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GETTING STARTED IN DAIRY FARMING:

CASE STUDIES

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INTRODUCTION

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A. Content and Purpose

The case-study summaries presented in this volume contain information about the efforts made by 37 farm entrants to establish dairy businesses in New York State. Financial and production data are presented in capsule form in the Farm Start Profiles that accompany the summary descriptions of strategies, problems, and results encountered in each farm entry attempt. All farm names and the names of individuals have been changed to protect the confidentiality of some of the financial information included in the case studies.

Comparison and analysis of case-study experiences provided the basis for the conclusions presented in an earlier publication.1/ Details of individual farm entry experiences are presented here for reference purposes and as a supplement to the main publication of findings. More importantly, the case studies presented serve as real-life illustrations of lessons learned about the factors that affect the success or failure of any given farm entry effort.

B. Organization

Because of the diversity of farm start strategies followed by case-study farmers, it is difficult to neatly categorize their experiences according to the farm entry courses chosen by each individual. For this reason, case-studies were classified according to the rental, farm transfer, partnership, profit share, or father-son arrangements that were most important to each beginning farmer's attempt to get started. The experiences of farm entrants who broke off their efforts to establish dairy operations are included in a separate group of discontinued farm starts.

C. The Data

Case-study information is composed of financial and production facts about each beginning farm operation as well as background information that helps to put the numbers into context. In some cases, interest rates, milk production figures, or repayment details were not known or were reported inaccurately by respondents. In these situations the open-ended nature of discussions with each case-study farmer made it possible to describe problems and strategies where exact figures were not available. Further discussions with extension agents and lenders involved with particular beginning farm operations also helped fill some of the gaps in detail.

1/ Smith, Marc A. and John R. Brake, Getting Started in Dairy Farming: A Study of Farm Entry Processes and Experiences in New York State. A.E. Research 83-36, Cornell University, November 1983.

FARM RENTAL AND LEASING CASES

Musket Bridge Farm

Martin Fell and his wife, Lori, grew up in the area where they own and operate a 60-cow, 180-acre dairy business. Lori was raised on a dairy farm; and Martin learned about dairying from vocational agriculture courses, part-time work on local farms, and by earning a degree at an agricultural and technical college in 1970. After graduation he worked as a herdsman on a "restarted" and rapidly expanding farm (80 to 250 cows in two years) in his home area. During this time Martin worked extra hours in order to purchase several heifers and a small tractor. The Fells saw only slim prospects for getting started on their employer's operation, and Martin left the farm to take a job as a mechanic for a farm machinery dealer in 1972.

While working as a mechanic, Fell rented a small farm (45 tillable acres and house) where he could raise heifers. Over a five-year period, the Fells accumulated equity in farm equipment by investing income earned from overtime work in the shop and from the sale of heifers. Mr. Fell planned to start farming when the right opportunity arose. He gradually increased the number of assets he owned and established a good relationship with local creditors as part of that plan.

Musket Bridge Farm was offered for rent in the Spring of 1977. The Fells were familiar with the soil quality and past productivity records for the farm. They also knew the owner and the tenant who had operated the farm for the 18 months. Fell set up a line of credit with a commercial bank to purchase 40 "average" cows, agreed to pay $750 per month rent for 90 tillable acres, barns, and house for three years, and moved his 12-heifer herd of replacements to the new farm. Other details of the rental arrangement are outlined in Farm Start Profile 1.

Fell described his rental experience as a worthwhile stepping stone toward the ownership position he has since established. He entered the agreement with 50 percent equity in the cattle and equipment he had acquired from 1972 to 1977, and his debt load was not heavy in the first years of farming. Mrs. Fell has been employed for a number of years as a social service worker, providing additional family income. During the rental period, milk sold increased from 13,000 lbs./cow in 1977 to 16,000 lbs. by 1980. In general, Mr. Fell believed that by renting he improved his cash flow relative to owning a farm and paying off a mortgage. He cited lost incentives for investment in needed improvements and limited control over production decisions as drawbacks to his rental circumstances.

After running the Musket Bridge Farm for two years, the Fells were approached by their landlord with an offer to sell the farm. They agreed on a purchase price, and a purchase offer was signed. FmHA approved financing for the Fells to purchase the farm. In mid-1979, about six months prior to closing, the farm owner backed out of the agreement, just as he had done with his previous tenant. The Fells had obtained approval for a real estate purchase loan and decided to use the credit despite the lost opportunity

Farm Start Profile 1

Musket Bridge Farm	**Martin and Lori Fell**
Date of agreement:	Spring 1977.
Parties:	Farm entrant and retired farm owner.
Other background:	Beginning farmer had previously rented another barn and 45 crop acres nearby (1972-77) which he worked part-time. Accumulated 12 bred heifers, tractor, and machinery through after-hours work, savings. This farm had been rented from 1975 to 1977 at which time landlord refused to honor purchase option (of 1975-77 tenant).
Property rented:	90 tillable acres, 45-50-cow milking facilities, house, silo built in 1979, good soils.
Rental and financing provisions:	Rent set at $600/mo. for land and buildings rental for house $150; three-year contract. Silo built in 1979, rented for $150/mo. Financed purchase of 40 cows with commercial bank line of credit (credit line = $50,000; borrowed $26,000, 5 years 11.5% interest, $572/mo.).

Financial characteristics:	1977	1979	1982
Total assets	$64,000	$110,000	$260,000
Total debt	$40,000	$ 35,000	$165,000
Net worth	$24,000	$ 75,000	$ 95,000
% equity	38%	68%	38%
Debt/cow	$ 1,000	$ 875	$ 2,750

Production characteristics:	1977	1982
Total milk production (lbs)	520,000	978,000
Cows	40	60
Avg/cow (lbs)	13,000	16,300
Monthly milk income	$ 5,700	$ 7,000

on Musket Bridge Farm. Four months remained on the rental contract when the Fells left Musket Bridge Farm, but they had no problems in cancelling the agreement.

Wishing Well Farm

Don and Andrea Weston obtained limited resource financing from FmHA to purchase and start milking 48 cows on a rented farm in April 1979. Don's starting capital included good references from his previous job on an area dairy farm, some cash, and a year's course work at an agricultural and technical college. The Westons agreed to rent cropland, barns, machinery and the house at Wishing Well Farm for $1,200 per month over three years. A 100% operating loan was used to purchase the milking herd from the landlord. First year crop expenses and the first month's rent were also included in the loan. Other details of the rental arrangement and financing are shown in Farm Start Profile 2.

Personal conflicts with the landlord, high rental rates, and the need for major repairs and improvements led to the Westons' decision to leave in July 1981. Other high costs of operating also contributed to their decision to move. During the summer of 1979, the Westons learned that nearly half of their 48 cows were not pregnant when they were purchased. Additional funds were borrowed from FmHA for replacement animals in the Fall. More financing was needed to purchase new equipment, as the poor condition of the rented machinery prevented its efficient use. By July 1981, debt per cow had risen sharply, rent was being paid for unusable equipment, potential production (and income) had been lost due to breeding problems, and relations with the landlord were poor. The Westons offered to purchase the farm at that time but could not agree with the farm owner on a price. They decided not to continue under the rental arrangement, and Don planned to auction his cattle and equipment and return to a herdsman position for his previous employer. Just before the auction, however, the Westons changed their decision on advice of their lawyer. They owned the cows and equipment needed to get started on another farm, which could provide enough income to cover remaining payments on their rental contract. With FmHA financing, Don purchased a nearby farm recently foreclosed upon by the creditors. The Westons stopped paying rent and moved off the Wishing Well Farm in July 1981. They were sued by the landlord for not meeting the terms of the rental contract. In December, a cash settlement (approximately $10,000) was reached with the landlord for the remaining lease period. A local bank financed this payment on a two-year note. The farm and financial management lessons Don Weston learned while renting helped him to establish credit with limited equity and purchase a large dairy operation. They were lessons purchased, however, at very high cost.

Farm Start Profile 2

Wishing Well Farm — **Don and Andrea Weston**

Date of agreement:	April 1979.
Parties:	Beginning farmer and local landowner.
Property rented:	70 tillable acres, wet, clay soil; 50-cow milking facility, and house in good condition. Full line of machinery, poor condition.
Rental and financing provisions:	Rent set at $1,200 per month. 3-year contract. 100% limited resource cattle and equipment loan from FmHA used to purchase 50 cows ($50,000), pay first month's rent, and cover beginning operating costs ($65,200, 7 years, 7% interest, $984/mo.). In Fall of 1979, FmHA financed the purchase of 30 replacement heifers and other youngstock ($17,000, 7 years, 9% interest, $273/mo.). Additional debt taken on for new machinery ($17,000, 7 years, 10.5% interest, $290/mo.).

Financial position:

4/79	Assets		Liabilities	
	Livestock	$ 50,000	Current	
	Inventory	14,000	Intermediate	$ 67,300
	Personal	6,100	Long term	
	TOTAL	$ 70,100	TOTAL	$ 67,300
			Net worth	$ 2,800
				4%

Financial position: (cont)

5/81

Assets		Liabilities	
Real estate			
Livestock	$ 64,108		
Machinery	16,675		
Inventory	400	Current	$ 2,875
Receivables	6,028	Intermediate	86,888
Personal	15,700	Long term	
TOTAL	$102,911	TOTAL	$ 89,763
		Net worth	$ 13,148
			13%

5/82

Assets		Liabilities	
Real estate	$170,000		
Livestock	113,625		
Machinery	27,625		
Inventory	1,075	Current	$ 110
Receivables	15,578	Intermediate	172,780
Personal	21,000	Long term	140,000
TOTAL	$348,903	TOTAL	$ 312,890
		Net worth	$ 36,013
			10%

Production:

	1979	1981
Total milk production (lbs)	611,040	1,376,550
Cows	48	85
Avg/cow (lbs)	12,730	16,194
Monthly milk income	$ 6,028	$ 15,578

Little Rock Farm

Don Smith moved from downstate into the region where he now rents a 63-stanchion barn and leases 54 cows after graduating with a two-year animal husbandry degree in 1979. Don and his wife, Marie, described themselves as transplanted suburbanites who had always enjoyed working with animals. While Marie finished her bachelor's degree in business, Don worked as a hired man on a 170-cow farm. He gained further experience helping a friend set up milking operations for 44 cows on a previously idle piece of property. He turned down a chance to work into an ownership position on that farm when the rent and lease opportunity on his present operation came up in late September of 1981.

Smith's milking facility is part of an 800-acre farm. The owner preferred to devote his time to cropping only and offered the Smiths the opportunity to take over the dairy operation. Rent for the barns and equipment was set at $650 per month. The Smiths pay an additional $250 per month for their house. Feed is purchased on an as-fed basis at current prices. The quality of feed in the silo is periodically determined and is reflected in a specified formula to determine the price Don pays.

The landlord's farm business is organized as a family corporation, despite the lack of interest in farming shown by other family members. For this reason, the Smiths are not certain about their tenure position. It is possible for the corporation to terminate the five-year agreement for any reason by giving 60-days notice. Don and Marie look forward to a greater management and ownership role in the farm operation once the lease has run out, but decisions affecting their position are made by the corporation. Should Don's landlord die, other members of the business could decide to change or eliminate the Smiths' part in the farm operation.

Don and Marie brought in their own lawyer to review the agreements to rent the barn, house, and pasture, as well as the cattle lease before they were signed. This created some strained relations at first, but a considerable degree of mutual respect was built over the first several months of the arrangement. This process was accelerated once the landlord moved to a new home, farther away from the Smiths' on-farm residence. Animal health and farm maintenance problems have often been worked out jointly between landlord and tenant.

The Smiths chose to lease dairy cows (they own five animals in the herd) because they did not have sufficient equity with which to finance the purchase of a similar-sized herd. They had no place to house a dairy herd, and they estimated their monthly lease costs to be only slightly higher than debt repayment costs for 60 purchased cows, for renting barns, milking equipment, pasture, and the farm house. They also purchased a large portion of their livestock feed from the landlord. The Smiths agreed to pay $40 per cow per month for 58 cows over the period of the lease. They are responsible for the replacement of any animals lost, and proceeds from the sale of cull cows go to the owner. The Smiths were earning equity in calves born, which are theirs to keep under the lease terms; and, at the end of the lease, they can purchase the herd for $1.00 per cow. Due to the lack of experience with leases on both sides, each party hired an attorney to help draw up the agreement and to explain the implications of various lease provisions.

Early problems developed when seven cows had to be sold because they had not been bred. Don Smith believes he should have brought in a veterinarian to check for pregnancy before signing the agreement. Some health problems have had to be dealt with. For example, one cow was lost due to a severe udder infection, and the Smiths must replace her. Another cow died after eating a poisonous plant in the pasture; landlord and tenant discussed the problem and agreed to split the costs of replacement. Milk shipped for the 59-cow herd averaged about 2,000 lbs. per day for the first few months, reached 2,450 lbs. per day at the time of the interview, and has since risen to 3,200 lbs. per day. It appeared that, despite early herd health difficulties, increased experience, good facilities, and improved communications between landlord and tenant had led to a strong production situation.

Don would like to take on additional responsibility in other areas of the farm business. He believes that by getting more involved in crop work he could reduce the cost of feed as well as use his time more efficiently. Greater involvement in the business would also improve his chances for future purchase of stock from the family corporation which owns the farm assets.

The package agreement they put together (see Farm Start Profile 3) included provisions for achieving objectives identified by both the Smiths and their landlord. The farm owner was interested in gradually phasing out the dairy operations of his farm business while protecting his investment in livestock. The Smiths were looking for a means of controlling productive assets in order to build equity with which they could later establish themselves in farming.

The lease was signed in September 1981 and is to remain in effect for five years. As described earlier, separate agreements were reached.

The cattle leasing arrangement described above does not necessarily reflect the importance of such agreements as tools to facilitate entry into dairy farming. Some important points, however, were drawn from the Smiths' farm entry experiences.

1) The Smiths based their decision to lease cows (and facilities) on equity considerations. Given their equity position, they felt that farm and livestock purchase was not possible. Hence, they chose a rental route.

2) The Smiths' agreement with the farm owner allows them to build equity through acquisition of youngstock and through purchase of the cows at the end of their lease.

3) Some uncertainty exists as to the Smiths' tenure security on this farm. This is due to the termination clause in the leasing agreement and the family corporate structure of the business that owns the cows and facilities.

Farm Start Profile 3

Little Rock Farm	Don and Marie Smith
Date started:	September 1981.
Means of entry:	Rented barns, house, milking equipment, and 39 acres of pasture. Leased 54 cows (purchased an additional 5 animals) from owner. Small loan from Marie's parents.
Other background:	Suburban background. Don, 2 years Ag & Tech college; Marie, 4 year business degree. Future on this farm uncertain due to possible barriers to gains in ownership and managerial responsibilities.
Agreement terms:	Rental rate for barns, equipment and pasture is $650 per month. Rental rate for house is $250 per month. Companion agreement allows the Smiths to purchase forage on an as-fed basis. Price paid is determined by quality of the feed which is measured by pre-agreed formula.

Agreement terms: (cont)

Dairy cattle lease:
-54 cows leased
-Cost is $40 per cow per month
-5 year term
-Lessee has option to purchase animals for $1.00 each at end of term
-The agreement can be dissolved for any reason by any party if 60 days notice is given

Financial position:

9/30/81

Assets		Liabilities	
Real estate			
Livestock	$ 9,500		
Machinery	3,000		
Inventory		Current	$ 2,400
Receivables	9,214	Intermediate	9,424
Cash and other	12,709	Long term	
TOTAL	$ 34,423	TOTAL	$ 11,824
		Net worth	$ 22,599
			65.6%

Production:	1981-82
Total milk production (lbs)	814,200*
Cows	59
Milk shipped/cow (lbs)	13,800
Monthly milk income	$ 9,214

* Projected at February 1982 levels.

Hawk's Nest Farm

In May 1977, Henry Farrell and his wife Loretta left his father's 60-acre, 30-cow farm to start on their own at Hawk's Nest Farm. They agreed to purchase the machinery on the farm and signed a three-year lease to rent the 189-acre (35 tillable) property for $200 per month. In order to get started, the Farrells borrowed $32,000 for the purchase of 19 grade cows, the farm equipment, and start-up expenses for the crop year. The loan was to be repaid over seven years at 16% interest.

Planting and harvest of 23 acres of hay (with 35 acres of old seedings from neighbors) and seven acres of corn were late and yields were poor in the first year. The Farrells were getting settled in the Spring and 1977 was a wet, very poor crop year throughout New York State. Furthermore, the "old and antiquish" equipment purchased with the farm required substantial repair expenditures, and downtime slowed the cropping effort. The Farrells' decision to gradually expand their herd through 1977-78 (peak herd size was 47 cows) proved to be a mistake, given harvest weather conditions in the first year. Extremely high feed costs in the first winter (grain expenses alone, for example, were estimated to be 28% of milk receipts) led to a reduction in herd size back to 30 animals.

A strong herd production average (DHIA average was 17,600 lbs. through September 1978) helped carry the farm through a difficult first year. A new tractor was purchased (dealer financed, $4,000 down; $4,200 financed over 2 years, 11% interest) in the Spring of 1978 to solve timeliness problems of the year before. The Farrells rented an additional 12 acres for corn silage at $50 per acre to increase raised feed production. Yields were very good in the second year, milk production stayed high, debt load was manageable and prospects for a successful start looked good at the end of 1978.

The Farrells, however, felt that their operation was limited by the quality and the size of their rented facilities. There was no room for raising heifers, and Henry saw little advantage to investing in land and building improvements to property that he didn't own. Henry's father had sold his small dairy operation, and, in the Spring of 1979 the Farrells decided to move their cows and equipment back to the home farm. Their landlord was interested in selling Hawk's Nest Farm and agreed to let his tenants out of the last year of their lease.

Rent to the new owner of the Farrell family farm was $200 per month on annual lease, with an increase to $250 per month in 1980. The farm included 60 tillable acres with more space for livestock, and better milking facilities than at Hawk's Nest. The Farrells purchased 10 cows from an operating herd and 13 heifers from Henry's father. They also replaced their haying equipment and purchased a mobile home over the course of 1979 and 1980. This brought their total debt load to $80,000 on a milking herd of 37 cows. Total monthly payments by 1980 were $1,200 to the bank and $365 to FmHA which had financed their most recent equipment purchases ($8,000, 2 years, 10% interest). Production had dropped back from a peak of 18,600 lbs.

Farm Start Profile 4

Hawk's Nest Farm — **Henry and Loretta Farrell**

Date started: May 1977

Means of entry: Rented 189-acre (35 tillable), 30-cow farm with house, barns, and equipment. Due to overcrowded facilities moved to father's original farm in Spring 1979; rented from new owner. Also rented 42 acres additional cropland in 1979-80. Sold out in the Fall of 1980.

Other background: Brief partnership with father in 1976 on 60-acre, 41-cow farm.

Left farming in order to pursue career in raising and showing registered cattle.

Agreement terms: First rental farm:

- Rental rate of $200 per month, 3 year lease.
- Financed machinery and cattle through commercial bank, ($32,000, 7 years, 16% interest).

Second rental farm:

- Rental rate in 1979 was $200 per month for 60 acres, trailer, barns and equipment; rate increased to $250 per month in 1980. Took an additional cattle-machinery loan from FmHA: 10 more cows, 13 heifers, new tractor, and operating money ($22,000, 7 years, 10% interest).

Financial position:

5/1/79	Assets		Liabilities	
	Real estate			
	Livestock	$ 7,100		
	Machinery	6,175		
	Inventory		Current	
	Receivables		Intermediate	$ 8,300
	Cash and other	1,000	Long term	
	TOTAL	$ 14,275	TOTAL	$ 8,300
			Net worth	$ 5,975
				41.9%

Financial position: (cont)

1/1/79

	Assets		Liabilities	
Real estate				
Livestock	$ 45,000			
Machinery	33,500			
Inventory	4,900		Current	$ 6,900
Receivables	2,000		Intermediate	40,752
Cash and other	5,400		Long term	
TOTAL	$ 90,800		TOTAL	$ 47,652
			Net worth	$ 43,148
				47.5%

Production:	1971-78	1980
Total milk production (lbs)	565,500	618,640
Cows	30-47*	37
Milk shipped/cow (lbs)	17,670	16,720
Monthly milk income	$ 4,083**	$ 6,600

* Herd size reached peak in summer of 1977; culled back to original 30 cows in the Fall.

** Based on $49,000 gross milk income in first year.

per cow since the move, but remained above 17,000 lbs. Debt per cow of between $2,000 and $2,500 could be managed at the level of production, and between 30% and 40% equity.

Given production records and relatively moderate debt obligations, the Farrells' decision to sell their cows and equipment in the Fall of 1980 seemed surprising. They gave several reasons:

1) They regarded their debt load as heavy.

2) They were raising too many heifers relative to the size of the milking herd.

3) Their main ambition was to raise, milk, show, and sell registered cows. Attempts to change their herd over from grade to registered had been costly to the dairy operation, and they saw little prospect of reaching their goal under their current circumstances.

The Farrells' goals of working with registered dairy animals was distinct from that of others in this study whose aim was to operate their own dairy farm. Henry took a job as a herdsman for a registered show herd after selling his animals for $1,600 per cow. He was earning a good salary and had capital to invest in his own registered animals (or even another farm start) sometime in the future.

FARM PARTNERSHIP

CASES

Four Wheels Farms

After trying and failing to set up a partnership agreement to share management and ownership of his father's 65-cow, 500-acre farm, Mark Hammer signed on as a hired man at nearby Four Wheels Farm. In 1973, the business was operated as a father-son partnership by Hammer's employers. Mark worked there as a hired man for six years before returning to his home farm when his father was injured in 1979. Despite vague verbal agreements to establish a partnership or transfer arrangement after Mark had worked for a year, his father never did adjust his share of ownership or management responsibilities to help Mark get started. Ten months after returning, Mark and his wife, Pamela, left the farm for the second time.

