Contract Egg Production and Use of Credit by Selected Producers in Mississippi

Frank D. Hansing

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Contract Egg Production
And Use of Credit

By Selected Producers in Mississippi

by
Frank D. Hansing

Agricultural Experiment Station
Mississippi State University, State College, Mississippi
in cooperation with
Farm Economics Division
United States Department of Agriculture
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CONTRACT EGG PRODUCTION AND USE OF CREDIT
BY SELECTED EGG PRODUCERS IN MISSISSIPPI

by

Frank D. Hansing

Significant changes in the nation’s pattern of commercial egg production have been taking place in recent years. The South, long considered a deficit area in egg production, in 1959 produced about 25 percent of the nation’s eggs compared with 20 percent in 1955.

Although total egg production has increased in the South since 1955, all states in the region have not shared in this recent expansion. Mississippi is one of the states in which egg production has increased. Part of the increase in this state undoubtedly is due to the development of egg contracting, which was first introduced in Mississippi about 1957.

PURPOSES OF STUDY

Because of the effects contract production has had on the broiler industry, the development of contracts for egg production has aroused much interest. The question arises whether contracting will develop to the same extent for egg production as it has for broiler production, and, if it should, whether its effects on the market-supply relationship and on the geographical pattern of production would be as great for eggs as for broilers.

A study was initiated in 1959 to examine the contracts in use in certain areas in Mississippi, to determine the reasons for their development and adoption, to learn the attitudes of producers and contracting firms toward the limited experience they had had with contracts, and to study the methods and policies of credit institutions in financing egg production. Some of the findings of this study were published last summer. This report is concerned primarily with ways in which the credit requirements of egg producers in Mississippi were affected by the egg contracts.

Sources of Data

Data and information on the use of egg production contracts in Mississippi and on attitudes toward the use of such contracts were obtained from 11 contracting firms who sold feed and other supplies to farmers and who contracted with farmers for the production of commercial eggs. The areas in which these contracting firms op-

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1Agricultural Economist, Farm Economics Division, Economic Research Service, U. S. Department of Agriculture. The author expresses gratitude to Dr. Fred L. Garlock, Farm Economics Division, ERS, and to Dr. A. D. Seale, Jr., Professor, and to Mr. John C. Sims, formerly Research Assistant, Department of Agricultural Economics, Mississippi State University, for their assistance in planning the study and reviewing the manuscript.

2Sims, John C., "Contractual Arrangements in Mississippi Commercial Table Egg Industry", AEc. M. R. No. 33, Mississippi Agricultural Experiment Station, June, 1961.
erated consisted chiefly of Alcorn, Tishomingo, Prentiss, Lee, and It- 
tawamba counties in the north-
eastern part of the state and the 
south-central counties of Hinds, 
Rankin, Scott, Newton, Lauderdale, 
Copiah, Simpson, Smith, Jasper, 
Scott, and Clarke.

Information was also obtained 
from a random sample of 84 con-
tract producers who lived in these 
areas and from an equal number 
of independent producers, some of 
whom lived outside these areas.

Information on credit used by 
egg producers was obtained from 
20 lending institutions, including 
local banks, production credit as-
 sociations, Federal land bank asso-
ciations, and local offices of the 
Farmers Home Administration in 
the above counties. Officers of 
these institutions were interviewed 
and information was obtained on 
loans made by the institutions to 
151 of their borrowers who pro-
duced commercial eggs. The data 
do not include credits that may 
have been obtained by these pro-
ducers from other sources. More-
over, although the 151 producers 
included virtually all egg produc-
ers whom the institutions visited 
were financing, they may not be 
representative of all producers in 
the contracting areas or of egg 
producers in other parts of the 
state.

**CONTRACTING FOR EGG PRODUCTION IN MISSISSIPPI**

**Reasons for Contracting**

Both contracting firms and con-
tract producers were asked why 
they had undertaken contract pro-
duction of eggs. Although various 
reasons were given, they added up 
to the fact that contracting pro-
vided both groups with opportuni-
ties to expand their operations and 
income.

