

# Plain Dirt Financing

Financial Information for Amish Farmers  
October 2008

## What's up With the Economy?

With all the news recently regarding Wall Street, financial firms and others involved in our current economic uncertainty, it is probably worthwhile to reflect upon some of the causes of this situation, as well as the strengths of the Farm Credit System.

As in most bad situations, there is no one single thing to which you can point the finger of blame.

The root of the problem seems to have started with housing lenders with very loose credit standards and easy credit terms. Some lenders were willing to provide 100% of the money needed to purchase a residence. There were housing loans made without the borrower having to provide information on income that was adequate to make payments. Loans set up to pay over 40 years with interest only payments for the first 10 years were available.

It shouldn't be a surprise that some of these high risk lending practices led to home owners being unable to make their payments. Foreclosures and bankruptcies are on the increase and plague some financial institutions. This situation will take some time to correct. All financial institutions that are heavily invested in the housing market face some degree of difficulty. Several financial institutions have either failed, required assistance from the government, or had to merge with another financial institution to remain afloat.

The practice of lending based only on the value of property being purchased; with little regard for repayment ability has contributed to the mess the country is in. Quite frankly, some loans were made that shouldn't have been. The standards to qualify for a housing loan will likely be much higher for the foreseeable future.

Overall, the public has little confidence in the overall economy and especially in lending institutions. There has been much discussion on how to improve this situation. As you might guess, there are many strong opinions. The uncertainty has resulted in tighter lending standards, ups and downs in the stock market, and has many wondering what will happen next.

On the positive side...in a recent message from Bob Frazee, MidAtlantic Farm Credit's president, it was pointed out that despite the turmoil on Wall Street; the Farm Credit System continues to efficiently and reliably provide financing for farmers, ranchers, agricultural cooperatives, farm businesses, and rural communities.

Bob went on to emphasize several strengths of the nationwide Farm Credit system:

### **We remain financially strong:**

- Net income through June 30, 2008 increased as compared to the first six months of 2007, meaning we run a profitable operation
- Credit quality remains favorable with 98.4% of all loans ranked in the highest loan quality classifications as of June 30, 2008. Farm Credit has a long history of writing good loans to good people

### **Farm Credit's mission comes first:**

- Provide credit and related services to agriculture and rural America
- Because borrowers are member/owners, our mission focus is always right in front of our farmer/directors
- Farm Credit institutions do not issue publicly traded stock
- Profits are either returned to borrowers through patronage distribution or are used to capitalize mission-related activity

**Farm Credit has a strong, independent regulatory oversight:**

- The Farm Credit Administration (FCA) is an independent Federal regulatory agency.
- FCA has the full range of regulatory and enforcement authorities
- FCA's experienced, professional staff regularly examines the operations of Farm Credit institutions to ensure compliance with regulations and law

Bob also mentioned that Farm Credit receives no direct funding from the federal government, and has no direct line of credit with the U.S. Treasury.

It's probably important to remember that Farm Credit has been and always will be focused primarily on farm lending. We are able to make housing loans, however our standards and requirements for housing loans are similar to that for farmers. Farm Credit never got into the high risk lending for homes that others have done. Farm Credit remains profitable and committed to returning profits through our patronage program.

While all lenders will be 'paying a price' for the practices of a few, with tighter standards and potentially higher fixed rates, it is good to remember that the Farm Credit System—which has been around for over 90 years—continues to be a reliable source of financing for full-time farmers, part-time farmers and rural residents.

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## Upcoming dates for your Calendar

November 18—Dairy Profitability Forum, Harrisburg (see back page for more information)

November 27-28—MAFC offices closed for Thanksgiving Holiday



January 6-8—Keystone Farm Show, York

January 10-17—PA Farm Show, Harrisburg

April 6—MAFC Annual Meeting at Yoder's in New Holland

Watch for the next issue—we'll provide dates for the winter farm meetings!