Hammer and his wife carefully considered two other opportunities to start farming on their own. Mark was offered a position as manager of a well-run dairy farm in another state. The owner's offer included an opportunity to set up a corporate or partnership arrangement to share ownership of farm assets after a year's employment. The Hammers decided against such a major move.

They also looked into the purchase of a 35-cow, 90-acre farm, financed by FmHA, in their home area. The farm house and barns required extensive repairs and improvements, and several pieces of equipment would have had to be purchased to start operating the farm. The farm purchase price was $170,000. The Hammers estimated a budget for the first year, and decided that given their projected debt load the farm could not provide them with an adequate living. They turned down the FmHA offer to finance the deal.

After evaluating the above alternatives, Mark and his wife accepted an offer to set up a partnership with their previous employers to operate Four Wheels Farms. Terms of the partnership agreement are shown in Farm Start Profile 5.

The Four Wheels partnership has operated successfully for over two years. The Hammers started with very little equity, but by sharing in cattle born and equipment acquired by the business since January 1980, their net worth has increased to nearly $40,000. As cattle and equipment are depreciated and replaced, Mark will eventually become one-third owner of the farm's livestock and machinery assets. At the time of the interview, the Hammers held about 12 percent of the partnership's equity in intermediate assets. The farm real estate is held by Mark's partners, and is not part of the partnership assets.

Mark manages the cropping operations on this established, large-scale farm, John Jackson oversees the dairy operations, and Jackson's father participates in most decisions. A herdsman is also employed by the business. In addition to his share in partnership assets, Hammer earns about $750 per month plus housing and utilities. Mark's wife is a part-time farm employee, sharing record keeping and cash planning duties with John Jackson's wife. Daily chores are carried out and major decisions made by partners who communicate and cooperate remarkably well with each other.

Farm Start Profile 5

Four Wheels Farms	Mark and Pamela Hammer
Period of agreement:	October 1979 to present.
Partners:	Three partners: beginning farmer, and father and son who had previously owned and operated farm as a partnership.
Contributions:	New partner contributed four cows and a tractor, worth about $10,000 as well as labor and management of crop operations.
	Farm owners provide use of all farm assets, share ownership of livestock born and machinery purchased after agreement.
	Full-time labor and management (new partner, younger farm owner).
Other features of agreement:	Family partnership amended to include third member.
	Agreement covers cattle and equipment only; partnership rents real estate from family owners.
	Partnership assumes all cattle and equipment debts.
	Ownership of equipment purchased and calves born after agreement to be shared equally three ways.
	Ownership of other cattle and equipment assets still to be determined.*
	New partner to hold title of next parcel of land purchased.
	Management duties allocated between two active partners; new partner manages cropping, son of owner manages dairy operations; a herdsman is also employed.

Other features of agreement:	All decisions discussed and made jointly; majority vote of partners necessary on investments of over $5,000.
Farm characteristics:	150 cows milking.
	600 acres (590 tillable).

Financial positions: Mark and Pamela Hammer

1/80

Assets		Liabilities	
Real estate			
Livestock	$ 4,000		
Machinery	10,000		
Inventory		Current	
Receivables		Intermediate	$ 10,000
Cash and Personal	2,610	Long term	
TOTAL	$ 16,610	TOTAL	$ 10,000
		Net worth	$ 6,610
			40%

1/82

Assets*		Liabilities	
Real estate			
Livestock	$ 18,333		
Machinery	28,649		
Inventory	2,000	Current	
Receivables		Intermediate	$ 11,472
Cash and other	200	Long term	
TOTAL	$ 49,182	TOTAL	$ 11,472
		Net worth	$ 37,710
			77%

Production:

	1981
Total milk production (lbs)	2,475,000
Cows	150
Milk shipped/cow (lbs)	16,500
Monthly milk income	$ 27,800

* As of 1982, the new partner held a 12% share of Four Wheels nonreal estate assets.

Mark recognizes the financial advantages of his current position, but feels that a share in ownership of real estate is the key to a secure future in farming. He believes that such ownership would complete his establishment as a full member of the Four Wheels Farm business.

Green River Farms

Dave and Elaine Saddler are both originally from New York City. Dave spent two summers gaining practical experience as part of a pre-veterinary course on the farm he now operates. Eight years ago Dave left college to take a job as a hired man for the farm owner, and Elaine found a teaching position in the area. David took the job with the understanding that a partnership arrangement would be discussed if employer and employee were satisfied with their farm situations after a year. Health problems forced the farm owner to turn over considerable managerial responsibility to Saddler by 1976, but no partnership had been formed. The county extension agent helped start the process of defining objectives and writing an agreement in early 1977. The farm owner preferred to keep his farm transfer options open. He had children who were not interested in the farm, but he still hoped they might return someday. He also needed Dave's health, skill, and expertise to keep Green River Farm operating. For these reasons he favored an unwritten, "flexible" partnership agreement. This type of arrangement did not fit the Saddlers' objective of building farm equity, increasing David's role in the management of the farm, and establishing their position in farming. Formation of the partnership was delayed.

In June 1977, Saddler purchased a nearby farm with the seller holding a mortgage. The farm included 180 acres (60 tillable), barns for 60 head of cattle, silo, gutter cleaner, and some milking equipment. The purchase price was \$30,000, \$2,000 down, with the remaining \$28,000 amortized over five years at seven percent interest (\$554 per month). The Saddlers made the down payment with savings from Dave's salary. Later mortgage payments were also made from his farm income, and Elaine's teaching earnings were used for living expenses. Saddler saw the farm purchase as an important catalyst in finalizing a partnership agreement with his employer. The farm owner's declining health also hastened the agreement described in Farm Start Profile 6. The unwritten agreement, effective in January 1978, was reached after more than a year of discussion and examination of various partnership alternatives. The partnership provisions never were put down on paper, making the situation uncertain and uncomfortable for Saddler at the start. Only his ability and the respect built between the partners over time protected the profitability of the business interests of each partner.

As a hired man, Saddler had earned \$99 per week with living quarters provided. As a partner, Saddler's salary increased by 50 percent and he took a share of the cash income from farm operations. The partnership owned no assets. Each month the milk check and other farm income were deposited in a joint checking account, in which a balance of \$10,000 was to be maintained. After farm expenses were met, the partners split any amount over \$10,000 left in the account. The owner also put his share of farm income toward

Farm Start Profile 6

Green River Farms — **David and Elaine Saddler**

Period of agreement:	January 1978 to April 1979 (originally set up to cover three to five years).
Partners:	Young beginning farmer (former Green River Farms employee) and established farm owner, close to retirement.
Contributions:	Beginning farmer contributed use of separate 60-cow barn, 60 crop acres, and milking equipment in addition to labor and management.
	Green River Farms owner contributed use of all farm assets, and paid farm expenses for January to May 1978 from his share of farm income.
Other features:	Unwritten, "handshake" partnership.
	Monthly cash income over expenses, less $10,000 checking account balance divided equally between partners.
	Partnership owned no assets; no rent paid for use of partners' land and livestock.
	Partnership purchased hay from 60-acre farm owned by beginning farmer.

Financial position (beginning farmer):

1/78	Assets		Liabilities	
	Real estate	$ 30,000		
	Livestock		Current	
	Machinery		Intermediate	$ 25,620
	Personal	13,000	Long term	
	TOTAL	$ 43,000	TOTAL	$ 25,620
			Net worth	$ 17,380
				40%

Financial position: (cont)

3/79

Assets		Liabilities	
Real estate	$ 30,000		
Livestock		Current	
Machinery		Intermediate	$ 18,850
Personal	15,000	Long term	
TOTAL	$ 45,000	TOTAL	$ 18,850
		Net worth	$ 26,150
			58%

Production

	1978
Total milk production (lbs)	777,454
Cows	60
Milk sold/cow (lbs)	12,960
Monthly milk income	$ 6,666

(See also Farm Start Profile 15)

expenses for the first four months of the arrangement to allow the Saddlers to increase payments on their farm mortgage. The small farm purchased by the Saddlers was incorporated into Green River Farm operations as part of Dave's contribution to the business. During the 15-month term of the agreement, Saddler and the farm owner made management decisions jointly. The owner's conservative approach to investment and Dave's limited capital funds caused very few farm improvements to be made in the first year.

The agreement was set up to cover three to five years of farming in partnership. This time frame was attractive to Saddler, because his ability to purchase this (or any) farm would be improved substantially after five years of investing his earnings in a small farm and other farm assets. During the first year, however, it became clear to Dave's partner that for health reasons he could not maintain his labor and management contribution to the business. He decided to sell the farm to Saddler. In the Fall of 1978, Dave and the farm owner started to evaluate alternatives for farm transfer. The sales contract arrangement under which Saddler now operates the farm is discussed in detail on pages 52 to 55.

Red Osier Farm

In early 1978, James Mills moved from a well-paid herdsman's job with significant managerial responsibility to a similar position that included a possible partnership opportunity and the chance to manage his own herd. He brought little financial equity, but eight years of herd, crop, and financial management experience to the job.

The 1978 arrangement with Jim's new employer was built around a 120-acre farm (35 tillable) recently added on to the employer's operation. Mills was to work as herdsman, in charge of managing two milking herds, for a year. After this trial period, a partnership would be formed to operate the new farm with Jim as manager of the Red Osier farm. The trial period took only six months, and the partnership was formed in early 1979.

Cattle and equipment on the farm were appraised at \$31,000 (42 cows, 12 youngstock, milking equipment). Crops and feed inventory at the time of the agreement were valued at \$4,000, and start-up costs were estimated to be \$4,000. Mills obtained financing (\$19,500, 5 years, 11½% interest) from a commercial bank on a note cosigned by his partner to purchase half the livestock, equipment, and inventory, and to cover half the initial operating costs. His capital contribution to the partnership was \$19,500.

The Red Osier partnership paid rent to Jim's partner for use of land, buildings, and equipment, and paid him custom rates for plowing and planting. Jim earned a salary, plus \$400 per month to pay off the bank note. He took responsibility for all management decisions, labor and record keeping on the Red Osier Farm, while continuing to work with his partner's separate milking herd.

Farm Start Profile 7

Red Osier Farm | **Jim and Donna Mills**

Period of agreement:	February 1979 to June 1981.
Partners:	Beginning farmer with substantial experience and active, established farm operator. Farm owner had been new farmer's employer for six months.
Contributions:	Beginning farmer borrowed from commercial bank to purchase half cattle and milking equipment and cover half beginning operating costs. Bank note cosigned by partner. All labor and management provided by farm entrant. Total capital contribution of $19,500. Farm owner contributed half cattle and milking equipment.
Other features:	Partnership rented land, buildings, and field equipment from farm owner. Beginning farmer earned salary and ownership of half the calves born in exchange for his labor and management. Beginning farmer worked with herd on partner's separate operation between chores on the Red Osier Farm.

Financial position (beginning farmer):

2/79	Assets		Liabilities	
	Real estate			
	Livestock	$ 19,700		
	Machinery			
	Inventory	2,000	Current	
	Receivables	5,800	Intermediate	$ 19,500
	Personal	6,000	Long term	
	TOTAL	$ 33,500	TOTAL	$ 19,500
			Net worth	$ 14,000
				42%

Financial position: (cont)

2/82 (one year after partnership dissolved)

Assets		Liabilities	
Real estate			
Livestock	$ 53,450		
Machinery	29,900		
Inventory	4,000	Current	
Receivables	7,165	Intermediate	$ 60,000
Personal	5,000	Long term	
TOTAL	$ 99,515	TOTAL	$ 60,000
		Net worth	$ 39,515
			40%

Production:

	1979	1981
Total milk production (lbs)	504,000	633,175
Cows	42	43
Milk sold/cow (lbs)	12,000	14,725
Monthly milk income	$ 5,800	$ 7,165

35 crop acres rented as part of farm for hay production.

In June 1981, the partnership between Jim Mills and his former employer was dissolved. The original agreement was to have been effective for five years. Under Jim's management, the Red Osier farm business had been profitable enough to put Jim in a position to buy out his partner's interest after only 30 months. Mills borrowed $36,000 from FmHA, amortized over seven years at 14 percent interest. These funds were used to purchase half the livestock on the farm and haying equipment. The bank loaned him $5,000 for operating expenses. The partner received $32,000 for his cattle and milking equipment. Jim continues to operate the Red Osier Farm. He pays taxes, insurance, and a rental fee for use of the 35 tillable acres and buildings.

Cottondale Farm

Characteristics of the partnership agreement to purchase and operate Cottondale Farm are presented in Farm Start Profile 8. Four partners participate in the farm business. The two married couples had limited agricultural experience when they first met at a Grange meeting in New England. The Kinseys and the Vukoviches worked together for a summer in a custom haying venture. They shared a common desire to get into farming, and in late 1977 they decided to pool their capital resources in order to purchase and operate a dairy farm in New York State. They described the decision as a gamble, as it was based only on their common ambition to farm and their relatively brief working relationship.

A written agreement was to be drawn up describing capital contributions as well as benefits from the partnership to its members and labor and allocation of labor and management responsibilities. (See provisions in Farm Start Profile 8.) The partners have not seen the completed document. It remains in the lawyer's office, unsigned. Cottondale Farm is run under a verbal statement of commitment to the farm business, and the operation depends on a high degree of cooperation and effective communication among the partners. The farm purchase was treated as a joint investment. Ownership, managerial duties, and rewards were allocated equally among the four partners. Dissolution of the partnership would be handled according to the same 50-50 understanding on which the business was started. Communication was fostered, at first when both families lived in the same house, and now when the four partners eat meals together.

By pooling their resources, the Kinseys and the Vukoviches were able to apply $100,000 to their start in farming. They purchased an operating but run-down, 52-cow, 240-acre farm with a $60,000 down payment. Turning the farm into a commercial operation to support two families has required a pooling of the partners' varied abilities and experience. Equipment on the farm was old and worn, and the herd had been poorly fed and cared for by the previous owner. Replacements had been sold off before the two couples took over, and none of the cows were more than three months pregnant. Bred animals had also been sold off prior to the farm transfer. The Kinseys and

Farm Start Profile 8

Cottondale Farm | **Kinsey and Vukovich**

Period of agreement:	May 1978 to present.
Partners:	Four partners; two beginning farm couples.
Contributions:	Each couple contributed $30,000 for down payment on farm purchase.
	Each couple contributed half of start-up costs.
	Each partner contributed equal share of labor, management, and support.
Other features:	Agreement written, but unsigned.
	Partnership purchased complete farm (real estate with cattle and equipment), first with seller holding mortgage, later refinanced through Farm Credit Service.
	Assets held in equal shares; liabilities and weekly salaries also equal. Same distribution if partnership is dissolved.
	Labor and management responsibilities:
	-Field work and cropping decisions carried out by three partners.
	-Fourth partner responsible for records and meals.
	-Scheduled tradeoffs on milking responsibilities; joint decisions on herd management.

Financial position: (cont)

12/78

Assets		Liabilities	
Real estate	$140,000		
Livestock	41,500		
Machinery	39,800		
Inventory	8,055	Current	$ 4,700
Receivables	5,675	Intermediate	5,000
Cash	1,950	Long term	125,000
TOTAL	$236,980	TOTAL	$ 134,700
		Net worth	$ 102,280
			43.2%

12/81

Assets		Liabilities	
Real estate	$180,000		
Livestock	125,600		
Machinery	79,500		
Inventory	12,842	Current	$ 64,809
Receivables	11,500	Intermediate	7,174
Cash and stock	19,454	Long term	115,470
TOTAL	$428,896	TOTAL	$ 187,453
		Net worth	$ 241,443
			56%

Production:

	1978	1981
Total milk production (lbs)	660,500	1,016,200
Cows	53	66
Milk sold/cow (lbs)	12,500	15,400
Monthly milk income	$ 5,675	$ 11,500

Vukoviches obtained help from farm supply dealers, the veterinarian, the local Production Credit Association, and others when they needed advice or short-term credit to get going. They've learned herd management through the experience of turning previously poor health, feeding, and breeding practices into a system in which the DHIC herd average for 66 cows is 18,400 lbs. They've built up a replacement herd of such quality that neighboring farmers have shown interest in purchasing Cottondale heifers. Installation of improved milking and manure handling systems has been accomplished by applying mechanical and planning experience earned during the partners' earlier nonfarm careers. As outlined in Farm Start Profile 8, allocation of responsibilities according to the skills and interests of the partners has also contributed to the establishment of Cottondale Farm as a strong commercial enterprise.

Drake's Landing Farms

Carl Driessen and his partner hoped to achieve economies of size and increase the cash flow of their separate businesses when they combined their farming operations in the Spring of 1977. Carl grew up on the family farm and earned a bachelors degree in agricultural economics in 1974. Carl purchased his father's 33-cow, 205-acre farm in January 1977, after three years of experience in agricultural banking. He made a down payment of $4,500 from his savings, and financed the real estate purchase with his father holding the $50,000 mortgage (interest only paid for 10 years, then amortized over 20 years, 6% interest). The Production Credit Association financed cattle and equipment purchases of approximately $40,000, and the Farmers Home Administration approved long-term credit of $30,000 for improvements to the barn.

Driessen entered into partnership with a neighboring farmer in April 1977, in order to increase the farm assets he could control without attempting to borrow additional capital on his limited equity base. Details are shown in Farm Start Profile 9. The partnership assumed notes on cattle and equipment and paid rent for land owned separately by each partner. Thirty cows were purchased in addition to the 56 contributed by the partners. Heifers were added to the replacement herd and the operators of Drake's Landing Farm were milking 90 cows on 975 acres (437 tillable) by December 1977. The partnership leased 325 acres (120 tillable) of the total land farmed in order to meet feed and forage requirements.

Driessen described the partnership arrangements as "profitable, but doomed". As a partner and a farm entrant with little starting equity, Carl gained access to the income-producing assets of a large-scale operation. The management experience he acquired during the two years of partnership proved valuable in making later farm and financial decisions. His net worth also increased substantially.

Farm Start Profile 9

Drake's Landing Farms	Carl and Jane Driessen	
Period of agreement:	April 1977 to April 1979.	
Partners:	Two beginning farmers.	
Contributions:	Partner A:	Partner B:
	32 cows 32 youngstock machinery ($14,000) labor and management	23 cows 14 bred heifers machinery ($14,750) labor

Other features:

Partnership rented land and buildings from individual partners. Partner A rented 205 acres (70 tillable) to the business. Partner B provided 445 acres (247 tillable) for rent.

Partnership also rented 325 additional acres (120 tillable) from a nearby farm operator.

Partnership established a line of credit with the Production Credit Association, and purchased an additional 30 cows.

Partnership assumed all cattle and equipment loans owned by partners.

Responsibilities were written into agreement: Partner A to manage the business, B to provide labor (three full-time employees hired).

Salaries set according to responsibilities.

Financial position (Partner A):

1/77

Assets		Liabilities	
Real estate	$ 81,200		
Livestock	25,025		
Machinery	14,100		
Inventory	5,640	Current	
Receivables	3,000	Intermediate	$ 24,069
Cash	4,320	Long term	75,250
TOTAL	$133,285	TOTAL	$ 99,319
		Net worth	$ 33,966
			25%

1/82 (2½ years after buying partner out)

Assets		Liabilities	
Real estate	$310,000		
Livestock	188,300		
Machinery	81,000		
Inventory	5,000	Current	$ 2,200
Receivables		Intermediate	177,833
Cash and other	15,500	Long term	170,000
TOTAL	$599,800	TOTAL	$ 350,033
		Net worth	$ 249,767
			43%

Production:

	1977	1981
Total milk production (lbs)	330,000	1,740,000
Cows	33	120
Milk sold/cow (lbs)	10,000	14,500
Monthly milk income	$ 3,000	$ 19,575

The business arrangement, however, did not last. Carl was married in 1978, gaining additional responsibilities and demands on his time. His farm partner, despite a written assignment of management responsibilities in the partnership agreement, spent most of his time pursuing off-farm interests. This left the bulk of labor and management burdens with Carl, and undermined the continued success of the partnership. Driessen soon found that he couldn't carry out all of the management responsibilities on his own. Personality problems also developed between Driessen's partner and the farm help. Despite commercial success during two years of farming, prospects for the future success of the partnership had deteriorated. The business relationship was severed in April 1979.

Driessen and his wife went through a difficult transition period in their effort to continue farming a 100-cow operation after the decision to dissolve the partnership was made. Carl's first offer to buy out his partner's cattle and equipment and sign a long-term lease for continued use of land and buildings was rejected. He also decided against taking over the lease and purchase option for 325 acres previously rented by the partnership. The search for housing for 200 cattle, crop acres to feed them, and financing to buy out his partner became Driessen's main concerns over the first half of 1979.

The local PCA advised consolidation--reduced cow numbers and increased production per animal. Against this advice, Carl decided to purchase another farm, buy out his partner, and continue the 100-cow operation on his own. In late 1978, FmHA approved funds for purchasing and remodeling a rundown, 150-acre (60 tillable) farm with facilities for milking 30 cows. The package included $70,000 to buy the nearby farm and start renovations by June 1, 1979; $45,000 was to be used to purchase assets in the partnership owned by Carl's partner. The partnership was dissolved on April 1, and Driessen signed a 30-day lease to house animals in his partner's barns until the closing on the new property. The FmHA money was delayed until October, but in late April a commercial bank agreed to provide the $110,000 needed to complete the move. Their loan decision was based on Driessen's track record as a farm manager. These maneuvers were carried out in the space of 45 days, despite the careful plans for the change that had been laid out for months. Cattle were moved onto the new property after Driessen finished renovations to the barns and milking facility. He spent time and effort on the remodeling during a hectic transitional period, but avoided the heavier debt required to hire a contractor for the job. Carl believes he acquired a productive set of assets for a price based on 50 percent of their potential value.

