

Replay of farm financial crisis?



On the Money

By JOHN OTTE

I WAS chatting with a lawyer. "As an economist, what's your view on the subprime loan situation?" he asked.

"Well," I began, "a lot of people got into variable interest rate mortgages that they didn't adequately understand. Some may have been led into such loans through questionable lending practices.

"Many may not have had the cash flow or earning power to be creditworthy borrowers. Some lenders who make loans and then sell the paper elsewhere may have been more interested in making a quick buck than in consequences down the road. There's plenty of blame to go around.

"In some ways, it's similar to the farm financial crisis of the mid-1980s," I said. "Borrowing on variable-rate loans makes you vulnerable to cash-flow problems if interest rates rise. Interest rates didn't have to

Key Points

- Variable-interest loans cause problems if interest rates rise.
- Many are to blame for the subprime loan credit crunch.
- There's a risk the ag financial crisis could happen again.

rise as high this go-round to squeeze borrowers whose cash flow was already fiddle-string tight.

"Plus, the inflation environment is different now. Back in the early 1980s, the Federal Reserve Board was using tight monetary policy to choke off inflation. That drove interest rates sharply higher. Inflation had been accelerating throughout the 1970s. It took a while to break the 'we need to buy it now because it will cost more tomorrow' mentality.

"Highly leveraged farmers were particularly hard hit. Early in the crisis, many did not attempt to adjust their asset and debt portfolios because they expected inflation to resurge. After land prices began spiraling lower, many could not

adjust their portfolios to shed debt."

"My kids are 24 and 28," the lawyer said. "They don't remember anything about the farm financial crisis."

I contemplated the lawyer's comment. How could anyone forget the most stressful period in U.S. agriculture since the Great Depression? Then I realized the lawyer's youngsters were mere toddlers at the time. Could a farm financial crisis happen again? The rate at which cash rents shot up after last fall's ethanol-induced grain-price surge suggests it might. Rental rates in an area are set at the margin.

Oversimplified, that means the highest bidder gets the last tract to be rented. What the high bidder pays then sets the level for rents in the next go-round.

Consider pluses, minuses

Suppose you pencil corn moving to a new price plateau of \$4 a bushel into your budget. You make land acquisition decisions accordingly.

Next, suppose the new corn

price plateau ends up closer to \$3. You have a lot less revenue to pay cash rent or land mortgages, not to mention higher fertilizer and fuel costs, etc.

On the flip side, rising land values do improve the balance sheet, which improves borrowing power. However, thinking land values could not fall discouraged many highly leveraged farmers from selling land and shedding debt until it was too late.

Thinking housing values could not fall contributed to the subprime credit crunch.

Learn borrowing lesson

Any business or family needs liquidity. It needs cash flow to pay bills. That liquidity can come from earnings, asset liquidation or loans.

Highly leveraged farmers learned in the early 1980s that it's tough to borrow from one lender to pay another when earnings and asset values are both falling. Subprime borrowers and their lenders are learning that same lesson. Impacts, in both cases, ricochet throughout the economy.

Push a pencil to save taxes

IF you want to trim the tax bite on your 2007 income, now is the time to analyze your investments and look for tax-saving strategies.

Not every investment someone makes turns out good. Sometimes investments decline in value.

Offsetting capital gains with losses is one strategy. Selling an investment for less than your cost basis in it (how much you paid for it, sometimes with adjustments) creates a capital loss, which you can use to offset capital gains from other investments. If you have more losses than gains, you can subtract up to \$3,000 from income. You can carry any excess loss over into future years.

Suppose you feel generous. Donating highly appreciated assets that you've held more than 12 months to charities provides a sizable tax benefit. The entire market value qualifies as a tax deduction, regardless of your gain. However, the amount you can deduct this year may be limited.



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Bryan Young
Southern Illinois University

Roundup Ready® Corn 2 was planted on approximately 50 million acres this season. With this technology now representing over half of the total U.S. corn acres in 2007, growers should follow good stewardship practices to effectively manage this technology.

Southern Illinois University weed specialist Dr. Bryan Young offers the following advice for growers who use a rotation of Roundup Ready Corn 2 and Roundup Ready Soybeans to achieve effective weed control and minimize the chance of weed resistance on their farms:

- Plant into a weed-free seedbed with an effective burndown program or tillage.
- Utilize glyphosate as a component of an integrated herbicide program. Use of soil residual herbicides reduces the risks associated with early-season weed competition and the selection pressure for glyphosate-resistant weeds. In addition, residual herbicides should be used for control of any problematic weeds.

- Don't move away from the value of soil residual herbicides in corn. Consider glyphosate as a replacement for your normal postemergence treatment in corn, whether as a planned post or a rescue treatment. If late-emerging weeds are typically a concern, consider using a full rate of a soil residual herbicide applied close to the time of planting. Applying residual herbicides too early prior to crop planting may not provide the desired length of control for important weed species. Another option is to use a herbicide with soil residual as a tank-mix partner with glyphosate applied postemergence.
- Apply glyphosate early to potentially smaller weeds to ensure consistency of control, crop yield protection and reduced selection pressure for glyphosate resistance. Monitor glyphosate performance to proactively identify problems such as weed resistance or weed species shifts.
- Use full labeled rates of postemergence herbicides for more consistent weed control rather than reduced rates. Inconsistent control from reduced herbicide rates may be a precursor to the progressive selection of herbicide resistance.

Always read and follow pesticide label directions. Roundup Ready® crops contain genes that confer tolerance to glyphosate, the active ingredient in Roundup® agricultural herbicides. Roundup agricultural herbicides will kill crops that are not glyphosate tolerant. Monsanto Imagine® and the Vire Design, Roundup® and Roundup Ready® are registered trademarks of Monsanto Technology LLC. ©2007 Monsanto Company. [31728-15 PF-FP tip 10/07]

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