Markets at a Glance		
	As of 10/6/08	2007
Corn	\$4.67/bu	\$4.08/bu
Soybeans	\$9.29/bu	\$9.21/bu
Alfalfa Hay	\$175.00/ton	\$150.00/ton
Milk Futures	\$16.35/cwt	\$16.00/cwt
Interest Rates*	6.125%	6.25%

\* 30-year fixed rate/residential

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## 2007 – Summary of Dairy Profit

by John Mylin

I recently was talking with a young dairyman who asked if I noticed that he wasn't making extra payments to principal on his loan like he did in 2007. He went on to explain that the cows were doing well, the crops looked good, and the milk price was above average. Expenses, however, were much higher and while he was handling more money he didn't have as much left over at the end of the month to pay on principal. Overall things were going well, but he just didn't have the profit to get ahead like he did in 2007.

In working with dairymen for many years, 2007 sticks out as one of the most profitable years on the dairy farm that I can remember. In past issues of *Plain Dirt* we have shared some thoughts on how to handle surplus when profits are strong to prepare for times when profits are weak. While this is not the topic of this article, I must compliment this young dairyman for his discipline in paying down principal when he was able and not being entirely satisfied when he was unable.

With 2007 being one of the more profitable years, I thought it may be worthwhile to look back and summarize dairy profit. Each year Farm Credit together with Pennsylvania Farm Bureau completes a dairy herd analysis. This study is based on farm tax returns and the results for 2007 were recently completed. The study shows profit for various size dairies. In the past I have compared information from this study to a 50 cow Plain dairy farm from Lancaster County. Readers have indicated they enjoy financial comparisons, so I thought it would be interesting to look at it again for 2007.

If you look at the chart on [page ?](#), you will see it includes profit from dairies with less than 100 cows to over 250 cows. Also included are the top 10% most profitable dairies and an example of a 50 cow Amish dairy. Several comparisons can be made using this information, however the one I find most helpful is profit/cow. The 10% most profitable dairies in Pennsylvania generated net income of \$1,937/cow. The Amish dairy in this example generated net income of \$902/cow which is similar to other Pennsylvania dairies under 100 cows at \$924/cow. Net income for herds between 101-250 cows was \$978/cow compared to \$923/cow for herds over 250 cows.

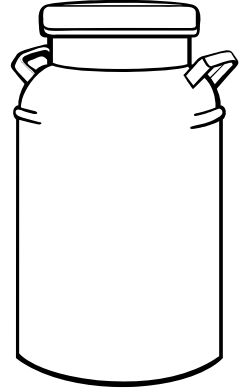
The chart includes all sources of dairy farm income. Milk naturally continues to be the largest source of income with sales of livestock, sale of crops, and other sources contributing to total income. The Amish farm had profit of \$26,869 from tobacco and approximately \$30,000 in wage income from children. Neither income from tobacco or wages were included in order to show a clearer picture for just the dairy.

The Amish farm had total income of \$4,674/cow which is higher than other PA dairies under 100 cows (\$4,464/cow), but less than PA dairies between 100 – 250 cows (\$4,781/cow), and above 250 cows (\$5,042/cow). The Amish dairy had higher cost of purchased feed (\$1,503/cow) than any other size PA dairy. The Amish dairy had no labor expense and minimal interest expense while other dairies under 100 cows had labor expense of \$177/cow and interest expense of \$163/cow. Labor and interest represent significant cost to other PA dairies with cost per cow increasing as herd size grows. Total expenses per cow for the Amish dairies (\$3,772/cow) were higher than other dairies under cows (\$3,540/cow), but lower than other herds over 100 cows.



The Amish farm in this example is the same farm I have used for several years. As indicated above, income from tobacco and wages supplemented profit from dairy. There is no debt on the home farm, however, as is often the case, earnings from dairy, tobacco, and wages from the home farm are being used to make debt payments for the purchase of a second farm. The earnings from the home farm made purchase of a second farm possible.