By early 1982, Drake's Landing Farms included two milking operations, 70 cows on the home farm, and 50 on the property purchased in 1979. Carl employs two full-time men to run the dairy operation and farm 325 acres (150 owned, 175 rented). The production and financial record for this large-scale farm is strong, and was maintained throughout a difficult shift from partnership to sole proprietorship. Plans for further expansion were under discussion in the Spring of 1982.

FATHER AND SON

AGREEMENTS

Brushy Ridge Farm

The Fontana family purchased Brushy Ridge Farm in 1972. Joseph Fontana had operated a 30-cow dairy farm with a limited land base in another state for most of his life. The New York farm was purchased because it had possibilities for improvement and expansion, and therefore provided an opportunity for Joe's son, Tom, to start his career in farming.

The Fontanas purchased the 300-acre farm bare for $85,000. The plan was for Joe to run the farm for a few years while Tom finished college. They brought their own machinery and 36 head of cattle, and purchased 11 more cows and heifers. Mr. Fontana was able to finance the new start through the Farm Credit Banks, given a good credit history, collateral in his last farm which had been rented out, and a more liberal lending policy than prevails today.

Tom completed his degree in animal science, and returned to the farm with his wife in 1974. Expansion plans were made and carried out jointly by Tom and his father. The barn was remodeled, freestalls for up to 130 head were put in, silos put up, and a milking parlor constructed. Despite the advice of their creditors, the Fontanas did not set up a formal partnership. Tom remained a farm employee, but decisions were made together, under the assumption that Tom would soon own and operate the business.

One reason for not organizing a partnership was Joe Fontana's feeling that his age and health would prevent him from making a sustained contribution of time and labor to the business. Once the farm could provide the repayment capacity necessary for Tom to take over debt responsibilities, a transfer of ownership would take place.

A heart attack confirmed the wisdom of the above approach, and the transfer plan was put into effect in late 1978. Details of this arrangement are outlined in Farm Start Profile 10. The younger Fontanas rented land and buildings for $1,400 per month, with an option to purchase the real estate for $175,000 in 1982. They took over debts to PCA for cattle and equipment, and financed the construction of additional heifer facilities. Tom's father continued on the farm, working with the breeding program and cropping plans.

In the Spring of 1982, Tom and his wife purchased Brushy Ridge Farm. The Federal Land Bank took over the PCA mortgage on the 1978 heifer facilities and a loan on Tom's house, and included them in a $195,000 30-year note. Tom's parents hold a $30,000 second mortgage, written at 9% interest, but no payment schedule was written up, and payments are to be made as needed by the elder Fontanas. Monthly debt repayments are about the same as rent and debt expenditures were from 1978 to 1982.

Good management is essential to the continued growth and success of Brushy Ridge Farm. Production per cow for the 100-cow herd averages well over 16,000 lbs. A monthly herd health check has helped prevent any major

Farm Start Profile 10

Brushy Ridge Farm — Tom and Joan Fontana

Date started:	October 1978.
Type of transfer:	Gradual transfer of assets from father to son. Family assistance through father's signature on bank notes and concessional mortgage terms. Real estate rented by farm entrant from 1978 to 1981.
Other background:	Family moved farm operations to this property in 1972. Move was made with eventual takeover by son in mind. Planned expansion has been major factor in transfer of assets from father to son. Farm entrant's wife plays major role in business as worker, advisor, and manager. No partnership.
Property involved:	300 acres, 250 tillable, barns, house, good soils. 98 cows, 66 heifers and calves. Full line of equipment.
Rent and financial terms:	3 year lease with option to purchase real estate for $175,000; rental rate $1,400 per month (1978). Son took over most debts for cattle and equipment ($120,000, 7 years, 11%, $2,000 to $2,200 per month). Parents responsible for $35,000 additional cattle and equipment debt.

Financial position: (cont)

10/78

Assets		Liabilities	
Real estate	$ 40,000		
Livestock	101,000		
Machinery	75,500		
Inventory	17,250	Current	
Receivables	15,000	Intermediate	$ 97,100
Cash, stock, other	7,300	Long term	14,700
TOTAL	$256,050	TOTAL	$ 111,800
		Net worth	$ 144,250
			56%

1/82

Assets		Liabilities	
Real estate	$220,000		
Livestock	162,500		
Machinery	107,000		
Inventory	34,250	Current	
Receivables	24,000	Intermediate	$ 110,000
Cash, stock, other	26,450	Long term	225,000
TOTAL	$574,200	TOTAL	$ 335,000
		Net worth	$ 239,200
			42%

Production:

	1978	1981
Total milk production (lbs)	1,602,300	1,667,700
Cows	98	102
Milk shipped/cow (lbs)	16,350	16,350
Monthly milk income	$ 15,000	$ 24,000

health problems. Crop yields are high and a sound breeding program is followed. Farm Credit records and services are used; and equipment and other suppliers are located close by. Tom's wife plays an important labor and management role on the farm, taking care of the calves and taking part in decisions. In addition to Tom's father, one good full-time man is employed.

The Fontanas defined an established farm business as one where management can work on improving operations rather than just "scraping by". Joseph Fontana measures the farm's success in terms of the growth and transfer objectives that he's helped to achieve in the past 10 years. The contributions of the older generation, together with good planning, management, and communication have helped Tom Fontana to establish himself in agriculture.

Westview Farm

Robert Mosely and his son, Dan, signed a partnership agreement in 1978. Mr. Mosely has split time between a highway maintenance job and farming since he purchased Westview Farm in 1970. Dan Mosely returned to the farm from military service in August 1977 after deciding that agriculture offered a degree of independence and challenges that he had not enjoyed in the air force. The Moselys saw family partnership as a means to allow Robert to reduce his farm responsibilities and provide Dan with an opportunity to earn management experience as well as to build equity in the farm.

Robert Mosely had run the farm as a small-scale operation with family help until Dan returned home. In order to bring Dan into the business, a major expansion from 35 cows, as well as improvements in production efficiency were necessary. Three objectives, therefore, formed the foundation for the partnership arrangement:

1) To provide a means for Robert Mosely to gradually relinquish ownership and management responsibilities.

2) To facilitate Dan Mosely's entry into farming by making Westview Farm resources available to him for earning income and equity.

3) To expand and improve the operation to a point where it could support two partners and their families.

Details of the partnership arrangement are outlined in Farm Start Profile 11. Dan started with almost no equity. He acquired bank financing (with FmHA guarantee) to purchase half the cattle and equipment at appraised values when the partnership was formed. These assets, along with his labor and management constituted Dan's contribution to the partnership. At the same time, the business obtained commercial financing for remodeling and adding on seven tie stalls to the existing barn (expansion of

Farm Start Profile 11

Westview Farm | **Dan and Linda Mosely**

Date formed: January 1978.

Contributions:

Father: 50% cattle and machinery; part-time labor and management.
Son: 50% cattle and machinery; full-time labor and management.

Features of agreement:

-partnership rents real estate from father.
-son gets ½ appreciation in real estate and owns ½ of any improvements after forming partnership.
-appreciation in cattle and machinery value to son.
-son purchased his share of cattle and machinery from father; $20,000 mortgage held by commercial bank (5 years, 8½ interest*), guaranteed by FmHA.
-partnership established credit for remodeling and expansion.
-dissolution provisions:

--6-month notice of dissolution.
--if father leaves, son has option to purchase father's share of jointly owned property for 10% down payment, equal payments over 10 years (no interest rate set).
--if son leaves, father purchases for 25% down payment, equal payments over 3 years.
--if option refused, sale at auction.
--if father dies, son may continue to rent real estate for 6% of January 1 value per year; purchase provisions same as under dissolution. Real estate purchase would be negotiated at the time.

*Interest rate has since risen to 14%, mortgage extended to 10 years.

Financial position:
(Partnership)

2/78

Assets		Liabilities	
Real estate			
Livestock	$ 21,150	Current	$ 2,650
machinery	26,700	intermediate	13,776
Receivables	2,000	Long term	
TOTAL	$ 49,850	TOTAL	$ 16,426
		Net worth	$ 33,424
			67%

3/82

Assets		Liabilities	
Real estate			
Real estate	$ 40,000		
Livestock	74,700	Current	$ 28,685
Machinery	55,520	Intermediate	107,746
Receivables	8,000	Long term	
TOTAL	$178,220	TOTAL	$ 136,431
		Net worth	$ 41,789
			23%

Farm characteristics: 277 acres, 115 tillable, barns, house, mobile home
60 cows milking (39 milking 1978)
full line of machinery.

Production:

	1978	1981
Total production (lbs)	522,500	825,000
Milk shipped/cow	13,750	13,750
Milk shipped/worker	298,571	471,42
Monthly milk income	$ 5,000	$ 7,416

capacity from 42 to 49 cows). The present facility houses 72 cows, and expansion since 1978 included investment in silos, heifer barns, and equipment to support a 60-cow milking herd.

Robert Mosely retained title to the farm real estate and rents it to the Westview Farm partnership. As a partner, Dan has earned 50 percent of the increase in real estate value due to improvements and appreciation since 1978. His personal net worth rose from $725 when the agreement was signed to about $6,500 in March 1982. Expansion, however, has been a costly process for Westview Farm. Short- and intermediate-term debt increased from $16,000 in early 1978 to nearly $135,000 at the start of 1982.The partnership paid over $16,000 in interest in 1981. Cash flow has been tight since 1978 due to the fact that substantial investment was made in assets that were not immediately productive. Silos, heifer barns, and remodeled milking facilities do not turn out the income that 40 new cows could in an established milking system. Capital losses were taken by investing in the farm infrastructure that was necessary to expand herd size. The Moselys have tried hard to minimize the cost of the changeover and they regard the effort and expense of the past five years as a solid base for productive future operations.

Milk production has been maintained at 13,750 lbs. per cow since 1978. The farm business has passed through several costly years of expansion, and that growth was undertaken at a time when costs and interest rates increased sharply. Two views can be taken of the course followed at Westview Farm since 1978. The pessimistic outlook is that the financial situation has deteriorated over the four years of the partnership. This view could be expressed after a brief glance at the farm's financial statements. A more positive perspective, probably held by the Moselys and based on knowledge of the events behind their financial statement, might be that the early years have, by necessity, been costly. The costs of expansion are now behind Westview Farm, and more time, effort, and funds can be devoted to improving the production performance of a much larger herd. The results of management efforts to consolidate and improve production efficiency over the next few years will determine whether the first four years of the Westview Farm partnership were well spent.

Bundy Star Farm

Carl Baines and his father have worked under the terms of agreements described in Farm Start Profile 12 since January 1979. Carl's father still owns and runs a neighboring farm operation, of which Bundy Star previously was a part. A number of factors have contributed to Carl's present established business situation.

Except for two years as a mechanic for a farm equipment dealer, Carl Baines has worked all his life on his father's farm. He has been building equity in cattle since 1971. With his father's help, and by sacrificing free

Farm Start Profile 12

Bundy Star Farm	Carl and Rachel Baines
Date of agreement:	January 1979.
Type of agreement:	Real estate rental with option to buy and contract sale.
Parties:	Father and son.
Other background:	Farm managed by son was originally part of father's operation. Father continues to farm nearby on now separate property. Since 1971 son has built equity in cattle (30 cows, 11 bred heifers, 12 youngstock). Dealers financed at low interest; father made payments in return for son's labor; son paid cash for calves. In 1976, son purchased nearby farm (100 acres, heifer barn, house). Seller mortgage $40,000, 25 years, no interest. Seller retains life use of house and buyer substitutes labor (cutting and stacking firewood, etc.) for interest payments.
Property involved:	250 acres, 235 tillable, barn with 69 freestalls, house, 35 cows, 33 young animals.
Terms of agreement:	Father is responsible for payments on $90,000 cattle and machinery note for this farm. Son makes payments on sales contract with father equivalent to his father's PCA obligation. ($1,600/mo., 7 years, 14.25% interest) Title to cattle was transferred to son in Spring 1982. Payments are now applied toward purchase of machinery. Real estate is rented for $250/mo. with option to purchase at price considerably lower than appraised value.

Terms of agreement:	Until cattle were paid off, father had right to first use of machinery on the farm. This was regarded as a rental agreement for equipment. Son could trade old equipment for new, but repaid father at price equal to value fixed at start of the agreement.

Financial position:

1/79

Assets		Liabilities	
Real estate	$ 51,000		
Livestock	35,050		
Machinery	3,500		
Inventory	2,925	Current	
Receivables	8,760	Intermediate	$ 5,138
Personal	3,500	Fixed	37,700
TOTAL	$104,735	TOTAL	$ 42,838
		Net worth	$ 61,897
			59%

1/82

Assets		Liabilities	
Real estate	$ 65,000		
Livestock	156,150		
Machinery	70,000		
Inventory	52,395		
Receivables	18,800	Current	$ 17,512
Personal	4,363	Intermediate	42,755
Other	2,000	Long term	33,500
TOTAL	$368,708	TOTAL	$ 93,767
		Net worth	$ 274,941
			74.6%

Production:

	1978	1981
Total milk production (lbs)	895,375	1,195,314
Cows	65	81
Avg/cow (lbs)	13,775	14,756
Avg/worker (lbs)	358,150	426,897
Monthly milk income	$ 8,760	$ 13,507

time and disposable income, Carl and his wife, Rachel, acquired a herd of 30 cows and 35 youngstock by 1979. They purchased the animals through local cattle dealers at relatively low cost. In 1976, Baines purchased a farm his father had rented for several years. The seller holds a 20-year, $40,000 mortgage, and charges no interest. Monthly payments are low on the 100-acre property; but the seller has the right to use of the house for life, and Carl substitutes labor (cutting and stacking firewood, etc.) for interest.

From 1971 to 1979, the Baines built their net worth and established good credit and a sound working relationship with the local PCA. Carl had also gained experience in managing the 65-cow herd on the Bundy Star property. Because of different farming interests, personality conflicts, and tax advantages, Carl and his father discarded the idea of starting a partnership and decided on the farm transfer plan described below.

Carl entered this combination sales contract/rent with purchase option agreement with a relatively small debt load. He owned 30 of the 65 cows in the Bundy Star herd with no outstanding debts, and monthly real estate mortgage payments were small. His net worth, built over eight years, was over $50,000. The elder Mr. Baines continued to operate a farm business that had been profitable in the past and could afford to provide his son with some farm entry advantages. These included a purchase option price lower than the appraised value of the real estate, a gift of 45 acres of wheat in 1979, and earlier assistance in purchasing livestock. No concessions were made on interest rates, as repayment terms of the sales contract for cattle and equipment are the same as those of Mr. Baines' PCA account. Carl also pays $250 per month rent for farm real estate.

Early contract problems involved equipment sharing provisions allowing Carl's father first use of the machinery. The two farms were not yet self-sufficient, and some bruised feelings and minor timeliness problems arose. Carl now holds title to the machinery, since payments have been applied toward its purchase since the Spring of 1982.

Production per cow has increased over the past three years, and the milking herd has grown. The move to 80 cows has been one of making better use of present facilities rather than expansion. Breeding and mastitis problems were not unknown, but Carl sees coping with such difficulties as "part of the job". Rachel keeps the farm records, and her brother works full time on the farm. Carl and Rachel cite her brother's help as an invaluable asset to their efforts to start farming. The Baines continue to maintain an open relationship with their lenders, and they believe they have gained from the advice and discussions that stem from those ties.

Pioneer Farm

Jim Simpson and his wife, Brenda, returned to the Simpson family farm after graduating from college in the Spring of 1979. Jim received a bachelors degree in agricultural sciences, and Brenda completed a degree in a non-farm field. They both worked on the farm as hired employees until Jim and his father signed a partnership agreement to operate Pioneer Farm in early 1980.

Farm Start Profile 13

Pioneer Farm	**Jim and Brenda Simpson**
Period of contract:	April 1980 to present.
Parties:	Father and son.
Contributions:	Son contributed 19 cows and a truck, all of which were worth a total of $20,000. Father contributed use of all land, cattle, and equipment on Pioneer Farm. Both contributed full-time labor and management.
Other features:	"Capital account" mechanism used to gradually equalize equity shares through distribution of net profits (see example, pp. 45). Son's wife is full-time, management-level employee. Equipment sharing arrangement with another son, who farms nearby. Father contributed return to capital to the partnership in first year.

Financial position (Partnership):

4/80	Assets		Liabilities	
	Real Estate	$165,000		
	Livestock	91,000		
	Machinery	74,000		
	Inventory	17,000	Current	$ 4,000
	Receivables	16,500	Intermediate	133,800
	Cash & Other	9,500	Long term	73,000
	TOTAL	$373,000	TOTAL	$ 210,800
			Net worth	$ 162,200
				43%

Financial position: (cont)

12/81

Assets		Liabilities	
Real Estate	$175,000		
Livestock	129,000		
Machinery	88,000		
Inventory	26,000	Current	
Receivables	19,000	Intermediate	$ 141,500
Cash & Other	10,000	Long term	72,000
TOTAL	$447,000	TOTAL	$ 213,500
		Net worth	$ 233,500
			52%

Production characteristics:

	1980	1981
Total milk production (lbs.)	1,300,000	1,500,000
Cows	100	100
Milk sold/cow (lbs)	13,000	15,000
Monthly milk income	$ 16,500	$ 19,000

Jim is the younger of Gordon Simpson's two sons. Some kind of partnership with one or both sons included had been contemplated since 1973 when fire destroyed the original farm buildings. The decision to rebuild and continue farming in the area was based on the expectation that either Bill or Jim Simpson would join the family business. Jim took a year off between high school and college (1974-1975) to help out on the farm until Bill finished his degree. Bill returned to the farm as a hired hand from 1975 to 1978 before purchasing his own operation nearby (see pp. 90 - 93).

An informal partnership was set up in April 1980, to allow Jim and his father to run Pioneer Farm as partners. In January 1981, a capital account partnership was signed as a means to save capital gains and estate taxes by gradually transferring ownership to Jim Simpson. This was done on advice from the Simpsons' lawyers and accountants.[1/] Farm Start Profile 13 includes details of the partnership agreement. One objective of the Pioneer Farm business arrangement is to equalize equity held in the farm by father and son by the time Gordon is ready to retire. The goal is to be accomplished through the way in which profits and losses from the business are distributed at the end of each year. The example below illustrates the equity transfer function of the agreement for 1981.

Capital Account Partnership
Pioneer Farm, 1981

	Father	Son	Total
Starting accounts, 12/80	\$ 93,000	\$ 7,000	\$100,000
Deposits			
Profit share (50% each)	\$ 4,500	4,500	9,000
Share of new capital (50% each)	6,500	6,500	13,000
Funds reinvested in business	200	1,000	1,200
Total capital account before withdrawals	\$104,200	\$ 19,000	\$123,200
Withdrawals			
Principal repayments	4,600	4,600	9,200
Personal withdrawals	7,000	2,000	9,000
Final capital account 12/81	\$ 92,600	\$ 12,400	\$105,000

The dollar figures presented in the table above are based on actual 1981 records provided by the Simpsons. They have been changed to protect the confidentiality of such financial information, but the example does reflect the way in which ownership was transferred in 1981.

1/ The rationale for the structure of capital account partnerships are explained by McIntosh in the February 1980 issue of American Agriculturist.

The agreement provides for equal distribution of income after expenses to each partner. This income is "deposited" into their respective capital accounts. The same is done for new capital (borrowed capital or appreciation) which adds to the value of the farm. Each partner can invest outside funds in the business to increase the size of his capital account. Half of the amount used for debt repayment by the business is withdrawn from each account. Business funds used for living expenses are deducted from each partner's account as they are needed. Neither partner receives a fixed salary. At the end of each year, deposits and withdrawals to the capital accounts are calculated, and new equity percentages are determined.

Two factors affected ownership transfer in 1981. First, the partnership agreement states that each partner should receive a return to capital invested (based on December 1980, owned capital) at the rate of 50% of the short term PCA interest rate. This return was not taken by either partner in 1981. By not taking his return to capital, Gordon Simpson made a rather substantial contribution to the partnership and to his son's start in farming.

The reader will note a significant difference in the amounts withdrawn for personal expenses by father and son. This is probably due to the fact that Brenda Simpson is a full-time farm employee. The younger Simpsons are able to live on her salary and leave Jim's earnings in his capital account, thus making a significant gain in his relative equity in the farm business.

Profitability determines the effectiveness of the capital account partnership in facilitating the transfer of farm ownership from father to son. Indeed, if farming operations are inefficient and financial decisions are incorrect, the business itself will not survive. The Simpsons cited several factors that could affect the success of the Pioneer Farm family partnership:

1) A large number of cows is milked on this farm relative to the number of tillable acres owned (100-cow milking herd, 80 tillable acres owned). This leads to conflict between the ownership and operating aspects of Pioneer Farm. Improvements in buildings, for example, could improve the efficiency of the heifer and milking enterprises. Such improvements, however, do not increase the value of the farm proportionately because of the imbalance between owned acreage and cow numbers. The farms could not be sold as a 100-cow commercial operation.

2) Credit and cash flow problems stem from the above situation. Jim points out that present debt service and rental costs are similar to what debt repayment alone would be if more land were owned and fewer acres rented. Because a relatively high level of short-term

debt must be carried to rent needed crop acres, some of the benefits of ownership are paid for but not realized.

3) Relationships among family members could affect the performance of this business. Jim emphasized the importance of separating business relationships from family or personal feelings in matters that involve the farm. The younger Simpsons' aggressive management approach and willingness to consider a move from Pioneer Farm because of the owned land limitations cited above may not always coincide with their parents' views on running the home farm. Also, Jim's brother recently started farming on his own nearby. To help him out, the partnership agreed to share machinery during planting and harvest seasons. The parties met last winter to put the agreement on more of a business, as opposed to a family, basis.