Several of the contractors re-
ported that contracting offered a 
way of increasing sales of feed 
and other supplies; others said 
in more general terms that con-
tracting looked like a good business 
venture. A reason given by sev-
eral contractors was that they were 
interested in helping farmers to 
develop other sources of income 
since cotton and other row crops 
were declining in importance.

The contract producers, when 
asked the same question, mainly 
gave reasons why they were pro-
ducing under contract. About 60 
percent stated that their com-
mercial egg enterprise had either re-
placed cotton and other row crops 
or supplemented other sources of 
income. However, a number re-
ported that contractual arrange-
ments provided a guaranteed mar-
ket for their eggs or that contracts 
enabled them to produce eggs with 
less capital investment and fewer 
risks than would otherwise have 
been the case.

Although most contract egg pro-
grams were originally promoted 
through the initiative of contract-
ing firms, many producers were 
anxious to become a part of these 
programs after they were started. 
When producers were asked wheth-
er they or the contracting firm 
made the first move to arrange 
for producing eggs under contract, 
70 percent replied that they made 
the first inquiry while 30 percent 
said the contracting firm made the 
first move.
A factor influencing the producers to enter contract programs was the difficulty and risk in obtaining necessary capital for egg production. While they were looking for an enterprise to replace reduced acreages of row crops, many were fearful of the risks involved in investing the large amount of capital necessary to enter the egg laying business as independent producers. Through contracting arrangements, they could get assistance in obtaining needed capital and in finding markets for their eggs and under some types of contracts they could pass most of the risks of production and marketing to the contracting firm.

The contractors realized that in order to expand their feed and supply businesses they either would have to help farmers obtain capital and get better markets for their eggs or else themselves supply capital and take over the marketing of eggs. Either way they became involved in egg marketing. Contractors thus became involved with chain stores and other large egg buyers who were interested in lining up dependable sources of large quantities of uniformly high quality eggs. The contractors found that contracting enabled them to develop larger and more stable volumes and thereby to reduce their unit cost of operation. They also have found that by contracting they could bring about a more rapid adoption of technological improvements in production and distribution than otherwise would occur in their areas.

**Firms Offering Contracts**

A large cooperative and 10 other firms were found to be contracting for commercial egg production in those parts of Mississippi covered by this study. The cooperative is a purchasing and marketing association—a federation of the county cooperatives located throughout the state. Not all of the member cooperatives, however, contracted for eggs. Six of the other contracting firms began operations as feed businesses. Four firms started in some other line of business. One was a farmer who later purchased a small mill and started mixing feed. Three started as general stores which sold farm supplies. Later they added feed mills as a part of their businesses.

In addition to their feed operations, most of the contracting firms had taken on other functions of commercial egg production. Six of the eleven firms had their own hatchery supply flocks and five had their own hatcheries. Ten of the eleven had their own processing stations or financial interests in stations through which their eggs could be processed and market arrangements completed.

**Size of Contract Operations**

Despite the short time egg contracting had been in existence in Mississippi, the 11 firms covered by this study had 497 producers under contract in 1959. The cooperative had more than one-half of these contracts and the other 10 contractors had an average of about 20, ranging from 4 to 35 per firm.

The sizes of producers’ flocks in 1959 varied but two-thirds were in the 2,000-3,000 size group, as shown by the following tabulation.

