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GETTING STARTED IN DAIRY FARMING:

A Study of Farm Entry Processes and Experiences in New York State

by

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Preface

We hear a lot of concern about whether young people can get started in farming today. Are capital needs too great? Is it more difficult today than at other times? Who will replace the present generation of farmers when they retire? While these are legitimate concerns, the fact of the matter is that new entrants are starting in farming. Often the means by which they start are innovative and somewhat different than our conventional stereotype.

This study was undertaken to describe the various ways a recent group of farm entrants got their starts. Our purpose was not to describe how many started or how many new farmers began by each of several ways. Rather, we wanted to illustrate the wide variety of ways by which it's possible to get into dairy farming. Hence, our sample of 37 farmers was selected to show different means of starting and problems associated with their starts in farming. We felt their experiences would be helpful to others who want to start a farming business--both in terms of fitting the means for starting to individual circumstances and in terms of common problems beginning farmers face.

We thank the extension agents, Farmers Home Administration personnel, agricultural bankers, and Farm Credit Service personnel who suggested names of recent entrants for possible inclusion in the study. We especially thank Merville Button, Bruce Osadchey, Dave Evans, and Professors Robert Smith and Eddy LaDue for comments on an earlier draft.

This report is the summary of the study. A companion report, A. E. Res. 84-1, will shortly be available with individual case study details. Copies of these two reports may be obtained by writing to:

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Getting Started in Dairy Farming:
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Chapter 1

An Examination of the Task of Farm Entry

A. The Problem

Beginning farmers differ in many respects from their more established farm neighbors. A start in farming involves carrying out the dual responsibilities of acquiring control over the farm assets necessary for a viable business and managing those assets to produce a reasonable level of family income. New farm entrants must gain access to the use of agricultural resources given a relatively small equity base, and they must manage their assets with an initially limited amount of farm business experience. The margin for error in beginning farm management decisions is small.

All farmers, however, have experienced the kinds of problems that are associated with getting started. Those who have worked through the process of farm entry have gained an understanding of the decisions, resources, and events that go into a successful (or an unsuccessful) farm start. The research study described in this report was designed to draw on the lessons learned by recent farm entrants in order to develop a better general understanding of all aspects of the process of getting started in dairy farming. The first-hand examples of farm entry problems and strategies related by participants in this project can be used to improve the decisions made by present and prospective beginning farmers.

B. Project Objectives

The general aim of improving available information on the nature of the farm entry process can be achieved by meeting the following specific project objectives:

1. To describe the processes new entrants have followed to start dairy farming in recent years.

2. To pinpoint problems encountered by farmers in the process of getting established.

3. To suggest promising alternatives for future farm entrants.

4. To suggest relevant policy issues.

C. Project Approach

Two lines of inquiry were followed in order to fulfill the objectives set forth above. Following the assumption that an awareness of available alternative means to start farming can enhance a farm entrant's chances of success, examples of farm entry alternatives were sought out.

The research was also designed to focus on the complete process of farm entry. Over the years, barriers to farm entry have been the only major

components of the farm establishment process to receive the attention of agricultural economists, policymakers, and farm lobbyists. Most of this attention has been directed toward the study of repayment requirements and the availability of credit needed to acquire beginning farm capital. This study was based on the supposition that beginning farmers must deal with a variety of production, investment, and business organization problems before, during, and after they have cleared their first financial hurdles. Financial success or failure depends on the net result of the combination of choices and strategies followed by farm entrants before they become established farm operators. The effort to identify, describe, and analyze all elements in this process rather than focusing only on initial financial arrangements was an essential part of this project.

A case-study approach was taken to generate detailed information on available means of farm entry and the factors involved in the farm entry process. Comparison among actual cases was the basis for analysis and provided insight into common problems and mistakes associated with getting started. Cooperative Extension agents, Farm Credit and FmHA representatives, commercial bankers, and vocational agriculture teachers in New York State were asked to provide names, addresses, and brief background information on recent farm entrants in their regions. Some 240 names were suggested as possible participants in the study. From these, 37 farms were selected and visited.

The study of a process requires a determination as to where that process begins. For the purposes of this project, getting started in farming was defined as "the acquisition of direct financial responsibility (bearing of financial risk) for the performance of all or part of a set of farming operations." In short, taking on financial risk marks the starting point of the farm entry process. At this point, a beginning farmer has made a commitment to establishing himself as a manager or owner of a farm business. The definition was broad enough to allow study of a variety of farm entry methods. Farms at various stages along the way to being "established" also fit the above criterion. Employment on a farm, however, did not meet the definition of getting started. While taking a job on a farm sometimes represents a start toward eventual operatorship, it does not constitute the entrepreneurial function with which this study was concerned. A number of other criteria were used in the selection of case farms:

1. The study was focused on recent entrants, defined as those who began farming in the past three to five years. This focus helped keep the project current so as to emphasize the effects in recent years of high interest rates.

2. An attempt was made to select at least two examples of each method of farm entry listed in table 1.1.

3. Special care was taken to interview recent farm entrants who had experienced varying degrees of success in their first years of farming. Cases described in the study might be classified as financially disastrous, financially uncertain, and profitable.

Table 1.1

Getting Started:
Study Farm Classification

I. Definition of "getting started": Acquisition of direct financial responsibility (bearing financial risk) for the performance of all or part of a set of farming operations.

II. General criteria for selection of study farms.

A. Farming start made in past 3-5 years.
B. Gross farm sales of not less than $2,500.
C. Successes, "average" farm starts, and unsuccessful starts to be studied.

III. List of anticipated farm entry processes.

A. Means used by farm entrants with substantial equity.

1. Father - son partnership agreements.
2. Intergeneration transfers (inheritance, gift, etc.).
3. Father - son transfer with institutional financing.
4. Family stock transfers in farm corporations.
5. Father - son transfer with family financing.

