	78.9	145,516	447,723	32.5	457	7,933	14,543	Yes
	86.4	51.1	64,846	288,580	22.5	336	11,699	6,524	
Land Purchased 4 to 6 Years Ago									
Yes	19.0	69.9	128,802	340,120	37.9	364	10,433	12,189	
No	81.0	51.4	63,306	303,086	20.9	349	11,369	6,534	
Land Purchased 7 to 10 Years Ago									
Yes	14.9	68.4	155,382	442,988	35.1	578	21,809	14,504	
No	85.1	52.5	61,815	286,843	21.6	313	9,327	6,401	
Land Purchased During Last 10 Years									
Yes	40.9	76.5	150,291	406,739	37.0	445	12,637	14,248	
No	59.1	40.0	24,263	243,360	10.0	288	10,180	3,022	
----- Respondents with Debt -----									
Land Purchased During Last 3 Years									
Yes	19.5	100.0	184,537	510,805	36.1	482	8,819	18,356	
No	80.5	100.0	126,804	368,958	34.4	399	16,811	12,403	
Land Purchased 4 to 6 Years Ago									
Yes	24.2	100.0	184,250	415,346	44.4	422	10,776	17,131	
No	75.8	100.0	123,251	390,545	31.6	412	16,689	12,419	
Land Purchased 7-10 Years Ago									
Yes	18.6	100.0	227,166	557,312	40.8	682	25,843	20,904	
No	81.4	100.0	117,688	359,855	32.7	354	12,839	11,885	
Land Purchased During Last 10 Years									
Yes	57.0	100.0	196,468	472,292	41.6	481	13,873	18,449	
No	43.0	100.0	60,719	296,341	20.5	327	17,086	7,094	



Profit or Loss<sup>2</sup>

The data indicate that 25.7 percent of all farmers in the State reported net losses, table 5. The percentage of farmers with debt who reported losses was not much higher, 29.3 percent. The portion of farmers showing losses of \$5,000 or greater was 10.9 and 17.6 percent, respectively, for all farmers and farmers with debt. There was a strong relationship between net losses and the average amount of interest paid. Those farmers showing relatively large net losses also had relatively large interest payments. Debt-to-asset ratios for those showing large losses were generally above the 40 percent level.

Over half (52.7 percent) of the farmers reporting net profits for 1985 showed profits of \$10,000 or less. A smaller portion of those farmers with debt (44.6 percent) showed profits of \$10,000 or less.

Generally, farmers who reported net profits had lower D/A ratios. However, there were some exceptions. Among farmers with debt who showed net profits between \$5,001 and \$40,000, the D/A ratios were high, over 40 percent.

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<sup>2</sup>Net profit (or loss) is defined as total gross receipts minus cash operating expenses (not including depreciation).

Table 5. Selected Characteristics of Alabama Respondents to Agricultural Finance Survey Classified by Net Cash Income or Loss During 1985

Profit or loss Dollars	Portion at each level Percent	Portion with debt Percent	Selected characteristics					
			Average total debt Dollars	Average value of assets Dollars	Debt- to-asset ratio Percent	Average acres operated Acres	Off-farm income av. amt. Dollars	Average ag. interest paid Dollars
			---	---	---	---	---	---
----- All Respondents -----								
Net Profit								
5,000 or less	35.4	45.6	33,285	215,298	15.5	272	10,561	3,709
5,001-10,000	17.3	48.3	95,728	325,097	29.4	305	11,216	8,444
10,001-40,000	17.5	59.5	98,963	328,459	30.1	393	6,199	9,981
40,001-100,000	4.0	92.6	135,275	613,126	22.1	763	11,169	13,259
Over 100,000	0.1	100.0	121,000	535,000	22.6	2,905	0	12,600
Net Loss								
5,000 or less	14.8	43.5	21,054	217,399	9.7	244	16,124	1,973
5,001-10,000	4.7	83.5	84,746	264,266	32.1	333	18,250	8,513
10,001-40,000	4.7	92.4	261,440	795,772	32.9	701	13,525	26,953
40,001-100,000	1.3	95.2	332,793	846,899	39.3	1,098	7,429	37,963
Over 100,000	0.2	100.0	477,800	1,093,000	43.7	850	500	53,345
----- Respondents with Debt -----								
Net Profit								
5,000 or less	29.4	100.0	72,980	238,666	30.6	270	15,891	8,011
5,001-10,000	15.2	100.0	198,294	462,064	42.9	324	18,815	17,331
10,001-40,000	19.1	100.0	166,258	382,671	43.4	459	9,409	15,684
40,001-100,000	6.8	100.0	146,011	625,199	23.4	762	11,802	13,889
Over 100,000	0.2	100.0	121,000	535,000	22.6	2,905	0	12,600
Net Loss								
5,000 or less	11.7	100.0	48,345	285,830	16.9	312	22,811	4,483
5,001-10,000	7.2	100.0	101,438	257,420	39.4	314	18,261	10,190
10,001-40,000	7.9	100.0	282,928	825,463	34.3	700	12,255	29,152
40,001-100,000	2.2	100.0	349,432	844,044	41.4	1,059	7,800	39,861
Over 100,000	0.3	100.0	477,800	1,093,000	43.7	850	500	53,345

### Major Enterprises

The heaviest incidence of debt was among poultry producers and field crops producers, 66.1 percent and 60.6 percent, respectively, table 6. Only 43.2 percent of the livestock producers reported debt. Livestock producers also had the highest average amount of off-farm income, suggesting that much of their operating and capital outlays are being provided by off-farm earnings rather than borrowed money. The D/A ratio for this group of farmers was also relatively low at 14.9 percent.

Approximately two-thirds of the poultry producers reported having debt. Producers with debt had an average debt load of \$185,179, a D/A ratio of 44.9 percent, and an average interest payment of \$17,287. This is due in large part to the relatively high level of recent capital investments in poultry houses and equipment.

The other group showing large average total debts and a high D/A ratio was the vegetable, fruit, and nut producers. These enterprises are characterized by a high level of production, marketing and financially related risks. Almost half, 45.1 percent, of these producers were in debt, and those with debt had the highest average total debt, \$188,139. They also had a D/A ratio of 38.7 percent, and average annual interest payments of \$19,493.

Table 6. Selected Characteristics of Alabama Respondents to Agricultural Finance Survey Classified by Major Enterprise, January, 1986

Major enterprise	Selected characteristics						
	Portion with debt Percent	Average total debt - - - Dollars - - -	Average value of assets - - -	Debt-to-asset ratio Percent	Average acres operated Acres	Off-farm income av. amt. - - - Dollars - - -	Average ag. interest paid - - -
- - - - - All Respondents - - - - -							
Livestock	43.2	40,148	268,839	14.9	351	15,418	4,525
Poultry	66.1	122,345	327,814	37.3	232	8,163	11,749
Field Crops	60.6	80,146	356,889	22.5	622	10,510	8,377
Vegetables, Fruits, Nuts	45.1	84,847	304,293	27.9	318	8,529	8,791
Other	51.7	27,916	320,282	8.7	458	11,324	2,721
- - - - - Respondents with Debt - - - - -							
Livestock	100.0	93,031	358,455	26.0	463	21,691	10,367
Poultry	100.0	185,179	412,643	44.9	265	12,302	17,287
Field Crops	100.0	132,207	419,478	31.5	785	12,475	13,389
Vegetables, Fruits, Nuts	100.0	188,139	485,552	38.7	540	13,174	19,493
Other	100.0	54,046	359,421	15.0	419	16,508	5,267



### Plans to Continue.

Only 2.3 percent of the respondents indicated that they did not plan to continue in farming during 1986, table 7. Those farmers who did not plan to continue had higher average D/A ratios, 38.5 percent, than those who planned to continue farming, a 24.3 percent D/A ratio.