<table>
<thead>
<tr>
<th>Size of Flock</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1,000</td>
<td>0.2</td>
</tr>
<tr>
<td>1,000 to 1,999</td>
<td>3.0</td>
</tr>
<tr>
<td>2,000 to 2,999</td>
<td>67.5</td>
</tr>
<tr>
<td>3,000 to 3,999</td>
<td>8.2</td>
</tr>
<tr>
<td>4,000 to 4,999</td>
<td>14.7</td>
</tr>
<tr>
<td>5,000 and more</td>
<td>6.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
</tr>
</tbody>
</table>
When asked about future plans for expanding production, 6 of the 11 contracting firms, including the cooperative, reported that they planned to increase both the number of producers under contract and the average size of flock. Three dealers planned to keep the same number of producers under contract, but to increase the number of hens per producer. One contractor reported that he had no plans for expansion; only one planned to decrease the size of his operation.

According to the contracting firms, the number of producers that they will try to place, or keep under contract, will be determined largely by the market outlets for eggs. About 50 percent of the contractors mentioned this as the most important consideration in changing the number of producers. Other considerations included the need for enough producers to result in an economical size of operation and sufficient sales to show a net return to the agency.

**Types of Contracts**

None of the 11 contracting firms covered by this study offered more than one type of contract for egg production. However, the contracts offered by these firms differed in various ways. Broadly, they may be grouped into two classes: (1) guarantees and (2) marketing arrangements.

The guarantee contracts were divided further into (a) those that guaranteed payment of a specified number of cents per dozen eggs, and (b) those that guaranteed payment of a specified amount per thousand hens.

**Provisions of Contracts**

The guaranteed payment per dozen eggs was most prevalent. Seven of the 11 contracting agencies offered this type of contract.

Under this type of arrangement, the contracting firm furnished the chicks or pullets, feed, medicine, and supervision necessary for the production of quality eggs. The producer furnished the laying house, equipment, and necessary labor to carry out the laying operation. As a return for his labor and investment, the producer was guaranteed a price of from 5 to 6 cents per dozen eggs.\(^3\) In all but one of the guarantee contracts this payment was for all eggs produced; in the one exception, payment was guaranteed only for Grade A and B eggs. A few of the contracts carried bonus provisions under which the producer could make several cents per dozen above his base guarantee. The bonus provisions varied with different contracts but were usually based on feed efficiency, mortality, and rate of lay, or a combination of these. If there were not sufficient returns from egg sales to cover all of the direct production costs, the contracting agency sustained the loss.

Guaranteed payments per thousand hens were offered by two contracting agencies. Basically this is the same as the contract described above, except that the producer is paid on a monthly base per thousand hens kept. At the time this study was made, the monthly rate paid by both agencies was $75 per thousand hens for the first month and $100 per month for each succeeding month.\(^4\)

\(^3\)An exception was the 1 contractor who paid his producers 10 cents per dozen eggs.

\(^4\)This rate of payment was for producers using started pullets. If the producer started with baby chicks, he received 1 cent per week per chick until the chicks reached laying age.
Contracts offered by the cooperative and one other firm were marketing agreements only. Under this type of arrangement, the producer purchased the hens, feed, and other supplies necessary for producing eggs. He owned the house and all equipment and provided labor for producing the eggs. He agreed to purchase his feed from the contracting firm which in turn agreed to find a market for all of the producer's eggs. Eggs were delivered to the contracting agency and payments for the production items were made from egg sales. There was, however, no agreement as to the price the producer would receive for his eggs. If the returns from the egg sales were not sufficient to cover the feed, chicks, and other supplies, the producer sustained the loss.

The cooperative had a marketing arrangement which was unique in that it included a financing agreement. Under this agreement a lending agency, in most cases a commercial bank or a production credit association, provided funds to qualified producers for the construction of the laying house and equipment and, in some cases, for production expenses such as feed and chicks or pullets. The lending agency became a party to the agreement and the cooperative agreed to reimburse the lending agency for losses up to 10 percent of the amount of the loan if the producer did not pay in full.

Selection of Producers

In contracting for egg production, the contracting firms had to choose from among persons with varying backgrounds and qualifications. Some farmers had been in the egg business on a small scale for a number of years. Others had been producing broilers. Some farmers had no experience in either broiler or egg production.

