

Plain Dirt Financing

Financial Information for Amish Farmers

December 2007

Economic Climate—the local impact

By Bill Kitsch

I once heard it asked “Why did God create economists?” The answer was surprisingly true “to make the weather forecasters look good!” But, knowing that it is easier to predict the weather than the economy has not stopped us from being captivated by the latest economic forecasts.

Very often I hear the question “What are interest rates doing?” Answering that question, which I will not answer in this article, is not as simple as it may seem. The real question that should be asked is “How will the economic forecasts affect my business, my family, my future?” Most people boil all that down into a question about interest rates.

So, I ask you “How are you doing?” As you ponder an answer to that question let me set the table for you. Some say our economy is growing, and some say it is not. Some say interest rates are climbing, and some say they are falling. Some say we are taxed too much, and some say we should be taxed more. We know that energy prices are high compared to last year, but some say they will be higher next year and some say that will be lower. And last but not least, some say milk prices are going higher, but some say they will not last.

My grandfather used to tell me “Plan for the worst and hope for the best!” This is how I have learned to judge the economic climate. So, if I left you scratching your head let me help you out.

The Amish community has experienced many good times. These good times came from the diversification of income found within the community. As I prepared for this article, I found three main areas where an Amish farmer can seek employment: farming, trades, and crafts. Most of us know what farming is, but we have not thought much about trades and crafts. I found myself making a distinction between trades and crafts, because the economic outlook is very different between the two. I identified trades as carpentry, roofing, siding, framing, and construction in general. Crafts are things like cabinetry, quilting, woodworking, and metal working – jobs done in a shop. Each of these areas has contributed to the success of the Amish community, but they all have different outlooks. Now for the difficult question “How will the larger economy affect the Amish community?” As I sum up the economy, I see three areas of concern – all affecting our industries differently.

The area that gets the most amount of news is “energy costs.” There is no end in sight for the rise of energy costs. Long and short of it, there is not enough oil to meet the growing demand. For you farmers, this is a good and bad thing. A tremendous amount of corn and soybeans are going into the production of ethanol. If you are selling your corn you are great, but if you are buying lookout. Those of you working in the shop, this is probably your largest concern. Your costs are up and your potential customer has less money to spend as a result of paying more to heat their homes. This could be a gem in the rough for the tradesman. As energy prices climb, renovations to save money on energy become more feasible, such as replacing those old leaky windows.

The second area to look at is exchange rate, or value of the dollar. This one is hard to explain because for most of us, our dollar is worth a dollar. But in reality the dollar is not worth as much as it was last year compared to other currencies around the world. This is good news for many, especially those who produce goods that are shipped outside the United States. The falling value of the dollar makes imported goods more expensive for Americans and exported goods less expensive for those outside the United States. One of these exports is milk components. As the dollar weakens, demand for our milk product increases pushing the price up. And just like milk, our homemade products are more affordable. I was recently in a kite shop in Mystic, Connecticut and the shop owner asked if I knew anyone who could make windmills for him.

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Fannie Mae? Freddie Mac? Farmer Mac?

By Dale Peifer

Who are these people? Actually, they aren't the names of people at all! But they are terms that relate to the secondary mortgage market. This is the program which we've made reference to in a number of our newsletters in the past several years, as we explained the financing we can provide for residential properties. You may have heard the terms before – but may not have had a clear understanding of their meaning. In this article, we will explain each one so you have a better idea of what each program offers.

Secondary Mortgage Market – these companies and lenders (including *Fannie Mae*, *Freddie Mac*, *Farmer Mac*) provide the outlet for lenders (such as Farm Credit) to sell their mortgage loans into the secondary market. This allows lenders to replenish their funds so they can originate more loans. Wall Street investors in turn purchase stock in those companies. These loans are sometimes referred to as “conforming” loans, meaning they meet the requirements for, or conform to the secondary market.

The other most common option for mortgage lending is the *Primary Mortgage Market* – this is direct lending by an institution. An example the “portfolio” lending Farm Credit does, is primarily for “full-time” farms.

- **Fannie Mae*** is the nickname for the Federal National Mortgage Association. It was created in 1938 by President Roosevelt to provide a consistent supply of mortgage funds. Today it is a publicly traded shareholder owned company with a public mission – to provide mortgage bankers (such as Farm Credit) and other lenders enough money to lend to home owners at low, favorable rates.
- **Freddie Mac*** is the nickname for Federal Home Mortgage Corporation. This was chartered by Congress in 1970 to expand opportunities for home ownership and affordable rental housing. It has a very similar mission as Fannie Mae.
- **Farmer Mac** is the nickname for Federal Agricultural Mortgage Corporation. This was chartered by Congress in 1987 to establish a secondary market for home loans on larger tracts of land such as part-time farms. *Farmer Mac* will accept home loans over the \$417,000 Fannie Mae limit.

**Fannie Mae and Freddie Mac have loan limits that are reviewed, and adjusted annually, depending on the national average home price. The current limit is \$417,000.*

These entities were originally created to provide funds for owner-occupied homes; however, today funds are available for rental properties too.

Residential mortgage rates		
<u>Effective November 28</u>		
Term	Rate	APR
15-year fixed	5.750%	5.781%
20-year fixed	6.000%	6.025%
30-year fixed	6.125%	6.152%

Note: The purchase of Farm Credit stock is not necessary for these types of loans, and our patronage program does not apply.

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He had been buying them from China, but they are now more expensive and his customers will not pay more. I referred him to an Amish woodworker and they will both benefit. This will have little impact on the tradesman because most of his inputs are made in the USA.