### Delinquency Levels

About 11.4 percent of all borrowers were delinquent on real estate principal payments, while 9 percent were delinquent on real estate interest payments. The lowest delinquency rate was for the payment of interest on non-real estate loans, figure 4.

Only 3.9 percent of the respondents with debt indicated that they were not current on principal for both real estate and non-real estate loans. An even smaller portion, 2.5 percent, reported that they were delinquent on interest payments for both types of loans.

Table 7. Selected Characteristics of Alabama Respondents to Agricultural Finance Survey Classified by Whether They Expect to Continue Farming in 1986

Expect to continue	Selected characteristics							
	Portion with each response	Portion with debt	Average total debt	Average value of assets	Debt-to-asset ratio	Average acres operated	Off-farm income av. amt.	Average ag. interest paid
	Percent	Percent	- - - Dollars - - -	- - - Dollars - - -	Percent	Acres	- - - Dollars - - -	- - - Dollars - - -
- - - - - All Respondents - - - - -								
Yes	97.7	54.5	76,121	313,744	24.3	353	11,188	7,612
No	2.3	71.8	61,105	158,651	38.5	321	11,248	7,514
- - - - - Respondents with Debt - - - - -								
Yes	97.0	100.0	139,698	403,888	34.6	417	15,243	13,658
No	3.0	100.0	85,111	163,000	52.2	326	15,666	10,467

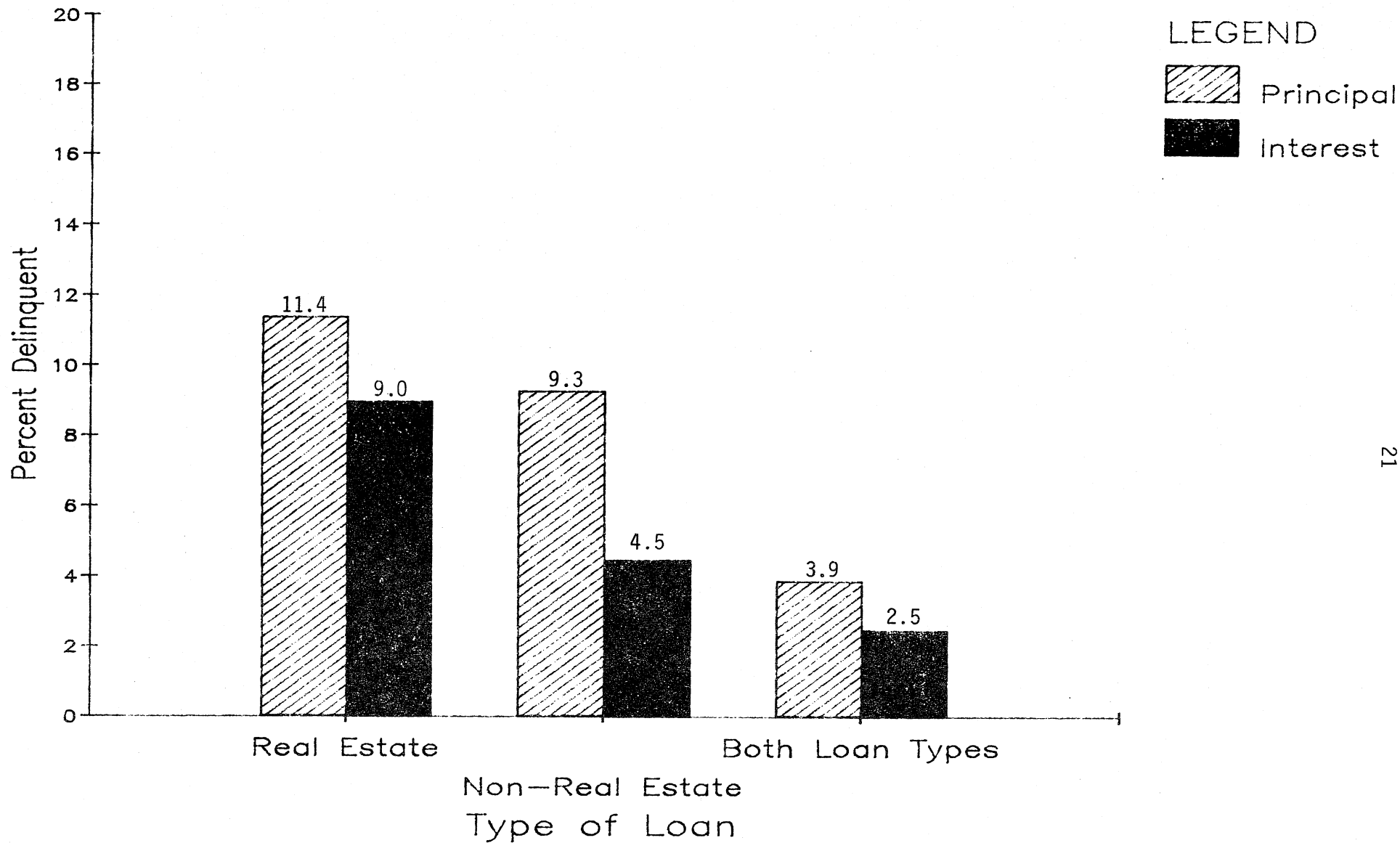


Fig. 4. Portion of Respondents Who Are Delinquent on Either Principal or Interest on Their Loans, Alabama, January, 1986.

Number of Lenders Owed

Many farmers borrow money from several different sources. They often borrow short-term and long-term money from different sources, since various lending agencies are organized to handle different types of loan requests. The data showed that most borrowers, 76.8 percent, owed only one or two lenders, while 23.2 percent owed three or more lenders, figure 5.

Most production areas of the State followed the pattern for the State as a whole. The percentages of borrowers owing three or more lenders were as follows: Limestone Valley - Sand Mountain, 12.7 percent; Black Belt, 14.9 percent; Wiregrass, 14.7 percent; Lower Coastal Plains - Gulf Coast, 22.9 percent, and the Piedmont - Upper Coastal Plains, 46.8 percent, table 8.

As sales volume increased, farmers generally tended to owe more lenders, table 9. This could be expected since larger sales often require larger outlays and several lending sources may be necessary to fund these larger outlays. For those farms producing \$10,000 or less gross sales in 1985, about 95 percent owed only one or two lenders, whereas on those farms producing over \$250,000 sales, approximately 67 percent owed three or more lenders.

There appeared to be no particular relationship between the number of acres farmed and the number of lenders owed, Table 10. The majority of farmers (65 to 100 percent) across all acreage groups tended to use only one or two lenders.