While Jim and his wife are aware of such potential hindrances to profitable farm operations, financial and production performance has been good during the two years of partnership. Milk sold per cow increased from 13,000 lbs. in 1980 to 15,000 lbs. last year. Efforts to reduce feed grain costs have been successful, a potentially damaging mastitis problem was solved, and crop yields have improved. The younger Simpsons have doubled their original equity and have increased their percentage equity in a large-scale operation by five percent since 1980.

As new farm entrants, this family partnership was attractive to the young Simpsons because it was home, because they knew the farm, and because they could start on an established farm with a relatively small initial investment. Gordon Simpson has found a low-tax way to gradually transfer ownership of the farm; and since his son's return, production performance has improved. Jim and Brenda's start in farming has been enhanced through good training, an awareness of business and family factors that could affect their farming situation, the partners' ability to solve problems, and a not insignificant financial contribution from the elder Simpsons.

FARM TRANSFER

CASES

Northern Divide—Union Falls Farms

Daniel Green and his wife, Marilyn, moved out of a partnership with Green's brother in mid-1979. They took with them dairy heifers worth $5,000 and experience in managing a profitable dairy herd. In November, the Greens decided to rent a 145-acre farm with facilities to milk 52 cows. FmHA financed the purchase of 40 first-calf heifers and 12 of Dan's brother's cows, and the Greens started farming. The rental agreement was to run for three years, over which time the couple agreed to pay $1,000 per month for use of the land and buildings. Details of the Greens' experience on two farms are summarized in Farm Start Profile 14.

In August 1980, the Greens' landlord offered to set up a contract for the sale of the farm. The farm was appraised at $142,000. FmHA would finance a $42,000 down payment, and the $1,000 monthly payments would continue and be applied toward a 26-year contract at 9½% interest on the remaining $100,000. The $42,000 was applied against the value of buildings and equipment on the farm (machinery values $23,900), but no title for stationary farm equipment (silos, silo unloaders, milking equipment) changed hands. When the Greens left in the Spring of 1981, they had title to the moveable machinery only. They also left behind growing crops. They have not yet recovered the value of the crops or the $18,100 difference between their down payment and the appraised value of the machinery they now own.

Such a loss is evidence to the importance of specifying how title to assets is to be transferred in a sales contract. Spelling out title transfer provisions requires planning, negotiation, and time, but in this case the resulting protection against an unexpected change in circumstances would have been valuable.

The Greens' abrupt move from Northern Divide Farm stemmed from a dispute over pasture land bordering the main highway. They also, however, wanted to take advantage of an opportunity to purchase Union Falls Farm, then operated by an FmHA borrower facing foreclosure. The farm owner agreed to hold the $160,000 real estate mortgage (30 years, 10% interest). The local Production Credit Association financed the purchase of 20 additional cows and substantial costs involved in repairs and renovation of the farm buildings and milking facilities ($80,000, 7 years, 14½% floating interest rate). The farm included 159 acres (125 tillable) of good, loamy soil and housing and equipment (tiestall milking) to milk 81 cows.

The first cropping season at Union Falls Farm was very difficult. The Greens had purchased growing crops as part of the farm transfer. Yields were very low (corn silage 3.6T/acre, haylage 2T/acre) in the first year, and feed expenses were higher than anticipated. Renovations to the barns, water system, and silos were delayed and ran more than $5,000 over the original $24,000 estimate. Because of the delays, getting new cows into the milking herd took too long. Despite these severe setbacks, milk sold per cow averaged 16,211 lbs. per cow for 1981.

Farm Start Profile 14

Northern Divide Farm - Union Falls Farm	Daniel and Nancy Green

Date started:	November 1979.
Means of entry:	Rented 120 tillable acres, 52-cow milking facility and machinery and equipment on Northern Divide Farm. In August 1980, FmHA financed $42,000 payment on sales contract to purchase the farm. Left this operation in Spring 1981. Purchased Union Falls Farm in June 1981. Seller holds mortgage and PCA financed cattle, machinery, and repair and improvement expenses. 159 acres, 125 tillable, good soils, facilities for 81 cows.
Other background:	The Greens started farming with some equity in a house, trailer, and small parcel of land. First attempt to get started in August 1978 in partnership with Dan's brother. Green earned valuable experience in the management of a well-run, profitable dairy operation. Faced significant debt repayment problems in February 1982.
Agreement terms:	Northern Divide Rental: - 3-year contract - $1,000 per month rent - purchased 12 cows from brother, cattle dealer financed 40 more; $64,000, 3 years, 10% interest - refinanced cattle loan with FmHA in January 1980, but funds delayed until August Sales Contract: -farm appraised for $142,000 -$42,000 applied against buildings, machinery, and equipment as down payment (FmHA financed) - $1,000/month payments continued and applied toward 16-year sales contract,

Agreement terms: (cont)

$100,000, 9½% interest
Union Falls Purchase:

- seller mortgage, $160,000, 30 years, 10% interest
- PCA capital and operating loans: $80,000, 7 years, 14½% variable interest

Financial position:

1/81

Assets		Liabilities	
Real estate			
Livestock	$ 90,000		
Machinery	20,215		
Inventory	14,539	Current	
Receivables	10,000	Intermediate	$ 65,000
Cash and other	13,125	Long term	
TOTAL	$147,879	TOTAL	$ 65,000
		Net worth	$ 82,879
			56%

1/82

Assets		Liabilities	
Real estate	$190,000		
Livestock	105,850		
Machinery	63,069		
Inventory	7,342	Current	
Receivables	12,500	Intermediate	$ 172,000
Cash and other	15,150	Long term	159,000
TOTAL	$393,911	TOTAL	$ 331,000
		Net worth	$ 62,911
			16%

Production:

	1980	1981
Total milk production (lbs)	718,320	1,118,559
Cows	48	69
Milk shipped/cow (lbs)	14,965	16,211
Monthly milk income	$ 7,644	$ 12,741

In February 1982, the prospects for Union Falls Farm were uncertain. Production and breeding programs were sound, and plenty of replacements were on hand to maintain or increase the size of the 69 cow milking herd. Debt levels, however, were very high. The Greens had used up a large amount of equity in their moves from partnership to rental and sales contract and, finally, farm purchase situations. Little additional credit was available based on their 16% equity at the end of 1981, and debt per cow (despite a larger herd) had jumped from $1,204 in January 1981 to $4,797 a year later. While the Greens had taken positive steps to correct earlier farm purchase and sales contract mistakes, little margin for error remained.

Green River Farms

The purchase contract reached between David Saddler and his ex-employer (recent partner) is described in Farm Start Profile 15. The plan was effected much earlier than originally planned, due to the owner's view that he could not "pull his weight" as a member of the Green River partnership. The provision allowing the owner to remain in the farm house for six months after the start of the contract reflects the reluctance he felt in agreeing to relinquish farm ownership. Despite the confidence and trust built up over five years of working with Dave Saddler, the prospect of ending a career in farming was a difficult one for the owner to face.

As with the partnership arrangement set up in 1977, several alternatives for farm transfer were explored. A professional appraiser valued the farm assets before the contract was signed. Provisions in the agreement for transfer of title to specific assets to Saddler are explicit. The seller's interest in the continued, sound operation of the farm is protected in writing. Removal of buildings requires the seller's consent, but Saddler has the freedom to make improvements and additions to the farm facilities as he sees fit. The seller gains some income tax advantages in that he will realize capital gains over the life (20 years) of the contract. He also knows and trusts the new farm operator. The purchase price was set much lower than the farm's appraised value, no down payment was required, and the interest rate was fixed at a low rate. All of these contract features favored Dave Saddler in his attempt to establish his own farm business.

Dairy operations at Green River Farms were very profitable for Saddler's first two years as manager. The first year was spent getting used to running the place. Transition problems in 1979 and 1980 involved the loss of one long-time farm employee and high repair and replacement costs for some of the older machinery on the farm. No major changes or expansions were undertaken other than the construction of a new silo financed with ASCS funds for on-farm storage.

In 1981, Dave replaced several pieces of equipment as part of his plans to upgrade the farm machinery plant. New purchases were made with farm income, and without borrowing. Expansion plans made in 1981, however, were put on hold due to a tight cash flow situation and the high cost of borrowed funds. Breeding and health problems with purchased animals

Farm Start Profile 15

Green River Farms	Dave and Elaine Saddler
Period of contract:	March 1979 to present.
Parties:	Young farmer and established farm owner; former partners.
Property involved:	230 acres; 175 tillable; 2 houses; barns and silos.
	140 head of cattle (80 milk cows, 14 bred heifers, 11 yearlings, 32 calves, 3 bulls).
	Machinery and equipment.
Down payment:	None.
Purchase price:	$200,000.
Terms of payment:	20 years; 7% interest (fixed) monthly assignment on milk check ($1,550/mo.).
Other provisions:	Gradual transfer of title to cattle over 4 years; to machinery after 5 years; and to real estate at termination.
	Seller occupies farm house for 6 months.
	Buyer responsible for insurance, taxes, and repairs on property covered.
	Improvements, additions, at buyer's discretion.
	Buyer must keep 60 milkers, 40 youngstock and operate farm in good, farmlike manner.

Financial position:

3/79*

Assets		Liabilities	
Real estate	$ 30,000		
Livestock		Current	
Machinery		Intermediate	
Personal	15,000	Long term	$ 18,850
TOTAL	$ 45,000	TOTAL	$ 18,850
		Net worth	$ 26,150
			58%

1/82

Assets		Liabilities	
Real estate	$265,140		
Livestock	116,490	Current	$ 13,000
Machinery	62,200	Intermediate	25,739
Personal	21,000		
Receivables	13,000	Land contract	185,140
TOTAL	$477,830	TOTAL	$ 38,739
		Net worth	$ 253,951
			53%

Production:	1978	1981
Total milk production (lbs)	777,454	990,000
Cows	80	80
Milk sold/cow (lbs)	11,274	12,375
Monthly milk income	$ 6,833	$ 11,137

* First year of partnership between owner and young farmer.

(shipping fever) and exceptionally high family health expenses contributed to the farm cash flow problem. Expansion plans have been replaced with efforts to consolidate and increase efficient use of the farm's present capacity. A plan to gradually change over to a higher producing dairy breed was started in 1981, although this transition was slowed by economic conditions. Production throughout a difficult economic period has remained around 15,000 lbs. per cow for the 80-cow herd.

Dave Saddler emphasized the importance of establishing a trusting relationship between buyer and seller as a contributor to his start in farming. It took five years to form this relationship, and over that period Saddler's role on the farm changed from employee to partner to owner and operator.

The rewards to the formation of a positive bond between buyer and seller are reflected in the sales contract. The agreement contains provisions to accommodate both parties. These provisions are also based on the continued profitability of the farm and on past management decisions. The quality of the farm resources for sale is generally good, and a farm appraisal helped both Saddler and the farm owner to establish asset values. The previous owner had been conservative in his use of credit, and the operation had been a profitable one. Therefore, the seller didn't require a high sale price or contract terms to allow him to "get out from under" his farm business. Saddler knew the farm he was buying and so far has been able to take advantage of the terms of the sales contract in continuing profitable dairy operations.

Killdeer's Run Farm

Bob Kramer and his wife, Mary Ann, got out of a difficult rental situation to start milking cows in a dairy facility offered on sales contract by a local cash crop farmer in August 1979. They left behind personality clashes with their landlord and continuing disputes over responsibility for the cost of repairs on rented equipment. They were still involved in a lawsuit against the landlord for delivery of feed they had purchased from him. They brought with them 60 cows, 15 youngstock, a strong production record, and a credit relationship with PCA based on earlier cattle loans. Mary Ann Kramer held an off-farm job in agricultural research.

The land contract under which Kramer is now farming is described in Farm Start Profile 16. The contract is for the purchase of buildings, silos, and milking equipment only. Bob buys most of his forage from area farmers, and rented 50 acres of hay in 1981. The Kramers are purchasing capacity to milk and house at least 84 cows. When they arrived in 1979, they did not have enough animals to fill the barns; and despite an 18,000 lbs. herd average (and three times-a-day milking), it was difficult to meet contract payments over the first year. Rental payments had been about $600 per month in 1970; monthly payments on the sales contract are over $900. Cash flow problems caused by milking 50 cows in a barn built for 84 animals were eased as heifers entered the milking herd. It was also necessary, however,

Farm Start Profile 16

Killdeer's Run Farm | **Bob and Mary Ann Kramer**

Date of contract:	August 1979.
Parties:	Young farmer and established farm owner, who continues in local cash crop operation.
Property involved:	84-cow tie stall barn. 50-cow free stall barn. 20-cow tie stall barn (dry cows). 5 acres land. House trailer. Milking equipment, silos, gutter cleaner.
Down payment:	$10,000.
Purchase price:	$100,000.
Terms of payment:	$80,000, 10 years; 10% interest (fixed): $925/mo.
Other provisions:	Title to barns and other farm buildings transferred after 10 years. Additional $20,000 paid up front for purchase of house trailer.

Financial position:

8/1/79	Assets		Liabilities	
	Real estate	$100,000		
	Livestock	60,000*		
	Machinery	20,000		
	Inventory	12,000*	Current	$ 10,000
	Receivables	10,000	Intermediate	50,000
	Cash and other		Long-term	80,000
	TOTAL	$202,000	TOTAL	$ 140,000
			Net worth	$ 62,000
				31%

* Estimated from Cornell Business Summary data.

Financial Position: (cont)

1/1/82	Assets		Liabilities	
	Real estate	$100,000		
	Livestock	100,000		
	Machinery	30,000		
	Inventory	20,000	Current	$ 5,000
	Receivables	15,000	Intermediate	135,000
	Cash and other		Long term	50,000
	TOTAL	$265,000	TOTAL	$ 190,000
			Net worth	$ 75,000
				28%

Production:

	1979	1981
Total milk production (lbs)	1,026,000	1,500,000
Cows	60	87
Milk shipped/cow (lbs)	17,100	17,100
Monthly milk income	$ 10,000	$ 15,000

to finance the purchase of 25 additional cows through PCA in 1980. Herd health problems in the summer of 1980 had aggravated the already serious shortage of milking animals. Kramer pointed out that without the additional credit provided, he might have had to get out of farming.

A second problem encountered by the Kramers in their first few years on this farm grew out of the condition of the buildings and equipment when the contract was signed. The dairy facility was not in good repair and unexpected costs of replacing the gutter cleaner and repairing silos caused extra strain on farm cash flow. The milking system was converted to a new pipeline in the Fall of 1979 in order to save labor time which was needed for repairs and maintenance. Kramer leases the system from Agway for $275/month over five years at 10% interest, with a down payment of one-month's rent, and an option to buy at a percentage of original sale value. The monthly payment can be made from time saved and used more productively relative to the previously inadequate system.

The down payment requirement of this contract was regarded as high by Mr. Kramer. He believes that for a 20% down payment, a mortgage rather than a contract sale could have been used. He did point out, however, that the payment has been applied to the owner's FmHA debts and therefore helped to clear the farm title of outstanding liens. The contract arrangement also contributes to the owner's ability to finance his cropping operations.

Despite some drawbacks, Kramer felt that this contract sale was his best available step in the farm entry process. Finding ways to better use the capacity of the barns and facilities in this farm is still an important task. Maintenance, repair, and equipment replacement problems are now considered normal after three years of "catching up". Good herd management, Mary Ann Kramer's income, and some needed credit assistance from the PCA have been essential to the farm's survival in a difficult first three years. Bob and Mary Ann do have a long-term goal of owning and operating a whole farm in this area. They also look forward to the luxury of devoting time to managing a registered herd, as opposed to the full time commercial production management that is necessary now.

Black Deer Farm

Jeff Snead and his wife, Melanie, took over operations on a 200-acre, 65-cow farm in March 1982. The Sneads had established a reputation for good management while renting a dairy barn from Jeff's father, financing the purchase of a 35-cow herd, and producing milk over the past four years. This reputation was a major factor in the owner's decision to help finance Jeff's purchase of Black Deer Farms.

The agreement is described in Farm Start Profile 17. It covers all property on the farm, and the purchase price is considerably lower than the

Farm Start Profile 17

Black Deer Farm	**Jeff and Melanie Snead**
Date of contract:	March 1982.
Parties:	Young farmer and retired farm owner.
Property involved:	200 acres; 198 tillable; house, barns and silos. 85 head of cattle (61 cows, 15 heifers, 9 yearlings, 1 bull). Machinery and equipment. Feed inventory.
Down payment:	None. Purchase price: $250,000.
Terms of repayment:	$110,000 real estate contract: 25 years; 11½% floating interest rate ($1,120/mo.) $140,00 cattle and equipment contract: 3 years interest only, then amortized over 7 years; 9% fixed interest rate ($1,260/mo.)
Other provisions:	Title to cattle transferred once $85,000 principal paid. Title to machinery transferred once $150,000 principal paid. Title to real estate transferred at end of real estate contract. Major capital changes require owner's consent. At least original number of cattle to be maintained on the farm.

Financial position:

1/1/79

Assets		Liabilities	
Real estate			
Livestock	$ 30,000		
Machinery	12,000		
Inventory		Current	
Receivables	5,500	Intermediate	$ 38,500
Cash and other	5,100	Long term	
TOTAL	$ 52,600	TOTAL	$ 38,500
		Net worth	$ 14,100
			27%

1/1/82

Assets		Liabilities	
Real estate	$166,500		
Livestock	67,750		
Machinery	71,450		
Inventory	15,000	Current	$ 12,000
Receivables	7,500	Intermediate	18,500
Cash and other	5,100	Long term	250,000
Total	$333,300	Total	$ 280,500
		Net worth	$ 52,800
			16%

Production:

	1979	1982 (projected)
Total milk production (lbs)	500,000	912,000
Cows	36	60
Milk shipped/cow (lbs)	14,000	15,200
Monthly milk income	$ 5,500	$10,000

appraised value ($290,000) of land, cattle, and equipment on the farm. Black Deer Farm was an operating business prior to the contract sale. Cows, buildings and equipment were in good condition, although Jeff plans to get more out of those resources than his predecessor. The past success of this farm and of the prospective buyer made a contract attractive to both buyer and seller possible. In order to finance the real estate purchase, the farm owner borrowed $110,000 from the local Federal Land Bank Association for 25 years at 11½% variable interest. Jeff Snead makes payments to the farm owner on this note. The owner used the cash to build a new home, and invested the remainder in the money market. Cattle and equipment are transferred by contract sale financed directly by the owner.

Other provisions in the agreement pertain to the number of cattle to be kept on the farm and the owner's say in improvement, expansion, or remodeling decisions. Snead plans to put up a new heifer barn in the near future and brought 20 heifers with him from his last farming enterprise. He is satisfied with the freedom allowed him in such decisions, and they are made based on a good relationship with the owner rather than on the letter of the agreement.

The sales contract arrangement is the second step in the Sneads' start in farming. Jeff's previous experience in managing a herd in a rented facility was a big factor in making the present agreement possible. In addition to an established reputation (rare for a 21-year old farmer), Snead brought some operating capital to the new farm. He sold his 35-cow herd to his brother, who acquired financing to start milking on the farm the Sneads left in early 1982. The proceeds from the sale were used to pay off cattle and machinery debts, to help cover first year operating expenses, and for investment in a new calf barn on Black Deer Farm.

Only one cow was moved to the new farm. Jeff plans to raise the Black Deer herd average (55 cows) from 12,500 lbs. shipped now to 16,000 lbs. All cows in the herd were checked for pregnancy before the contract was signed. This gave Snead a good chance to get an idea of the herd's production potential (and value) as well as a head start on future culling decisions. At the time of the interview, Jeff was shipping an average 15,220 lbs. per cow on his 36-cow herd.

The proximity of Jeff's father's farm was also a factor in the choice of this farm entry opportunity. Some equipment sharing advantages are possible, and Jeff can continue to use his father's shop for repairs and maintenance.

The results of this series of farm entry decisions remain to be seen. As in all cases, Jeff Snead's ability to manage the resources he now controls will play a large part in determining success or failure. The means of farm entry chosen, the contract sale, was carefully planned. The agreement is based on the productivity of the farm for sale, the abilities of the farm entrant, a financing plan that fits the needs of both parties, and plans and provisions to help maintain Black Deer Farm as a profitable operation.

Cottondale Farm

Details of the partnership agreement under which Cottondale Farm operated were presented on pages 26 to 29. The four partners purchased the 240-acre, 55-cow farm from the owner who held a mortgage lien on real estate, cattle, and equipment until the package was refinanced through FLB/PCA in January 1981. Despite the partnership's beginning equity of $100,000, the lien held by the owner affected the partners' ability to acquire credit for needed improvements.

The farm, machinery, and livestock purchased by the Kinseys and Vukoviches was run down when purchased in the Summer of 1978. The two couples planned to expand the milking herd to 80 cows during their first few years of farming. In order to do this, an addition to the barn was necessary. By late 1980, the new farm operators were ready to go ahead with the project. They could not obtain FLB financing unless the owner allowed the bank to take a first mortgage on the real estate assets. The owner would not release his lien, forcing the partnership to refinance the entire purchase through FLB/PCA. The partners paid off the farm seller ($115,000) and are now paying higher (10% to 14% now, 6% earlier) interest on the principal balance. They have, however, been able to finance additional herd, crop, and building improvements through their new creditors.

The Kinseys and Vukoviches felt that their lack of experience led to the costly episode described above. They said that the problem could have been avoided had they retained their own lawyer to advise them on the farm transfer agreement.

Since early 1981, the barn addition was completed, the herd was expanded to 66 cows, average production has been increased (18,400 lbs., DHIC), and debt per cow has dropped. As noted in the section on partnerships, lack of farm experience and early credit problems have been overcome. The partners listed some factors in their success:

1) Their ability to apply earlier job experience to a farming situation.

2) Their choice of a stable milk marketing cooperative which also provides a good return on investment.

3) Good advice from parents (who farm nearby) and other advisors when needed.

4) A good relationship with PCA/FLB lenders, including use of Farm Credit management services.

