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# Debt daze

By PAULA MOHR

**M**ANY of us remember farming in the 1980s. Early on, credit was easy to get. Even with high interest loans, neither banker nor farmer blinked as papers were signed. Then about mid-decade, the bottom fell out of agriculture, and many hardworking folks lost their farms.

John Mellencamp's song, "Rain on the Scarecrow," comes to mind. "Rain on the scarecrow, blood on the plow. This land fed a nation, this land made me proud. And, son, I'm just sorry there's no legacy for you now ..."

## Tough then, tough now

It was tough back then. And it's tough now, too. The recession is taking its toll as more and more farmers — particularly dairy and hog farmers — wonder when they will ever see positive numbers in their accounting books.

For farmers and lenders

### Key Points

- Farmer-lender mediation notices are at highest since 1987.
- State requires mediation when secured debt exceeds \$5,000.
- A mediation team helps farmers and lenders with debt issues.

dealing with debt trouble, the state provides a way for all parties to resolve issues. During the previous farm crisis, lawmakers passed the Omnibus Farmer-Lender Bill that paved the way for a farmer-lender mediation program to facilitate discussions on credit problems. Since then, University of Minnesota Extension has managed the Minnesota Farmer-Lender Mediation program.

"We're extremely busy this year," says Mary Nell Preisler, Farmer-Lender Mediation director. "We haven't been this busy since 1987."

As of mid-September, creditors have sent 3,000 notices to farmers who are behind on their payments. Last year, some



2,000 notices were mailed.

By law, creditors with a secured debt of more than \$5,000 against an agricultural property must offer farmer-lender mediation before proceeding with foreclosure, repossession, cancellation of contract or collection of a judgment. Creditors start the mediation process by mailing a notice to delinquent farmers and sending a copy of the notice to the Farmer-Lender Mediation office in Bejou. Preisler then sends an information packet to the debtor that includes a form requesting mediation. If the debtor does not

return the form in 14 days, the debtor loses the right to mediation.

"If you request mediation, you need to be as prepared as possible," Preisler says. "Part of your preparation will be to review your position carefully and the reasons you hold that position."

Farmers should identify all creditors necessary for their farming operation on the Request for Mandatory Mediation form, Preisler says. After the form is received, mediation begins with an orientation meeting between the

farmer, creditor, financial analyst and the mediator to explain the process and to determine if financial information needs to be prepared. Over a 90-day period, the farmer's team — the mediator, financial analyst and other U-M Extension professionals — manages mediation as a neutral party between the farmer and the lender. The process itself is informal and confidential, and generally requires less cost and time than adversarial court litigation.

■ For more on farmer-lender mediation, see Page 6.

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# Mediation: Work out your debt



By PAULA MOHR

**M**ORE Minnesota farmers and lenders are relying on mediation to work through debt issues.

For fiscal 2008, creditors sent 2,002 notices to farmers and the University of Minnesota Farmer-Lender Mediation office. That represented a mediation effort involving more than \$156.3 million of debt.

The number for fiscal 2009 will easily surpass that. As of mid-September, 3,000 mediation notices were filed by creditors.

Mary Nell Preisler, director of the University of Minnesota Farmer-Lender Mediation program, says that successful mediation requires compromise on the part of both debtor and creditor.

"Farmers may have to change their business to make them more profitable or liquidate assets to bring cash to the table," she says. "Creditors may need to restructure debt and security, or re-schedule loan payments."

Mediators are trained to use conflict

## Key Points

- Number of mediation notices sent to farmers is dramatically higher this year.
- Successful mediation requires farmers and lenders to compromise.
- Communication with your lender is always important.

resolution skills to bring about effective negotiation. The mediator leads discussion without making decisions or judgments. The mediator also helps define issues, emphasizes common goals, keeps discussion focused and moving forward, looks at all options, reduces fault finding, and most importantly, provides each party a chance to be heard, she says.

Regardless of the outcome, mediation helps those involved retain control over negotiations through a joint decision-making process. When parties meet face-to-face, trust is built and solutions are uncovered, she adds. The parties have a strong incentive to make their

## Learning more

**F**OR more information on farmer-lender mediation, contact:

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agreement work because they created the agreement themselves.

## Tough out there

Rob Holcomb, Extension educator in agricultural business management, says he has received many phone calls inquiring about mediation from farmers experiencing financial stress. Swine and dairy producers have been operating with negative margins for quite some time.

"One major goal for swine and dairy producers [in financial difficulty] is to take steps to conserve working capital," he says. "I know it sounds like a broken record, but highly leveraged producers may find themselves vulnerable."