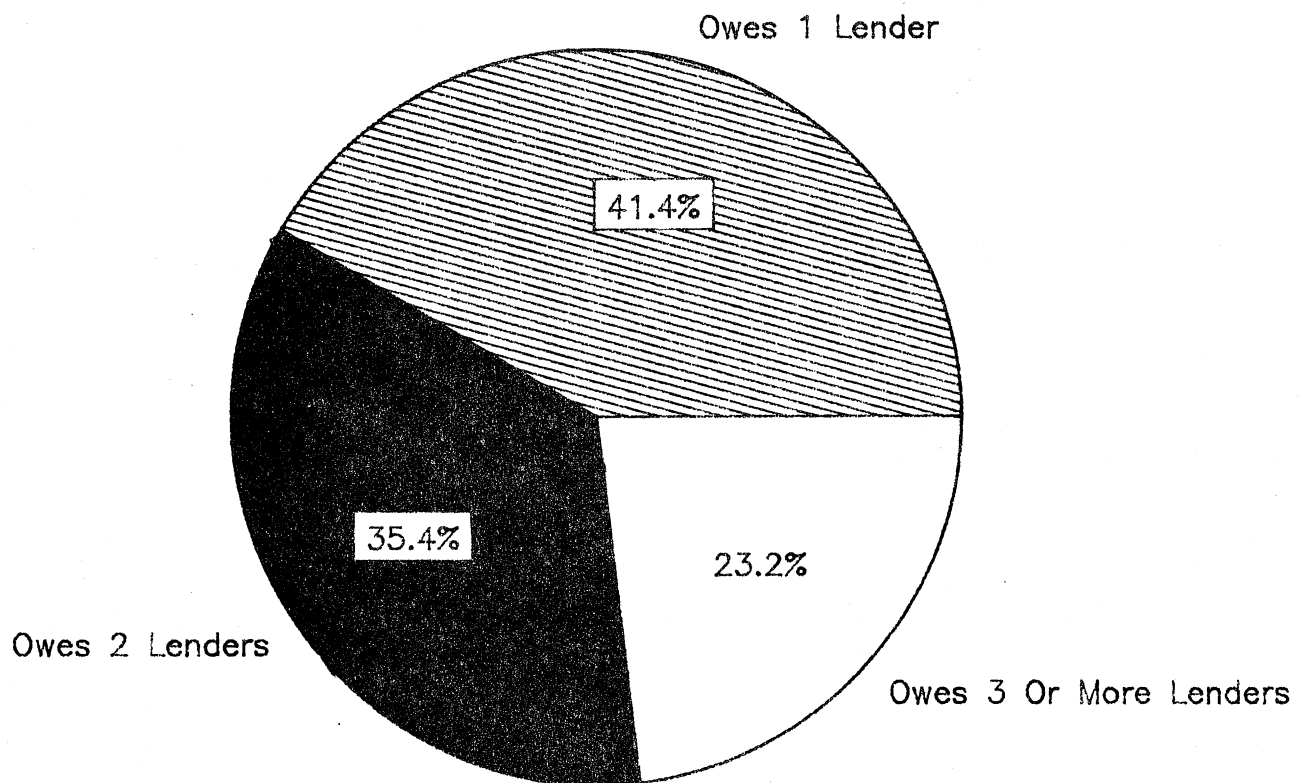


Fig. 5. Number of Lenders Owed by Alabama Farmers Who Reported Debt, 1986.

Table 8. Portion of Borrowers Who Owe Money to Specified Numbers of Lenders Classified by Alabama Agricultural Production Area, January, 1986

Production area	Portion with debt	Owes 1 lender	Owes 2 lenders	Owes 3 or more lenders
	Percent			
Limestone Valley-Sand Mountain	59.5	44.1	43.2	12.7
Piedmont-Upper Coastal	49.8	34.4	18.8	46.8
Black Belt	54.5	38.0	47.1	14.9
Wiregrass	55.0	49.2	36.1	14.7
Lower Coastal-Gulf Coast	53.6	44.1	33.0	22.9
State	54.9	41.4	35.4	23.2

Table 9. Portion of Borrowers Who Owe Money to Specified Numbers of Lenders Classified by 1985 Gross Sales, Alabama

1985 gross sales	Portion with debt	Owes 1 lender	Owes 2 lenders	Owes 3 or more lenders
Dollars	Percent			
10,000 or less	34.5	76.1	18.7	5.2
10,001-40,000	40.2	46.7	42.0	11.3
40,001-100,000	81.4	30.5	30.3	39.2
100,001-250,000	94.2	12.8	63.3	23.9
Over 250,000	82.5	21.2	18.2	66.6



Table 10. Portion of Borrowers Who Owe Money to Specified Numbers of Lenders Classified by Acres Operated, Alabama

Acres operated	Portion with debt	Owes 1 lender	Owes 2 lenders	Owes 3 or more lenders
Acres	Percent			
1-49	37.7	74.0	26.0	0.0
50-99	36.9	35.9	58.5	5.6
100-179	43.2	45.2	27.8	26.9
180-259	65.4	34.7	46.2	19.1
260-499	54.6	66.5	11.5	22.0
500-999	77.5	32.0	46.0	35.0
1,000 plus	67.7	25.3	54.0	20.7

Farmers who had purchased land during the last 10 years generally owed money to more lenders than those who had not purchased, table 11. For example, the percentage point spread between purchasers and non-purchasers during the last 3 years for those who owe 3 or more lenders was 16.1 points (36.3 vs. 20.2). This same spread for land purchased 4 to 6 years ago was only 1.6, and for land purchased 7 to 10 years ago, the percentage point difference was 24 (42.8 vs 18.8).

The relationship between number of lenders owed and the level of profits and losses was different than expected. Most farmers owed only one or two lenders whether they had profits or losses, table 12. An exception occurred among those farmers having net profits of \$5,000 or greater. About 37 to 44 percent of these farmers owed three or more lenders. Since there is probably a relationship between net profits and gross sales, more lenders may have been necessary to finance this larger volume of sales.

Table 11. Portion of Borrowers Who Owe Money to Specified Numbers of Lenders Classified by 1985 Gross Sales, Alabama

Response to land purchase	Portion with debt	Owes 1 lender	Owes 2 lenders	Owes 3 or more lenders
----- Percent -----				
Land Purchased During Last 3 Years				
Yes	78.9	34.1	29.6	36.3
No	51.1	43.0	36.8	20.2
Land Purchased 4 to 6 Years Ago				
Yes	69.9	23.1	52.6	24.4
No	51.4	47.8	29.4	22.8
Land Purchased 7 to 10 Years Ago				
Yes	68.4	23.7	33.5	42.8
No	52.5	45.3	35.9	18.8
Land Purchased During Last 10 Years				
Yes	76.5	24.8	40.6	34.6
No	40.0	64.2	28.4	7.4

Table 12. Portion of Borrowers Who Owe Money to Specified Numbers of Lenders Classified by 1985 Gross Sales, Alabama

1985 gross sales	Portion with debt	Owes 1 lender	Owes 2 lenders	Owes 3 or more lenders
Dollars	----- Percent -----			
	Net Profit			
5,000 or less	45.6	59.2	29.6	11.2
5,001-10,000	48.3	23.3	36.6	40.1
10,001-40,000	59.5	16.5	46.6	36.9
Over 40,000	92.6	44.5	11.1	44.4
	Net Loss			
5,000 or less	43.5	67.9	23.9	8.2
5,001-10,000	83.5	42.4	48.5	9.1
10,001-40,000	92.4	15.0	61.7	23.3
Over 40,000	95.2	60.0	24.9	15.1

The relationship between enterprises and number of lenders owed is presented in table 13. Vegetable, fruit, and nut producers owed the greatest number of lenders. None of these producers indicated owing only one lender. This group of farmers also had a high D/A ratio. Poultry producers had debts spread among several lenders with the larger portion of these producers owing two lenders. About 85 to 90 percent of the livestock and field crops producers owed only one or two lenders. The majority of livestock producers owed only one lender and the largest portion of field crops producers was in the one-lender category.