Each contracting firm had certain standards for the producers with whom it entered into contracts. Several of these standards were common to all contracting firms. In addition to the usual requirement that the producer be honest and of good character, he must live on the farm and be willing to follow directions provided by the contractor (take supervision). Most contractors wanted the producer to devote full time to the laying hen enterprise. Some contractors required that the farmer have a recommendation from his banker.

None of the contractors required producers to have previous experience in producing eggs. In fact, half of them preferred that their producers not have previous experience with laying hens. They preferred to supply producers with instructions, through their service men, that would outline almost by the hour how and when to carry out the management phases of the laying enterprises.

Contractors followed no set policy in finding farmers to produce eggs under contract. They stated that about as many farmers approached them as were approached by them. Some contractors advertised for producers, selected the more promising ones, and put the others on a waiting list. The number of producers that a dealer was willing to put under contract was determined largely by the market outlets he could establish for eggs.

When contracting began, most producers started with units of
2,000 hens. When this study was made, only two dealers reported that they would consider producers with flocks of less than 2,000 hens. Most said that they now preferred units of 4,000 to 6,000 hens. Units of this size provided more income on which to maintain the farm family and tended to keep the farmer fully employed. Most dealers said that the maximum size flock that they would contract for was 8,000 hens.

**Modifications of Contracts**

Since many contracts were in their first year, there had been little opportunity for making changes. Only three contractors had modified the terms of their contracts during their brief experience with contracting. One has added a bonus plan to his guaranteed price per dozen eggs. The other two had made a change in the guarantee per dozen eggs sold—one reduced the flat guarantee and the other reduced the amount of the payment for dirty eggs. Most of the dealers were satisfied with their present arrangements but nearly half of them indicated that the contract should include an incentive or bonus plan based on efficiency factors. Five dealers reported that they planned to make some changes in their contracts, most of which would be directed toward improving the efficiency of their producers.

**FINANCING OBTAINED BY EGG PRODUCERS FROM SELECTED LENDERS**

The rapid expansion of egg production in Mississippi during the two or three years before this study was made required large investments by contractors and producers for layer houses and equipment, chicks, feed, and other supplies. Since many producers had to borrow heavily in order to make these investments, a separate study was made of the credit obtained by 151 producers who had financed their operations through selected banks, production credit associations, Federal land bank associations, and the Farmers' Home Administration. Most of the loans studied were obtained by these producers in 1958 and the first half of 1959; a few were obtained as early as 1956. The borrowers were predominantly contract producers, but some were independent producers.

Data presented on these borrow-ers show only the amounts of credit they obtained from the indicated lenders for the production of eggs and for other agricultural purposes. The amount of capital invested by contractors in pullets, feed, and other supplies under guarantee contracts was not obtained.

**Financial Condition of Producers**

The financial condition of the borrowers at the time they first arranged for the financing needed is reflected by Table 1. As nearly all borrowers produced other agricultural products, the size of their farms had considerable influence on their asset structures. On the average, the independent producers had the largest farms and owned assets more than double the value of those owned by the contract producers. Debts of the independent producers were also largest, but their net worths averaged about twice as large as those
Table 1. Average value of assets and liabilities of 144 egg producers using indicated credit sources at the time of applying for loan, Mississippi, 1956-59