5) Good and improving communication among the four partners.

Farm Start Profile 18

Cottondale Farm	Kinsey and Vukovich
Date of transfer:	July 1978.
Parties:	Cottondale Partnership (2 young couples from out of state) and farm owner.
Property involved:	240 acres; 189 tillable, house, barns with 55 cow milking capacity. 52 cows, 1 bull (poorly cared for). Line of equipment (old and worn). Milking equipment (old bulk tank).
Down payment:	$70,000*.
Purchase price:	$195,000.
Terms of payment:	$125,000 mortgage, 20 years, 6% interest. Interest only for first year ($625/mo.). $875/mo. thereafter until mortgage repaid.
Other provisions:	Seller retains lien on all assets until mortgage is paid off.
Refinanced (1980):	Seller received payment of $115,500 in January 1981. PCA short-term loans for building improvements, ($40,000, 7 yrs., 12% variable interest). Farm mortgage held by FLB, ($115,500 30 years, 10% variable interest). Additional financing since 1981.

* $60,000 on July 1, 1978. $10,000 on January 1, 1980.

Elm Valley Acres

George Sanders took a job as a hired man on his uncle's dairy farm in 1973. He had earned considerable dairying experience on his grandfather's farm in his home state before moving to New York. He made the move in the hopes of finding an opportunity to get started on his own. He married in 1976; and in September of that same year, the Sanders purchased a farm bordering George's uncle's property.

George bought the land, buildings, cattle, and milking equipment for $25,000. A local commercial bank held the mortgage, which was cosigned by Sanders' uncle (see Farm Start Profile 19.) George also agreed to continue working for his uncle through the Spring of 1977 in return for the use of machinery to plant corn and new hay seedings.

The Sanders purchased all their hay and grain during the first winter. They had acquired a reasonably good, but previously poorly managed herd of 25 milkers. The cows had not been fed properly, older animals had not been culled, and many were not bred when purchased by the Sanders. Production records hadn't been kept, but milk shipped stood at a low 900 lbs. per alternate day pick up. With a better feeding program, this rose to 1,900 lbs. per pick up after the Sanders' first month. The breeding program, however, took more time to turn around. The number of cows milking dropped to nine for a month long period in the winter of 1976-77. Fortunately, some heifers were available as replacements, and the Sanders were able to increase cow numbers to 30 milking with 25 to 30 replacements by the Fall of 1977. A new silo was put up, the old and inadequate milking system was replaced, and 12 new stalls were added during the first two years. Production was maintained at over 14,000 lbs. per cow shipped during this period. By the Summer of 1979, the Sanders were carrying 65 to 70 head of livestock, and had plans to expand further to 50 cows milking. Heifer facilities were inadequate, however, and 50 tillable acres were not sufficient as a base for more growth.

The Sanders began looking for a farm with more land and room for more cows. They decided to buy the 70-cow, 125-tillable acre farm that they now operate. The Sanders sold the 55-acre operation to George's father for $40,000 and cleared $15,000. This cash was invested in 15 more milkers in order to fully use the milking facilities on the new farm. The barns, which can house 115 animals, have been full since the Sanders arrived in October 1979.

The farm was purchased for $127,500. The Federal Land Bank took a $75,000 mortgage (30 years, 10.5% variable interest) and the seller carried a second mortgage of $32,500. The Sanders financed a new tractor and chopper ($20,000, 7 years, commercial bank rates), but brought all other equipment with them from their first farm. They also trucked in their stored feed.

Farm Start Profile 19

<u>Elm Valley Acres</u>	**George and Barbara Sanders**
Date started:	September 1976.
Type of transfer:	Farm entrant purchased small farm with relative's help in 1976. After building up herd size, he sold the farm and moved to a nearby, larger operation in 1979. First farm financed with commercial bank holding mortgage cosigned by entrant's uncle. Federal Land Bank and seller hold mortgages on present farm, commercial bank financed cattle and equipment.
Parties (second farm):	Beginning farmer and widowed farm seller.
Other background:	Farm entrant and wife both have farming background. He worked on grandfather's 50-cow operation in another state for several years, saw no future there. Took job on uncle's New York dairy farm nine years ago. Farm entrant's father purchased his son's first farm in 1979 and planned to resell it.
Property involved:	<u>First farm</u> - 55 acres, 25 cows, 5 bred heifers, barns, and milking equipment. <u>Elm Valley Acres</u> - 150 acres (125 tillable), 70-cow milking facility, housing for 35 heifers, silos, milking equipment, house.
Mortgage and financing terms:	First farm purchased for $25,000. Elm Valley Acres, purchase price $127,500, no feed inventory, cattle, or equipment. FLB mortgage $75,000, 30 years, 10.5% variable interest (12.5% 1981), $690 - $800/month. Seller mortgage $32,500, interest only for five years, all due and payable after

Mortgage and financing terms: (cont.)	Commercial bank cattle and equipment loan, ($20,000, 7 years).
	Additional bank financing since 1979.

Financial position:

1/77

Assets		Liabilities	
Real estate	$ 35,000		
Livestock	14,600		
Machinery	3,500		
Inventory		Current	$ 1,250
Receivables	2,000	Intermediate	8,292
Cash and other	4,350	Long term	16,810
TOTAL	$ 59,450	TOTAL	$ 26,352
		Net worth	$ 33,098
			56%

12/81

Assets		Liabilities	
Real estate	$150,000		
Livestock	68,150		
Machinery	72,000		
Inventory	20,000	Current	
Receivables	9,000	Intermediate	$ 40,575
Cash and other	7,400	Long term	126,500
TOTAL	$326,550	TOTAL	$ 167,075
		Net worth	$ 159,475
			49%

Production:

	1977	1981
Total milk production (lbs)	346,750	1,058,500
Cows	25	70
Milk sold/cow (lbs)	13,870	15,120
Monthly milk income	$ 2,000	$ 9,000

The farm had failed under the earlier management of the owner's sons. Improvements (new silo, new water system) were necessary. The water system created problems between buyer and seller, as the terms of sale guaranteed that the purchase price included an "ample water supply". The supply was not adequate for the increased cow numbers and improved operations the Sanders have tried to implement. Other difficulties centered around the sale of stored hay that Sanders' cows would not eat, and the sale of second cutting hay "out from under" the new owners. The Sanders are looking for ways to pay off the seller mortgage and put such costly disagreements behind them.

George also found it necessary to supplement his owned acreage by renting 90 tillable acres. He has the machinery to produce all the feed for his livestock, but cannot produce enough feed on Elm Valley Acres. He can't afford to purchase feed and pay interest and principal on machinery, and therefore rents from area farmers. Fortunately, adequate rental land has been available.

George Sanders believes that his farm is established after two years of operations. More feed storage is needed, and labor has been a problem. The local extension agent described this farm start by using the expression "worked on a shoestring". Conservative use of credit has meant that the work never ends on Elm Valley Acres, nor did it on the Sanders' first farm. Sixteen, eighteen, and twenty hour days are not uncommon for George and his wife; they have no hired help. On their first farm, George carried milk from his 30 cows to the new bulk tank. Their start there was built around second-hand equipment, gifts, only average cows, and a low-debt load. Their current load is $2,100 per cow, and George and his wife care for 115 head of cattle. Despite long hours, they feel they've earned the independence they've always wanted. The Sanders operate a good-sized operation, they have a good credit reputation, and they like their prospects for the future.

Linwood Valley Farm

Roy Pinter left a construction job in New England to start a dairy farm business in early 1979. He grew up on a small dairy farm, but his father died before Roy could implement a plan to expand the operation upon his return from the military. His father left no will and the farm business was discontinued. Roy and his wife, Sally, did inherit 43 acres and used FmHA financing to build a house on the property. They spent 10 years working and building equity in their home before deciding to start farming on their own.

As noted in Farm Start Profile 20, the Pinters took great care in assessing the farming alternatives available to them. They obtained commercial and seller financing to purchase a 180-acre, 45-cow dairy with

Farm Start Profile 20

Linwood Valley Farm | **Roy and Sally Pinter**

Date started:	January 1979.
Type of transfer:	Commercial bank financing, first mortgage on real estate, blanket lien on cattle and equipment. Seller holds second mortgage.
Parties:	Beginning farmer from out of state and farm operator selling due to family problems.
Other background:	Farm entrant grew up on small dairy farm, spent 12 years in construction work and in military service. Wife worked as legal clerk. Substantial equity in home and land. Spent nearly two years researching farm start opportunities, aiming for a 30-cow operation, excellent cows, good soils, and short repayment period. Looked in much of New York State and Wisconsin.
Property involved:	179 acres, 120 tillable, silos (including sealed storage), machinery, barns and 45-cow milking facility with new addition, house in good condition. Used cash equity from sale of house to purchase 46 cows as a herd, no replacements.
Mortgage and financing terms:	Purchase price for farm and equipment was $137,500. Bank holds first mortgage ($100,000, 12 years, 10% variable rate interest, now 16.5%, $732 to $1,600/mo.) Seller holds second mortgage ($27,500, interest only for 5 years, lump sum to be financed through bank after 5 years, $194/mo.)

Financial situation:

1/79

Assets		Liabilities	
Real estate	$ 95,000	Current	$ 1,800
Equipment	10,000	Intermediate	3,100
Personal	12,000	Long term	14,000
TOTAL	$117,000	TOTAL	$ 18,900
		Net worth	$ 98,100
			84%

1/82

Assets		Liabilities	
Real estate	$150,000		
Livestock	74,000		
Machinery	51,000		
Inventory	18,000	Current	
Receivables	5,890	Intermediate	$ 8,600
Personal	25,000	Long term	144,500
TOTAL	$323,890	TOTAL	$ 153,100
		Net worth	$ 170,900
			53%

Production:

	1979	1981
Total milk production (lbs)	510,000	514,559
Cows	40	40
Avg/cow (lbs)	12,700	12,900
Monthly milk income	$ 5,000	$5,000

machinery and equipment in 1979. They paid \$10,000 down, and the seller holds a second mortgage for \$27,500. The Pinters will pay interest only on this loan until 1984, when the bank takes over the note. A herd of 46 milk cows was purchased with cash equity from the sale of the Pinters' house. No records had been kept on these animals, and Roy turned down a chance to purchase 18 replacement heifers and calves. An area bank financed \$100,000 of the farm purchase with two notes (\$60,000 real estate, 15 years, 9.5% interest; \$40,000 cattle and equipment, 7 years, 10% interest), and took a blanket lien on land, cattle, and equipment. These notes were recently consolidated into a single 12 year farm loan.

The Pinters have dealt with some major problems since setting up their farm business. Mastitis infection has disrupted production plans, increased costs, and caused setbacks in the Linwood Valley Farm breeding program. A total of 10 cows was lost over a year's time, and additional funds had to be borrowed to purchase replacements and more milking animals. Herd size dropped as low as 30, and at one time 12 cows were being milked with 33 dry or infected. During one week, 6,000 lbs. of milk was dumped.

Roy attributed these problems to his inexperience in purchasing and managing a herd after 17 years away from farming. Veterinary bills were high for much of 1980. He also found that the vacuum pressure in his pipeline milking system was inadequate and had caused some of the infections. The system was replaced in late 1980 with outside financing.

The Pinters also lost a large part of their high moisture corn crop in 1980 due to leaks in the farm's sealed storage silo. They were forced to purchase the feed, further straining cash flow. This problem was corrected by the silo manufacturer in 1981.

By the Spring of 1982, herd numbers had been replenished (43 milkers) and a replacement herd was established. The Pinters have weathered entry problems that forced other beginning farmers in this study out of business. The Pinters and their banker offered some reasons.

1) The Pinters' beginning equity was a source of cash which helped them through a period of high costs and low production. Their debt load was also relatively low during this period.

2) Cash was available because only interest is paid toward the seller real estate mortgage.

3) 1979-80 were good years for dairy businesses. A cash reserve was built up in the first (winter) months of operation.

4) Management capability and determination to succeed are regarded by the bank to be strong. This is evidenced by the steps taken to solve health and feed problems (despite inexperience), the open lines of communication between borrower and lender.

Key South Farm

Sam and Mary Ann Keyes both graduated from college in 1974. While Sam had grown up on a dairy farm, he had no plans to return to the family operation. He earned his degree in agricultural finance and went to work as a trainee in the agricultural loans department of a commercial bank. He still counts his lending experience and his understanding of financial aspects of farm management as invaluable contributions to his start in farming. Mary Ann's background in nursing allowed her to supplement Sam's income, and the resultant savings were very important in acquiring farm assets in 1978.

Sam left the bank in 1976 and took a feed and storage manager's position for a nearby pig operation. Again, the experience was valuable in that Keyes took on direct responsibility for technical farm decisions with which he had not dealt before. The couple also had the chance to observe a case of poor farm financial management, as the farm went bankrupt in 1978.

The Keyes anticipated the financial future of the farm where Sam was employed, and started looking for a farm of their own in early 1978. They regarded their starting equity as low, 27 head of young animals raised on Sam's father's farm (valued at $6,000) and $9,000 in savings, and preferred renting to a farm purchase. FmHA financial backing fell through on one possible operation due to the landlord's poor reputation and anticipated high costs of necessary renovations.

The rental and transfer arrangements made for the Keyes' present farm are described in Farm Start Profile 21. The previous owner was 66 years old, wanted to retire and had no children interested in taking over. He preferred to sell the farm. The combination rental-purchase agreement was designed to accommodate this goal as well as the Keyes' need to increase their equity before taking on the debt commitments associated with the purchase of farm real estate. The three-year rental period also helped the two parties establish a trusting relationship. The owner had time to reach the conclusion that his family farm would continue operating under good management once the transfer was made. The favorable terms made available to the Keyes in purchasing this farm resulted directly from the trust and respect built while they ran the farm as renters.

Sam and Mary Ann Keyes regard their farm operation as established. They weathered feed and breeding problems in early 1981 when they purchased spoiled high moisture corn. Production per cow dropped by 900 lbs. for several months, and 10 cows had to be sold due to bacteria infection. The Keyes South replacement herd was adequate to cover these losses, and the fact that production had been strong from the start helped to minimize the cash flow and longer-term effects of the problem.

In May 1981, the Keyes obtained PCA financing for the construction of two sealed storage silos. The purchase was planned and defended with cash flow and partial budgets and an assessment of repayment ability. The interest rate is high, as are capital losses on such structures. The Keyes believe, however, that the farm can carry the payments and that the new system will improve their feeding program and production efficiency.

Farm Start Profile 21

Key South Farm — Sam and Mary Ann Keyes

Date of agreement:	Summer 1978.
Type of agreement:	Farm rental for three years with decision on purchase of real estate and equipment (seller mortgage) after first year. Cattle purchased with savings and from landlord under seller mortgage.
Parties:	Beginning farmer and farm owner hoping to retire.
Other background:	Owned seven bred heifers and 20 youngstock (gift from father) at start. Two years experience as ag loans trainee; farm experience on home operation and as feeds manager on nearby hog farm. Father's signature helped in setting up PCA line of credit ($15,000) in first year. Wife's off-farm income important in savings and cattle purchase.
Property involved:	280 acres, 100 tillable; house; 51 stanchion barn; wooden silos, pipeline milking system; various soils. 10 cows, 10 heifers and calves. Line of machinery in excellent condition.
Terms of agreement:	Rent set at $450/mo. for land, buildings, and equipment, three-year term. Farm owner financed purchase of cattle listed above ($15,000, 3 years, 7% interest, $463/mo.)

Terms of agreement: (cont)

Machinery was purchased with cash over three year period ($18,000).

Real estate purchased January 1981, seller holds mortgage ($100,000, 20 years, 6% interest, $720/mo.).

Financial position:

6/78

Assets		Liabilities	
Real estate			
Livestock	$ 21,000	Current	
Machinery		Intermediate	$ 18,800
Personal	$ 14,500	Long term	
TOTAL	$ 35,500	TOTAL	$ 18,800
		Net worth	$ 16,700
			47%

1/82

Assets		Liabilities	
Real estate	$160,000 1/		
Livestock	86,600		
Machinery	47,000		
Inventory	21,875	Current	$ 13,000
Receivables	8,760	Intermediate	112,900
Personal	19,780	Long term	78,000
TOTAL	$344,015	TOTAL	$ 203,900
		Net worth	$ 140,115
			41%

1/ PCA loan covers purchase of two sealed storage silos ($95,000, 7 yrs., 14.5% variable rate, $1,800 to $1,940 per month). Farm real estate is worth $115,000, silos $45,000.

Production:

	1978	1981
Total milk production (lbs)	627,000	730,000
Cows	44	48
Avg/cow (lbs)	14,250	15,200
Avg/worker (lbs)	418,000	487,000
Monthly milk income	$ 5,428	$ 8,261

New Start Farm

Jerry Logan has been involved in farming off and on since helping out in his father's small part-time dairy operation in the early 1960s. His work experience is varied, he is a Vietnam veteran, and he holds a two-year college degree. Logan farmed part-time after his return from the service, and in 1970 he and his wife started full-time operations on a 48-cow, 165-acre (70 tillable) rented farm. He financed cattle and minor equipment purchases through the local Production Credit Association. In early 1971, Logan purchased a quantity of acid, mislabeled as teat dip. He used the product and shortly thereafter lost 14 cows with severe mastitis infections. The PCA continued to supply short-term credit during the six-month period that Logan spent trying to rebuild his herd and win compensation through the courts. His only security was in the cows; he lost them when the farm went bankrupt in late 1971. Logan now feels that in trying to hold on to his farm business he took the wrong approach. Instead of taking on additional short-term debt and hoping for a court settlement, he feels he should have saved his equity by selling his bred heifers and found another source of income. His attempt to continue farming cost him his cattle, his good credit, his good reputation, and his wife, who divorced him during the bankruptcy proceedings.

After leaving the farm, Jerry took a job and started work toward an associate degree. He completed the two-year course and found a well-paid nonfarm position in the same area. He remarried in 1976. Logan and his wife both wanted to return to farming, and they started saving and looking for a 40- to 50-cow operation that they could operate themselves. They discussed several possibilities in a number of states before deciding on their present farm due to relatively low area land prices and the region's strong agricultural economy.

They purchased the 300-acre farm (55 tillable), including barns, old equipment, and house in the Spring of 1976. A $10,000 down payment was required, and the Logans used all their savings and sold personal assets to make the payment. They continued at their jobs, taking over-time opportunities whenever possible, and rented the farm to the previous owner-operator. Savings and extra income were put toward early payments on the $35,000 mortgage (See Farm Start Profile 22). Jerry and his wife were also able to accumulate a line of machinery over a three-year period. They moved onto the farm in April 1979.

The Logans had counted on a verbal agreement with the bank holding their mortgage to finance the purchase of 30 cows, a tractor, and tillage equipment. Despite the Logans' strong mortgage repayment record, the bank backed out of the agreement, citing the farm's marginal soil resources and the previous operator's farm business failure. Under this individual's management, the rest of the farm and living facilities had deteriorated badly since 1976. He also failed to pay his rent. The Logans were forced to invest $6,000 saved for first year operating expenses to put barns and house back in order. With no financing to start farming and no cash, Jerry took a job as a hired man for an area farmer.

Farm Start Profile 22

New Start Farm	Jerry and Margaret Logan
Date started:	Spring 1976.
Type of transfer:	Assumed mortgage on farm foreclosed by commercial bank; financed cattle and equipment purchase.
Other background:	Buyer reentering farming after earlier bankruptcy. Farm rented to previous operator 1976-79. Starting equity in savings and equipment accumulated over 10 years. Looked in several regions for right farm on which to start.
Property involved:	300 acres, 55 tillable, fair soils, poorly maintained. Barns and house, poor condition; milking equipment, fair condition. Old machinery.
Repayment terms:	\$30,000 mortgage 20 years, 9% interest (\$270/mo.) \$5,000 intermediate term, 7years, 10.5% interest (\$84/mo.) \$10,000 down payment \$45,000 total purchase price for real estate and equipment Refinanced July 1979, to include cattle purchase, \$64,000, 12 years, variable prime rate, 16.5 - 20.5%, \$1,023 to \$1,093/mo.

Financial situation:

4/79

Assets		Liabilities	
Real estate	$ 45,000		
Livestock		Current	
Machinery	12,000	Intermediate	
Personal	5,000	Long term	$ 17,000
TOTAL	$ 62,000	TOTAL	$ 17,000
		Net worth	$ 45,000
			73%

1/82

Assets		Liabilities	
Real estate	$ 55,000		
Livestock	36,310		
Machinery	25,711		
Inventory	1,750	Current	$ 3,144
Receivables	3,411	Intermediate	4,591
Personal	6,261	Long term	61,921
TOTAL	$128,443	TOTAL	$ 69,656
		Net worth	$ 58,787
			46%

Production:

	1979+	1981
Total milk production (lbs)	218,500	319,600
Cows	25	35
Avg/cow (lbs)	8,740	9,131
Avg/worker (lbs)	150,000	213,067
Monthly milk income	$ 2,547	$ 3,985

+estimated

Logan now feels that some of these problems might have been avoided. First, more care in choosing a tenant would have been an investment in protecting the quality of the Logans' farm property. A written rental contract could have insured payment of rent. Logan also pointed out that he didn't improve his credit or cash situation by making double and triple mortgage payments from 1976 to 1979. He now thinks that by saving more of their nonfarm income, or by investing in cattle, equipment, or farm improvements, the Logans could have established a stronger base from which to start farming in 1979.

In July 1979 Logan acquired financing from another commercial bank. The mortgage, and cattle and equipment loans were financed as one package at high interest. Funds for cattle and equipment were half of the money Jerry had originally planned for. He listed management adjustments made necessary by this shortfall:

1) Twenty-five rather than 30 cows were purchased. Other cows and culls were purchased at auction rather than from producing herds as originally planned.

2) No lime, fertilizer, or seed was purchased in the first year.