B. Means used by farm entrants with some equity.

1. Equity built up through savings or non-farm income used to obtain conventional financing.
2. Seller financed purchase of some or all farm assets.
3. Non-family stock transfers through corporate business organization.
4. Leasing arrangements to facilitate acquisition of farm resources.
5. Family loans or rental agreements to start children in separate business.
6. Financing obtained through cattle or equipment dealers.
7. Non-family partnership agreements.

C. Means used by farm entrants with little or no equity.

1. Limited resource or emergency loans obtained through FmHA or other institutions.
2. Part-time farming with long-term objective of full-time operations.
3. Work on someone else's farm combined with gradual transfer of cows or land and/or leasing to accumulate assets.

Farm visits and interviews were conducted between January and March, 1982. Each interview lasted about two hours although some visits took longer. Follow-up phone calls were made to most participants in order to clarify and expand the information collected. The data gathered from farm visits included information on the background, finances, and production performance of beginning farmers.

Each interview was structured to generate discussion of various stages of the farm entry process. Interviews were open-ended, but an effort was made in each case to cover in detail the following aspects of getting started:

1. Background: Age, education, and experience of beginning farmers and their spouses are factors that could influence the success of efforts to establish a farm business. Information on these factors also helps in understanding motives behind the choice of farming as a career over other alternatives.

2. Starting assets: Once the decision to start farming is made, the farm entrant must assess the level of capital and other resources he can invest. In each case an inventory of starting assets was taken.

3. Assets borrowed, leased, or acquired in partnership: This part of the discussion focused on the means used by each farmer to acquire control over assets needed to start producing milk. Purchase, lease, and partnership decisions were treated in detail, and beginning financial statements were obtained from most respondents.

4. Management indicators: Indicators of production and financial performance (milk sold per worker, crop yields per acre, debt-equity ratios, etc.) were collected. Also of importance were discussions of reasons for herd health problems, cash-flow difficulties, sound production records, and successful partnership arrangements.

5. Definition of an established farm: The end point of the farm entry process is reached when a beginning farm becomes an established farm. Determining just when this transition is made was a difficult task. Farmers in the study were asked to give their definition of an "established" operation, and whether or not they had achieved such status.

D. Organization of the Research Report

The case-study examples constructed from on-farm interviews are presented in detail in a separate publication, Getting Started in Dairy Farming: Farm Entry Case Studies in New York State, to be used as a companion to this report. The overview, results, and conclusions presented in the following

chapters are based entirely on comparison and analysis of the actual beginning farm cases. An overview of the farms studied is given in chapter 2. The range of alternative means of farm entry covered in the study is described in chapters 3, 4, and 5. Lessons learned in renting farm assets, setting up partnerships, and in acquiring farm assets through transfer of title are discussed in these chapters. Characteristics and problems of beginning farms that failed are presented in chapter 6. Factors and issues affecting the success or failure of efforts to start farming (regardless of the means of entry chosen) are dealt with in chapter 7. Conclusions and recommendations for improved management and policy decisions are suggested in the final chapter.

Chapter 2

An Overview of Case Study Farms

A. Introduction

Farms selected for study were located in 18 counties around New York State. The cases represent a variety of beginning farm situations. Farms were chosen to represent the various strategies and associated problems that are part of the farm entry process in New York. They were not selected in a random or probabilistic way to represent the nature of all farm starts in the state.

B. Background on Case Study Farms

Discussions of getting started in farming often center around the problems faced by young farmers. The young farmer label has been avoided in this study because the commitment and ability required to enter farming successfully are not necessarily related to youth alone. Farmers and their wives who were interviewed for this study ranged in age from 21 to 39 years.

The levels of education and experience brought to beginning farm situations were also varied. All but two of the farm entrants had finished high school. Years of formal education received by the farm operators ranged from nine to sixteen. Eight completed work at two-year agricultural and technical colleges, and seven had earned four-year university degrees.

Experience was often a relatively important factor in determining successes and failures in the farm entry processes studied. Evidence from this study shows that "experience" is not a term to be used loosely in analyzing farm entry situations. While most of the farmers interviewed had spent several years working on farms, their experience ranged from "I've been farming on this property all my life" to "We spent two summers baling hay, but we never milked or managed a dairy herd before arriving on this farm." Experiences in banking, agribusiness, engineering, insurance, and shoe sales were part of the diverse backgrounds of this group of beginning farmers. Several of the farmers had made earlier attempts to get established, while one had gone through farm bankruptcy in another state.

The experience and skills of farm wives often proved to be major contributions to the farm starts in this study. Some of these contributions were direct, as in cases where the wife was an equal participant in all phases of the farm business. In other situations, wives brought in outside income which could be used for family living expenses, freeing farm income for investment toward increased farm equity.

Size characteristics of beginning farms studied for this project are presented in table 2.1. Investment in farm assets at the time of interviews ranged from $12,500 to $697,000 for the 37 beginning farm operations. Numbers of cows owned or leased covered the range from 11 to 150. Some

Table 2.1

Size Characteristics of Case-Study Farms[a/]

Name	No. Cows	Acreage		Total $ Invested by Operator As of March 1982
		Total	Tillable	
Patterson	11	---	---	$ 32,975
Henry	23	117	30	$185,000
Andrews	30	290	170	$ 53,000
Vallee	35	189	116	$167,125
Carter	37	250	110	$221,800
Pinter	37	179	120	$248,900
Berenson	39	131	100	$225,650
Reiner	39	187	100	$295,000
Keyes	40	280	100	$344,255
Logan	40	300	55	$132,000
Farrell	40	N/A	102	$130,000
Malden	43	335	175	$205,000
Odell	44	243	170	$100,000
B. Simpson	44	140	110	$228,000
Carmody	45	200	100	$200,000
Pearse	45	256	225	$265,000
Mills	45	35	35	$ 88,350
Cottondale	52	240	189	$384,500
Kenton	58	300	185	$356,800
Smith	59	39	---	$ 12,500
Talbot	60	200	180	$130,000
Mosely	60	277	115	$270,220
Fell	60	179	120	$235,000
Snead	61	200	198	$174,800
Baines	65	400	250	$369,008
Green	69	159	125	$394,011
Sanders	70	240	215	$290,150
Asbury	70	185	125	$500,000
Rawley	75	352	200	$254,000
Saddler	80	325	265	$494,000
Kramer	87	---	---	$230,000
Weston	90	275	110	$310,000
Fontana	95	300	250	$436,500
Davidson	100	177	135	$697,000
M. Simpson	100	535	260	$301,480
Driessen	120	500	325	$518,300
Hammer	150	600	590	$265,000
Average	59	239	153	$263,387

a/ All names of respondents are omitted. The names used here and throughout the publication are fictitious to protect the privacy of respondents.

operators did no cropping of their own, while one was in charge of farming 600 acres. Total milk sold in 1981 ranged from 289,000 lbs. or about $38,780 in milk sales to 1,790,000 lbs. sold for $239,860.

