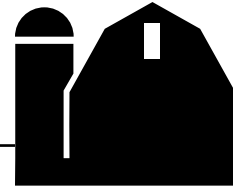


Plain Dirt Financing

Financial Information for Amish Farmers



The Power of Patience and Contentment *By John Mylin*

Who among us at one time or another hasn't faced a situation where being more patient and content would have led to a more favorable outcome? Most of us have no trouble remembering a situation where lack of patience led to a less than favorable outcome that hopefully taught us a lesson. Patience and contentment are virtues that yield benefits in many different situations we all face on a daily basis. Regardless if the situation is family, friendship, church, work, or business; patience and contentment can often yield benefits beyond measure. This newsletter focuses on financial and business topics and it is our hope to illustrate how contentment leading to a patient and measured approach to financial decisions can yield benefits.

The following is an example of two home buyers. Buyer #1, who might be described as less patient and content, decides to purchase an expensive home using a loan of \$200,000. Buyer #2, who might be described as more patient and content, decides to buy a less expensive home using a loan of \$75,000 and later upgrades to a more expensive home after seven years. Both have \$50,000

cash for down payment. Please study the example below making sure to understand the differences between the two home buyers.



Buyer #1

Purchase Price	\$250,000
Down Payment	- 50,000
Mortgage	\$200,000
<i>Monthly Payment at 6% for 30 years</i>	<i>\$1,199.10</i>
Total Payment: \$1,199.10 x 360 months	\$431,676
Plus Down Payment	50,000
Total Amount Paid for the \$250,000 house in 30 years	\$481,676

Buyer #2

1st house —Purchase Price	\$125,000
Down Payment	- 50,000
Mortgage	\$ 75,000
<i>Monthly Payments at 6% for 7 years</i>	<i>\$1,095.64</i>
<i>(pays off the \$75,000)</i>	

Now Buyer #2 sells their house for what they had given and uses the \$125,000 as a down payment on a \$250,000 house like Buyer #1 has.

2nd House —Purchase Price	\$250,000
Down Payment	-125,000
Mortgage	\$125,000
<i>Monthly Payments at 6% for 13 years</i>	<i>\$1,155.90</i>
<i>(pays off the \$125,000)</i>	

Buyer #2's total payments for both houses are as follows:	
1st House—\$1,095.64 x 84 months	\$92,033.76
2nd House—\$1,155.90 x 156 months	\$180,320.40
Plus original down payment	\$50,000.00
Total Amount Paid for the \$250,000 house in 20 years	\$322,354.16

Patience, Continued from page 1

The lesson in this example comes down to choices. Buyers #1 and #2 both had \$50,000 toward purchase of a home. Buyer #1 chooses to buy a more expensive home which required a larger loan that had to be stretched out for 30 years in order to make the payment manageable. Buyer #2 choose to buy a less expensive home which required a smaller loan that they were able to pay in full in 7 years with a monthly payment that was \$100 less than Buyer #1. After 7 years Buyer #2 sold the first home and purchased a second home with a \$125,000 loan that was paid in full over 13 years. After 20 years Buyer #2 was debt free and Buyer #1 had 10 years left to pay.

Make certain to note the financial consequences between the two buyers. For houses of equal value, Buyer #1 paid \$159,321.84 more than Buyer #2. In addition Buyer #2 was debt free 10 years before Buyer #1. Further, if after becoming debt free Buyer #2 invested \$1,100/month for 10 years with 5.00% return, an additional \$171,522.22 would have accumulated. At the end of 30 years, Buyer #2 had a \$330,844.06 financial advantage over Buyer #1!

I was recently involved in a conversation comparing how two farmers began farming. In one situation the farmer had invested heavily in a top notch line of dairy cows, horses, and equipment. He had a heavy debt load that was used to purchase livestock and equipment to begin farming. In 2009 he was struggling under the heavy debt load and was considering the sale of equipment he could do without in order to reduce debt. I couldn't help but think his circumstances were similar to Buyer #1 in the example above.

