



Plain Dirt Financing

Financial Information for Amish Farmers



Lessons Learned from the Great Depression *By John Mylin*

The great depression began with the crash of the stock market in 1929. The 1920's were a period of great prosperity that ended on 10/24/09 with the greatest drop in stock market value in history. The most difficult period for the United States was from 1929 through 1933. I suspect that most readers of this newsletter have no recollection of the great depression and have a difficult time imagining it what life was like during this period of our history. For most today knowledge of the great depression comes from stories told by parents or grandparents or reading about the difficulty people faced during this period.

My grandparents were married in 1929 and while they never dwelled on the subject, from time to time they would tell stories about the life they lived during the depression. Living in the country with farm background, I think they were more self sufficient and had an advantage compared to non-farm neighbors. This was most evident in the ability farmers had to produce food for their own families. Long after their children were grown, my grandparents continued to grow and preserve food for their own needs and luckily for me, many of their children and grandchildren. From onions in the spring to pumpkins in the fall they harvested and processed every type of vegetable and fruit you can imagine. I can remember hoeing and picking long rows of vegetables and thinking will this ever end. Whenever as grandchildren we complained, our Grandmother would always say "Think how good this will taste in January when it's snowing and blowing". Those days and my Grandparents are long gone, however the lessons they provided in being self sufficient and living conservatively will always be with me.

Nearly all those who experienced the difficult economic times of the great depression are known for

their frugality and conservative approach to life. Some have suggested current economic times may mirror what people who lived through the great depression experienced. I don't think the current recession is nearly as severe as the great depression; however there certainly are lessons we can learn about how people coped with tough economic times. The following 10 items might best be described as suggestions how to "make do" when times are tough.

- 1 Cautious use of credit.** If you don't have the cash to make a purchase, then don't buy it. If you have credit cards, make sure to pay off the balance, then cut up the credit card(s) and work on paying down what you owe. One of the first lessons learned by people who survived the Great Depression was to never borrow money unless you have a clear plan for how you're going to pay it back. And when layoffs are a reality, expecting to pay for it with your Christmas bonus or your next paycheck is not a sound plan. If you don't have the money to pay for it right now, don't buy it.
- 2 Nurture positive relationships with family and friends.** They will see you through difficult times. But you need to work together and stop being in denial and expect a free ride. Be honest with your family and friends that you are facing difficult times financially. And don't be ashamed—good people have money troubles.
- 3 Enjoy the simple pleasures.** During the Depression, people still had fun, just not lavishly expensive fun. Children had soapbox derbies, teenagers had dance contests, and everyone played Monopoly, did puzzles, and read. Get

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together to play board games, or make crazy quilt pillows, play croquet, and sing. In those days, it took some imagination and ingenuity, but they had a lot of fun without spending much money, and you can too. Many of the friendships and alliances formed during the Great Depression are the basis of such activities stood the test of time.

4 Do it yourself. When money is short, you don't really have a choice—either you do it yourself, or it doesn't get done. Learn how to fix and maintain everything in your home, in addition to your clothes and accessories.

5 See frugality as a virtue. There's a difference between being frugal and being cheap or stingy. A frugal person makes the most of what they have; a cheap person is just focused on not spending money. During the Great Depression, frugality was seen as a positive trait. During the hard times, it'll help you get by, but when things get better, maintaining those habits will help you build wealth. Plus, frugality requires planning, creativity, and critical thinking—all of which are important life skills, regardless of the state of the economy.

6 Treat food with respect. When times get tough—really tough—you appreciate having food on the table. You might never know what it's like to have to eat wet bread for dinner, but you don't have to get to that point to make the resolution to never waste food. "Take all you want, but eat all you take." Cook food from scratch and, if you can, go straight to the source (such as dealing directly with farmers) or become your own source: grow your own food, keep livestock, and gather wild edibles, and/or hunt wild game if possible and legal. Whatever it is that you procure for food, never let it make it to the garbage can without a very good reason.

