Brockett's Ag Advice

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Coping With The Farm Doldrums

We in the agricultural community must learn to cope with the present farm doldrums or farming may never recover. I did not say accept the present situation. That would be defeat and I do not think farming is anywhere near defeat. But, until we all learn how to handle the present set of problems, it will be difficult to move on and change things for the better.

What must we do? The very first thing to do is look into a mirror and say "Hey old friend, you are the only one who can change things and the only way you will succeed is to recognize the problem is in part a management one that you can handle." Once that line is crossed, the rest begins to fall in place.

1. Use all available management tools such as soil testing, forage testing, DHIA, Crop Management Associations, and above all, records and business analysis.

2. Become active in learning about the marketing and consuming of your product. To do this, it is a must for you to calculate your cost of production. You may also have to talk to some non-farm people to find out their needs.

3. Become a manager of your resources, including labor.

4. Talk to your lender or lenders about rescheduling your loan payments to bring them in line with your repayment ability. If you can show the lender your repayment ability, it will help your negotiate the change.

5. Do not borrow any more than you can show your present income can handle. Even better, allow yourself a 10 percent reserve on top of your payment for possible financial recessions.

6. Do not buy new capital items unless you can prove to yourself that (a) you can pay for it or (b) you can handle the payments if you have to borrow the money.

7. Learn how to distinguish between wants and needs in both your business and in your personal life. (There is nothing wrong with buying wants - if you can afford them.)

8. Learn to accept those things you can not change, to work like blazes to change those you do have influence over, and ask for guidance in determining the difference.

Debt and Income

Many economists have stated that the farm asset to liability ratio is the important factor when determining potential failure of a farm. For a long time I have said that percentage of income to service debt was the major critical factor. The other day, I heard an economist discussing the economic factors that point to recession or boom in this country. One of his main points was the total national liability to gross national income ratio. He said the thing that concerns him now is that this ratio is now over 2 to 1. In the past it seldom exceeded 1.6 to 1. That would be an interesting measure of stability.

We have used as a measure of credit worthiness (capital turnover) the ratio of assets to income. Unfortunately, this measure became of little value as assets inflated in value beyond the assets ability to generate income. Perhaps a liability to income ratio has some merit. You can do this without estimating inventory value or market value of other assets. Simply divide the total value of your liabilities by your gross income for 1985. The answer would be your liability to income ratio.

If you have an answer of 1.6 or less, then according to the analyst I heard, you are probably in reasonable financial shape. If you arrive at an answer in excess of 2, you are probably overloaded with debt. As with any other measure, this one too has some problem areas when dealing with an individual.

How much debt can an individual farm business handle? The answer is a little more complicated than some of the thumb rules that are thrown around. A rule of thumb says a dairyman should have no more than $3,000 debt per cow. Or a rule of thumb says that a dairyman should have a debt payment less than 25 percent of income to be a viable operator.

Now that economists says that dairyman should have a liability to income ratio of no more than 1.6 to 1. That would mean sales of $1,875 per cow if we used the $3,000 figure. Sales of $1,875 would allow a debt payment of $468 per cow if the 25 percent of income figure was used. A debt repayment ability of $468 per cow would allow for a debt of $2,424 per cow if the debt was a seven year loan at 9 percent interest, or $2,208 per cow if the debt was a 7 year loan at 12 percent interest, or $4,333 per cow if the debt was for 20 years at 9 percent interest, or $3,539 per cow if the debt was for 20 years at 12 percent interest.

So all three rules of thumb are in the ball park, but none of them hit it and may even be way outside of the mark if the dairyman is above or below average. Actually an individual dairyman must consider a number of factors to determine the amount of debt his or her business can carry. Some of these factors are:

1. **Length of loan life** (annual payments decrease as loan life lengthens).

2. **Interest rate charged** would have a direct bearing on amount that can be borrowed. (see the difference between 9% and 12% above).

3. **Debt repayment ability** for that particular farm (it in turn is affected by the operation's expense to income ratio and family living requirement).

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The curds and whey Miss Muffet was eating when the spider sat down beside her are still enjoyed in England but with a little honey and heavy cream added for additional flavor. The curds are the soft custard-like lumps that form after milk used to make cheese is treated, then curdles and separates. The whey is the liquid left after the curds form.

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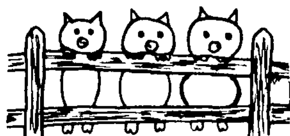

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