C. Means of Entry

The kinds and numbers of beginning farm experiences encountered during field visits are shown in figure 2.1. Many farmers had followed more than one strategy to reach their situations at the time of the interview. Therefore, some names appear in two or more farm entry categories. Farm entrants were classified according to their method of getting started in order to compare and contrast apparently similar farm start circumstances.

An additional aspect of the means used by farmers to get started is that of choosing a lending institution or other creditor and putting available financial and management services to use. Fourteen case study farmers obtained financing through the Farmers Home Administration. Also, fourteen entrants borrowed funds through the Farm Credit Service, and seven utilized commercial banks. Several of the farmers interviewed were involved in joint financing arrangements between institutional lenders, and some had used credit and services from all three sources. Six entrants were seller financed, and a number had obtained credit from cattle and equipment dealers.

D. Financial Factors

From the data collected in this study, it is difficult to describe a "representative" beginning dairy farmer. Diversity is a key word in descriptions of backgrounds, farm size, means of entry, and beginning farm finances. Starting net worth for these farm operators ranged from less than zero to combined, owned resources worth more than $100,000. Initial debt per cow, a commonly used indicator of repayment capacity, ranged from less than $1,000 to well over $6,000. The case-study farmers carried debt loads of $10,000 to $500,000.

E. Summary

There is some danger in placing too much emphasis on the general characteristics of the 37 case-study farms presented above. Situations and processes for getting started were varied. However, a "representative" new farm business might be described as follows:

> The average 1982 investment in the 37 new farm businesses studied was $263,387. The typical farm entrant was milking a herd of 60 cows and cropping 328 acres. With a downpayment of $56,000 for a representative farm, and financing at 11.5 percent over 30 years, a beginning farmer could purchase the operation with annual debt payments of $26,500.

Figure 2.1

Classification of
Farm Entry Experiences

Leasing Experience

Farm Building Leases

1. Berenson
2. Snead
3. Kramer
4. Smith

Cow Leases

1. Asbury
2. Smith
3. J. Simpson

Whole Farm Leases

1. Rawley
2. Fell
3. Mills
4. Farrell
5. Driessen
6. Odell
7. Weston
8. Andrews

Partnership Experiences

Present

1. J. Simpson
2. Mosely
3. Hammer
4. Cottondale

Past

1. Saddler
2. Driessen
3. Mills
4. Talbot
5. Green
6. Patterson
7. Asbury
8. Pearse

Family

1. J. Simpson
2. Mills
3. Barnum
4. Asbury
5. Patterson
6. Pearse
7. Talbot

Non-Family

1. Hammer
2. Driessen
3. Mills
4. Saddler
5. Cottondale

Farm Transfer Experiences

Seller Mortgage-Land Contract

1. Sanders
2. Snead
3. Vallee
4. Fontana
5. Green
6. Kramer
7. Talbot
8. Cottondale
9. Keyes

Father-Son Transfer

1. Baines
2. Kenton

Family Assistance

1. Davidson
2. Fontana
3. B. Simpson
4. Sanders
5. Snead
6. Smith

Employee-Employer

1. Talbot
2. Patterson

Outside Financing

1. Pinter
2. Fell
3. B. Simpson
4. Logan
5. Carter
6. Reiner
7. Cottondale
8. Barnum
9. Driessen
10. Yates
11. Carmody
12. Henry
13. Pearse

Low Equity Starts

1. Weston
2. Andrews
3. Vallee
4. Berenson
5. Rawley
6. Sanders

Experiences of Farmers Out of Agriculture

1. Farrell
2. Andrews
3. Odell
4. Vallee
5. Rawley
6. Pearse
7. Logan*

*Left farming 1971; returned 1976.

There are three basic shortcomings to using the overview information and the above example as the sole basis for trying to understand farm entry problems. Fortunately for beginning farmers, and unfortunately for researchers, as Heady (1964) points out, the "statistical average" firm, replicated 2.4 million times, does not exist in U.S. agriculture. Second, the example implies that the only way into the dairy business is via the purchase, with a large downpayment and heavy annual debt obligation, of an average operating 60-cow dairy.1/ Overemphasis on total investment, downpayment, and financing barriers to successful farm entry obscures the fact that beginning farmers follow many different avenues into agriculture. Finally, the description of the representative new farm given above makes no mention of non-financial aspects of the farm entry process with which beginning farmers are concerned.

General characteristics of the 37 farms studied are useful as background information. The reader, however, should avoid thinking in terms of representative beginning farms. Problems, strategies, and decisions made by 37 different starting farmers went into learning the farm entry lessons discussed in the following chapters.

1/ LaDue (1979) points out that the use of average full-time farms as models can show rates of change in investment over time. Such changes imply a need for new strategies for getting started, but not that "entrants to farming must start with an average full-time farm." (p. 103)

Chapter 3

Leasing or Renting Farm Assets as a Means of Farm Entry

A. Overview

Seventeen participants in the study had used leasing or rental agreements as means to acquire control of farm assets at some time during their first years in farming. In this section, several experiences are drawn upon to identify strategies and problems involved in renting or leasing farm assets. The lessons learned by case-study farmers are grouped for comparison according to the kinds of resources leased or rented:

1. Rental of land, buildings, and equipment.
2. Rental of farm buildings only.
3. Leasing of dairy cattle.

Issues to be considered by any prospective renter of farm assets are highlighted at the end of the chapter.