Table 13. Portion of Borrowers Who Owe Money to Specified Numbers of Lenders Classified by 1985 Gross Sales, Alabama

Major enterprise	Portion with debt	Owes 1 lender	Owes 2 lenders	Owes 3 or more lenders
	----- Percent -----			
Livestock	43.2	60.5	28.2	11.3
Poultry	66.1	26.6	47.3	26.1
Field Crops	60.6	45.0	38.1	16.9
Vegetables, Fruits, Nuts	45.1	0.0	52.1	47.9
Other	51.7	72.1	1.6	26.3

### Lender Share of Debt

Respondents to the survey indicated that they depended upon five basic sources for their borrowed capital. Those sources were: the Federal Land Bank, the Farmers Home Administration, Production Credit Association, commercial banks, and insurance companies. A sixth category is generally referred to as "other." It includes merchants and dealers who extend credit to promote sales, and individuals who are willing to finance the sale of their property.

The Federal Land Bank held 34 percent of the total debt reported by those who responded to the survey, figure 6. When combined with the 8 percent held by Production Credit Associations, the significance of Farm Credit System agencies is readily apparent. Commercial banks held 21 percent of the outstanding loan volume, Farmers Home Administration held 16 percent of the total, and insurance companies held 6 percent. Individuals and others held 15 percent of the total debt.

It was reported earlier that most respondents had debt with more than one lender. Additional information presented in figure 6 shows the portion of borrowers who reported loans with each lender. Over half of the respondents, 52 percent, had loans with commercial banks. A total of 39 percent of the producers reported debt with individuals and others, while 36 percent had mortgages with the Federal Land Bank. Twenty percent of the borrowers had loans with the Farmers Home Administration, while



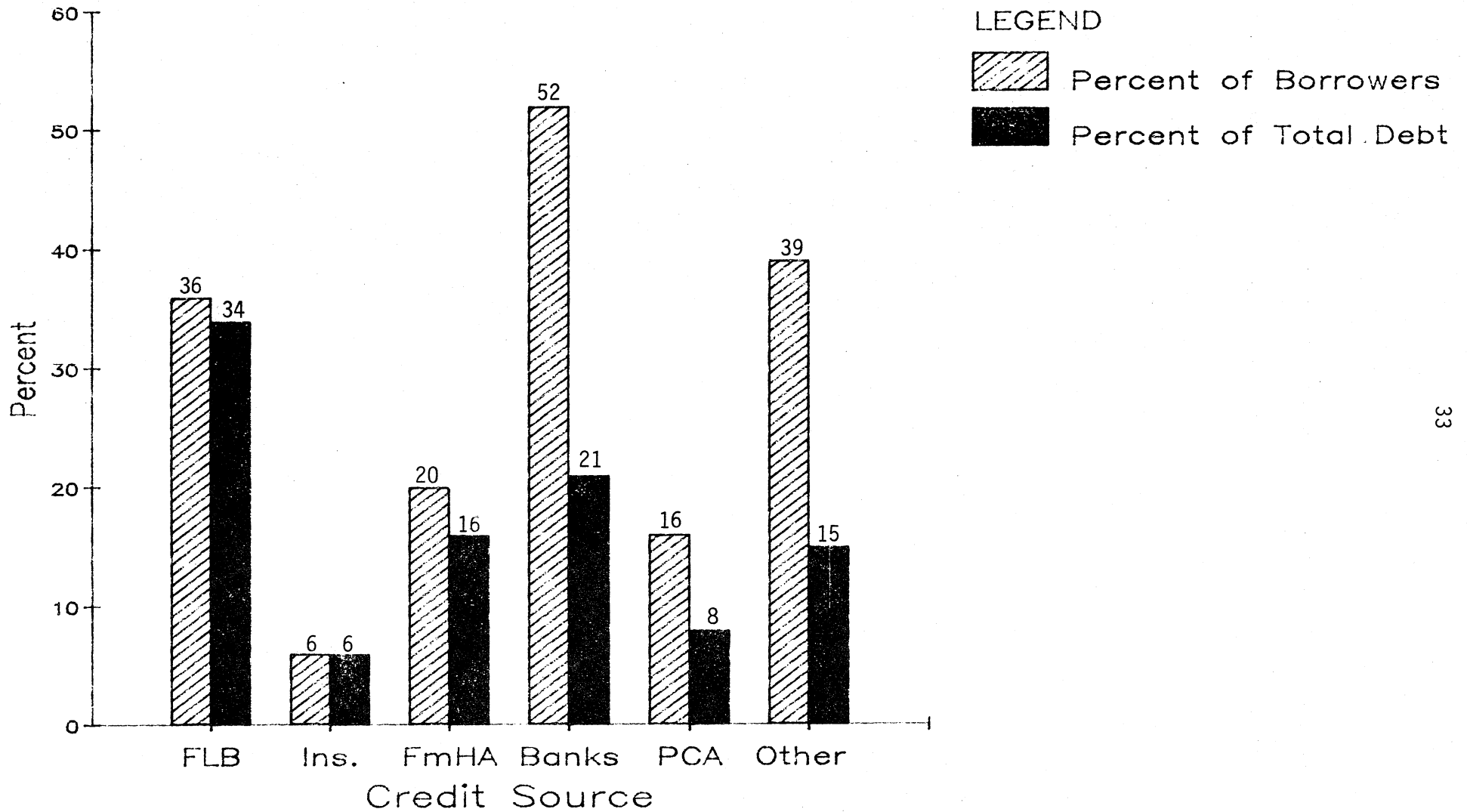


Fig. 6. Percent of Borrowers by Source of Credit and Percent of Total Debt by Source  
Alabama, January, 1986.

Production Credit Association loans were reported by 16 percent of the respondents. Only 6 percent had loans with insurance companies.

Federal Land Bank loans were the largest with an average size of \$103,000, while commercial banks and the "other" category were indicated to have the smallest loans at \$45,000 and \$44,000, respectively, figure 7. Insurance company loans (mostly for real estate) were relatively large, averaging \$99,000. Loans from the Farmers Home Administration averaged \$85,000, while Production Credit Association loans averaged \$57,000.