7 Don't treat your soil like dirt. The importance of soil conservation came to the forefront during the Dust Bowl. Due in large part to destructive farming practices, vast areas of the United States were turned into sterile, lifeless landscapes and many families left destitute.

8 Reuse, reuse, reuse. The amount of stuff you have should already be reduced by your limited spending, and you'll always want to think twice before throwing anything away, whether it's

into the trash or the recycling bin. Get everyone involved, especially children—hold up an item that you would normally throw away and ask, "How can we reuse this?"

9 Practice good domestic skills. Keep your home clean, tidy, organized, and hygienic. For one, you will save money on waste and replacement. But on a powerful level, you can feel more in control of your corner of the world. Whatever your worst expectations of being broke are, living in a dirty, disorganized place is likely to make it seem like they're coming horribly true.

10 Be thankful. Be thankful when you're economically strapped? Of course. Make a list of the top five things you couldn't live without, and chances are, all of those things are not possessions. Most of all be optimistic. As one Great Depression survivor said, "I never thought a cloud was so dark that I couldn't find a silver lining."

Being frugal and spending conservatively is nothing new to the farm community or the readers of this newsletter. I'm sure that many of the ten items above are simply common sense. Given the low milk prices and sluggishness in the general economy, I'm sure our readers have many items on how to stretch a dollar. I recently talked to a farmer who said "I'm not conservative, I'm a tightwad." ■

If you have ideas on how you stretch a dollar that may be of benefit to others, we would like to hear from you. Write your idea down on a post card and mail to:

**Dollar Stretchers
MidAtlantic Farm Credit
680 Robert Fulton Highway
Quarryville, PA 17566**

Hopefully we can make a little fun out of circumstances that are not the most pleasant. If we get enough responses, we will print them in the next issue of *Plain Dirt Financing*. Also, we'll award a \$25 gift card to Tractor Supply to the top three suggestions! Remember to include your name so we can contact you. We won't print your name in the newsletter as you may not want everyone to know you may be a tightwad!

Interested In Farming? Start Right!

By Garret Barbush

Since the beginning of my career with MidAtlantic Farm Credit I've had many wonderful opportunities to work with young people whom are making preparations to begin farming. Whether they are looking to taking over dad's operation, or they are starting from the ground up, it's always an exciting adventure to assist those that understand the value in their commitment and enthusiasm to weather the storm of the financial ups and downs of farm life.

It's the economic times like the one we're currently experiencing when we here at Farm Credit get a lot of questions from young people in regards to starting an operation on their own. With the costs of livestock and equipment being lower than normal we get questions like, "Is it a good time to buy and start-up?" Due to the fact that start-ups have become a bit more risky over the years because of farm earnings not keeping pace with the cost to start farming, we often answer that with our own thought provoking questions.

The Planning and Preparation Process

Have you taken the necessary time to carefully plan and prepare for the journey in which you are about to endeavor upon? This is a crucial process that involves several steps, which will improve your odds of financial success after you start farming. Take the time to follow these steps:

1 Build Self-Discipline to Save—From a financial standpoint, one area you can start preparing for prior to starting deals with your self-discipline to save money that will be used toward the cost of livestock and equipment. The more money you have saved, the less you will need to borrow, and the better your odds of success will be. We often have loan requests from young people who have very little saved toward the cost of the start-up. Occasionally we will approve such request, however, it will require a stronger cosigner or guarantor and we know that the road ahead could possibly be very long and difficult. You should strive to reduce the amount of debt and monthly payment the operation will need to service.

2 Create a Business Plan—Although it may be difficult to find the time to sit down and write out a business plan, it's probably the most important part of the planning and preparation process. It can sometimes be the difference between an approval and denial for a loan request. Business plans prove to financial lenders that your passion, desire, and commitment to start farming are real. Business plans assist you in getting to the mindset that your operation is a business, not a lifestyle. It should include things like the estimation of costs associated with starting to farm and the estimation of cash flow. What livestock and equipment do you need and how much will they cost? What are you projecting in terms of income and expenses? Farm size, herd size, production level, and milk price can all be factors that will cause your costs and cash flow to vary. The last part of the business plan should be a S.W.O.T. Analysis. What are the strengths, weaknesses, opportunities, and threats of the start-up? This will help you keep things in perspective and may provide you with your final decision to start farming.