<table>
<thead>
<tr>
<th>Item</th>
<th>Independent producers</th>
<th>Contract producers</th>
<th>Guarantee Marketing</th>
<th>All producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of producers</td>
<td>144</td>
<td>116</td>
<td>116</td>
<td></td>
</tr>
<tr>
<td>Average size of farm, acres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm real estate</td>
<td>24,568</td>
<td>13,295</td>
<td>12,953</td>
<td>14,930</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>5,910</td>
<td>2,162</td>
<td>2,982</td>
<td>2,946</td>
</tr>
<tr>
<td>Livestock and poultry</td>
<td>6,695</td>
<td>1,598</td>
<td>2,273</td>
<td>2,549</td>
</tr>
<tr>
<td>Financial</td>
<td>3,127</td>
<td>944</td>
<td>468</td>
<td>1,155</td>
</tr>
<tr>
<td>Other farm</td>
<td>1,483</td>
<td>796</td>
<td>1,326</td>
<td>1,037</td>
</tr>
<tr>
<td>Other nonfarm</td>
<td>2,227</td>
<td>550</td>
<td>597</td>
<td>818</td>
</tr>
<tr>
<td>Total</td>
<td>44,010</td>
<td>19,345</td>
<td>20,599</td>
<td>23,435</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial banks</td>
<td>1,610</td>
<td>797</td>
<td>654</td>
<td>885</td>
</tr>
<tr>
<td>Federal land banks</td>
<td>1,471</td>
<td>406</td>
<td>817</td>
<td>674</td>
</tr>
<tr>
<td>Production credit associations</td>
<td>1,679</td>
<td>293</td>
<td>364</td>
<td>523</td>
</tr>
<tr>
<td>Farmers' Home Administration</td>
<td>791</td>
<td>187</td>
<td>0</td>
<td>231</td>
</tr>
<tr>
<td>Dealers</td>
<td>412</td>
<td>86</td>
<td>131</td>
<td>147</td>
</tr>
<tr>
<td>Others</td>
<td>2,049</td>
<td>477</td>
<td>724</td>
<td>761</td>
</tr>
<tr>
<td>Total</td>
<td>8,012</td>
<td>2,246</td>
<td>2,690</td>
<td>3,241</td>
</tr>
<tr>
<td>Net worth</td>
<td>35,998</td>
<td>17,099</td>
<td>17,909</td>
<td>20,194</td>
</tr>
</tbody>
</table>

1Data were not obtained for 7 producers.

Table 2. Percentage distribution of 151 egg producers borrowing from selected lenders, by net worth at the time of applying for loan, Mississippi, 1955-59.

<table>
<thead>
<tr>
<th>Net Worth</th>
<th>Independent producers</th>
<th>Contract producers</th>
<th>Guarantee Marketing</th>
<th>All producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $5,000</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>$5,000 to $9,999</td>
<td>5</td>
<td>14</td>
<td>24</td>
<td>15</td>
</tr>
<tr>
<td>$10,000 to $14,999</td>
<td>18</td>
<td>37</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>$15,000 to $24,999</td>
<td>23</td>
<td>34</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>$25,000 to $49,999</td>
<td>32</td>
<td>9</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>$50,000 and more</td>
<td>18</td>
<td>2</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

of the contract producers.

The larger financial resources of the independent producers is reflected also by the distribution of the producers according to net worth (Table 2). Half of the independents, compared with only about 10 percent of the contract producers, had net worths of $25,000 or more. These data might be interpreted to mean that the contract producers had sought contracts because they were less able than the independent producers to assume the risks of producing on their own. However, those who had marketing contracts assumed nearly as large risks as did the
independent producers and yet their net worths averaged only slightly larger than those of the producers who had guarantee contracts.

On the average, the producers who financed their operations at commercial banks and the Federal land banks had the largest net worths whereas those who obtained financing from the Farmers’ Home Administration were in the weakest financial position (Table 3).

**Relative Importance of Sources of Credit**

The production credit associations were the major sources of loans to the 151 borrowers obtaining credit from the indicated lenders, (Table 4). They extended about 86 percent of the loans used by these borrowers for current production, (pullets, feed and other supplies) and nearly 60 percent of the credit used for facilities (laying houses and equipment). Banks were the only other source of production loans, and were the second most important source of facility loans for the borrowers who had guarantee contracts. For independents and producers who had marketing contracts, the Federal land bank was the second most important source of facility loans.