The farmer I was talking with described his own experience when he began farming 10 years earlier. He purchased an average herd of cows and a modest line of equipment. His investment and debt payments

Markets at a Glance		
	March 15	Last Year
Corn	\$3.74/bu	\$4.14/bu
Soybeans	\$9.10/bu	\$8.66/bu
Alfalfa Hay	\$175/ton	\$160/ton
Milk Futures	\$12.76/cwt	\$10.25/cwt
Interest Rate*	5.00%	4.875%

*30- year fixed rate—residential

were manageable and he slowly made progress. Over the years he continued to upgrade his livestock and equipment as profit allowed. After farming 8–10 years, the quality of his livestock and equipment were similar to the farmer above. His circumstances were similar to Buyer #2 in the example above.

The difference between the two farmers comes down to the amount of investment to begin farming and the amount of debt used to fund the investment. The farmer who was willing to make do, invest less, and depend less on debt had an advantage over the farmer who invested more and had a heavier debt load. The similarities to the home buyer example above are striking. I don't want to ignore return on investment. If by making a larger investment, you can generate larger profit, you may be just as well off as someone who invests less. However in my experience with beginning farmers, a larger investment often does not result in enough additional profit to overcome higher debt payments and risk associated with larger investment.

Careful consideration regarding the amount and timing of investments and understanding how cost increases as dependence on debt increases is important. This knowledge can apply to an endless number of financial decisions. Our hope is that it will lead to a better understanding of decisions made in the past and help to improve decisions in the future. ■

The example used in this article was reprinted from "Beistand Financial Cents."

Class III Milk Futures (settlement prices as of 3/12/10)	
Month	Price
March 2010	\$12.76
April 2010	\$12.55
May 2010	\$12.92
June 2010	\$13.62
July 2010	\$14.24
August 2010	\$14.83
September 2010	\$15.08
October 2010	\$15.08
November 2010	\$14.90
December 2010	\$14.88
January 2011	\$14.44
February 2011	\$14.15

Title Insurance: What You Should Know

By George T. Cook, Attorney, Blakinger, Byler & Thomas, P.C., Lancaster, Pennsylvania

“Title insurance” is not well understood by most people, but it is possible to try to explain it in plain English, which is what this article will attempt to do.

Before talking about title insurance, however, we need to review what “title” is. “Title” is, in essence, the ownership of real estate or any other kind of property. “Title” to real estate starts with the Deed, but the Deed is only a start. “Title” is subject to two categories of other documents:

1. Money Liens: These would include mortgages, judgments, tax liens, IRS liens, and similar obligations for payment of money. In effect, the property can’t be sold until the lien is paid.
2. Non-Monetary Liens: These would include easements, rights-of-way, utility line agreements, lane agreements, Clean and Green enrollments, Agricultural Security Area affidavits, agricultural conservation easements—the list could go on and on.

The sum total of your deed, combined with money liens and non-monetary liens, is your “title” to your real estate.

So what is title insurance? Title insurance is an insurance policy issued by a licensed, financially-regulated title insurance company stating that:

1. An owner of real estate owns that real estate; and/or
2. A lender with a mortgage on the real estate has a valid mortgage on the real estate, usually a “first” mortgage, but possibly a second or a third mortgage.

For mortgage loans, more and more lenders, including MidAtlantic Farm Credit, are having their customers obtain a Lender Title Insurance Policy. Why? Several reasons:

1. A title insurance policy is evidence of, usually, first mortgage position, which is highly desirable to a lender.
2. If a lender’s first mortgage is in fact not a first mortgage (for example, because of a prior forged deed or monetary lien mistakenly not found during a title search), the title insurance company will pay the lender for any resulting financial loss to the lender.
3. The recent financial scandals and mortgage foreclosure crisis are causing Congress and regulators

to write, for better or for worse, more and more rules and regulations that require more and more lenders to get title insurance for their mortgage loans.

4. Title insurance helps lenders feel confident about their lien on the mortgaged real estate, which hopefully helps them set lower loan interest rates and provide more favorable loan terms.

The cost of title insurance is established under law by the Pennsylvania Insurance Department. For example, a \$200,000 Lender and/or Owner policy is \$1,358.75 (paid one time only). However, rates can be discounted if there has been a “prior insured loan” within the past 10 years. Depending on specifics, the discount can be as much as 37%.

What do you get for this cost? A number of things, including a title search, clearing (payoff) of money liens, a summary of the non-money liens, someone knowledgeable to attend your closing with you, and a financially-strong company who will pay (insure) you and/or your lender if there is a loss from, say, a forged deed or a lien not found by error or mistake.