B. Whole Farm Rental

Seven case-study farmers started their careers by renting complete farm units. Ten others had experience in renting farms as recent farm entrants. Characteristics of these farm operators are summarized in table 3.1.

Several reasons for renting as a means to get started were given by these operators:

1. To acquire control of farm resources when there was no other way due to insufficient starting capital.
2. To facilitate a comprehensive farm transfer plan in which real estate was rented while payments were made toward purchase of cattle and machinery.
3. To avoid incurring a large debt obligation before accumulating equity and experience.
4. To evaluate farming as a career before making long-term (debt and other) commitments to agriculture.
5. To extend managerial control over more farm assets than if purchased.
6. Forced to rent, given financing or other delays in farm transfer circumstances.

Table 3.1. Characteristics of Farm Rental Cases

	Musket Bridge Farm (Fell)	Wishing Well Farm (Weston)	Short Field Farm (Talbot)	Key South Farms (Keyes)	Bundy Star Farms (Baines)	Red Apple Farm (Odell)	Rec Osi Farı (Mil
Period Rented	1977-1980	1979-1981	1982-pres.	1978-1981	1979-pres.	1980-1982	1981-pı
Landlord-Tenant	Owner-Entrant	Owner-Entrant	Employer-Employee	Seller-Buyer	Father-Son	Owner-Entrant	Expartr Entrant
Assets Rented	House, Silo, 50-cow barn	House, Silos, 50-cow barn equipment	Silos Barn, equip.	House, silos, Barn, equip.	House, Silos, Barn	House, Silos, Barn	Silos, Barns
Acreage Rented	90 total 90 tillable	70 total 70 tillable	180 tillable	280 total 100 tillable	250 total 235 tillable	243 total 170 tillable	35 till
Reasons Given for Renting	Means to build equity before purchase	No equity for purchase	Means to control assets while buying other assets	Means to build equity before purchase	Means to control assets while buying other assets	Too little equity for purchase	Carryov arrange from pa nership
Monthly Payment	$900	$1200	35% milk check	$450	$250	$500	$1,135
Term	3 years	3 years	7 years	3 years	4 years	4 years	1 year
Cow numbers	40	45	60	40	80	43	45
Soils	Good	Fair	Good	Good-Fair	Fair	Fair	Fair
Starting Net Worth	$24,000	$4,000	$10,000	$10,000	$53,137	$11,900	$14,000
Starting Debt/Cow	$1,000	$1,495	$1,000	$940	$1,427	$2,359	$928
Milk Shipped/Cow+	14,550 lbs.	15,100 lbs.	19,000 lbs.	15,000 lbs.	15,000 lbs.	15,200 lbs.	15,500 l
Present Situation	Owns and operates nearby 60-cow dairy farm	Owns and operates nearby 85-cow dairy farm	Same arrangement	Owns and operates the same farm	Owns cattle, continues with same arrangement while purchasing equipment	Sold cattle and equipment, left farming	Same arrangem looking purchase own farm

+ on rented farm

* Guernseys

Drake's Landing Farm (Driessen)	Rolling Hill Farm (Rawley)	Broken Hill Farm (Andrews)	Murray's Ford Farm (Kraft)	Hawk's Nest Farm (Farrell)	Mt. Logan Farm (Asbury)	Northern Divide Farm (Green)
1977-1979	1974-1978	1980-1982	1977-1980	1977-1979	1980	1979-1980
Owner-Partnership	Grandfather-Grandson	Owner-Entrant	Father-Son	Owner-Entrant	Seller-Buyer	Owner-Entrant
Barns	Silos, Barn	Silos, Barn, equip.	House, Silos, Barn	House, Silos, Barns	House, Silos, Barns	House, Silos, Barns Equipment
325 total 120 tillable	200 tillable	290 total 170 tillable	300 total 185 tillable	189 total 35 tillable	130 total 70 tillable	120 tillable
Provide more land and housing for large operation	No equity for purchase	No equity for purchase	Means to control assets until financing acquired	Too little equity for purchase	Means to control assets while financing delayed	Too little equity for purchase
$1,500	$385	$440	$700	$250	$2,000	$1,000
2 years	1 year	1 year	1 year	3 years	monthly	3 years
90	35	30	51	30	70	52
Good-Fair	Excellent	Fair-Poor	Good	Fair	Good - Fair	Fair-Poor
$30,966	$10,476	$6,680	$20,000	$5,975	$24,000	$10,000
$3,010	$1,731	$2,043	$1,250	$1,780	$1,900	$1,230
11,250 lbs.*	11,900 lbs.	10,000 lbs.	13,500 lbs.	16,200 lbs.	12,500 lbs.	14,965 lbs.
Partnership dissolved, farm purchased to replace rented facilities	Sold cattle, equipment to be sold; no longer farming	Filed for bankruptcy	Owns and operates same farm	Sold cattle when prices were high, works as herdsman for registered & show herds	Owns and operates same farm	Owns and operates nearby 70-cow farm

The initial financial positions of many beginning farmers were such that they saw no alternative to starting on rented operations. Some farm renters used their years renting to generate income with which to accumulate owned assets and eventually finance the purchase of farm real estate. These gradual approaches were sometimes explicit parts of well-planned farm entry strategies. An initial matching of available starting resources with possible options for farm entry formed the cornerstone for such strategies.

Farmers with limited starting net worth and limited experience found renting to be a useful step in the farm entry process. Heavy debt obligations and other ownership responsibilities impose pressures on farm entrants when they can ill afford to make major management mistakes. Farm rental allowed several case-study farmers to gain experience and confidence as managers without the pressures of ownership. Farm rental was also found to be a useful vehicle for "testing the water" before deciding on a career in farming.