Using tax returns that show your income and expenses, you can determine how you compare to other dairies in Pennsylvania. Comparisons can help point to areas where you may have an opportunity to improve profit. Improved profit and disciplined used of profit is what allowed the young farmer, described above, to pay down debt and the farmer used in this example to purchase second farm.





# The Lighter Side...

## No Breaks for Firemen

A fire started in the grass close to a farm. The county fire department rushed to the scene, but the fire was more than they could handle. Someone suggested calling the volunteer fire department. Despite some doubt that they would be of any assistance, they were called.

The volunteers arrived in a dilapidated old fire truck. They rumbled straight towards the fire, drove right into the middle of the flames and stopped! The firefighters jumped from the truck and frantically started spraying water in all directions. Soon they had snuffed out the center of the fire, leaving two parts which were easily put out.

As the farmer watched all this, he was impressed and grateful that his house and farm had been spared. He quickly got his check book and donated \$1,000 to the volunteer fire department.

A local news reporter asked the volunteer fire captain how they planned to use the funds.

The captain replied, "The first thing we're gonna do is get the brakes on our fire truck fixed!"



## Farm Horse

An out-of-towner drove his car into a ditch in a desolated area. Luckily, a local farmer came to help with his big strong horse named Buddy.

He hitched Buddy up to the car and yelled, "pull, Nellie, pull!" Buddy didn't move.

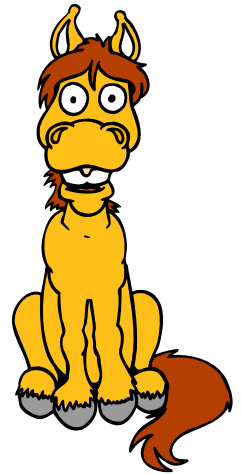
Then the farmer hollered, "pull Buster, pull!" Buddy didn't respond.

Once more the farmer commanded, "pull Coco, pull!" Nothing.

Then the farmer nonchalantly said, "pull Buddy pull!" And the horse easily dragged the car out of the ditch.

The motorist was most appreciative and very curious. He asked the farmer why he called his horse by the wrong name three times.

The farmer said, "Oh, Buddy is blind and if he thought he was the only one pulling, he wouldn't even try!"



## Snow in her Hair

One day a little girl was sitting and watching her mother do the dishes at the kitchen sink. She suddenly noticed that her mother had several strands of white hair sticking out in contrast on her brunette head.

She looks at her mother and inquisitively asks, "Why are some of your hairs white, Mom?"

Her mother replied, "Well every time that you do something wrong and make me cry or unhappy, one of my hairs turns white."

The little girl thought about this revelation for a while and then said, "So Momma, how come ALL of grandma's hairs are white?"



**MidAtlantic**

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## Interested in Dairy Profits?

We know from many farm visits that all dairymen and many who support dairymen are interested in dairy farm profitability. In Pennsylvania, the Center for Dairy Excellence is also very interested in providing support aimed at improving profits for the dairyman. On November 18 the Center for Dairy Excellence will offer a Dairy Profitability Forum that will focus on improving profitability of Pennsylvania dairy farms. The forum offers a look at:

- Low cost solutions for modernizing your dairy
- New technologies emerging for dairy farms
- Resources and programs available to help improve dairy farm profitability
- Best practices working for other PA dairies related to: internal herd growth, per cow managements, and finance management.

We would encourage anyone interested in enhancing dairy farm profitability to consider attending this forum. It will take place at the Farm Show Building in Harrisburg. A bus is available with pick up at the following locations:

**Gap Diner – leaving at 6:45 am**  
**Strasburg Railroad parking lot – leaving at 7:05 am**  
**Bird-in-Hand Restaurant parking lot – leaving at 7:30 am**

The Forum will end at 3:00 pm with the bus returning everyone by 5:00 pm.

**If you would like to register for the forum or a seat on the bus, you may do so by contacting Cerrita Reed at 717-346-0849. Deadline for registration is November 9.**