3 Get the Right People Around the Table—It's important to keep in mind that even as the leader and owner of your start-up operation you will never have all the answers to the challenges you will face. Each time a tough situation presents itself, don't just bluff your way through or flip a coin. Simply resolve the situation to get the right people around the table. This means work with individuals whom have had the most success in their industry. Whether it's with your lender, feed company, nutritionist, or even your father—strive to work with those whom you trust and are the best at what they do. They will be able to provide you with the answers and solutions you don't always have.

**START
RIGHT**
MIDATLANTIC FARM CREDIT



If you are planning to start farming or know someone who is, we would look forward to a visit and discussion of your plans. MidAtlantic Farm Credit puts value in our StartRight Program, which is a set of products and services directed towards any young or beginning farmer. ■

Why Test Your Cows With DHIA

By Jere High, General Manager, Lancaster DHIA

In these tough times there are many things you need to look at to try and cut costs. The easiest is sometimes the things you understand the least or see the least amount of value. The area that makes you money is the quality of your product. For many of you, your product is milk. The better the quality, the more money you can make. The better quality milk your cows produce the more milk they can produce.

In just the area of somatic cell count you can add 1.5 pounds of milk per day, per cow, just by lowering it to half of where you may be now. The average herd is averaging between 300-400,000 SCC. On a 50 cow dairy that would be about 68 pounds of milk, per day, added just by lowering your SCC. Over a year that is about \$5,000. You cannot afford not know what your cows are producing and what the quality of their milk is.

When you do have a cow with a high SCC count, you should have it cultured to know what you can treat her with. Many times a cow is just treated without finding out what bacterial bug she may be infected with. This leads to mistreatments which results in lost milk for several days. Then another drug is used to see if it will work which costs more money than if you had cultured it in the first place. On the average, between milk loss and drug costs, you may spend up to \$100 to mistreat a cow.

At Lancaster DHIA has been offering many different testing plans to help you manage your dairy herd better and gain the dollars you need to stay in business for the next generation. We also offer several other services with our Microbiology Lab and Culture Lab. Our turn around time has helped many dairy producers manage their SCC more effectively. Compared to herds not using Lancaster DHIA services, our customer's herds produce over 2,000 pounds more milk per cow per year.

If you'd like a DHIA representative to meet with you to discuss what services might benefit your herd, call 888.202.3442 to schedule an appointment. ■



Class III Milk Futures (settlement prices as of 9/8/09)	
Month	Price
September 2009	\$12.08
October 2009	\$12.11
November 2009	\$12.95
December 2009	\$13.15
January 2010	\$13.47
February 2010	\$13.50
March 2010	\$13.56
April 2010	\$13.85
May 2010	\$14.07
June 2010	\$14.52
July 2010	\$14.82
August 2010	\$15.00

Review of actual milk prices for 2008 and the first half of 2009, plus the projections for the rest of this year and 2010 are suggesting the average milk price for 2009 will be about \$5.50/cwt lower than 2008's, and the average for 2010 to be about \$3/cwt higher than 2009's. Going forward, that's good news; but not as good as we'd like to see. The income over feed cost charts are showing a little improvement too. The US dollar has weakened a little in comparison to other major currencies in the past few months, which makes our exports more competitive. This, in addition to increased output by some fluid milk plants to cover school milk demand may cause a supply and demand situation resulting in improved prices. We'll wait and see.