One beginning farmer combined a partnership arrangement with farm rental to increase the assets available to him as he started farm operations. The partnership rented a second farm in order to acquire control over land and facilities needed to support a large dairy operation.

Two examples illustrate the possibility of forced rental in a beginning farm situation. One entrant agreed to purchase the farm he now operates under the assumption that FmHA financing would be available by the closing date. The funds did not come through, and he was forced to rent the property at a rate equal to the owner's monthly obligation to the Federal Land Bank until the money arrived six months later. Another operator found what he thought to be the "right" farm before obtaining approval for financing its purchase. His parents used their credit to buy the property and rented it back to the farm entrant until he had established credit with which to take over ownership.

Rental rates varied from payment of only taxes and insurance to $1,200 per month for 70 acres, buildings, and equipment. This latter rate, and others, were clearly too high. The beginning farmer who had paid the $1,200 monthly now pays $900 per month on a mortgage for a larger farm. The rent he paid exceeded the value received from using the assets on his first farm. Another case-study operator faced a similar situation in paying $1,135 per month for buildings and 35 tillable acres. He is now searching for a farm that better suits his farm entry goals.

Very low rental rates did not guarantee successful farm rental arrangements, either. One starting farmer rented a 290-acre operation with buildings and equipment for an amount equal to the landlord's monthly tax and insurance payments (about $18 per acre). He also managed to farm neighboring parcels of land for which he paid no rent. The quality of the land and facilities was, however, poor. Low crop yields and major herd management mistakes outweighed the positive effects of low-cost farm rental, and the farmer filed for bankruptcy. A second operator rented 200 acres and buildings from a relative for only $23 per acre per year. Soils on the farm were regarded to

be excellent. A deteriorating relationship with the landlord, together with herd health problems, caused this young farmer to terminate the agreement and start again on a larger farm in the next county.

Several renters commented on the trade-off between advantages to renting and the loss of incentives for farm improvement and increased efficiency due to the fact that operator and owner were not one and the same. Needed improvements to barns and milking equipment, machinery replacement decisions, and even changes in cropping practices were postponed or not implemented at all because of the nature of some rental arrangements and landlord-tenant relationships.

Finally, vague or unwritten contract terms frequently caused problems for beginning farm renters. In some cases where equipment was rented from farm owners, repair and replacement problems were difficult to resolve because agreements made no reference as to which party should be responsible for major repair costs (defined as costs greater than $500/machine). A dispute over who should cover the cost of replacing an inadequate vacuum system caused major problems in one case, and another farm tenant was forced to purchase replacement equipment because machinery he had rented was unusable. A specific accounting of rights and responsibilities of landlord and tenant before implementing whole-farm rental agreements would have improved a number of farm start situations.

C. Farm Building Rental

Four case-study farmers had experience in renting barns and milking equipment with which to start dairy operations. Three of the four acquired financing for the purchase of dairy cows, and the fourth leased livestock from his landlord. Only one of these beginning farmers raised any forage crops during the period covered by his lease. Characteristics of these beginning farmers are outlined in tables 3.2 and 3.3.

The following reasons for using this method of getting started were given by case-study farmers:

1. An initial shortage of available investment capital.

2. To concentrate on milk production without the costs and pressures of owning and managing cropland.

3. To take advantage of an opportunity offered by relatives owning the property.

Farm entrants who rented only buildings and milking facilities matched starting resources with their chosen means of getting started in similar fashion to those who rented complete operations. In one case, creditors recommended building rental and feed purchase as a way of minimizing early expenditures of scarce capital. Only one of the four had a starting equity of $20,000 or more. Two very young farmers found building rental a logical,

Table 3.2

Characteristics of
Farm Building Rental Cases

	Farm Building Lease 1 (Berenson)	Farm Building Lease 2 (Snead)	Farm Building Lease 3 (Kramer)	Farm Building Lease 4 (Smith)
Period Rented	June 1974 - Apr 1975	Oct 1978 - Mar 1982	Oct 1978 - Aug 1979	Sept 1981 - present
Property Rented	46 stanchions 25 upland acres	36 stalls All equipment	50 stalls All equipment	63 stanchions All equipment 39 acres pasture
Condition	Had not been operated for 10 years Lessee forced to buy new milking equipment Hadn't seen the bottom of the manure pile for years	New barn and equipment on father's farm	Barn and equipment in good shape	Well-kept barn and equipment on large, established operation
Landlord	Grandmother	Father	Area farmer	Active farmer hoping to get out of dairy operation
Length of Lease	2 years	Monthly	Yearly	5 years
Monthly Rent	$150 plus electricity	20% of milk check	Value of one hundredweight milk per stall	$650
Feed purchase	Grow corn silage; purchase all other feed from area farmers and merchants	Exchange labor on father's operation for roughage; purchase grain outside	Written, but vague agreement to purchase corn silage and haylage from landlord	Purchase feed as fed from landlord according to quality analysis and price formula

Table 3.3

Background Profile:
Farm Building Renters

	High Rise Farm (Berenson)	Red Deer Farm (Snead)	Straight Stalk Farm (Kramer)	Shady Rest Farm (Smith)
Period Rented	Jun 1974 - May 1975	Oct 1978 - Mar 1982	Oct 1978 - Aug 1979	Sept 1981 - present
Age When Started	25	21	24	21
Education	2 yrs Ag & Tech	High School Grad	2 yrs Ag & Tech	2 yrs Ag & Tech
Previous Experience	Father's farm, salesman	Father's farm	Father's farm	Herdsman nearby farm
Starting Equity	$3,294	$14,100	$27,000	$16,191
Outside Income	No	No	Yes	No
Family Assistance	Yes	Yes	Yes	Yes
Initial Investment in Cattle or Machinery	$31,500	$30,000	$27,000	$9,424

low-cost first step into farming, given low equity and little farm management experience. One rental arrangement was set up between father and son with the purpose of allowing the son to start earning equity while still contributing his labor to the father's established operation nearby.

