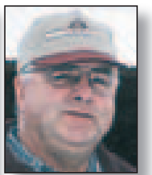
Finance & Insurance

Agrivision


MILLER


CROPP


HODORFF

Using extra income

We had a good year on our farm last year, and we have an extra $20,000 after paying taxes, our farm mortgage and operating loan, and other expenses. Would we be better off to pay our farm mortgage down by an extra $20,000 or pay off our equipment loans sooner? The interest rates on our equipment loans are lower than the interest rate on our farm mortgage. Please advise.

Hodorff: First, I would make sure you fund your retirement account. Your equipment loan is less interest, but one thing that slipped you by, your equipment is depreciating. Pay down your equipment to make sure it is paid off. Depreciation is a tax credit for business. So make tax credits work for you.

Miller: Planning for success is an important part of operating your business. Cleaning up bills and improving liquidity is the correct first step. You do have a third choice. Investing the $20,000 off the farm in a retirement account provides options in retirement. Generally, you're better off paying down on the highest interest-rate loan; however, if your equipment loans have a relatively low balance, paying them off early and then applying those payments against your mortgage may lower your total interest cost over time. Talk to your banker and accountant about this.

Cropp: There is no rule that states you must spend this money! Do you have any other cash on hand to handle upcoming operational expenses? I encourage farmers to build up their own operating account instead of leaning on regular operating loans. This would be good seed money for next year's spring planting costs. On another note, have you taken your family on a vacation recently? (I may be violating my own conservative nature, but it's good to celebrate business success.) I would pay down the higher interest loans first.

Should we farm together?

I'm 50 years old and our neighbor next door is 40. We both milk 60 to 65 cows. He farms 200 more acres than I do and has better equipment. Our dairy setup has 75 freestalls and could handle both herds if we add more freestalls and a low-cost milking parlor to our 50-stanchion barn. He doesn't want to milk anymore and is thinking about selling his cows or putting the two herds together at our farm and the heifers and dry cows at his farm. He would care for the heifers and dry cows and raise the feed, and my wife and I would milk the cows and raise the calves. We both have about the same amount of debt and about 50% equity in our farms. Would we have to milk more cows? Do you think this is a good idea?

Hodorff: You and your neighbor need to consult with an adviser and see where this leads you. It seems like a viable option if you work out the details. Remember, you are 10 years older. My thought on number of cows is that 100 to 300 head is no-man's land. Have you and your neighbor worked together before?

Miller: Talk with a dairy business consultant who can guide you through personal and farm goals to determine business compatibility between you and your neighbor. After determining if you can work together, begin the economic analysis of combining the farms to determine the appropriate herd size, the additional investment required and division of responsibilities. This could be a win-win for both families, or it could destroy two existing businesses and relationships.

Cropp: It seems to me that you and your wife would be taking on a significantly greater work load in this proposal. What is your advantage in this venture? Does it match up to your business goals? Have you thought of expanding your own business to about 100 to 120 cows (you already have 75 freestalls), adding the low-cost parlor and purchasing additional feed as needed? It might even make more sense to hire your neighbor to raise your heifers. I would study this idea first. If you progress with the proposed joint venture, start by studying if you will both be compatible. Do you have similar business and personal values? Then study cash-flow projections with 130 cows, but I predict you will need 160 to 200 cows to be profitable with your original scenario.

Agrivision panel: Doug Hodorff, Fond du Lac County dairy farmer; Sam Miller, vice president of agricultural banking for M&I Bank; and Bob Cropp, Pepin County Extension agricultural agent. Send questions to *Wisconsin Agriculturist*, 102 E. Jefferson St., P.O. Box 236, Brandon, WI 53919; or e-mail *foleary@farmprogress.com*.

UW specialist aims to boost dairy profits

VICTOR Cabrera came to Wisconsin to help dairy farmers harness mountains of complex information to make better business decisions.


CABRERA

Cabrera joined the University of Wisconsin-Madison Dairy Science Department this spring as an assistant professor and Extension dairy management specialist. He hails from New Mexico State University, where he developed whole-dairy-farm decision-making models that factored in information about cattle, crops, soils, climate and economics. He plans to continue that line of work here.

Cabrera's appointment is 70% Extension, so he'll spend most of his time providing assistance to Extension staff working with dairy producers statewide.