Markets at a Glance		
	August 31	Last Year
Corn	\$3.42/bu	\$5.98/bu
Soybeans	\$10.52/bu	\$13.18/bu
Alfalfa Hay	\$165/ton	\$160/ton
Milk Futures	\$12.08/cwt	\$20.00/cwt
Interest Rate*	5.25%	6.00%

*30- year fixed rate—residential

Talking with your creditors during times of stress

By Jerry Phillips

Whoever said farming is “a way of life, and not a business” obviously never milked cows—especially in a year like 2009. That person probably never had to deal with a hail storm like many of you did in August of 2008. That person probably never had a tobacco contract become worthless like many did when Vector tobacco suddenly went away without any warning. That person probably never suffered from the negative cash flow syndrome a lot of you are experiencing right now where there is more month left over at the end of the money rather than more money left over at the end of the month.

During these kinds of times, how can you best keep the channel of communication open with your creditors? Whether they are your lender, your feed supplier, your veterinarian or others that you deal with on a regular basis?

First of all be honest with yourself, your family and your creditors. Recognize that not everyone will survive or may not be able to continue with the type of farming they are presently doing. And you need to be mindful that just because you may need to make some difficult decisions, and you may need to make significant changes, it does not mean that you have failed. It may simply mean that it is time to try something else.

Lenders are also wrestling with how to provide sound advice and appropriate credit decisions during this unprecedented down-turn in the dairy economy. We are extending lines of credit when possible and we are terming out accounts payable (feed bills, taxes, etc) over longer periods of time than we might typically approve, to ease the cash flow burden on the milk check.

There are several factors that come into play when making credit decisions, which are important to understand:

1 Is the operation a viable operation? Is there the opportunity for continued success and profits when the dairy economy turns around? Has the operation shown the ability to be successful in the past; by making payments on time, having a cash reserve, and managing herd performance at an average or above level? Having good farm records to share with your lender is a huge factor in evaluating the possibility of future success.

Is there a plan in place (not just ‘guess work’) to show how things will look in the future?

2 Is there a back-up source of income to complement the milk check? Tobacco, produce and off-farm earnings can be used to make payments when the milk check is insufficient. Coordinating payment schedules with income arrival can be critical in extending additional credit.

3 Is there sufficient collateral to cover additional debt? Lenders evaluate credit by risk, and while few lenders are collateral lenders (collateral is only worth something when it is sold), there needs to be sufficient value in livestock, equipment, or the farm in order to warrant additional credit without jeopardizing a person’s net worth or the lenders ability to be paid in full should a sale occur.

4 Are there co-signers/guarantors available to strengthen the credit decision? Many lenders require co-signers to either strengthen repayment ability or to provide additional collateral. One way this can be accomplished is with an FSA (Farm Service Agency) guarantee, whereby FSA will back-up the request by up to 90% of the loan requested. This provides the primary lender with some additional assurance of performance and lowers the risk for the primary lender. Additional fees and loan conditions are typically involved with an FSA guarantee.

It has often been said that the three most important factors in the real estate world are—location, location, location. In times of industry stress, the three most important factors are—communication, communication, communication...with your family, business partners and your creditors. Being honest, objective, and realistic is vitally important with one another. Having a well developed plan of action, including record of past performance, provides the necessary encouragement for everyone involved to make the best possible decisions. We’re all in this together, and while there may be some difficult decisions to be made, our level of communication with one another is one factor that is vitally important. ■



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Retirement Time

Jerry Phillips has announced his plans to retire effective January 1, 2010. Jerry has dedicated more than 25 years to Farm Credit and the agricultural community.

Within the next few months accounts that have been handled by Jerry will be transitioned to other loan officers. Jerry will be making some joint visits with the staff during the transition period and as of November 1, any new loan requests will be handled by Jerry's replacement. Rest assured, Jerry will be around until December 31—so your account will be handled in the same efficient manner you've grown accustomed to.

At Farm Credit, we wish Jerry the very best as he looks forward to retirement and we hope you will have the opportunity send him your good wishes over the next few months. ■

Meetings and Events

Pennsylvania Dairy Profitability Forum

October 27

9:00 am – 4:00 pm

Farm Show Complex—VIP Room

Harrisburg, PA

Participation is free, however, pre-registration required. Contact the Center for Dairy Excellence at 717.346.0849



Watch the December issue of *Plain Dirt Financing* for winter pesticide and farm meeting dates! ■