Rental rates for the four sets of milking facilities were set up in four different ways. One entrant was charged a nominal rental rate for the use of his grandmother's 46-stanchion barn, old milking equipment, and 25 acres of land. The rental cost was low, but, then, so was the quality of the facility. Investment in new milking equipment was necessary, and additional cost and effort were required to start milking cows in the previously inoperative facility.

Two operators paid rental rates which were tied to the value of milk produced. In one case, 20 percent of each milk check was earmarked for rent on house, barns, and equipment. Another beginning farmer paid rent equal to the value of one hundredweight of milk per month per stall. This price-dependent rate provided incentives for herd expansion, three-times-a-day milking, and the implementation of other practices to raise production per cow. The quality of rented facilities was judged to be good by each of these two new farmers.

The fourth farm building renter paid a flat rental of $650 per month for a 63-stanchion barn in good condition and 39 acres of pasture. An additional $250 per month was paid for a house on the property. This rental arrangement is part of an agreement in which the milking herd is also leased from the farm owner.

Companion agreements were used in three of the building rental arrangements to provide for the acquisition of dairy feed. The fourth farm entrant raised some of his own roughage and purchased the balance wherever he could.

The importance of explicit, written agreements regarding the provision of feed by a farm owner to his tenant was illustrated in two case studies. In the first case, a separate contract was written up to allow the tenant to purchase 400 tons of corn silage from the landlord in the first year. This agreement was vague. Many of the specifics, such as the procedure for weighing the corn silage (as-fed or as-delivered?) were left unwritten. The tenant did not get legal advice on setting up the contract provisions. A dispute arose over the quantity of feed to be provided, eventually leading to an unhappy end to the rental arrangement. In contrast, the feed provision details left out of the above agreement were an explicit part of another building rental arrangement. The tenant purchased feed on an as-fed basis at current prices. The quality of feed in the silo was periodically determined and was reflected in a specified formula used to establish the price paid by the renter.

A third feed provison agreement was set up between father and son in which the son, as tenant, exchanged his labor for hay and silage produced on his father's farm. This arrangement worked in terms of keeping the tenant supplied with adequate feedstuffs, but it often left him short of time for his own chores.

One reason cited for entering farming by renting only milking facilities was that this type of operation allowed the beginning farmer to focus managerial efforts on milk production. Production results were regarded to be relatively high for new farm entrants by the farmers, as well as by prospective creditors and others. It is possible that the single focus gained by choosing this means of farm entry meant that specific, herd-related problems could be dealt with quickly, while production levels were maintained or increased.

D. Leasing of Dairy Cattle

Three farm entrants leased cows during their early years in the dairy business. Only one leased dairy animals as part of a strategy for getting started in farming. One father-son partnership leased 25 cows in conjunction with a more important land rental arrangement. The third agreed to lease 22 cows from the previous owner of his farm and kept them as a separate herd in his 72-cow milking operation. All three agreements were made between individual landlords and renters, not through leasing companies. Provisions of the arrangements are shown in table 3.4.

In all three cases, cow leases were parts of more comprehensive farm transfer or farm rental plans. Leasing cattle enhanced the chances of completing a farm purchase, in one instance, and helped to increase the assets available to the father-son partnership. In the third situation, cows were leased because purchasing land or livestock was not possible given the farm entrant's starting equity. The agreement allowed the beginning farmer and his wife to build equity through the acquisition of youngstock and through the purchase of the cows at the end of the lease.

Several important lessons were learned by case-study farm entrants during the course of their experience with leasing dairy cattle. The quality of the animals to be leased should be determined by the prospective lessee before any agreement is reached. A review of herd production and health records and a pregnancy check on cows in a herd could prevent later problems in herd management and strained relations between lessor and lessee. Knowledge of a cow's productive potential should be an important factor in evaluating the profitability of leasing livestock as compared to other farm start alternatives.

Careful planning of a cattle lease agreement can be the difference between success and an unhappy attempt to get started by leasing dairy animals. The term of the lease, the allocation of responsibilities for providing feed and veterinary care for the cows, the distribution of ownership in calves and culls, and the lessee's equity standing at the end of the lease were all important considerations for case-study entrants. All such factors should be spelled out in detail in any livestock lease agreement to be used by beginning farmers. A number of publications, especially LaDue (1982) point up these and other decision factors for cattle lease arrangements.

Table 3.4

Characteristics of Livestock Cases

	Livestock Lease 1 (Asbury)	Livestock Lease 2 (Smith)	Livestock Lease 3 (J. Simpson)*
Period Leased	April 1980 - March 1981	September 1981 - present	April 1980 - present
Herd Size	72	59	100
Cows Leased	22	54	25
Lessor	Farm seller	Landlord	Area farmer
Rent Paid	$ .80 per cow milking per day	$40 per cow per month	Cost of feed, breeding, and registration
Other Provisions	Calves and culls to lessor Lessor pays breeding fees Lessee pays vet and other expenses	Calves to lessee Value of culls to lessee 5 year term Lessee has option to purchase animals for $1.00 each at end of term Agreement dissolved for any reason given 60-days notice	Lessor retains title to all animals, including calves and culls Lessee gets milk produced Agreement tied to land rental arrangement
Other Notes	Rented cows were Brown Swiss, kept as separate herd Production losses, high feed costs led to sale of animals in 1981; proceeds to landlord	Lessee also rents pasture, house, buildings, milking equipment	Agreement helps increase output and alleviates severe shortage of tillable acres

* Partnership leases cows.

Chapter 4

Partnership as a Means of Farm Entry

A. Overview

Twelve case-study farmers used partnership agreements as part of strategies to get started in farming. Four farms were still operating as partnerships at the time interviews were carried out. Detailed information was available on these four farm businesses and three others. This information is presented in Getting Started in Dairy Farming: Farm Entry Case Studies in New York State, and lessons learned from these seven beginning farm operations are summarized in this chapter. Additional, but less complete, information was provided by recent farm entrants who had experience in partnership arrangements but who had chosen another course as their primary means to get started. General characteristics of seven beginning farm partnerships are outlined in table 4.1.