Now crop farmers are under financial stress, too.

"Over the past three years, input costs [for crop farmers] have increased at an alarming rate," Holcomb says. "As long as grain prices remained high, things worked. This year, though, grain prices have retreated to levels prior to the big run-up in costs. As a result, it has been really tough to make cash-flow projections work this year."

For those farmers dealing with financial stress, Holcomb offers these suggestions:

- Maintain good communication with your lender. Lenders do not like surprises, and a lender is more likely to work with you if you have been "up front" with them.
- Maintain an updated set of financial reports so you know where you are at.
- Postpone capital purchases.
- Don't ignore normal repairs. That often will cost you more in the long run.
- Take steps to economize. This goes for business and family living expenses.

## MDA organizes assistance network for farmers facing financial problems

**A**T Farmfest, the Minnesota Department of Agriculture announced the formation of the Minnesota Farmer Assistance Network.

MFAN will provide mentoring, technical assistance and financial guidance to farm families facing economic hardship. As of mid-September, the network was still being organized. MDA staff met with partner organizations and was involved in recruiting volunteers. Throughout the process, MDA continued to appraise the current financial concerns in agriculture and met with current and potential partners about the need for the MFAN program.

Core services available through MFAN partners will include farm financial planning, legal services and crisis counseling. In addition, MDA and other MFAN partners will look to complement these core services with additional features as economic circumstances change.

The list of partners includes these farm and commodity organizations:

- University of Minnesota Extension
- Minnesota State Colleges and Universities Farm Business Management Program
- USDA's Farm Service Agency
- Minnesota Farm Advocate Program
- U-M Farmer-Lender Mediation
- Farmers Legal Action Group
- Rural Mental Health Support Program
- Crisis Connection

MDA expects to hire a program coordinator in mid-October to direct recruiting and training, and handle referrals for the volunteers who will serve as MFAN analysts. As of mid-September, MDA received interest from nearly two dozen individuals to serve as analysts.

Interested individuals will be asked to fill out an application. A training session for all volunteers will be conducted this fall. Once certified volunteers are ready to provide service, a hot line number will be announced.

## U-M study: R&D, ag productivity growth impact food prices

By PAULA MOHR

**I**F a documented slowdown in growth of agricultural productivity and grain yields persists, consumers worldwide may be paying higher food prices for decades to come.

A policy paper, published in the Sept. 4 edition of *Science*, says that even though food prices have fallen, consumers in developing countries are still paying higher prices by recent historical standards. Plus, growth in global agricultural output is failing to keep pace with increasing global food demand. That trend is likely to get worse if countries and agencies fail to ramp up their investments in agricultural research and development.

Phil Pardey, a University of Minnesota applied economist and one of the authors, says public and private investment in agricultural research and development over the past five decades has led to advances in productivity that allowed the growth in the world's food supply to keep up with the growth in population and per-capita incomes, even as land and water become increasingly constrained.

Global yields for corn, rice, wheat and soybeans grew from 1961 to 2007. However, for all four crops in developing and developed countries (China excluded due to recent high productivity growth), yield growth was slower during 1990 to 2007.

Part of that decline, Pardey says, is due to reduced rates of growth in R&D spending and a shift in allocation of funds. Dollars once spent on maintaining or enhancing farm productivity now are directed toward environmental, food-safety and consumer-health concerns, as well as finding medical, industrial and energy uses for agricultural products. The shift in funding is understandable, yet it is coming at the expense of what R&D used to do, he adds.

"This has major implications for the U.S.," Pardey says. "We stand to lose our competitive advantage."

Revitalizing agricultural R&D investments is critical to reviving productivity growth, he says.

"The social payoffs to investing in agricultural R&D take time to be fully realized, and they continue to be large," Pardey says. "They will help mitigate hunger and poverty, and take the pressure off our natural resources over the decades ahead."

## Rates of growth of yield for selected U.S. crops, 1866-2008 crop yields, percent per year

Period	Maize	Wheat	Rice	Soybeans
1866-2008*	1.30	0.99	1.58	n/a
1900-2008*	1.57	1.21	1.60	1.52
1900-1950*	0.61	0.60	1.33	2.61
1950-2008	2.40	1.73	1.83	1.04
1950-1990	2.83	2.18	2.12	1.13
1990-2008	1.45	0.71	1.19	0.83

Source: Calculated by the authors based on data reported in Beddow, Hurley and Pardey (2009) derived from Alston and Pardey (2006) and USDA, FAS (2008).

\* Rice yields start in 1895, soybeans in 1924.