Lastly, I am concerned about the credit crisis. Although it is not as bad as it sounds, the old saying “Perception is reality” is ringing true once again. Many lenders are making it more difficult to get a loan, especially for houses. (As a side note: This is why Farm Credit was created, we will be there in the good and bad times.) But, as banks reduce the money available to borrowers, people will need to make harder choices on where to spend their money. This may not affect farmers a whole lot because everyone must eat, but the tradesman and craftsman need to be cautious of this.

All this being said – the answer to our question is this. The Amish community should continue to experience good economic times, but not as good as they have been. Be careful not to over extend yourself. “Plan for the worst, and hope for the best!”

Confidentiality – What you should expect from your Lender

By John Mylin

The dictionary defines confidential as: **Information (spoken or written) shared with another individual who is entrusted to keep the information strictly private.**

I'm sure each of us at one time or another have had the experience of sharing information with another individual and trusting that person not to discuss the matter with anyone else. Whether it is your spouse, accountant, lawyer, physician, minister, trustee, or lender; you have entrusted this individual to keep private information that you do not want shared with others. Hopefully you haven't had the experience of discovering from a third party that someone has betrayed your trust and the disappointment this creates.

Many professions are required by law to keep information about customers confidential. More important than the legal requirement is the obligation to another person who has entrusted you to keep information private. Ensuring that information remains confidential is a duty that requires attention. Many times confidentially is not broken intentionally, but is the result of "saying too much," only to regret it later.

As lenders, financial information is shared with us on a daily basis. We take seriously our obligation to keep confidential information shared with us. You should expect no less from any lender with whom you share private information.

Just as you should expect your lender to keep your financial information confidential, you should also respect the lender's duty to keep information of others private. In my experience this has rarely been an issue, however from time-to-time someone will ask "How is so and so doing" or "Is so and so struggling?" When I'm asked a question like this, I usually respond by saying, "I don't share your financial information with others and the same is true for so and so." We can all be tempted with the desire to know something about others that isn't our business or share with another person something that is isn't their business. A lender must respect the confidentiality of financial information that has been entrusted to him and cannot become involved in conversation that would betray this trust. If this is allowed to occur he needs to be reminded that we were given two ears and one mouth for a reason!

Pennsylvania Sales and Use Tax Alert

Hostetter & Hostetter CPA Quarryville, PA

In recent months the Pennsylvania Department of Revenue has mailed notices to numerous individuals and businesses demanding voluntary compliance for PA Use Tax. Here at our accounting office we have discovered that many individuals are not acquainted with PA Use Tax. PA Use Tax is the six percent tax that is due on the purchase of tangible personal property or taxable services delivered or used in Pennsylvania when PA Sales Tax has not been charged and paid directly to the vendor. Purchases from mail order catalogs, over the Internet or from an out-of-state location are examples of purchases that are subject to PA Use Tax if PA Sales Tax was not paid to the vendor.

Generally, the purchase of items of tangible personal property to be used predominantly and directly in farming operations is not subject to PA Sales Tax. Also, the purchase of repair and replacement parts for machinery and equipment used directly in farming operations, and the labor charge for installation of such parts is not subject to PA Sales Tax.

Following are a few examples of PA Use Tax issues which we have encountered in our office:

- Client purchased trailer load of wood shavings from Canada – shavings sold for dairy cow use – nontaxable. Shavings sold for dog kennel use – should have charged PA Sales Tax
- Tools bought out of state – should pay PA Use Tax if not resold
- Furniture store – properly charged PA Sales Tax on items resold – failed to pay PA Use Tax on furniture kept for own use in the store

Here are a few of somewhat unusual items which are PA Sales taxable for farmers:

- Building supplies, including, but not limited to, materials to build barns
- Computers for general recordkeeping
- Electric fence chargers
- Fencing, if it becomes a permanent part of the real estate
- Greenhouses, Lanterns
- Heaters for milk house, including water heaters

Please Note: The above is not meant to be all inclusive. This is simply a few examples that have been listed.

Specific questions on statutory interpretation may be addressed to the Office of Chief Counsel, PA Dept of Revenue, PO Box 281061, Harrisburg PA 17128-1061. For sales tax general inquiries call – 717.787.1064.

Again, in summary, this article is meant to alert you so you can recognize the issues and/or pitfalls of PA Sales and Use Taxes. Be sure to contact your accountant and/or PA Dept of Revenue with specific questions. It seems like everyone has a unique situation.



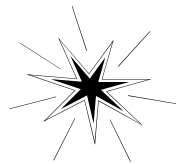
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*The staff at
MidAtlantic Farm Credit
wishes your family a joyous
holiday season and
a prosperous 2008*



Farm Meetings & Events

December

12/24 & 12/25 MAFC offices closed—Christmas

January

1/1 MAFC offices closed—New Year's Day
1/5-1/12 PA Farm Show, Harrisburg
1/8-1/10 Keystone Farm Show, York
1/21 New Holland Vegetable Day, New Holland (Yoder's)
1/21 MAFC offices closed—Martin Luther King Day
1/23 White Horse Hardware—test study session, 9:00 am-11:00 am
1/29 Lancaster County Crop Day—Farm & Home Center
9:00 am-2:30 pm
1/29 White Horse Hardware—test to be given by PDA, 8:30 am-12:00
2+2 points meeting—12:30 pm-2:30 pm

February

2/7 Pequea Planter, Corn Planter/No Till Clinic
9:00 am-2:30 pm, lunch provided
2/12 S & L Greenhouse, 1665 Noble Rd
2+2 points meeting, 12:30 pm-2:30 pm
2/18 MAFC offices closed—President's Day
2/19 Penn State Pesticide 2+2 Meeting, Hoffman Building
9:30 am-12:00 and 6:30 pm-8:30 pm