B. Lessons Learned in Farm Partnership Experiences

Partnerships were seen by beginning farmers as means to provide access to farm resources that would generate income and equity needed for eventual ownership of farm assets. However, established farm owners contemplating partnership with new farm entrants did not always cite provision of a way into farming for their prospective partners as their first business priority. In both family and nonfamily situations, the chance to acquire dependable labor and management and reduce one's own labor input to a farm operation was seen as an important reason for offering a partnership opportunity to a beginning farmer. Compromise, communication, positive personal chemistry, and luck were all cited as necessary to attain the degree of compatibility among goals and styles that is essential to a successful farm start through partnership. The following conclusions were drawn from case-study experiences:

1. Reasons for forming a partnership, including both ownership and management objectives, should be spelled out in writing. Each party should know what the other(s) hope to achieve. Reasons such as "The opportunity is there" or "It seems like the thing to do" are not sufficient to establish a basis for building a partnership. Case-study businesses formed for such vague reasons were not strong enough to survive personality conflicts, adverse economic conditions, or poor quality farm resources. Putting partnership provisions in writing serves to protect each partner's interests and provides a mechanism for changing or dissolving the agreement.

2. A decision must be made by each partner as to whether their stated objectives are compatible. Some case-study farmers were able to compromise on particular aspects of ownership, management, and control in order to obtain other advantages. On the other hand, some conflicts between individuals' objectives can not be accommodated in a partnership agreement. This possibility should be considered before entering into any partnership arrangement.

Table 4.1. Characteristics of Farm Partnership Cases

	Four Wheels Farm	Green River Farms	Red Osier Farm
Period of Agreement	Oct 79 - present	Jan 78 - Apr 79	Feb 79 - June 8
Partners	Father-son-farm entrant	Retiring farmer-farm entrant	Established far farm entrant
Partnership Assets	Cattle, equipment, and proceeds from farming only	Proceeds from farming operations only	Cattle, equipme and proceeds fr farming only
Acreage Farmed	600 total 590 tillable	410 total 235 tillable	120 total 35 tillable
Cow Numbers	150	60	42
Soils	Excellent - Good	Excellent - Fair	Fair
Milk Shipped/ Cow	15,700 lbs.	12,960 lbs.	14,725 lbs.
Farm Entrant Starting Net Worth	$6,610	$17,380	$14,000
Partnership Debt/ Cow	NA	NONE	NA
Partnership Net Worth	NA	NONE	$44,500
Farm Entrant Net Worth	$37,710	$26,150	$28,350
Expressed Partnership Objectives	·Increase farm management capacity ·Farm entrant hopes to build equity in cattle, equipment, and real estate	·Farm owner wanted manager capable of keeping farm active, while keeping transfer options open ·Farm entrant interested in equity growth and security	·Farm owner want manager to oper add-on facility to his dairy operation ·Farm entrant interested in getting started and building limited equity
Present Situation	Same situation; Shares in assets owned prior to amending original partnership recently determined.	Farm entrant is now operating Green River Farm. He is purchasing the farm from his former employer/ partner on sales contract.	Partnership dis solved in mid-1 Farm entrant still operates Red Osier Farm after buying partner out. R real estate fro owner. Looking new farm start opportunity.

:tondale Farm	Drake's Landing Farms	Pioneer Farm	Westview Farm
' 78 - present	Apr 77 - Apr 79	Apr 80 - present	Jan 78 - present
) beginning farm ıples	Two farm entrants	Father-son	Father-son
·cow, 240-acre :m, equipment, :tle, houses	Cattle, equipment, and proceeds from farming only	100-cow, 175-acre farm, equipment, cattle, house	Cattle, equipment, and proceeds from farming only
) total) tillable	1,300 total 557 tillable	175 total 80 tillable	277 total 115 tillable
66	90	100	60
)d - Fair	Good - Fair	Excellent	Good - Poor
400 lbs.	12,500 lbs.	15,000 lbs.	13,750 lbs.
),000 :r couple)	$30,966	$20,000	$725
840	NA	$2,335	$2,273
:1,443	NA	$233,500	$41,789
:0,721	$266,767	$39,366	$6,500
:thwhile return initial vestment ming lifestyle	· Achievement of economies of size · Control over more resources than otherwise possible with limited equity · One partner with important off-farm goals	· Father interested in improving farm operations, transfer of ownership to son, limiting taxes · Son interested in building equity and increased role in management	· Father interested in relinquishing some ownership and management responsibilities · Son interested in getting started and building very limited equity
e situation; ther expansion improvement facilities nned	Partner A bought out his associate in April 1979. Now milking 120 cows on 325 acres (175 rented) made up of home farm and recently purchased land and facilities	Same situation; Possible move to new farm contemplated to solve limited land base problem	Same situation; Consolidation and increased efficiency planned after four years of expansion Father may return full-time to farm

3. Partners' objectives are subject to change. Time passes, the health of individuals changes, as do the financial situations of prospective partners. Such circumstances can be worked into a partnership agreement. This process may work in reverse, and provisions for partnership dissolution should reflect a recognition of the probablility of change.

4. Long- and short-term objectives for partners and partnerships should be identified and considered in drawing up partnership agreements. A farm entrant could use a partnership as a means to build equity before moving on to a new situation, even if the original goal was a permanent arrangement. Partnerships written to accommodate short-term goals might sometimes be easier to build and maintain than those aimed at more demanding long-term objectives.

Case-study partnership agreements often did not cover all assets used in farm operations. In several cases ownership of land and buildings was retained by one partner. In others no assets were owned by the partnership. This feature of farm partnerships is important for prospective farm entrants to consider. A partnership in which ownership is not offered to the beginning farmer involves trade-offs between long-term security and short-term improvements in a new farmer's financial position. It is not always immediately possible for a beginning farmer to gain the security that comes with ownership of assets (especially land) through a partnership agreement. Farm owners are more concerned with improving the performance of their operations than with offering equity to junior partners. Partnerships can, however, provide the beginning farmer with a chance to exchange labor and management skills for access to the income produced by assets owned by someone else. This income went a long way toward getting several case-study entrants off to a strong financial start (and eventual farm asset ownership) in farming.