3) Only "desperately needed" equipment was purchased, and equipment condition was often "derelict".

4) Family living expenses were kept at a minimum. The garden, chickens, and wood heat helped accomplish this. Jerry also took an off-farm job to earn extra income.

Jerry Logan is very pleased with the progress that has been made since the rocky start in 1979. The Logans milked 35 cows in 1981. In addition, they had 12 beef cattle and 30 sheep. They have established a breeding and replacement program which they feel will help them reach a goal of 12,500 lbs. shipped per cow by 1984. Debt load is acceptable, at 30% of milk sales, but high interest rates have been a significant drain on cash flow. Jerry and his wife are both involved in various extension programs in farm management, and have an established farm record system. They survived some costly herd health problems in early 1982 and maintain a good, open relationship with their commercial creditors. They have asked for and received good advice from veterinarians, bankers, extension agents and other members of the local farm community.

Jerry Logan defined "getting established" in terms of the lifestyle he now enjoys and the living that he is able to earn. New Start Farm is not a strictly commercial operation. After three years the Logans have established a good credit reputation and started to build a strong dairy operation. Further improvement in average production and livestock quality is necessary, and the Logan's financial position is still not certain. Logan feels he can make a better assessment of his position after the 1982 season.

Riverina Farm

Michael Carmody's main interest has always been farming. He grew up working summers on farms owned by his relatives and for farm supply firms. He was a member of Future Farmers of America in high school. After college Mike spent more than 10 years working in construction and agribusiness ventures. Despite Carmody's overriding interest in farming, his lack of equity and farm experience kept him from making a start until late 1978.

After three years of looking at farms for sale, the Carmodys decided to purchase their present operation. The 200-acre farm with a herd of 45 cows, youngstock, and house was offered fully-stocked for $200,000. The farm was run down, and the cows were in poor shape, but Mike saw enough potential in the operation to justify paying what many regarded as an inflated price.

When he first decided on the Riverina Farm, Carmody went to the Farm Credit Bank for financing. He was turned down due to the farm's history, his lack of equity, and his inexperience as a farm operator. He applied to FmHA, and after some months' delay received approval for real estate and operating loans in late 1978. As shown in Farm Start Profile 23, Mike also assumed the previous owner's $55,000 mortgage. He sold his house and used part of the cash proceeds for the $12,000 down payment, keeping the rest as a cash reserve for first year operating expenses.

No records had been kept by the last operator, but Carmody estimated average milk production to be about 8,000 lbs. per cow when he arrived. He set herd improvement as his first priority, put the herd on a DHIC record system, and budgeted for a 12,000 lbs. per cow average for the first year. Given the age of many of the animals in the herd, a year-round breeding program was difficult to establish. To this end 12 new heifers were purchased to gain more fall production. After three years, only eight of the original animals were still part of the herd. A strong replacement program is in place. Production averaged 13,000 lbs. per cow in 1979 and 1980, and over 17,000 lbs. per cow in 1981.

Carmody borrowed ASCS funds to replace his inadequate silo in 1980. A substantial amount of feed was lost in the first two years due to spoilage, and the money borrowed was also needed to buy high moisture corn and silage. Additional FmHA financing was used to purchase a new tractor in 1980. Other inadequate equipment has been replaced whenever possible.

Mike Carmody does not see his business as established yet. Cash flow has been very tight for the first three years, despite considerable gains in herd and crop management. More cows are needed to increase net farm income and reduce debt load per cow, which reached $6,400 in 1980, and stood at $4,500 at the time of the interview. The catch in achieving such a reduction stems from the size and condition of the milking and housing facilities when purchased. More remodeling and additional stalls are needed before more cows can be put on and more income produced. Financing such improvements would keep debt load and interest costs high. Carmody will reassess his progress after what was predicted to be a difficult 1982 season.

Farm Start Profile 23

Riverina Farm — **Michael and Helen Carmody**

Date started:

December 1978.

Type of transfer:

Purchased real estate, cows, and machinery with joint financing from commercial bank and FmHA. Substantial down payment.

Other background:

Farm entrant had strong background in agribusiness.

Equity in home owned before farm purchase put toward down payment.

Good credit reputation.

Lack of equity and experience delayed farm start until 1978.

Financing and repayment terms:

Real estate mortgage held by FmHA ($55,000, 25 years, 9½%).

Down payment = $12,000, taken from cash equity after sale of house; these proceeds also put toward operating expenses.

FmHA operating loan, $7,000.

Financial position:

12/78	Assets		Liabilities	
	Real estate	$ 43,000		
	Livestock		Current	
	Machinery		Intermediate	
	Cash and other	5,000	Long term	25,000
	Total	$ 48,000	Total	$ 25,000
			Net worth	$ 23,000
				48%

Financial position: (cont)

1/82

Assets		Liabilities	
Real estate	$155,800		
Livestock	51,624		
Machinery	64,965		
Inventory	9,937	Current	$ 11,550
Receivables	5,300	Intermediate	10,150
Cash and other	18,745	Long term	125,968
TOTAL	$306,371	TOTAL	$ 147,668
		Net Worth	$ 158,703
			52%

Production:

	1979	1981
Total milk production (lbs)	456,950	666,200
Cows	37	39
Milk shipped/cow (lbs)	12,350	17,082
Monthly milk income	$ 4,760	$ 7,714

High Rise Farm

Edward and Emily Berenson rented buildings, milking facilities, and 25 crop acres under the agreement described in Farm Start Profile 24 for about a year. The Berensons made some progress with their 42-cow herd (purchased as a herd with PCA financing), and managed to overcome difficulties caused by barns and milking equipment that "hadn't seen the bottom of the manure pile for years." As renters they were forced to replace the milk house, bulk tank, and vacuum system in order to maintain their 11,000 lbs. per cow herd average. Gains in production were also hindered by the Berensons' failure to invest in an adequate number of heifers for replacements. Ed guessed that this mistake put him two years behind schedule in achieving his production and income objectives. Feed costs during the Berenson's first year proved to be high and difficult to deal with. By-and-large the couple avoided purchasing machinery to farm their 25 acres based on PCA advice. Ed did borrow some equipment from his father, who farmed nearby, whenever possible.

The Berensons believed that they could build their small farm equity as well as their reputations and credit by continuing to milk cows on the rented property. They were not offered the chance to renew their lease, however, and sold out to relatives who had an interest in taking over the operation in 1975.

The local PCA was impressed with the Berensons' accomplishments under adverse conditions, and approached them with a chance to purchase an area farm through a newly established Young Farmer Credit Program. Berenson pointed out that the $70,000 loan for real estate and equipment was "embarrassingly easy" to get, given his very low equity position. The repayment plan (long term 15 years, intermediate 7 years) required a payment of 33% of each milk check to PCA/FLB to cover interest costs, and a lump sum annual principal payment. The Berensons were unable to meet these obligations and high feed bills without borrowing additional short term funds. As a result they actually lost equity while cash flow problems became more acute. More cows were added to generate additional income, but Ed and Emily found that they were better managers of a 44-cow herd than a 51-cow operation. They culled back to their 1982 herd size of 39 cows, and reached a 15,500 lbs. per cow DHIA herd average.

In 1978 the Berensons refinanced their farm loans through FmHA at slightly lower rates with longer repayment periods. An additional $12,500 was also acquired to purchase a tractor and haying equipment.

Farm capital in the form of credit was relatively easy to acquire for Ed and Emily Berenson. The opportunity for farm ownership seemed attractive and led away from the Berensons' original, gradual plan to build equity while renting farm assets. The alternative, a highly leveraged farm purchase, proved to be costly for borrower and lender alike. Closer analysis of repayment ability could have improved the quality of the credit package made available to the Berensons, and helped to prevent difficult cash flow and equity problems.

Farm Start Profile 24

High Rise Farm

Edward and Emily Berenson

Date started:	June 1974.
Means of entry:	Rented buildings and milking equipment with 25 acres cropland from June 1974 to April 1975. Financed purchase of 40 cows. Purchased 131-acre, 40-cow farm in 1975 under FLB/PCA Young Farmer Program. Refinanced entire package with FmHA in October 1978.
Other background:	First farm required much renovation, little borrowed credit. Disagreement with creditors over purchasing or raising feed. Father farmed nearby. His good name helped in acquiring FLB/PCA financing. 100 tillable acres on purchased farm not sufficient for 40-50 cow herd. Land difficult to rent or buy due to competition from large farms in the area.
Agreement terms:	1974-75: Rental of previously inoperative farm from relatives. (farm--46 stanchions, 25 acres) \$150 per month rent, 2-year lease. Completed one year of lease; invested \$3,000 in farm improvements before moving on. Grew corn silage, purchased all other feed. 1975-78: Purchase of 131-acre farm with no house. Down payment = \$3,000; FLB mortgage \$59,600, 15 years, maximum interest rate of 8½. Payments made with 1/3 assignment from monthly milk check. Five years interest only, lump sum annual payment.

Agreement terms: (cont)

1978-present: Refinanced complete farm credit package through FmHA. Additional machinery (emergency) loan, $12,500, 7 years, 3% interest; real estate, $84,000, 40 years, 8½%; cattle and equipment $63,000.

Financial positon:

1/1/75

Assets		Liabilities	
Real estate	$ 7,000		
Livestock	28,000		
Machinery	2,500		
Inventory		Current	
Receivables	3,000	Intermediate	$ 39,706
Cash and other	2,500	Long term	
TOTAL	$ 43,000	TOTAL	$ 39,706
		Net worth	$ 3,294
			7.6%

1/1/82

Assets		Liabilities	
Real estate	$100,000		
Livestock	56,150		
Machinery	32,600		
Inventory	3,800	Current	
Receivables	5,500	Intermediate	$ 75,500
Cash and other	300	Long term	84,000
TOTAL	$198,350	TOTAL	$ 159,500
		Net worth	$ 38,850
			19.6%

Production:

	1974-75	1981-82
Total milk production (lbs)	418,000	547,197
Cows	40	39
Milk shipped/cow (lbs)	10,450	14,723
Monthly milk income	$ 1,416	$ 7,060

Beacon Farm

Charles Reiner grew up in a rural area and spent summers and a lot of his spare time working on small farms. After graduation from high school and a few years (off and on) of college, Reiner got a job in data processing. Five years later, Charles had earned a good income and saved some of it. He was frustrated, however, with the "no windows" kind of work. He used his savings to start an excavation business on his own. Over the next five years Charles and his wife, Darlene, invested the income generated by their business in a home. By 1978 the Reiners held substantial equity in the company's equipment and in their house. They decided to look for the right opportunity to make a start in the dairy business.

The Reiners spent nearly a year looking for the right farm. They decided on a 187-acre property (100 tillable) with 39 cows, 18 calves and heifers, and a 50 stanchion barn. The purchase price of $230,000 also included a full line of cropping equipment.

As shown in Farm Start Profile 25, the farm start was jointly financed by FmHA and the Federal Land Bank. Farm experience requirements for credit from these institutions were waived because of the Reiners' substantial net worth. Delays in receiving FmHA funds forced the Reiners to rent the property through the first crop season in 1979.

Mr. Reiner started milking cows at Beacon Farm in March 1979. The livestock were in good condition, but the spring start caused problems for the Reiners, who had no experience in planting corn or starting new hay seedings. Neighbors were helpful in offering advice and assistance (the previous owner was not), but the corn crop was late and little was harvested the first year.

Cash flow was scarce the first year due to another problem the Reiners and their creditors had not foreseen. Charles had acquired financing and set up a repayment plan for a 50-cow milking operation, but he had purchased only 39 cows. Debt load per cow was therefore very high, and production levels were not sufficient to carry principal and interest repayment. The Reiners started purchasing additional milking animals (10 cows for $10,000) in the Winter of 1979-80 and had built their herd to 48 milking with 47 calves and heifers by the time of this interview.

Breeding problems started to affect milk production in October 1981, when milk shipments dropped to 2,000 lbs. per pickup (4,700 lbs. per pickup in May 1981). Cows milking reached a low level of 25 in the Fall of 1981. Few reasons, other than a possible relationship between poor feed and breeding results, were offered to explain this major loss in production.

The high cost of grain and the perceived link between breeding setbacks and the feeding program led to a decision to lease a sealed storage silo ($5,000 annual payments) in 1981. However, the Reiners didn't have enough high moisture corn to fill the silo, and could not get PCA credit to buy more. The Reiners did use ASCS loans to fill the silo with purchased grain. At the time of the interview, in the Winter of 1981-82, corn silage inventory was low and Mr. Reiner was looking to buy additional feed.

Farm Start Profile 25

Beacon Farm — **Charles and Darlene Reiner**

Date started:	March 1979.
Means of entry:	Purchased 187-acre, 50-cow farm with FmHA financing. Used equity in house and owned equipment for down payments on farm machinery and real estate, and for operating expenses.
Other background:	Non-farm business and technical background. FmHA funding delays forced farm rental from March to December 1979. Sale of the house was also delayed for several months after the Reiners moved onto Beacon Farm ($7,000 paid in rent for the farm until the transaction was finalized).
Agreement terms:	$40,000 down payment; on farm feed purchased for $7,000. $70,000 FLB mortgage, 30 years, 9½% variable interest. $56,000 FmHA mortgage, 40 years, 9% interest. $70,000 FmHA operating loan, 7 years, 8½% interest. Finalized December 1979.

Financial position:

3/31/79

Assets		Liabilities	
Real estate	$320,000		
Livestock			
Machinery	9,500		
Inventory	7,000	Current	
Receivables		Intermediate	$ 70,000
Cash and other	10,000	Long term	126,000
TOTAL	$346,500	TOTAL	$ 196,000
		Net worth	$ 150,500
			43.4%

1/1/82

Assets		Liabilities	
Real estate	$175,000		
Livestock	70,000		
Machinery	50,000		
Inventory	13,500	Current	$ 8,800
Receivables	9,000	Intermediate	88,540
Cash and other	15,285	Long term	125,500
TOTAL	$332,785	TOTAL	$ 222,840
		Net worth	$ 109,945
			33%

Production:

	1979-80	1981
Total milk production (lbs)	574,275	752,400
Cows	39	48
Milk shipped/cow (lbs)	14,725	15,675
Monthly milk income	$ 6,465	$ 8,985

The Reiners experienced cash flow problems resulting from a heavy debt load (over $5,000 per cow), inexperience, and milk production losses during their first three years in farming. They were disappointed in the financial advice offered by local agricultural lenders and other support institutions over this period. They felt that some of their debt load, cash flow, and production difficulties might have been avoided with more help and better advice from their creditors, extension, and others in the agricultural community.

Split Rail Farm

Frank Carter's education and experience were in the field of engineering, not agriculture. He spent ten years in electrical engineering before moving to New York and buying Split Rail Farm in the Spring of 1976. During these 10 years Frank and his wife, Leslie, purchased a home and accumulated $22,000 in equity which they invested in their start in farming. They spent nearly six months looking for the right farm, using advice from area lenders and Cooperative Extension as input to their decision.

The Carters purchased the 250-acre farm described in Farm Start Profile 26 fully stocked with equipment, 36 milking cows, and 24 calves and heifers. The animals had been handled poorly by the previous owner, and a great deal of work in improving feeding and housing practices was necessary to raise production from the 6,500 lbs. per cow average at the time the Carters took over.

FmHA financed the purchase of real estate, cattle, and equipment at low, fixed interest. Cash flow was tight, and short term credit was difficult to come by in the first year of operations on Split Rail Farm. Frank felt that beginning farmers were viewed with suspicion by farm suppliers. He thought of renaming the property Fishbowl Farm due to the interest taken by others in his efforts to get started.

Inexperience was Frank Carter's biggest problem in 1976. Getting the crops in was a struggle, but production per cow increased to 12,500 lbs. in the first year.

In 1981, Carter decided to improve his feeding program and reduce his grain costs by leasing a sealed storage grain silo. Payments came to $465 per month which the farm was able to cover, given the current production levels. However, this added cost, coupled with unexpectedly higher expenditures for grain and protein, and a sharp drop in production (average 1,000 lbs. per cow per year) became a major headache for the Carters by the time of this interview. At that time Frank had decided to take the advice of the local extension agent and readjust his feeding program in order to turn the slide in production around.

The Carters believed that they had established their place in dairy farming during their first five years in business (at least until the production setback described above). Creditors were willing to back them on needed farm

Farm Start Profile 26

Split Rail Farm | | **Frank and Leslie Carter**

Date of transfer:	Spring 1976
Type of transfer:	Farm purchase with joint FmHA/FLB financing.
Other background:	Entrant started with very little farm experience; worked 10 years as technician.
	Considerable starting equity from sale of home and savings.
Property involved:	250 acres, 110 tillable, well-drained soils.
	40 cow milking facility; housing for 20 youngstock; house.
	Haying equipment, tractors and other equipment, good condition.
	36 cows, 24 youngstock, poor condition.
Repayment terms:	FLB mortgage, \$25,000, 15 years, 8¼% variable, \$235/month.
	FmHA mortgage, \$19,000, 30 years, 5%, \$100/month.
	FmHA cattle and equipment loan, \$35,000, 7 years, 8½%, \$572/month.
	Additional cattle and equipment, and high moisture corn loans from commercial bank and FmHA, 1977-1982 (see 1/82 statement).
	Lease with purchase option for sealed storage silo 1981 (\$30,000, 7 years, 8% interest, \$465/month).

Financial position:

4/76

Assets		Liabilities	
Real Estate	$ 40,000		
Livestock	25,000	Current	$ 15,000
Machinery	10,000	Intermediate	35,000
Personal	32,000	Long term	44,000
TOTAL	$107,000	TOTAL	$ 94,000
		Net worth	$ 13,000
			12%

1/82

Assets		Liabilities	
Real Estate	$100,000		
Livestock	67,800		
Machinery	54,000		
Inventory	18,500	Current	$ 5,000
Receivables	4,537	Intermediate	112,800
Personal	10,050	Long term	41,018
TOTAL	$254,887	TOTAL	$ 158,818
		Net worth	$ 96,069
			38%

Production:	1976+	1980	1981
Total milk production (lbs)	123,600	477,300	458,000
Cows	30	33	37
Ave/cow (lbs)	10,300	14,464	12,378
Ave/worker (lbs)	82,400	318,200	305,333
Milk income month	$ 1,030	$ 4,920	$ 5,106

+ estimated: herd average when buyer started stood at 6,500 lbs. After one year, production had increased to 12,500 lbs. per cow. Average price per cwt. 1976 = $10.00.

improvements, and Frank saw this as a good indication of his progress. He felt that much of the success achieved was due to his policy of consolidating and improving the assets he purchased with the farm and postponing additional investments. Another contributor to Split Rail Farm's position has been Leslie Carter, who kept all financial records in the first five years. Leslie also provided cost control advice and perspective on the job when times were hard.

Rainbow Acres Farm

Bill Simpson graduated from college in 1974 and returned to work full time on the family farm. Bill, his father, his brother, and their wives had planned to run the farm as a partnership once Jim Simpson (see Pioneer Farm case study) had finished his schooling. Land limitations and scarce credit for expansion as described in the Pioneer Farm partnership case prevented the formation of a partnership including all of the Simpsons. In the Spring of 1978 Bill and Donna Simpson decided to purchase a nearby farm and start dairying on their own.

The Simpsons bought Rainbow Acres (140 acres, 100 tillable) with bank and FmHA financing for $105,000 (see Farm Start Profile 27). The 42-cow milking herd was purchased in separate transactions with two area dairy farmers. Livestock housing limitations prevented the Simpsons from bringing very many calves and heifers to the new operation.

Bill and Donna owned 12 cows raised on the home farm when they started, but had little other equity to use in getting the new farm going. The funds made available by FmHA and a local bank were provided based on Simpson's "personal capital", his track record on the home farm, and some early material and financial assistance from Bill's parents.

Cash flow was difficult to maintain over the first three years, given a relatively heavy debt load and lack of dairy replacements. Capital improvements and culling to improve the herd have often been postponed in order to establish the herd and the farm's ability to repay debt. Improvements deemed necessary included a new silo, a pipeline milking system, some new manure handling equipment, and a sewage system for the house. The Simpsons were able to use some equipment owned by Pioneer Farm, and they have even shared Pioneer Farm hired help in order to save cash and still get the work done. The sharing agreements served a temporary purpose, but none of the Simpsons on either farm looked forward to any long term arrangement to use equipment and labor.

Production per cow has been maintained at around 15,000 pounds since 1978. A drop to 14,500 had occurred shortly before the interview, which the Simpsons attributed to the shortage of replacements and some low quality hay harvested in 1981. Calving intervals and breedings per conception were still at acceptable levels (12.5 months, and 1.6 breedings per conception).

Farm Start Profile 27

Rainbow Acres Farm	Bill and Donna Simpson
Date started:	March 1978.
Type of transfer:	Farm entrant moved off neighboring farm operated by father and brother to start on his own. Real estate purchase financed jointly by commercial bank and FmHA.
Other background:	Purchase of Rainbow Acres originally proposed as add-on to family farm. Financing not available. Machinery sharing arrangement with farm partnership between father and brother. Labor sharing arrangement with partnership was unsuccessful.
Property involved:	140 acres, 100 tillable. 40-cow tie stall facilities, no room for replacements, inadequate milking system, house. purchased 30 cows from two separate farms, no replacements.
Financing and repayment:	Real estate mortgage held by commercial bank ($55,000, 20 years, 8½%). Real estate mortgage held by FmHA $50,000, 40 years, 5%). 30 cows and minimal machinery ($27,000, 7 years, 8%, balloon payment after seventh year. Operating money ($3,000, current rates).