A title insurance policy is even more important and valuable for a land purchase. In this case, the purchasers can obtain an “Owner’s Title Insurance Policy.” It insures you have “good title” to the land that you are buying. If you are borrowing a majority of the funds for your loan, the additional amount of money (again, a “one-time” cost) to get an Owner policy would be much less than the above amount. For instance, if you are buying a \$250,000 property with a \$200,000 loan, the extra cost for an Owner’s Policy is \$255.00.

The above is general information only and should not be considered legal advice. A customer’s specific circumstances could warrant different action. So when discussing your loan with a MidAtlantic Farm Credit representative, especially where you are purchasing a property, you should be certain to discuss your title insurance options. My law office, Blakinger, Byler & Thomas, P.C. of Lancaster, is a licensed title insurance agent, so we can also discuss this with you. Please feel free to contact me 717.299.1100, if you want to discuss any aspect of title insurance, which is a tool of potential value for both you and your lender. ■

How Much Does It Cost?

By Bill Kitsch

To say the very least, 2009 was a very challenging year in the dairy business. I am not sure that the industry has ever experienced a perfect storm quite like this: Input costs were high and the milk price was well below cost of production. Here at MidAtlantic Farm Credit we fielded many phone calls from dairy producers requesting loans to cover their losses. The phone calls all sounded alike, "I cannot make milk for what I am being paid!"

We understand, but, we discovered that most producers don't know what their "cost per hundredweight (cwt)" is. Prior to 2009, it may not have been as important for a young farmer to know his cost of production. He just made as much milk as he could and did his best to control the cost. The problem in 2009 was that most farmers did not know how much it really cost, so he did not know if he should make more milk or less.

Most farmers find themselves intimidated by the numbers. They believe that calculating their cost per cwt is more difficult than sending a man to the moon. Believe it or not, you are able to figure out what your cost per cwt is using your Schedule F on your tax returns, summary of production from your milk company, and your DHIA records.

Here is a list of information you will need to complete this analysis:

- 1) Average Number of Cows
- 2) cwt of Milk Sold (total pounds shipped in the year divided by 100)
- 4) Total Farm Receipts (Line 11 on Schedule - F)
- 5) Milk Sales (income received in the year from your milk company)
- 7) Total Farm Expenses (Line on 35 Schedule -F)
- 10) Principle Payment (amount of principle applied to your loans; call your loan officer if you don't know)
- 11) Family Draw (what is your family living budget per year?)
- 12) Capital Replacement (amount of money you want to save to replace machinery and equipment or replace cows)

We have provided a form created by the University of Wisconsin that you can follow to determine your cost per cwt. If you need any assistance completing the form feel free to call us. Our loan officers will be more than happy to help you. ■

Worksheet Instructions

- 1) Enter the average number of cows in your herd last year.
- 2) Enter the hundredweight of milk sold last year.
- 3) Divide line (2) by line (1) and multiply the result by 100 to determine the pounds of milk sold per cow.
Note: Don't use your DHI value here.
- 4) In an ideal world, all receipts would be given on an accrual basis. That is to say, changes in inventory values and accounts receivable would be included with cash values. If you don't have accrual values, enter total farm cash receipts.
- 5) Enter the gross value of milk sold last year.
- 6) Subtract line (5) from line (4) to calculate total non-milk receipts.
- 7) As with receipts, it would be ideal to enter total accrual farm expenses here. These would include all cash costs as well as changes in inventory values and accounts payable. If you don't have accrual values, enter total farm cash expenses.
- 8) Enter the value on line (6) here. It is assumed that non-dairy enterprises are "break even" in the long-run and therefore, receipts equal expenses. This is a strong assumption and works best for farms with little non-dairy farm income. Farms whose ratio of Milk Sales to Total Receipts [line (5) divided by line (4)] is greater than 0.70 fit this assumption well. On many farms, expenses represent approximately 70% of the receipts. Therefore, you may want to multiply line (6) by .7.
- 9) Subtract line (8) from line (7) to determine your total cash operating costs of production last year.
- 10) Enter the annual principle paid on farm loan(s).
- 11) Enter a value for family living expenses incurred over the year.
- 12) Over the long-run, farm equipment and machinery needs to be replaced. Enter a value for capital replacement.
- 13) Add lines (9) through (12) to determine the total costs of production last year.
- 14) Your operating or cash cost of producing milk is found by dividing line (9) by line (2).
- 15) Your total cost of producing milk is found by dividing line (13) by line (2).
- 16) Your annual average milk price may be found by dividing line (5) by line (2).