**Average Amount of Credit Obtained**

On the average, the independent producers obtained loans amounting to more than $11,000 each during the period covered, compared with about $8,500 for the producers with marketing contracts and $6,700 for those with guarantee contracts (Table 5). Some of the money borrowed was used for general farming purposes and to repay other debts but the greater part was used to establish and conduct egg laying operations—chiefly to obtain housing and equipment.

The difference between the financial obligations assumed by guarantee contract producers and those assumed by independents and producers having marketing agreements is shown clearly by the relative amounts borrowed for production expenses. Under the guarantee contracts, the contracting firm furnished the pullets, feed and most other current expense items as its part of the arrangement. As the guarantee contract producers did not have to buy these, their borrowings for current expenses of egg production were negligible. In contrast, the independents and the producers with

<table>
<thead>
<tr>
<th>Lending Agency</th>
<th>Number of producers¹</th>
<th>Size of Farm</th>
<th>Net worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production credit association</td>
<td>84</td>
<td>109</td>
<td>19,668</td>
</tr>
<tr>
<td>Bank</td>
<td>34</td>
<td>120</td>
<td>26,770</td>
</tr>
<tr>
<td>Farmers’ Home Administration</td>
<td>15</td>
<td>111</td>
<td>14,102</td>
</tr>
<tr>
<td>Federal Land Bank</td>
<td>11</td>
<td>163</td>
<td>26,744</td>
</tr>
</tbody>
</table>

¹Data were not obtained for 7 producers.
marketing contracts had to buy the pullets and feed for their operations, and the data show that they borrowed substantial amounts for this purpose.

Independent producers had, on the average, the largest flocks (5,000 hens at the time the study was made) but they borrowed somewhat less for facilities than did producers with guarantee contracts. As many of the independents had been producing eggs for years, the facilities acquired with the loans probably did not represent all of their production facilities. But egg production was new to many of the contract producers. Of these producers, those with guarantee contracts had flocks of largest average size (4,200 hens compared with 2,600 hens for producers with marketing agreements) and borrowed the largest amounts for facilities.

Interest Rates

Interest rates on loans ranged between 4 and 8 percent. More than 80 percent of the loans were obtained at either 5 3/4 or 6 percent (Table 6). Only 7 percent were obtained at rates higher than 6 percent. In general, rates averaged slightly higher on loans for production purposes than on those for facilities. No loans were obtained for production purposes at less than 5 3/4 percent. All of the production loans were obtained from the production credit associations and commercial banks. The rates charged by the production credit associations averaged slightly lower than those charged by the banks.

Interest rates on facility loans ranged from 4 to 8 percent but on 60 percent the rate was 6 per-

<table>
<thead>
<tr>
<th>Lending agency</th>
<th>Production credit association</th>
<th>Bank</th>
<th>Farmers' Home Administration Land Bank</th>
<th>Federal land bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans for facilities obtained by</td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
<td>Total</td>
</tr>
<tr>
<td>Independent producers</td>
<td>72</td>
<td>59</td>
<td>41</td>
<td>28</td>
<td>22</td>
</tr>
<tr>
<td>Contract producers</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Guarantee producers</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
cent and on 33 percent it was less than 6 percent. The rates charged on loans obtained by independent producers for facilities tended to be slightly lower than those for either of the contract groups. Among the lenders that financed construction of facilities, the Farmers' Home Administration and the Federal land bank charged the lowest rates of interest.

**Term of Loans**

The terms of the loans were related to the purposes for which they were obtained and to the type of lending agency making the loans (Table 7). Production loans, which were obtained only from the production credit associations and the commercial banks, usually matured in relatively short periods; 71 percent were written to mature within 1 year. Loans obtained by independent and guarantee contract producers usually had terms of 1 year or less, whereas the majority of loans obtained by market contract producers had terms longer than 1 year.