Financial situation:

4/78

Assets		Assets	
Real estate			
Livestock	$ 17,300	Current	
Machinery		Intermediate	
Cash and other	75	Long term	
Total	$ 17,375	Total	
		Net Worth	$ 17,375

1/82

Assets		Liabilities	
Real estate	$130,000		
Livestock	78,000		
Machinery	20,000		
Inventory	2,000	Current	$ 6,000
Receivables	6,500	Intermediate	68,000
Cash and Other	16,000	Long term	120,000
TOTAL	$252,500	TOTAL	$ 194,000
		Net worth	$ 58,500
			23%

Production:

	1978	1981
Total milk production (lbs)	630,000	675,250
Cows	40	44
Milk shipped/cow (lbs)	15,750	15,346
Monthly milk income	$ 5,400	$ 6,500

Apart from the need for heifer replacements the most pressing need on Rainbow Acres was to refinance the original bank and FmHA long and intermediate term loans. The refinancing process was underway at the time of the farm visit.

The Simpsons were not certain that their farm business was yet established in 1982. The heifer shortage, the need to refinance debt, and the need to increase machinery capacity to get the crop work done were cited as remaining obstacles to a successful start. Assistance from the Simpson partnership (which also caused some problems) and the full cooperative effort by Bill and Donna as equal partners have helped get Rainbow Acres through some difficult early years.

Straight Stalk Farm

Adam and Barbara Kenton started their farm with careful planning, an awareness of business and financial objectives, hard work, very little equity, and a "big break".

The Kentons both grew up on what they described as "traditional" dairy farms, where they contributed labor to farm operations, but were not involved in management. Adam has a university degree in agricultural economics, and complemented his agricultural education by earning valuable farming experience in responsible positions on two local crop farms. Kenton believed that he could earn a return similar to those earned by his employers by operating his own farm. In 1976 the Kentons started a long, difficult process of finding a productive farm on which to start and the financing with which to begin farm operations.

The Kentons sifted a lot of advice in searching for the "right" farm. Their original idea of a potato operation was shelved as too risky for new farmers in the area. Dairying, therefore, became the most attractive alternative, with good land the Kentons' first criterion in choosing among available farms. They decided on the 50-cow farm described in Farm Start Profile 28, despite creditors' advice that the debt load necessary to start on Straight Stalk Farm would be too high.

In April 1977 the Kentons received tentative approval for $60,000 in short term financing. Their $20,000 of equity in savings, a car, and household belongings was not sufficient to finance the real estate. Adam's parents provided the big break, using their credit to purchase the farm. The younger Kentons agreed to rent the farm for $28 per acre until their equity position was strong enough to take over farm ownership.

After three years of renting Straight Stalk Farm, Adam and Barbara were able to obtain long term loans through FmHA and the Federal Land Bank (see Farm Start Profile 28). In our interviews, they emphasized the problems caused by long delays in getting their credit applications through and in finally receiving funds. They felt that much of the effort that went into reminding creditors of their situation could have been spent more productively in running the farm.

Farm Start Profile 28

Straight Stalk Farm	**Adam and Barbara Kenton**
Date started:	April 1977.
Means of entry:	Rented 300-acre, 50-cow farm from parents until joint FLB/FmHA financing was approved and received in 1980.
Other background:	Farm start has been joint and equal effort by husband and wife since April 1977. Adam earned university degree in agricultural economics and valuable experience in responsible positions on other farms. Good land was first criterion in choosing farm resources with which to start. Strategy of acquiring lesser quality resources to keep debt load down was discarded. Parents' assistance was big break in starting this business.
Agreement terms:	Parents purchased 300-acre (175 tillable) 55-cow farm for $175,000 in 1977. They rented the property to the Kentons for about $28 per acre per year with the understanding that the younger couple would purchase the farm as soon as they obtained sufficient credit. Purchased farm, cattle, and equipment from parents in 1980 for $200,000. Financed through FmHA and FLB: FmHA real estate $147,000, 40 years, FLB real estate $52,000, 10 years, FmHA cattle and machinery $78,000, 3-5 years.

Financial position:

1/1/79

Assets		Liabilities	
Real estate			
Livestock	$ 60,326		
Machinery	18,000		
Inventory	11,000	Current	$ 2,600
Receivables		Intermediate	53,600
Cash and other	13,830	Long term	
Total	$103,156	Total	$ 56,200
		Net worth	$ 46,956
			45.5%

1/1/82

Assets		Liabilities	
Real estate	$200,000		
Livestock	115,000		
Machinery	30,000		
Inventory	10,000	Current	$ 5,000
Receivables	8,000	Intermediate	40,000
Cash and other	14,000	Long term	189,000
Total	377,000	Total	$ 234,000
		Net worth	$ 143,000
			37.9%

Production:

	1978	1981
Total milk production (lbs)	700,000	900,000
Cows	54	54
Milk shipped/cow (lbs)	12,962	16,667
Monthly milk income	$ 5,950	$ 8,000

The Kentons keep good farm records and use the Cornell Business Summary to analyze progress in their business. Production per cow rose steadily between 1978 and 1981, calving intervals and breedings per conception rates indicate sound breeding practices, and the Kentons have not run into mastitis problems or calf losses. Adam and Barbara point out that their joint management effort has focussed on herd improvement and productive management. Crop yields have not received the same attention, but the Kentons feel that with a strong milk production base, crop yields can be improved later by the beginning farmer.

The Kentons believe that Straight Stalk Farm has become an established operation. At the time of the interview, cash was available for operating needs and borrowing could be managed for use in making capital improvements. The Kentons are very conscious of earning a return within three years of any funds they invest. This fits into their overall management philosophy of identifying goals for their business and finding ways to achieve them. Adam believes that the business might have been established sooner with more cows (70 rather than 50) to support their debt load. He also lamented the years he had been away from farming and his lack of recent farm management experience. The Kentons overcame this by seeking advice from lenders, Cooperative Extension, DHIA, and local veterinarians, and by getting involved with the area agricultural community.

PROFIT SHARE CASES

Panhandle Farms

Sam Patterson has been around dairy farming all his life. After earning his college degree in 1970, Sam returned to the family farm as a member of a partnership with his father and brother. The operation could not generate enough income to support three families, and Patterson went to work as a herdsman for an absentee farm owner in 1974. He spent five years on the 70-cow, 300-acre farm, learning artificial insemination and gaining a great deal of experience in herd health, reproduction, and labor management. He took very little part in cropping or financial decisions.

In 1979, Sam and his wife, Martha, made a purchase offer, contingent on financing, for the employer's farm. FmHA financing fell through because of the Pattersons' limited equity. Seeing little chance for increasing their equity, and with no prospects for setting up a partnership to run the farm, the Pattersons took a job at Panhandle Farms in the Spring of 1980.

Mr. Patterson took the management position on the 200-cow farm because the wages paid were high enough to provide for his purchase of cattle from the farm owner. In 1981, the business was expanded (to 245 cows at two locations) and reorganized? At the time of the interview, Sam technically operated a business independent of the rest of the dairy farm. His salary was equal to 6% of the milk receipts for the year. He also received bonuses for heat detection and overtime work. His position as farm manager-herdsman included crop production responsibilities and some participation in planning the financial direction of the business.

Sam purchased six cows with money saved from his salary. These animals, together with five cows he had raised on his father's farm comprise Patterson's contribution to the Panhandle milking herd. He pays the owner $0.90 per day for each heifer raised on the farm. Sam is paid for his cows' production under an elaborate scheme with strong incentives for him to purchase more cows, contribute more animals to the herd, and increase his own equity.

As shown in Farm Start Profile 29, milk shipped per cow averaged 15,500 pounds per year. Breedings per conception are under two, calf losses are low, and Patterson mentioned no major herd health problems.

The experience and equity the Pattersons have earned at Panhandle Farms will be invested in their own farm start some time in the next few years. Sam looks forward to having his decisions take precedence in his own operation, as he misses a degree of independence in his current arrangement. His employer knows of Sam's plans to start on his own and has been supportive. The Pattersons have had the chance to anticipate their financial requirements for getting started, and the opportunity to build toward those requirements before starting. Their objective is to run a 50-cow free stall operation on good soils. They plan to take 30 to 40 cows plus youngstock into the new operation. The Pattersons' current situation has allowed them to make a good start toward this livestock investment,

Farm Start Profile 29

Panhandle Farms | **Sam and Martha Patterson**

Date started:	April 1981.
Means of entry:	Profit sharing arrangement on employer's farm used to build savings, gain equity in dairy cattle, and earn farm management experience. Farm start on 50-cow operation planned once equity levels are adequate, livestock owned number 30 to 40, and the right farm can be found.
Other background:	Sam Patterson grew up on a farm, holds a Bachelor of Science degree in agriculture. Held previous position as herdsman for absentee landowner for five years.

Financial position:

1/1/82 Assets		Liabilities	
Real estate			
Livestock	$ 19,275		
Machinery	6,200		
Inventory		Current	
Receivables	2,500	Intermediate	$ 3,500
Cash and other	5,000	Long term	
TOTAL	$ 32,975	TOTAL	$ 3,500
		Net worth	$ 29,475
			89%

Production:

	1981
Total milk production (lbs)	3,735,500
Cows*	241
Milk shipped/cow (lbs)	15,500
Monthly milk income**	$ 40,785

* Patterson owns 11 cows milked in his employer's herd.
** Patterson received 6% of total milk income as his salary.

without other pressures to finance land and machinery. They are familiar with the dangers of borrowing more than $3,000 per cow, and do not plan to start until they are able to keep their credit requirements under this level.

Sam and Martha Patterson have sacrificed independence in decisionmaking, the benefits of land ownership, and their goal of owning their own farm before Sam reached age 30. They are happy, however, that FmHA turned them down in their first attempt to finance the purchase of a farm.

Short Field Farm

Doug Talbot grew up on his father's farm with his two older brothers, who still manage the 200-cow operation. Doug took part in the family partnership for three years during which time he gained dairying experience and enough cash to purchase 30 heifers and cows from his father. At age 22, Talbot left the home farm to look for an opportunity to run his own, smaller dairy operation.

Doug entered a partnership with a nearby landowner, in which each party agreed to supply half the resources necessary to start and operate the new 60-cow business. The partnership agreement was vague and unwritten, but Talbot committed his cattle, labor, and management to the enterprise. After 18 months under Doug's supervision, the average annual herd production had increased from 8,500 pounds per cow to 16,000 pounds per cow. This high level of dairy herd management, however, was not enough to offset the weaknesses of the partnership. In getting started, Doug had incurred all of the early operating expenses of the business. His partner contributed land, but no cash, no credit, and no labor toward the successful operation of the farm. Without a written partnership agreement, Talbot could not force his partner to put up his share of financial and management resources. The partnership failed after a year and a half, and Doug Talbot was forced to sell his 30 cows to cover debts taken on in his attempt to get started. He estimated his financial losses due to the failure of the partnership at about $30,000.

Before selling his cows to pay off partnership debts, Doug considered using his equity to purchase a nearby farm. The property included a high proportion of machinery, and Talbot decided against the deal. He went to work as a herdsman in 1980, on the farm where he resided at the time of this interview.

Talbot had known the owner of Short Field Farm for several years. The farmer's sons had no interest in taking over the business. Doug took the herdsman position with the understanding that after an appropriate trial period, the owner (who was nearing retirement) would engineer a method to transfer the farm assets to him.

Farm Start Profile 30

Short Field Farm | **Doug Talbot**

Date started:	January 1, 1980.
Means of entry:	Two year trial period as herdsman for farm owner leading to gradual transfer of cows, equipment, and finally real estate to the beginning farmer.
Other background:	Farm entrant started as partner in family operation at home. Left to start smaller operation under his own management.
	Lost all of his starting equity in failed partnership based on unwritten agreement in which financial and managerial responsibilities of each partner were not spelled out.

Financial position:

1/1/82 Assets		Liabilities	
Real estate			
Livestock	$ 35,000		
Machinery			
Inventory		Current	
Receivables		Intermediate	$ 30,000
Cash and other	1,000	Long term	
TOTAL	$ 36,000	TOTAL	$ 30,000
		Net worth	$ 6,000
			16.6%

Production:

	1981
Total milk production (lbs)	1,230,000
Cows	60
Milk shipped/cow (lbs)	20,500
Monthly milk income	$ 12,500

The two-year trial period was an important precursor to the farm transfer agreement which has been in effect since January 1, 1982. During this time Doug proved himself a capable manager, raising the 60-cow herd average from a good 17,500 lbs/cow to an outstanding 20,500 lbs/cow. A strong working and personal relationship between herdsman and farm owner was developed during the two-year term. This relationship was an important factor in the owner's decision to gradually turn over complete responsibility for the farm's success or failure to Doug.

The farm transfer agreement includes several important provisions:

1) The owner remains sole proprietor of the farm business; Doug Talbot is the farm manager. Each draws a salary from the monthly milk check.

2) The remainder of the check is divided equally. Doug pays 85% of his half to the owner as rent for land and buildings, and as payment on a 7-year lease for the farm equipment. The remaining 15% comprises the monthly payment on a 6-year seller mortgage for 30 cows in the 60-cow herd. The farm owner pays farm operating expenses with his share of the milk check.

3) After one year PCA will finance Doug's purchase of the rest of the milking herd ($60,000 over three to five years at the current interest rate).

4) Doug pays rent for the use of the farm real estate. This arrangement will continue until he has generated enough equity through the farm operations to finance the purchase of land and buildings.

5) Any annual profit after operating expenses, principal payments, and yearly capital improvements are shared equally.

Doug Talbot was very pleased with the transfer arrangement and his prospects for the future. His management strategy for maintaining the farm's profitability placed heavy emphasis on milk production, herd health, and feeding. These are his farm management strengths. Crop work had been custom hired and Doug proposed more custom plowing and harvesting, as well as the use of purchased feed for the future.

Doug Talbot defined establishment in farming as the point in the entry process where success or failure depends almost completely on managerial decisions, and not on outside financial or economic factors. Despite the short life of the transfer agreement under which he had operated Short Field Farm, Doug was confident that he would be able to keep farming the place through good years and bad.

PART TIME

FARM CASE

Wichita Flats Farm

Art Henry was the only beginning part-time farmer who was interviewed for this study who farmed part-time. He did not grow up on a farm, but had owned a 30-tillable acre farm with a horse barn since 1972. His only other farming experience came from summer jobs when he was in high school and from helping out on a dairy farm during a strike against his utility company employer in 1970. He enjoyed farm work; and he and his wife, Alice, looked forward to a chance to start a dairy operation of their own.

In 1977 Art received a cash settlement for having been wrongfully dismissed by the utility company the year before. He used $10,000 to purchase a small tractor, and applied for an FmHA loan to set up dairy facilities and purchase cattle to stock his "home" farm. The $26,000 loan was approved, but no funds became available until Septemeber, 1978, when the Henrys started milking cows. They started with 26 cows (no replacements), a barn cleaner, a bulk tank, and a manure spreader. They remodelled the barn themselves, installing 30 stanchions. An additional amount of $13,000 was borrowed between 1978 and 1980 for a new milkhouse and three additional registered cows. The loan obligation undertaken to buy those cows was a direct cost of failing to purchase replacement animals with which to start. When seven milkers were culled in 1978, there was no way, other than purchasing milking replacements, to maintain cow numbers. The cows were culled due to a staph infection which was spread throughout the herd by one purchased animal. A third early problem developed when the original vacuum system caused a major mastitis outbreak. Part of the $13,000 borrowed from FmHA after the first loan went toward purchasing a new vacuum pump.

Using dealer credit and his own salary, Art has built up a substantial equity in a large inventory of farm machinery. The equipment will be used when (and if) the Henrys purchase an operating dairy with crop acres to farm on their own. The Henrys were shipping 50 lbs/cow per day at the time of the interview. Positive cash flow has allowed the purchase of several replacement heifers. Calves are raised by a nearby farmer from whom the Henrys rent space and buy feed. This allows Art to spend his limited farming time on improving milk production. Art's young son milks after school, and Alice contributes extra income from her own beauty shop and her job at another shop in town.

The Henrys have gained valuable dairying experience since starting in 1978. Their mistakes have been costly, but outside income provided a margin for error which many full-time beginning farmers do not have. By the time Art, Alice, and their family start farming full time, they will be able to apply experience, equity, and good credit to the task.

Farm Start Profile 31

Wichita Flats Farm — **Art and Alice Henry**

Date started:	September, 1978.
Means of entry:	Used non-farm income and equity to help finance the purchase of a 30-stanchion barn with barn cleaner, bulk tank, and manure spreader in 1972. Financed the purchase of 26 cows with no young stock. FmHA and PCA were both involved in this part-time farm start.
Other background:	Creditors waived farm experience requirements due to available off-farm income.
Agreement terms:	Original real estate loan $48,000: $8,000 down payment financed short term, 3 years at 12%. Remaining $40,000 financed through bank, 20 years, 7½% interest. First FmHA loan, 1978, for $29,000: $26,000 for 26 cows and some equipment, 7 years, 8% interest; also $3,000 for milk house renovation, 10 years, 10% interest.

Financial position:

9/82

Assets		Liabilities	
Real estate	$ 48,000		
Livestock	26,000		
Machinery	10,000		
Inventory		Current	
Receivables	1,000	Intermediate	29,000
Cash and other	2,000	Long term	36,428
TOTAL	$ 87,000	TOTAL	$ 65,428
		Net worth	$ 21,572
			24.7%

Financial position: (cont)

1/1/82	Assets		Liabilities	
	Real estate	$100,000		
	Livestock	33,400		
	Machinery	59,400		
	Inventory		Current	
	Receivables	3,500	Intermediate	$ 36,000
	Cash and other	5,000	Long term	29,687
	TOTAL	$201,300	TOTAL	$ 65,687
			Net worth	$ 135,613
				67.3%

Production:	1979	1981
Total milk production (lbs)	390,000	419,750
Cows	26	23
Milk shipped/cow	15,000	18,250

DISCONTINUED

FARM CASES

Discontinued Farm Cases

The following farm entrants chose different methods to get started, but exited farming for reasons related to problems in production and financial management. Descriptions of these beginning farm operations are presented in order to identify some of the factors that could lead to an early termination of the farm entry process.

Broken Hill Farm

Barry Andrews did not grow up on a farm, but he majored in agriculture in high school and helped manage a local dairy farm after graduation. He was married in 1976 and spent four years working in a precision tool shop. He built up a small equity in equipment by raising and selling heifers part time. In 1979, FmHA agreed to finance the Andrews' purchase of cattle and some equipment, provided they could find a suitable farm to lease. Most farmers in the area were unwilling to rent, and Andrews did not have the equity with which to finance a real estate purchase.

The Andrews settled on Broken Hill Farm, which had been for sale with no takers for several months. It is a hill farm, with marginal facilities and rocky soil. Rental terms were very favorable (see Farm Start Profile 32), and Andrews was able to expand his 170 tillable acres with land given him to use by neighboring farms. FmHA loaned the Andrews $53,000 (7 years, 11%) to purchase 36 cows and bred heifers and some machinery. Barry purchased 28 cows as a herd and the remainder at auctions and sales. The price paid per animal ranged from $900 for bred heifers to $1,600 for the best cows. Andrews looked for fat production in the cows he wanted to purchase and was able to get bargains on unbred animals.

From April 1980 to early 1981, the Andrews were able to produce 12,000 lbs. milk per cow, as planned in their original loan application. Major breeding, health, and production problems developed shortly thereafter. They lost 90% of the calves born between January and September, five top producing cows were found to have cysts on their ovaries, and four had to be sold. Several animals were checked as positive in pregnancy tests and later found not to be pregnant. Although the calf loss problem was diagnosed and corrected, by late 1981 the number of cows milking had dropped to around 20. Production per cow dropped below 10,000 lbs. per cow.

The above problems were costly in terms of lost income. They were also reflected in feed and veterinary bills incurred in trying to correct health and breeding deficiencies. Despite the landlord's willingness to forgo rental payments for the latter months of 1981, and interest only payments on commercial bank obligations, cash flow was not adequate to meet operational needs at the time of the interview. All of the Andrews' equity had been used up by December 1981. They sold their livestock and filed for bankruptcy in April 1982.

Farm Start Profile 32

Broken Hill Farm	**Barry and Janet Andrews**
Date started:	April 1980.
Age:	Husband 21; Wife 20
Means of entry:	Farm rental with payments toward eventual purchase, FmHA financing for cattle and some equipment.
Farm characteristics:	290 acres, 170 tillable; rocky soils, low productivity, responsive to lime and fertilizer.
	30-stanchion barn, milking equipment.
	Use of equipment on rented farm.
Financing:	Rental agreement requires lessee to pay taxes and insurance on property in addition to \$300/mo. rental charge. Total obligation of about \$460/mo.
	FmHA operating loan acquired to purchase 36 cows, a tractor and other equipment; 53,000, 7 years, 11% interest, \$850/mo.
	Commercial bank loans acquired to purchase a tractor, car, and mobile home. \$8,000, 3 years, 16% interest, \$296/mo.
	Agway account payable, 1981-82, \$3,000, assignment, \$350/mo.

Financial position: (beginning)

4/80	Assets		Liabilities	
	Livestock	\$ 2,400	Current	\$ 5,700
	Machinery	4,000	Intermediate	
	Personal	5,980	Long term	
	TOTAL	\$ 12,380	TOTAL	\$ 5,700
			Net worth	\$ 6,680
				54%

Financial position: (cont)

12/8/82

Assets		Liabilities	
Real estate	$ 4,000		
Livestock	40,050		
Machinery	19,700	Current	$ 8,060
Personal	4,000	Intermediate	63,200
Receivables	2,500	Long term	
TOTAL	$ 70,250	TOTAL	$ 71,260
		Net worth	$ (1,010)

Production:

	4/1/80-1/1/81	1981
Total milk production (lbs)	432,000	300,000
Cows	36	30
Avg/cow (lbs)	12,000	10,000
Monthly milk income	$ 4,400	$ 2,500

Windmill Farm

Details of the Windmill Farm case study are outlined in Farm Start Profile 33.

