

Surveys Show Farm Debt Increasing In Delaware

NEWARK, Del. — Delaware farmers are in worse financial shape today than they were a year ago, according to two recent surveys of Delaware farm operators and farm lenders. The surveys were conducted in January, 1987, by the Delaware Agricultural Statistics Service with funds provided by the Delaware Department of Agriculture.

According to University of Delaware extension agricultural economist Gerald F. Vaughn, who analyzed the results and compared them with responses to similar surveys conducted in January, 1986, 31 percent of Delaware farmers with debt have debt/asset ratios greater than 40 percent.

This is an increase from 20 percent in 1986. Debt/asset ratio measures farm debt as a percentage of the value of farm assets. Lenders generally prefer a debt/asset ratio below 40 percent for a financially sound farm business, Vaughn says.

The 1987 farm survey was sent to 443 farm operators; 223 responded. The sample was generally representative of Delaware farmers, except for possible under-representation of the largest commercial farm businesses.

Though fewer farmers than last year reported debt/asset ratios of over 70 percent, the economist says this probably means that

those who were "most highly leveraged have taken steps to reduce their debt, either voluntarily or as required by their lenders — in some cases leaving farming.

"The sizeable increase in the share of farmers with debt/asset ratios of 41 to 70 percent," Vaughn says, "suggests that financial adjustments are ahead for many farmers moving into this position — especially those who have lost equity due to falling farm real estate values."

Profits from the sale of farm products did little to ease the debt burden on many farms. Nearly 35 percent of the Delaware farmers answering the latest survey did not make a profit — in other words, had no net cash farm income — in 1986. Even 25 percent of the largest commercial farms (sales of \$100,000 or more) made no profit.

Net cash farm income was determined by subtracting the farmer's 1986 estimated cash operating expenses from his or her 1986 total gross farm income (including Commodity Credit Corporation (CCC) forfeitures and government payments). Vaughn says this does not include the costs of depreciation, unpaid labor and interest on farm equity (return on investment), which also should be subtracted if return to operator's management and risk is to be determined.

Delaware farmers have taken a number of steps over the past three years to improve their financial position. Respondents to the 1986 and 1987 surveys reported that, among other things, they kept debt to a minimum, used older equipment instead of replacing it, tightened management, reduced fertilizer and pesticide use, reduced hired labor, reduced crop acreage and switched to other crops. Many also adopted minimum tillage methods.

By 1987 more farmers had liquidated livestock, sold land and/or sold equipment. "These actions are taken most reluctantly," says Vaughn, "since they reduce a farmer's production capacity." There was also a rise in off-farm employment by farm operators and/or other family members.

In the 1987 survey, only 28.7 percent of the respondents reported taking no action to improve their financial position. "This suggests that nearly three-fourths of all Delaware farmers are feeling the financial squeeze and taking action to cope," says Vaughn.

A follow-up survey of the state's farm lenders conducted this January revealed that 9.65 percent of farm borrowers were expected to be unable to qualify for financing in 1987. This figure is up from 6.2 percent the year before.

Of the borrowers who do not qualify for continued financing, 38 percent lack sufficient equity to borrow money, compared to 18 percent in 1986.

Lenders indicated that nearly 72 percent of the farmers who increased their debt load over the past year did so to refinance long-term debt or to cover operating losses. This compared to just over 52 percent a year earlier and could be a sign of financial stress, Vaughn says.

On the brighter side, 24.6 percent of Delaware's farm borrowers had reduced their debt, compared to 17.6 percent last year. Over the same period, 29 percent used off-farm income to reduce debt, compared to 6.8 percent a year

ago. Vaughn discussed the causes and effects of local farm financial difficulties and alternatives for solving them in an in-depth report published in April, 1986, by Delaware Cooperative Extension. Copies of this report can be obtained from county extension offices in Newark (451-2506), Dover (697-4000) or Georgetown (856-7303), or the Delaware Department of Agriculture. Ask for a copy of Extension Bulletin 144, "Delaware Farm Financial Conditions and Public Policy Implications for State Government."

The extension economist has written a summary of the 1987 surveys which will soon be available from the same sources.

Store Chemicals Safely

Many poisonings are reported every year that were caused by improper storage of medicines and household and farm chemical products. Often they were stored in an area accessible to children; they may have been stored in unmarked containers.

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