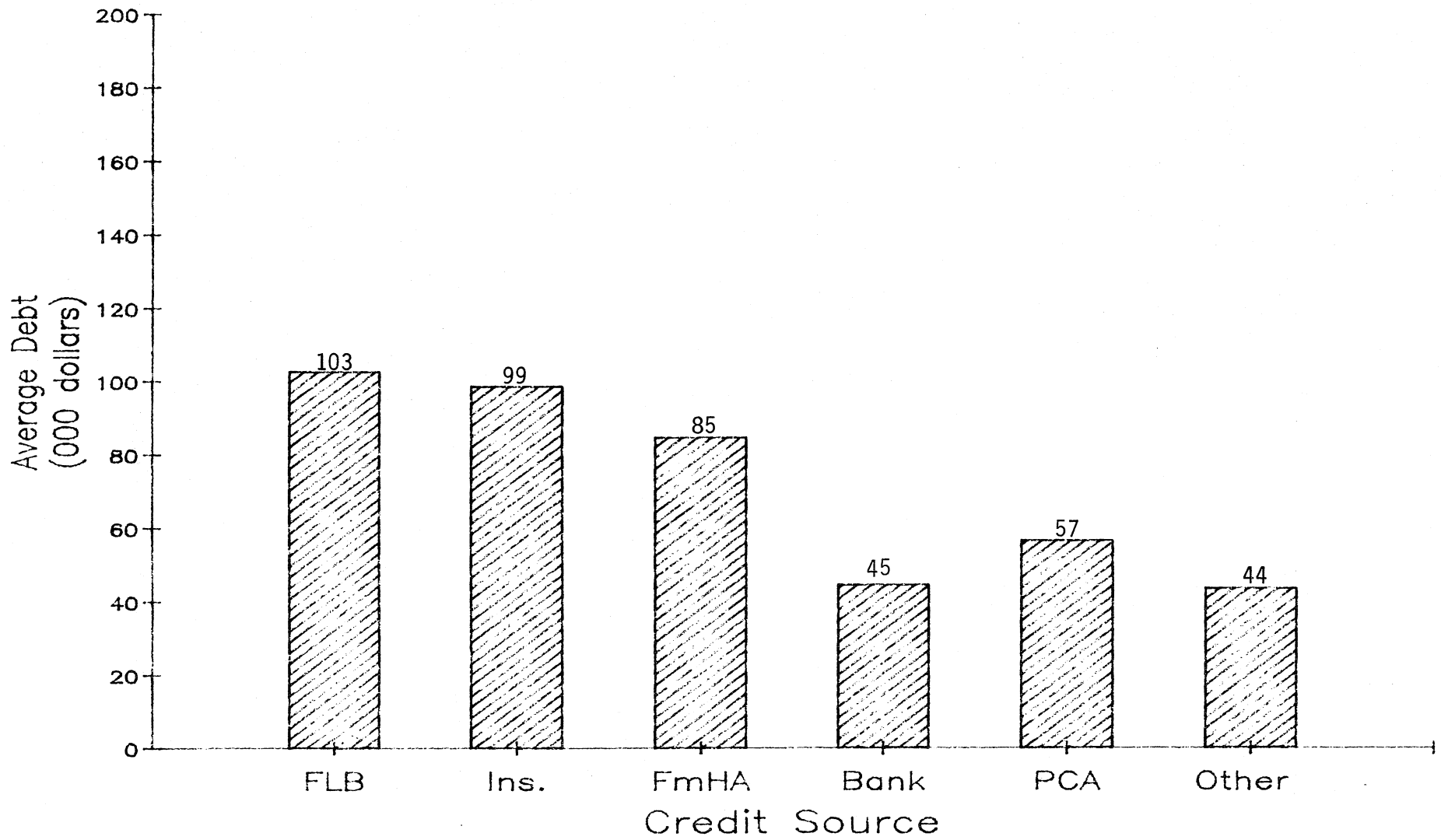


Fig. 7. Average Size Debt by Source of Credit for Alabama Farmers Who Reported Debt, January, 1986.

## SUMMARY

The survey provided an overall view of the financial condition of the 25,000 largest commercial farm operations in Alabama. Typically, this group of farms accounts for more than 85 percent of Alabama's livestock, poultry, and field crop receipts. These operations usually have over \$5,000 in annual farm receipts or a farm size of 30 acres or greater.

Given the current negative attitudes regarding the general financial condition of the agricultural sector, it was somewhat surprising that only slightly more than half of the farmers (54.9 percent) reported debt as of the end of 1985. The timing of the survey, however, could partly explain the results. At the end of the year, most of the profitable operators have already repaid loans made during the year.

However, some of the operators with debt were in relatively unsatisfactory financial positions. The data indicated that perhaps as many as 6,500 commercial farms in the State may be experiencing financial difficulties associated with D/A ratios above 40 percent. A total of 13.1 percent of the respondents with debt, representing approximately 1,800 farms statewide, reported D/A ratios of over 70 percent. While the existence of such relatively high debt levels does not necessarily mean failure of the business, it does indicate a high level of financial stress and a high potential for economic failure. On an individual farm basis, profitable and efficient operations

with an adequate cash flow could effectively handle D/A ratios of 70 percent or higher, but the task would be difficult.

When the data were analyzed by geographic area, respondents from the Black Belt area reported the largest average debt, \$169,689, while those in the Wiregrass had the lowest, \$123,206. When these debts were examined relative to asset values, it appeared that the Piedmont - Upper Coastal Plains area farmers were feeling the greatest financial pressure with an average D/A ratio of 43.0 percent. The lowest ratio, 22.9 percent, was in the Lower Coastal Plains - Gulf Coast area.

The general trend was for the D/A ratio to increase as sales increased. When classified by acres operated, those respondents in the 180 to 259 acre range reported the highest average D/A ratio.

As would be expected, those individuals who had purchased land during the last 10 years were feeling a great deal more financial pressure than those who had stayed out of the real estate market. The most profitable respondents were experiencing the least financial pressure through their generally lower D/A ratios. When the data were classified by major enterprises, it appeared that the high capital investments required for poultry operators have placed them in a position of having the highest D/A ratios.

Another measure of financial stress examined from the survey data was the number of lenders owed by each respondent. A total

of 23.2 percent of the respondents with debt indicated that they had loans with three or more lenders. Approximately 41.4 percent had debts with only one lender and 35.4 percent owed two lenders.

Sources of funds for those respondents who have debt were from the traditional agricultural lenders - Federal Land Bank, Production Credit Association, Farmers Home Administration, commercial banks, insurance companies, merchants and dealers, and individuals.

Only 2.3 percent of the operators indicated that they would not continue farming in 1986. Those with high absolute debt levels and those with high D/A ratios are certainly feeling financial stress and must direct their efforts toward improved management decisions and attaining higher profitability.

APPENDIX A





# ALABAMA CROP and LIVESTOCK REPORTING SERVICE

U.S. DEPARTMENT OF AGRICULTURE  
STATISTICAL REPORTING SERVICE

ALABAMA DEPARTMENT OF AGRICULTURE  
& INDUSTRIES, STATISTICS DIVISION

MARSHALL L. DANTZLER  
State Statistician

December 26, 1985

ALBERT McDONALD  
Commissioner of Agriculture

Dear Alabama Farmer:

As Commissioner McDonald stated in his enclosed letter, Alabama farmers, as well as many farmers across this nation, are faced with some serious financial problems. We were asked by him to conduct this survey to provide current information about the farm financial situation here in Alabama. Similar surveys are also being conducted elsewhere including most of our neighboring states.

Please take the time to complete this questionnaire and return it in the enclosed stamped envelope. All individual reports are kept strictly confidential, will not be shared with any other agencies and used only when combined with other reports for area and state totals. If you need assistance in completing this questionnaire please feel free to call us collect at (205) 832-7263.