Facility loans sometimes ran considerably longer—a few for more than 20 years. However, 66 percent were written for 1 year or less, and 18 percent for periods ranging up to 6 years. The loans of short duration were obtained from production credit associations and commercial banks. Contract producers with marketing arrangements had more facility loans with 1 to 6 year maturities than did either independents or producers under guarantee contracts. Many of the loans to market contract producers were obtained from the production credit associations under their lending agreements with the cooperative. Commercial banks made most of their facility loans for 1 year. However, some were payable on demand. Usually loans unpaid at the end of 1 year could be extended. The facility loans written for periods longer than 6 years were obtained from the Farmers' Home Administration or the Federal land bank.

**Security**

Most lending agencies do not consider poultry alone as sufficient collateral for a loan. The tendency in the cases studied was for most loans for both current production and facilities to be secured with real estate mortgage. All but

**Table 5.** Average amount of loans obtained by 151 egg producers from selected lenders by purpose of loan, Mississippi, 1956-59.

<table>
<thead>
<tr>
<th>Item</th>
<th>Independent producers</th>
<th>Contract producers</th>
<th>All producers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
</tr>
<tr>
<td>Number of producers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building poultry houses</td>
<td>5,213</td>
<td>5,802</td>
<td>4,825</td>
</tr>
<tr>
<td>Production expenses (feed and pullets)</td>
<td>4,626</td>
<td>122</td>
<td>3,361</td>
</tr>
<tr>
<td>Paying other debts</td>
<td>1,243</td>
<td>52</td>
<td>44</td>
</tr>
<tr>
<td>General farm purposes</td>
<td>11,082</td>
<td>6,742</td>
<td>8,468</td>
</tr>
<tr>
<td>All purposes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6. Percentage distribution of loans obtained by 151 egg producers borrowing from selected lenders for production and facilities, by interest rate, Mississippi, 1956-59.

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>Loans for production obtained by</th>
<th>Loans for facilities obtained by</th>
<th>All loans to producers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Independent producers</td>
<td>Contract producers Guarantee Marketing</td>
<td>All producers</td>
</tr>
<tr>
<td>4 percent</td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>4 1/2 percent</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5 percent</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5 3/4 percent</td>
<td>9</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>6 percent</td>
<td>86</td>
<td>57</td>
<td>80</td>
</tr>
<tr>
<td>6 1/2 percent</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>8 percent</td>
<td>5</td>
<td>29</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 7. Percentage distribution of loans obtained by 151 egg producers for production and facilities by term of loan, Mississippi, 1956-59.

<table>
<thead>
<tr>
<th>Term of loan</th>
<th>Loans for production obtained by</th>
<th>Loans for facilities obtained by</th>
<th>All loans to producers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Independent producers</td>
<td>Contract producers Guarantee Marketing</td>
<td>All producers</td>
</tr>
<tr>
<td>1 year and less</td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>1.1 to 5.9 years</td>
<td>98</td>
<td>86</td>
<td>28</td>
</tr>
<tr>
<td>6 to 10.9 years</td>
<td>2</td>
<td>14</td>
<td>72</td>
</tr>
<tr>
<td>11 to 20.9 years</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>21 years and more</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
3 percent of the loans were secured at least partially by real estate mortgages; 79 percent were secured by first mortgages (Table 8). Even with the production loans, 69 percent were secured by first mortgages. Chattel mortgages were accepted as security for loans more frequently by banks than by the production credit associations, but the percentage of loans so secured was not large. All loans obtained from the Federal land bank were secured by first mortgages.

**Repayment Plan**

The method of repayment was tied closely to the purpose for which the loans were obtained and the type of lending agency making the loans. Of the loans obtained, 73 percent were set up on a monthly repayment plan. All of the production loans obtained from production credit associations and half of those obtained from commercial banks were to be repaid on a monthly basis, (Table 9).

Almost 63 percent of the facility loans were on a monthly repayment schedule. Most of these loans were obtained from production credit associations and commercial banks by independent and guaranty contract producers. Almost three-fourths of the loans to market contract producers were to be repaid on a semi-annual or annual basis. These loans were obtained chiefly from the production credit associations and the Federal land bank.