Example Farm – John Dairy

Eight lines of information are needed to calculate the cost of production.

- | | |
|---------------------------|--|
| 1) Average Number of Cows | • Farm has 50 cows |
| 2) cwt of Milk Sold | • Sold 10,327 cwt of milk last year |
| 4) Total Farm Receipts | • Total Receipts were \$163,608 |
| 5) Milk Sales | • Milk Sales were \$131,244 |
| 7) Total Farm Expenses | • Total Farm Expenses was \$116,280 |
| 10) Principle Payment | • Principle payment due \$5,716 |
| 11) Family Living Draw | • Estimated family living draw \$28,000 |
| 12) Capital Replacement | • Farm equipment and machinery replacement \$5,000 |

Most of this information is readily available from the farmer's 1040F, accounting information and the operator's own head.

Worksheet for Calculating Your Cost per cwt of Milk Produced

Example—*Instructions for completing the worksheet are above.*

	<i>Example Figures</i>	<i>Your Figures Here</i>
1) Average Number of Cows	50 cows	_____
2) cwt of Milk Sold	10,327 cwt	_____
3) Milk Sold per Cow [divide line 2 by line 1 and multiply by 100]	20,654 lbs/cow	_____
4) Total Farm Receipts	\$ 163,608	_____
5) Milk Sales.....	\$ 131,244	_____
6) Total Non-Milk Receipts [subtract line 5 from line 4].....	\$ 32,364	_____
7) Total Farm Expenses.....	\$ 116,280	_____
8) Total Non-Milk Expenses [enter line 6 here]	\$ 32,364	_____
9) Operating Cost of Producing Milk [subtract line 8 from line 7].....	\$ 83,916	_____
10) Principle Payment	\$ 5,716	_____
11) Family Living Draw	\$ 28,000	_____
12) Capital Replacement.....	\$ 5,000	_____
13) Total Cost of Producing Milk [add lines 9 through 13]	\$ 122,632	_____
14) Operating Cost per cwt Milk [divide line 9 by line 2].....	\$ 8.13 /cwt	_____
15) Total Cost per cwt Milk [divide line 13 by line 2]	\$ 11.87 /cwt	_____
16) Milk Price [divide line 5 by line 2].....	\$ 12.71 /cwt	_____

If you'd like a worksheet to calculate and track your cost per cwt over a three year period, call your loan officer to receive a copy.

Thought of the Day

Management is like walking across a river on logs. The more precise your steps, the less likely you will get wet.



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The Importance of Having a Credit Score *By Dale Peifer*

Credit scores, what are they? You've probably read about them, and if you have applied for a residential loan, you may have been asked if you know what your credit score is. If you have, or had, a credit card or a loan from a commercial bank, it's quite certain that you have a score.

Why does it matter? A credit score is a number that helps lenders and others predict how likely you are to make your credit payments on time. Each score is based on the information in your credit report, and depends largely on your payment history. The score also takes into account how much you owe on a revolving account in relation to the limit. And different types of credit help too; a term loan and a revolving account for example.

Generally speaking, the scores run from 300 to 850. There are three credit reporting agencies that most commercial lenders and credit card companies report to. They are Equifax, Experian and TransUnion. Each of these agencies assigns a number to individuals.

Often landlords and now even some insurance companies "pull credit" to determine the credit

worthiness and dependability of prospective tenants and customers. Higher scores mean you are more likely to be approved and pay a lower interest rate on new credit. Scores from the mid-700's and up are desirable.

The absence of a credit score won't necessarily mean you can't obtain a residential loan, but it will impact the rate. A satisfactory payment history on accounts such as rent, or fuel and feed is helpful, and can be used to "build" credit.

The dilemma is that with no credit score it can be difficult to get approval for a loan, but without a loan, how do you build credit? Tony Calderone, manager at the Wachovia-Wells Fargo Bank in Quarryville suggests that for individuals that don't have a credit score and want to start building a history, apply for a store credit card at a Wawa, Home Depot, Cabela's, etc. And then use it for convenience only, and pay it off every month. The *Beistand Financial Cents* booklet strongly suggests that if a credit card is used, that it be used responsibly. Don't be late; always make the payments on time. Building good credit doesn't happen overnight; it takes time. ■