Sincerely,

*Marshall L. Dantzler*  
Marshall L. Dantzler  
State Statistician

1985 FARM FINANCE SURVEY  
SECTION 1 - ACRES OPERATED AND INCOME

1. Total acres in this operation during 1985 (include all cropland, pasture, and idle ground):

- a. Owned.....acres
- b. Rented from others.....acres
- c. Rented to others.....acres
- d. Total land operated  
(a + b - c).....acres

2. How many acres of land did you purchase:

- a. During the past three years?..\_\_\_\_\_
- b. 4 - 6 years ago?.....\_\_\_\_\_
- c. 7 - 10 years ago?.....\_\_\_\_\_

3. What was the total gross receipts for agricultural products sold during 1985 (include CCC forfeitures, and government payments)? Check one.

A. Total Gross Receipts:

- \$10,000 or less.....\_\_\_\_\_
- \$10,001 - \$40,000.....\_\_\_\_\_
- \$40,001 - \$100,000.....\_\_\_\_\_
- \$100,001 - \$250,000.....\_\_\_\_\_
- \$250,001 - \$500,000.....\_\_\_\_\_
- Over \$500,000.....\_\_\_\_\_

3. Approximately what percent of your 1985 gross farm receipts came from each of the following sources:

- Livestock & Dairy.....%
  - Poultry.....%
  - Field Crops.....%
  - Vegetables, Fruits, & Pecans.....%
  - Other.....%
- (specify) TOTAL 100%

4. What was the NET CASH INCOME OR LOSS during 1985 (Question 3A minus cash operating expenses, but do not include depreciation)?

Only check a cell in ONE of these two columns.

If a NET PROFIT use this column:

- \$5,000 or less.....\_\_\_\_\_
- \$5,001 - \$10,000.....\_\_\_\_\_
- \$10,001 - \$40,000.....\_\_\_\_\_
- \$40,001 - \$100,000.....\_\_\_\_\_
- Over \$100,000.....\_\_\_\_\_

If a NET LOSS use this column:

- \$5,000 or less.....\_\_\_\_\_
- \$5,001 - \$10,000.....\_\_\_\_\_
- \$10,001 - \$40,000.....\_\_\_\_\_
- \$40,001 - \$100,000.....\_\_\_\_\_
- Over \$100,000.....\_\_\_\_\_

5. How many adults actively participate in the day-to-day management & operation of this farm (exclude hired labor)?.....\_\_\_\_\_

A. Total Off-Farm income earned by these adults & their spouses in 1985? \$\_\_\_\_\_

SECTION II - CURRENT FINANCIAL SITUATION

Please report below the current asset value, outstanding debt, and loan status for real estate and non-real estate property included in this operation.

1. ASSETS OWNED AND ASSETS FINANCED.

	Asset Value	Out-standing Debt	If debt is outstanding, are you current on:			
			Interest		Principal	
A. Real Estate	\$	\$				
a. Farmland.....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
b. Improvements (if not in a.).....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
c. Personal residence (if not in a. or b.).....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
B. Non-real Estate						
a. Livestock.....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
b. Crops stored on or off farm (include crops under CCC loan).....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
c. Farm machines & equipment.....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
d. Personal assets, auto, savings, etc.....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
e. Other debt, unsecured family, etc. (include past due land rent).....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___

2. FINANCING BY TYPE OF LENDER

	Out-standing Debt	Total Payments	If debt is outstanding, are you current on:			
			Interest		Principal	
a. Federal Land Bank.....	\$	\$	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
b. Insurance Companies.....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
c. Farmers Home Administration.....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
d. Commercial Banks.....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
e. Production Credit Association...	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___
f. Other Sources (Dealers, Private Parties, Merchants, Others).....	_____	_____	Yes___ No___	Yes___ No___	Yes___ No___	Yes___ No___

- What was the total interest paid on all agricultural loans during 1985? \_\_\_\_\_
- Do you expect to continue operating this farm during 1986? Yes \_\_\_\_\_ No \_\_\_\_\_
- Are you currently in foreclosure or bankruptcy proceedings? Yes \_\_\_\_\_ No \_\_\_\_\_
- Have any repossession actions been taken against this operation since July 1, 1985? Yes \_\_\_\_\_ No \_\_\_\_\_

Thank you for your cooperation. The results of this survey are scheduled for release in mid-February by Commissioner McDonald and a copy will be mailed to you at that time.

Reported by: \_\_\_\_\_

Date: \_\_\_\_\_

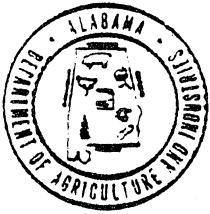
Phone: \_\_\_\_\_



APPENDIX B

STATE OF ALABAMA  
DEPARTMENT OF AGRICULTURE  
AND INDUSTRIES

BEARD BUILDING  
P. O. BOX 3336  
MONTGOMERY, ALABAMA 36193



ALBERT McDONALD  
COMMISSIONER



CECIL DAVIS  
ASSISTANT COMMISSIONER

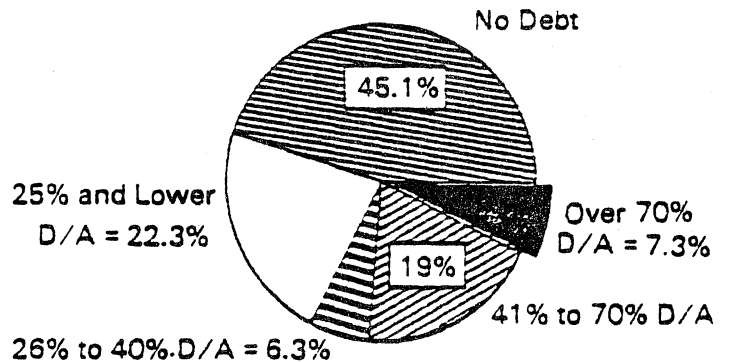
# Farm Finance Survey

JANUARY, 1986

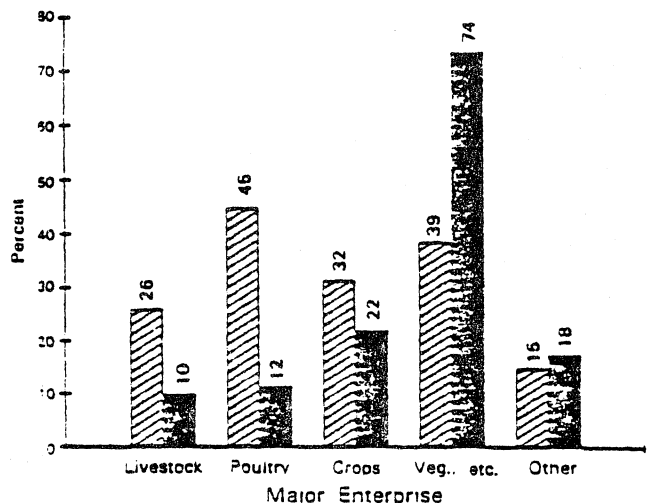
## MAJOR FINDINGS

- \*\* Forty-five percent of Alabama farmers have no debt.
- \*\* Only one out of twelve Alabama farmers was delinquent on a debt payment.
- \*\* Seven percent of Alabama farmers reported a debt-to-asset ratio exceeding 70 percent . . . an indication that these farmers may have a serious problem meeting principal and interest payments.
- \*\* Only 2 percent of the farmers said they would not continue operations in 1986.
- \*\* FmHA borrowers had the highest average debt-to-asset ratio and delinquency rate. Commercial bank borrowers had the lowest delinquency rate.
- \*\* Major farm lenders, according to total debt held, were ranked as follows: Federal Land Bank; commercial banks; FmHA; merchants, dealers, and other private sources; Production Credit Associations; and insurance companies.
- \*\* Seventy-four percent of all farmers reported a net profit for 1985 . . . twenty-six percent reported a net loss.
- \*\* Farmers with no debt had average off-farm income of \$6,240 in 1985. Those farmers with debt had average off-farm income of \$15,256.
- \*\* Farmers with debt paid an average of \$13,561 in interest payments in 1985 with an average computed rate of 10 percent.