**Conclusions**

The data used in this study were collected in 1959. Since then, egg production in Mississippi has continued to increase rapidly. According to trade reports, some of the contracting firms have enlarged their operations greatly. Egg production in Mississippi appears to be following a pattern established earlier in the broiler industry. With broilers, contracting provided a means of integrating the various phases of production and marketing and increasing the efficiency of the industry. It brought larger-size units of production, lower costs, and an expanded market. This seems to be happening in the egg industry in Mississippi. To the extent that its development continues in this direction, capital requirements of egg producers in Mississippi will continue to increase and local credit institutions will be requested by such producers to provide additional financing.
Table 6. Percentage distribution of loans obtained by 151 egg producers for production and facilities by type of security, Mississippi, 1956-59.

<table>
<thead>
<tr>
<th>Type of security</th>
<th>Loans for production obtained by</th>
<th>Loans for facilities obtained by</th>
<th>All loans to producers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Independent producers</td>
<td>Contract producers</td>
<td>Marketing</td>
</tr>
<tr>
<td>First mortgage on real estate</td>
<td>62</td>
<td>86</td>
<td>76</td>
</tr>
<tr>
<td>Second mortgage on real estate</td>
<td>20</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Chattel mortgage</td>
<td>9</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>First mortgage on real estate and chattel mortgage</td>
<td>9</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>First and second mortgage on real estate</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>All mortgages</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 9. Percentage distribution of loans obtained from selected lending agencies for production and facilities, by repayment plan, Mississippi, 1956-59.

<table>
<thead>
<tr>
<th>Repayment plan</th>
<th>Loans for facilities obtained from</th>
<th>Loans for production obtained from</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production credit associations</td>
<td>Banks</td>
</tr>
<tr>
<td>Monthly</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Quarterly</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Semi-annual</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annual</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
Digest

1. Despite the short time egg contracting had been in existence in Mississippi at the time of this study, 11 firms in selected areas had 497 producers under contract to produce eggs.

2. Broadly, contracts were grouped into two classes, guarantees and marketing arrangements. Guarantee contracts were further divided into two types, (a) those that guaranteed payment of a specified number of cents per dozen eggs, and (b) those that guaranteed payment of a specified amount per thousand hens.

3. A large cooperative association and one other firm offered marketing contracts; 9 firms offered guarantee contracts.

4. Both the contracting firms and the producers they had under contract stated that contracting provided opportunities for expanding their operations and income. For the contracting firms, the contracts provided a dependable source of high quality eggs. Producers like the contracts because they provided a market for their eggs and, in the case of the guarantee contracts, a means of shifting part of the financial risks of egg production to the contracting firms.

5. The contracting firms stated that the number of producers they would try to keep under contract would depend largely on their market outlets for eggs.

6. As a general rule, the producers who operated under contracts were less strong financially than those who continued to operate independently. Assets and net worths of the contract producers averaged only about half as large as those of independent producers.

7. The rapid increase in egg production in Mississippi in the last few years preceding this study required a heavy investment by both producers and contractors in pullets, feed, equipment and laying houses. Many producers had to borrow heavily in order to make these investments.

8. A sample of 151 egg producers who borrowed from selected lenders was included in the study. Production credit associations loaned the largest amount to these borrowers. Banks were the next most important source. Both the Federal Land Bank and the Farmer’s Home Administration provided some loans for laying houses. No attempt was made in the study to estimate the amounts of capital and credit furnished to egg producers either directly or indirectly by feed dealers and other contractors.

9. Among the 151 producers who financed their operations through these institutions, the producers with guarantee contracts borrowed the smallest amounts. This was chiefly because they did not need credit for pullets and feed. The contracting firms furnished these production inputs as their part of the arrangement, and they also absorbed the loss if the cost of these items was not covered by returns from sales of eggs.