Edward Vallee grew up on a farm in Pennsylvania and worked for farmers around his home for several years before starting his own oil and gas drilling firm in 1974. He and his wife decided to start farming themselves in 1979. They saw a career on the farm as a family enterprise--a job in which they could both enjoy their work and work together.

The Vallees were able to acquire low interest FmHA loans for cattle and equipment based on favorable references, previous dairy experience, and $16,500 in equity built up in drilling equipment. They purchased a 173-acre farm with heavy, wet soils, dairy barns in fair condition, and a line of equipment of uneven quality. The seller took a $55,000 first mortgage on the real estate, and FmHA carried a second mortgage of $25,000 (see Farm Start Profile 33). Vallee purchased 30 cows as a herd in Pennsylvania and 16 cows and heifers at local auctions. The milkers were older cows with a combined herd average of about 14,000 lbs. per cow. They started milking 34 cows in mid-1980.

In the first year, a variety of herd health problems--bad feet, mastitis, cancer, nerve disease--developed. One cow died and two were sold. Very few heifer calves were born. In addition, forage wagons broke down and both tractors purchased with the farm were out of service at harvest time. Only 12 acres of the 18 planted to corn silage were harvested. Similar problems continued through 1981. Three cows were lost with split hips, another died, and three more were sold after aborted pregnancies. Several cows were not bred for the entire year. Equipment problems continued, along with wet weather, and no corn was harvested.

Production dropped drastically over the two years, from 2,200 lbs. shipped per pickup (every other day) to 1,000 lbs. Only the FmHA and seller mortgage payments were met regularly in 1981. International Harvester repossessed a new tractor purchased in 1982, shortly after the field visit to Windmill Farm. By March 1982, all of the Vallee's beginning equity was gone. FmHA trucked the livestock away, and the farm was foreclosed in April.

Eagle Ridge Farm

Ben Pearse returned to his parents' farm from agricultural college after his father's death in 1972. He worked as a hired man for his mother until 1975, when he took over the management of the farm as part of an unwritten partnership agreement. Ben's mother kept title to real estate, livestock, and equipment already on the farm, and he took on financial responsibility for new acquisitions. He paid expenses from farm income, and the remainder was split between the partners. Between 1975 and 1979, Ben

Farm Start Profile 33

Windmill Farm | **Edward and Jacky Vallee**

Date started:	Spring 1980.
Age:	Husband 30; Wife 26.
Means of entry:	Farm purchase with seller mortgage and FmHA limited resource loans.
Farm characteristics:	173 acres, 75 tillable, 31 pasture; heavy soils.
	45-tiestall and stanchion dairy barn.
	Line of equipment in fair condition.
Financing:	Seller held first mortgage on real estate: $55,000, 20 years, 8.5% interest, $480/mo.
	FmHA second mortgage: $25,000, 40 years, 6% interest, $137/mo.
	FmHA cattle and equipment loan: $11,500, 7 years, 14% interest, $112 mo.
	International Harvester machinery loan: $5,000, $133/mo.
	Other equipment loans: $4,800, $74/mo.

Financial position (beginning):

4/80

Assets		Liabilities	
Real estate	$ 8,000		
Livestock		Current	$ 5,716
Machinery	20,650	Intermediate	7,955
Personal	1,435	Long term	
TOTAL	$ 30,085	TOTAL	$ 13,671
		Net worth	$ 16,414
			54.6%

Financial position: (cont)

3/82

Assets		Liabilities	
Real estate	$ 86,000		
Livestock	45,570	Current	$ 11,013
Machinery	29,400	Intermediate	106,796
Personal	5,975	Long-term	72,553
TOTAL	$166,945	TOTAL	$ 190,362
		Net worth	$ (23,417)

Production:

	April 1980-March 1982
Total milk production (lbs)	
Cows	34 to 22
Avg/cow (lbs)	12,000 lbs. to 8,500 lbs.
Monthly milk income	$4,265 to $2,500

Farm Start Profile 34

Eagle Ridge Farm **Ben Pearse**

Date started:	June 1979.
Age:	26 (single).
Means of entry	Purchased home farm from mother with commercial bank loans for cattle, equipment, and real estate. Mother holds second mortgage on real estate.
Farm characteristics:	166 acres, 135 tillable, 90 rented; good soils.
	45 cows milking 1982; started with 62 milking.
	Stanchions and pipeline milking system.
	Full line of equipment.
Financing:	Commercial bank real estate mortgage: \$105,300, 20 years, 12.5% interest, \$1,200/mo.
	2nd mortgage held by mother: \$55,000, 20 years, 10.5% interest, \$500/mo.
	Commercial bank cattle and equipment loan: \$105,000, 7 years, 9%, \$1,700/mo.
	Dealer installment loan on 4WD tractor purchased 1980: \$50,000, 2 years, interest rate not known.

Financial position (beginning):

12/79	Assets		Liabilities	
	Real estate	\$200,000		
	Livestock	94,900		
	Machinery	151,412	Current	18,150
	Inventory	12,800	Intermediate	81,800
	Personal	6,243	Long term	157,793
	TOTAL	\$465,355	TOTAL	\$ 257,743
			Net worth	\$ 207,612
				45%

Financial position: (cont)

12/81	Assets		Liabilities	
	Real estate	$200,000		
	Livestock	69,600		
	Machinery	153,572	Current	
	Inventory	13,000	Intermediate	$ 128,900
	Personal	5,500	Long term	160,000
	TOTAL	$441,672	TOTAL	$ 288,900
			Net worth	$ 152,772
				35%

Production:	1974	1978	1981
Total milk production	796,600	822,500	636,500
Cows	62	60	50
Milk sold/cow (lbs)	12,848	13,708	12,730
Monthly milk income	$ 7,621	$ 8,499	$ 7,049

Cattle and equipment sold after foreclosure by bank in Spring 1982.
Real estate still for sale.

replaced old equipment and financed the purchase of two new tractors, a chopper, and a forage wagon. He emphasized the importance of buying new equipment. He hoped to avoid repair costs that could result from poor maintenance by previous owners of used machinery. The milking herd was also expanded from 45 to 65 cows over this period.

In 1979 Pearse decided to purchase the farm. Financial details of the farm purchase are shown in Farm Start Profile 34. Ben's mother took a second mortgage on the farm real estate; and a commercial bank financed the purchase of cattle, machinery, and part of the farm land and buildings.

Major health and production problems developed in the Fall of 1980. Over a five-month period, 20,000 lbs. of milk was dumped due to mastitis infection, and 43 cows were culled for chronic mastitis. Cow numbers were cut back to 45 in 1981, and DHIC records showed a 1,000 lbs. drop in production per cow over one year's time. Ben pointed out that, in addition to losses in actual production, cropping decisions, machinery purchase decisions, and other moves had been made based on planned increases in production. This combination of events led to a severe cash flow problem. The problem was found and corrected by Spring 1981. The original vacuum pump and pipeline was not adequate for the greater numbers of cows milked through 1980. The system was replaced at a cost of about $14,000 in February. Ben continued milking, but with a smaller herd.

A number of other problems led to the forced foreclosure of Eagle Ridge Farm in 1982. Mr. Pearse had decided to sell the farm and find another job at the time of the interview for this project. He offered his reasons for this decision, and other contributing factors are evident in business records for the past three years.

Debt per cow carried by Eagle Ridge Farm has been high since 1979. Declining cow numbers and increased financial obligations have forced this measure of Ben Pearse's financial situation up to its present level of $6,427. As shown in table 34A, debt structure is disproportionately weighted toward machinery payment responsibilities. Machinery investment per cow was nearly three times the average for business summary farms of similar size in the country in 1981. Cash flow effects of the debt situation are shown in column 7 of table 34A, debt payments as a percent of milk sales.

The farm's productivity never reached levels necessary to carry the debt load described above. Milk sold per cow was still below 13,000 lbs. in 1981, and fewer cows were milked. Milk income has dropped. Feed and crop expenses per cow, shown in table 34A, fell in 1981, but only after reaching very high levels in 1979 and 1980.

The combination of heavy debt, poor cost control, tight cash, and substantial production losses resulted in the forced sale of cattle and equipment on Eagle Ridge Farm in the Spring of 1982. The real estate remains unsold, machinery brought "what it was worth", and Pearse took a substantial loss on the sale of his livestock.

Table 34A

	1979*		1980*		1981*	
Feed Purchased/Cow	$413	($520)	$648	($548)	$115	($569)
Crop Expense/Cow	$289	($107)	$287	($124)	$ 79	($112)
Lime & Fertilizer Cost /Crop Acre	$ 60	(25)	$ 62	($27)	$ 5	($20)
Hay Crop Yield/Acre	3.1 t	(2.4)	2.2 t	(2.6)	2.0 t	(2.3)
Corn Silage Yield/Acre	15 t	(12.5)	13.1 t	(14.5)	22.9 t	(13.3)
Total Crop & Feed Expense/Cow	$739	($644)	$935	($672)	$194	($681)
Machinery Expense/Cow	$150	($156)	$121	($131)	$149	($169)

* All numbers in ( ) represent county averages.

Red Apple Farm

The relatively short farm entry experience of James and Kelly Odell is outlined in Farm Start Profile 35. Jim grew up on a small dairy farm. He started working for local farmers after his father died while Jim was still in high school. Kelly was raised in a small town in the same area and had jobs as a bus driver and cafeteria worker.

Prior to moving onto Red Apple Farm, Odell held a responsible position managing a 60-cow herd for a farm owner with other business interests. The Odells started looking for a farm in the area to rent after they learned that Jim's employer planned to sell out. They decided on the rental arrangement for Red Apple Farm after rejecting an opportunity to rent a smaller farm with poorer soils at higher cost and the chance to continue as herdsman for a new employer where they were.

They applied for FmHA financing to purchase cattle and equipment in August 1980, and received approval to start operating Red Apple Farm. Their start was delayed until funding came through in November.

The Odells purchased 25 cows from Jim's employer and a herd of 20 from another local farmer. They purchased their new landlord's equipment with FmHA financing for $40,000.

The rental agreement is detailed on page 117. The Odells' lawyer advised against signing the contract. A dispute over hay that, according to Odell, was part of the deal marked the beginning of a very poor landlord-tenant relationship. The landlord sold the hay before the Odells arrived, forcing their feed bills up over the first winter. Mastitis problems developed due to an inadequate vacuum system; and for a month, milk shipped dropped from 3000 lbs to 1600 lbs. per pickup. The Odells borrowed

FARM START PROFILE 35

Red Apple Farms — **James and Kelly Odell**

Date started:	November 1980.
Age:	Husband 29; Wife 26.
Means of entry:	Farm rental (real estate, barns, milking system); from landlord and cattle from previous employer and neighboring farm operator.
Farm characteristics:	243 acres, 170 tillable, hill farm, good soil; barns, house, pipeline milking system.
	44 cows, few replacements.
	Line of machinery in fair to poor conditions.
Rent and financing:	Rent for real estate, four-year term, with 65-day notice to terminate agreement $500/mo.
	FmHA cattle and equipment loan $100,000, 6 years, 10.5% interest, $1,877/mo. (later financing for replacements raised monthly payments to $1,950).
	Used chopper, truck and car payments to dealers, $372/mo.

Financial position:

9/80	Assets		Liabilities	
	Real estate			
	Livestock		Current	
	Machinery		Intermediate	$ 6,166
	Personal	$ 18,066	Long term	
	TOTAL	$ 18,066	TOTAL	$ 6,166
			Net worth	$ 11,900
				66%

Financial position: (cont)

1/82

Assets		Liabilities	
Real estate			
Livestock	$ 55,600		
Machinery	48,450		
Inventory	7,000	Current	$ 4,264
Receivables	7,150	Intermediate	97,285
Personal	15,600	Long term	
TOTAL	$133,800	TOTAL	$ 101,549
		Net worth	32,251
			24%

Production:

	1981
Total milk production (lbs)	638,750
Cows	44
Avg/cow (lbs)	14,520
Avg/worker (lbs)	426,000
Monthly milk income	$6,000 - $7,700

an additional $4,000 for replacements, further straining cash flow. Poor hay yields on seedings maintained by the landlord completed the operational difficulties faced by the Odells in their first year. Despite these major setbacks in the first season, milk shipped per cow for the year averaged better than 14,500 lbs. Jim and Kelly participated in DHIC herd management and Cooperative Extension farm management schools. The Odells and their FmHA lenders felt that their chances of success were still good.

Finding another farm operation to buy or rent was essential to the Odells when they were interviewed. Relations with the landlord were at a low point. After a year of arguments over the faulty vacuum system, the landlord's role in cropping decisions, and use of a common driveway, some kind of move seemed inevitable. In looking back, Jim felt that if he had researched the situation more thoroughly and been more patient in finding the right place to farm, the above problems could have been avoided.

By early 1982, FmHA interest rates for real estate purchase had risen to 14.5 percent. The Odells had looked for a new place to start and had found several suitable operations. Rental farms were not available. Given their debt situation, the Odells could not take on an additional $100,000 to $150,000 real estate obligation at high interest rates.

Jim's wife left him in the Spring of 1982. He decided not to continue farming and sold his cows and equipment at auction. FmHA expected to take a substantial loss on their investment.

Hard Acres Farm

The Hard Acres Farm case is quite different from the others presented in this collection. Sarah Malden, nearly a year after her divorce in 1979, took over her ex-husband's debts and farming responsibilities (see characteristics outlined in table 6.1, A.E. Research 83-36, and in Farm Start Profile 36). Local FmHA officers encouraged Ms. Malden to take this step in order to avoid foreclosing on Mr. Malden who ran the farm on his own for most of 1980. They felt that Sarah had made a major contribution to getting the farm started in 1979 and that cost control had been more effective during her time on the farm. Her inexperience was seen as a drawback. Sarah took over the $140,000 mortgage and $10,000 in current liabilities, and she borrowed $50,000 for additional cattle and equipment for the 335-acre (175 tillable) farm in November 1980.

Annual production per cow stood at about 10,000 lbs. in November 1980. Only 20 cows in the 46-cow herd were in production. Cows freshened almost exclusively in the Spring. Sarah purchased 10 heifers due to freshen in the Fall and additional haying and manure equipment with the $50,000 borrowed from FmHA. Debt per cow of over $4,000 created major cash flow difficulties, which Sarah hoped could be alleviated by reaching annual per cow production goals of 16,000 lbs. shipped.

Farm Start Profile 36

Hard Acres Farm | | **Sarah Malden**

Date started:	November 1980.
Means of entry:	Assumed FLB and FmHA mortgages and other debts on 335-acre, 53-cow farm previously owned and operated by Sarah's ex-husband.
Other background:	Major breeding and herd health problems led to lost production and lost equity. Small percentage of owned milking animals were in production at the time of the interview. Malden left farming in the spring of 1982 after FmHA and FLB foreclosed.
Agreement terms:	FLB and FmHA jointly financed real estate purchase ($140,000); FLB holds first mortgage; FmHA repayment period 30 years. FmHA financed about $50,000 for cattle and equipment purchases after Sarah took over the farm, 7 years, 7-9% interest.

Financial position:

1/80	Assets		Liabilities	
	Real estate	$140,000		
	Livestock	46,000		
	Machinery	20,000*		
	Inventory	5,000	Current	$ 10,000
	Receivables	4,000	Intermediate	
	Cash and other	$ 12,000	Long term	$ 140,000
	TOTAL	$227,000	TOTAL	$ 150,000
			Net worth	$ 77,000
				34%

* estimate

Financial positon: (cont)

1/82

Assets		Liabilities	
Real estate	$140,000		
Livestock	$ 46,000		
Machinery	$ 40,000*		
Inventory	$ 5,000	Current	$ 10,000
Receivables	2,000	Intermediate	55,000
Cash and other	$ 12,000	Long term	140,000
TOTAL	$245,000	TOTAL	$ 205,000
		Net worth	$ 40,000
			16%

*estimate

Production:

	1980-81	1981-82
Total milk production (lbs)	393,750	185,000*
Cows	35-40	15-20
Milk shipped/cow (lbs)	10,000-11,000	9,000*
Monthly milk income	$ 4,150	$ 3,081

*estimate

Production slipped in 1981. Breeding problems were not solved, and machinery breakdowns led to feed shortages and higher costs. At the time of the case study interview in February 1982, only 12 cows were in production.

Sarah Malden left the farm after foreclosure in the Spring of 1982.

Rolling Acres Farm

Alan Rawley left a good job with an agricultural supply firm to take over operation of his grandfather's hill farm in 1974. He used his equity in a small beef herd and FmHA assistance to finance the purchase of a 35-cow milking herd and a limited line of haying equipment. Alan and his wife, Diane found it difficult to generate enough farm income for their needs, given the limited resource base of the rented farm. Growing arguments with the landlord and FmHA loan officers over management of the operation led the Rawleys to leave the county to look for better farm entry opportunities.

FmHA financed the Rawleys' purchase of Rolling Acres Farm in 1978. Local extension agents described Rolling Acres as a large farm with excellent soil resources and good facilities. The previous operator, however, had failed in his efforts to run the farm profitably. In order to purchase the 406-acre farm and start milking, the Rawleys made a substantial debt commitment. Details of the financial steps taken by the Rawleys to get started are outlined in Farm Start Profile 37. Between 1978 and the time of this interview, debt per cow increased from $1,600 to over $7,000.

The pressures of a heavy debt load were compounded over the three years that Alan and Diane ran Rolling Acres Farm. The move to the new farm caused health problems and a drop in production by the Rawleys' original 35-cow herd. Poor housing facilities, mastitis, and a lack of feed storage space were cited as reasons for a loss in production of 1,000 lbs. per cow in the first year.

FmHA funded additional equipment purchases and barn improvements between 1978 and 1981, but Alan still saw feed storage as a major problem. In 1980, he leased the first of two high moisture corn sealed storage silos on terms shown in Farm Start Profile 37. The investment in an improved feeding system did not pay off. Alan didn't manage to spray his corn crop for weeds in the Spring, and had no high moisture corn to harvest in the Fall.

Cow numbers fluctuated between 50 and 75 over the three-year period. The Rawleys experimented with three-time-a-day milking, but could not keep the hired help needed to continue. In late 1980, 12 heifers purchased at auction were found to have IBR and lepto. Nine cows were sold, one died, and production dropped to 30 lbs. per cow per day. Just before the case-study interview, the Rawleys purchased 20 close-up heifers through a cattle dealer ($1,800/heifer, no downpayment, 3 years, no payments until August 1981, 9% interest).

Farm Start Profile 37

Rolling Acres Farm — **Alan and Diane Rawley**

Date started:	June 1974.
Age:	Husband 21; Wife 19.
Means of entry:	Farm rented from grandfather at low rate; FmHA financed cattle and machinery purchases (limited resource, low-interest loans). Moved and purchased larger farm, more cattle and equipment with FmHA financing and seller mortgage 1978.
Farm characteristics:	Rental Farm (1974-1978) 200 tillable acres, eroded soil, hill country, barns, milking equipment, 32 cows. Rolling Acres Farm 406 acres, 200 tillable, excellent; 90 free-stalls, stanchion milking; house; 75 cows.
Rental and financing characteristics:	Rental Farm Rental rate equal to payments for taxes, electricity, and insurance, approximately $385/mo. Original cattle and machinery loan from FmHA in 1974; $31,000, 7 years, 5% interest, approximately $550/mo. Other debts with commercial banks for equipment, mobile home, cattle carried into operation, approximately $400/mo. Additional FmHA loans for cattle and equipment and emergency operating loans between 1974 and 1976 of about $30,000, approximately $450/mo.

Rental and financing characteristics: (cont)

Rolling Acres Farm

FmHA real estate loan $75,000: $50,000, 40 years, 5% interest; $25,000, 40 years, 8% interest; $415/mo. Seller mortgage: $75,000, 20 years, 5½% interest, $519/mo.

FmHA cattle, equipment, and operating loan: $29,000, 7 years, 8½% interest, $459/mo.
Additional FmHA real estate (improvements) and cattle and equipment loans, 1978-81, bringing total FmHA obligation to $200,000 by 1982, monthly payments of approximately $2,650.

Additional equipment loans and other intermediate accounts of $64,040 (7 creditors) by 1982, monthly payments of $3,605.

Financial lease obligations for tractor, 1981: $30,000, 7 years, 20% interest, $435/mo. and 2 sealed storage silos, (1980: $32,000, 7 years, 7% interest, $485/mo.; $58,000, 7 years, 8% interest, $900/mo.). Total lease obligations of $93,500, $1,960/mo. in 1982.

Financial position:

4/74

Assets		Liabilities	
Real estate	$ 10,000		
Livestock	13,210		
Machinery	6,400	Current	$ 4,100
Inventory	400	Intermediate	22,934
Personal	7,500	Long term	
TOTAL	$ 37,510	TOTAL	$ 27,034
		Net worth	$ 10,476
			28%

Financial position:

4/78

Assets		Liabilities	
Real estate	$ 10,000		
Livestock	36,100		
Machinery	33,000	Current	$ 3,600
Inventory		Long term	46,000
TOTAL	$ 79,100	TOTAL	$ 49,600
		Net worth	$ 29,500
			37%

2/82

Assets		Liabilities	
Real estate	$350,000		
Livestock	99,000		
Machinery	110,500	Current	$ 35,200
Inventory	14,500	Intermediate	268,140
Personal	24,000	Long term	147,400
TOTAL	$598,000	TOTAL	$ 450,740
		Net worth	$ 147,260
			25%

Production:

	1974	1978	1981
Total milk production (lbs)	350,000	1,012,500	763,800
Cows	35	75	50-70
Avg/cow (lbs)	10,000	13,500	12,730
Monthly milk income		$ 9,260	$ 9,050

*estimated

Milk production rose to 50 lbs. per cow per day after these animals entered the herd, but the cost of achieving this increase was high. The Rawleys received no milk check for December, 1980, and January 1981; all milk income was paid to FmHA and other creditors. Alan and Diane held on until April 1981, when they left farming.