## Debt Status and Debt-to-Asset Ratio, Alabama Farmers January, 1986

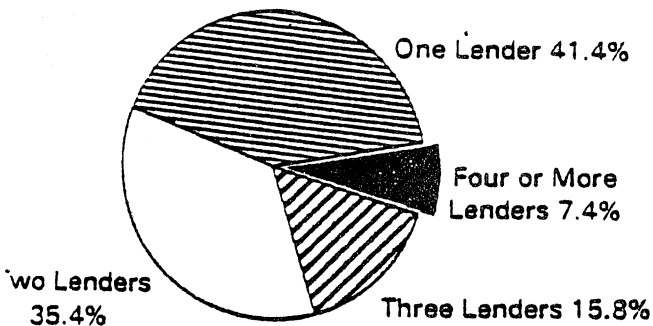


## Average Debt-to-Asset Ratio and Delinquency Rate for Alabama Borrowers by Major Enterprise, January, 1986

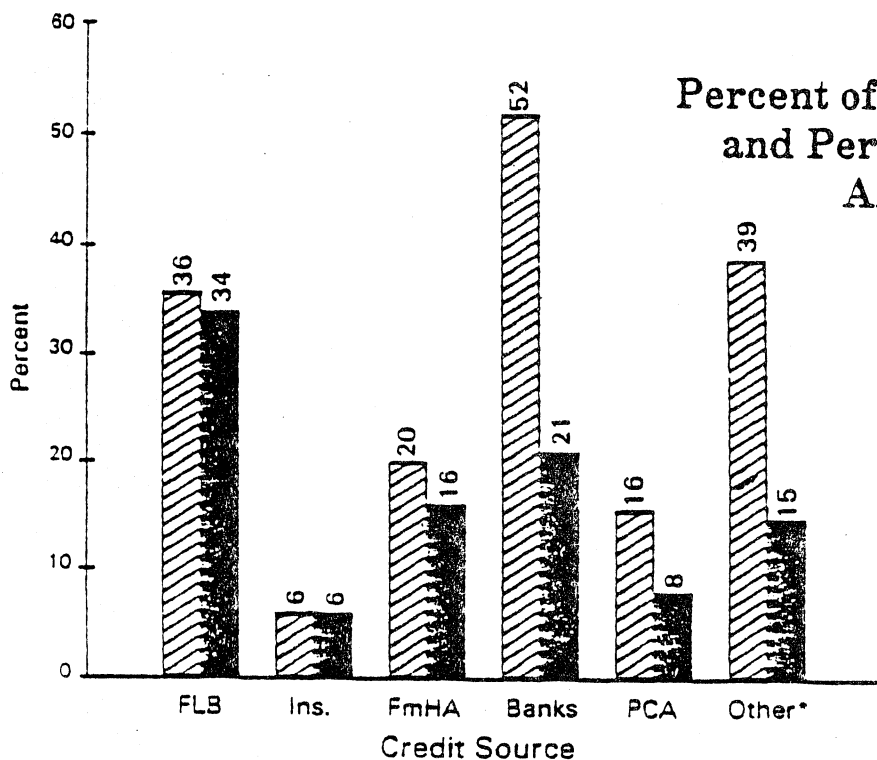
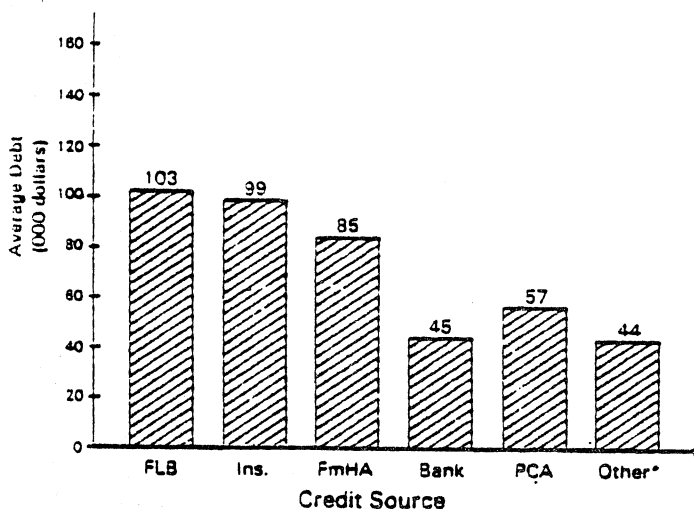


LEGEND

**Number of Lenders Owed by  
Percent of Alabama Farmers who  
Reported Debt, January, 1986**



**Average Size Debt by Source of  
Credit for Farmers who Reported  
Debt, Alabama, January, 1986**



**Percentage Distribution of Farmers by  
Major Enterprise and Debt-to-Asset Ratio,  
Alabama, January, 1986**

Debt-to-asset ratio	Major Enterprise			
	Livestock	Poultry	Field crops	Specialty <sup>1/</sup>
	Percent			
No debt	56.8	33.9	39.4	54.9
0-40	35.0	15.8	37.8	22.6
41-70	5.9	38.9	13.9	11.8
71-95	1.3	11.4	3.1	0.0
over 95	1.0	0.0	5.8	10.7
Debt-to-asset ratio all farmers	14.9	37.3	22.5	27.9
Delinquency Rate for Borrowers	10.1	11.6	22.2	73.9

<sup>1/</sup> Vegetable, fruit, and nut crop farmers.

More than half the livestock farmers had no debt and reported the lowest average debt-to-asset ratio (14.9%) of all groups. Poultry operators reported the highest average debt-to-asset ratio but also reported a low loan payment delinquency rate. This latter combination likely reflects the recent favorable economic conditions in the poultry sector and the associated new capital investment for facilities and equipment.

Although specialty crop farmers who reported debt had an extremely high loan delinquency rate, it should be equally noted that over half of all specialty crop producers reported no debt. Also, although the plight of field crop producers has received much recent attention, it's important to note that over three-fourths of the farmers in this group reported a debt-to-asset ratio of 40 percent or less . . . a very positive finding.

**Percent of Borrowers by Source of Credit  
and Percent of Total Debt by Source,  
Alabama, January, 1986**

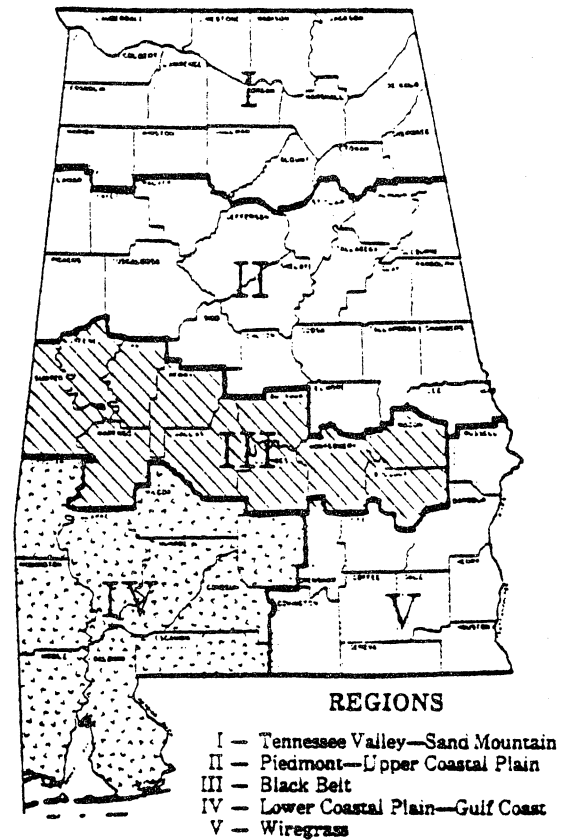
**LEGEND**

- Percent of Borrowers
- Percent of Total Debt

**Financial Characteristics for Farmers with Debt by Regions, Alabama, January, 1986**

Region	Average debt	Average assets	Debt-to-asset ratio	Percent delinquent
	Thousand Dollars		Percent	
I	138.8	425.9	32.6	23.5
II	133.5	310.4	43.0	7.2
III	169.7	494.4	34.3	18.3
IV	127.8	558.1	22.9	9.8
V	123.2	318.4	38.7	15.3
State	138.0	396.6	34.8	16.5

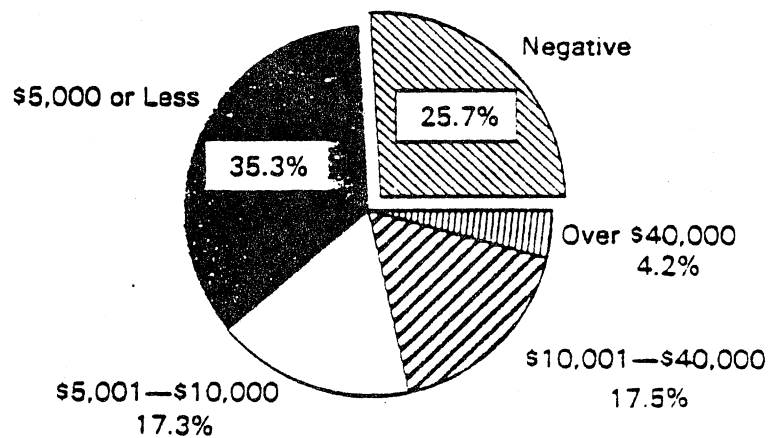
For those farmers who reported a debt position, highest average debt per farm was in the Black Belt followed by farmers in the Tennessee Valley-Sand Mountain region. Farmers who had debt in Region IV, reported the highest average asset value and a low loan delinquency rate. Loan delinquency rates in Regions I and III were above the State average of 16.5 percent. The average debt-to-asset ratio for farmers who reported debt was 34.8 percent. The average debt-to-asset ratio for all farmers in the State was 24.4 percent.



**Management (Not Land Ownership) Important**

- \*\* 23% of the farmers who owned no land reported they lost money in 1985... average farm size was 257 acres... of the farmers who owned no land, two-thirds of their gross receipts come from field crops - average gross receipts were \$42,000.
- \*\* 25% of the farmers who owned all the land they farmed lost money in 1985... average farm size was 261 acres... of the farmers who owned all the land they farmed, over half of their gross receipts came from poultry - average gross receipts were \$35,000.
- \*\* 27% of the farmers who both owned and rented land in 1985 lost money... average farm size was 488 acres... 295 acres owned; 193 rented or a 60/40 relationship... of the farmers who operated both owned and rented land, gross receipts were evenly divided between livestock, poultry, and field crops - average gross receipts were \$87,000.

**Percentage Distribution of Net Income for Alabama Farmers, 1985**



**A Definition: Debt-to-Asset Ratio**

Debt-to-asset ratio (percentage) is often used to gauge financial condition of farms or firms. The ratio is obtained by dividing total debt by total assets (D/A). The U.S. Department of Agriculture uses four groups of ratios:

- 0-40% Generally few financial problems.
- 41-70% May present problem in meeting principal payment. Highly leveraged.
- 71-100% Problems in meeting principal and interest payments. Declining net worth. Very highly leveraged.
- over 100% Severe problems and likely negative net worth. Technically insolvent.

47  
**Selected Characteristics by Total  
 Land Operated, Alabama, January, 1986**

Land operated	Average farm size	Farms	Average total debt	Average total assets	Average debt-to-asset ratio	Average off-farm income	Average interest paid
acres	acres	percent	- thousand dollars -		percent	- dollars -	
1-49	35	4	5.0	95.6	5.2	9,967	492
50-99	77	8	6.6	17.2	3.8	8,172	1,146
100-179	131	33	28.4	159.6	17.8	11,071	3,059
180-259	213	21	118.5	268.1	44.2	11,189	10,760
260-499	361	14	44.6	350.0	12.7	11,601	4,271
500-999	651	13	153.2	566.0	27.1	12,586	16,394
1000+	1,627	7	203.4	829.4	24.5	12,524	20,796

**CHARACTERISTICS OF THE SAMPLE AND SURVEY**

A sample of 1500 farms was drawn from a list that represented the 25,000 largest commercial farm operations in Alabama. Typically, this group of farms accounts for more than 85 percent of Alabama's livestock, poultry and field crop receipts. These operations typically exceed \$5,000 in farm receipts and/or exceed a farm size of 30 acres. Over 900 questionnaires were collected and 810 were used for tabulating. One-third of these were returned by mail and were usable without further contact; one-third were mail returns which needed telephone contacts to clarify some questions; the remainder were collected with telephone interviews. Collection and analysis of the survey data was a cooperative effort of the Alabama Department of Agriculture and Industries, Auburn University, and the Crop and Livestock Reporting Service.

The sample and survey did not cover the following:

- ... Land owners who were not actually involved in operating a farm.
- ... The debt, assets and income of landlords on any questionnaire that showed acres being rented.
- ... Farms that specialized in timber, greenhouses, nurseries and turf farming.
- ... Operators of small tracts of land whose sole farming activity was principally limited to poultry production.
- ... Operations that were already out of business by December 1985.

The 810 questionnaires tabulated showed the following characteristics:

- ... Average data collection date was January 18, 1986.
- ... Gross receipts exceeded \$56,000 per farm.
- ... Average farm size was 352 acres.
- ... Seventy-five percent of the land farmed was owner operated.
- ... Twenty-nine percent of the land operated was rented.
- ... Four percent of the land owned was rented out.

**PERCENT OF ALL FARMERS AND PERCENT  
 TOTAL FARM RECEIPTS BY MAJOR  
 FARM ENTERPRISE, ALABAMA, JANUARY, 1986**

Enterprise	Farms	Total Receipts
- percent -		
Livestock	31	27
Poultry	37	38
Field Crops	12	23
Specialty Crops*	6	6
Other**	14	6

\*vegetables, nuts and fruits