Growth in the financial equity of beginning farmers was a stated goal for a number of case-study partnerships, both family and nonfamily. This growth was achieved to various degrees through distribution of partnership profits, transfer of real estate appreciation from individual farm owners to partnerships, and the allocation of equal shares in new assets to all partners. In each case, careful accounting, appraisal of asset values, and accurate financial records were necessary to distribute ownership to new partners.

Outside income and nonfarm equity often enhanced the starting positions of beginning farmers in partnerships. Income frequently came from jobs held by the spouses of farm entrants.

The case-study examples provided illustrations of alternative methods of assigning or transferring management responsibility to farm partners. Characteristics of successful schemes for allocating managerial duties include effective communication among partners, the assignment of management tasks according to partners' individual strengths, and the maintenance of a balance of power by providing each partner with a say in major management decisions.

Differences in management style caused tension in some farm partnerships and led to dissolution of partnership agreements in others. An early assessment of the magnitude of potential conflicts in the management styles of farm partners should be a part of the partnership planning process.

A common occurrence in family partnerships, and in some nonfamily arrangements, is a clash between the conservative approaches taken by fathers or farm owners and the more aggressive styles of younger partners. This is a natural situation, given the fact that more is at risk for the "senior" partner. Farmers who started on their own often missed the benefits of input from an experienced, though conservative, manager--an advantage to partnerships that should be recognized by beginning operators. Compromise and communication among partners serve to enhance this advantage.

Finally, case-study evidence showed that pre-existing farm circumstances could limit or improve the prospects for a successful partnership agreement. Building a partnership on an inadequate resource base can lead to major financial difficulties. Renovation and expansion of existing facilities in order to bring a partner into a farm business are costly enterprises. Capital invested in developing undersized farms is often not recoverable. Also, the return from such investments is not realized in the first years of a new farm business. These considerations should lead beginning farmers contemplating the pros and cons of a partnership in the home farm to ask, "Is this the best farm on which to start?" The financial advantages of partnership can be augmented on a well-structured, well-managed, established operation or diminished when partners try to farm with an overly limiting set of productive resources.

Chapter 5

Farm Asset Transfer and Farm Entry

A. Overview

Twenty-seven farm entrants interviewed for this study had purchased, or were in the process of purchasing, farms. Buying a farm often represented the final step in farm entry strategies that had taken beginning farmers through partnerships, farm rental, or combined rental and financing arrangements. Lessons learned from case-study experiences are presented according to the kinds of sales agreements used by farm entrants and by primary sources of credit for farm purchases.

B. Sales Contracts

Four case-study farmers had dealt with problems and alternative provisions of sales contracts for purchase of farm assets. Characteristics of these farm start arrangements are summarized in table 5.1. Several lessons drawn from case-study land contract experiences are presented and discussed below.

A trusting relationship between buyer and seller is an important component of successful farm transfers by sales contract. The beginning farmer, by making contract payments, often becomes responsible for a large part of the seller's future income, especially once the seller retires. A farm owner must have a great deal of confidence in a beginning farmer before accepting such dependence on another. Mutual trust is established over time, by working together, by establishing good farming reputations, and by participating in partnership arrangements or other business ventures together.

Doing one's homework before signing a sales contract goes a long way toward making such an agreement work. Appraisal of farm assets, pregnancy and herd health checks for cows being purchased, and research into the condition and past productivity of the farm resources involved are steps that can be taken early to further the interests of both buyer and seller.

Contract payment requirements and provisions for title transfer were shown to affect farm entrants' efforts to establish themselves. Large downpayment requirements and the terms of financing through sales contracts directly affect cash flow for beginning farm businesses. In fact, if a large downpayment is required, the possibilities for a mortgage, rather than a contract sale should be explored. Title transfer provisions should be negotiated and understood by both parties and written, in detail, into the contract. Gradual transfer provisions, such as those outlined in table 5.1 allow farm entrants to make tangible progress toward farm ownership before the term of a contract (often 20 to 25 years) has been completed.

C. Seller Mortgages

Characteristics of six farm start examples in which seller mortgages were part of strategies for farm entry are summarized in table 5.2. In some cases, sellers hold mortgages on all property involved in the farm transfer.

In others, seller mortgages were secondary in combination with those held by banks, PCA/FLB, or the FmHA. Seller mortgages in some instances were refinanced and incorporated into larger financing packages set up by banks or other lenders. Fixed, relatively low interest rates are characteristic of mortgages held by sellers, and they make seller financing an attractive means of holding down the interest costs of farm entry. A variety of factors can affect a beginning farmer's ability to find and take advantage of seller mortgage opportunities.

Farm entrants can earn a chance to purchase farm property under the usually attractive terms of a seller-held mortgage by building up a strong starting equity, by establishing a good reputation for farm management ability over time, or by working through other business relationships with prospective farm sellers. Low cost financing by a farm seller, however, is not a guarantee for a smooth and successful start in farming.

Case-study farmers learned the importance of knowing what property is included in a farm sale with a seller mortgage through hard experience. Feed and growing crops were sometimes wrongly assumed to be part of farm transfers. Promises by the seller as to the condition and adequacy of facilities, animals, and machinery to be sold should be checked out. If a farm entrant increases herd size after getting started, facilities (water supplies, milking equipment, etc.) that were adequate for the seller may not be adequate for the new owner.

Liens held by a farm seller on property owned by a new operator can make acquisition of credit from other sources difficult. The future effects of seller liens on property should be considered early in the negotiation of a farm sale.

Poor relationships with mortgage-holders can lead to substantial costs in the process of farm entry. Problems such as those mentioned above are aggravated through poor communications and bad feelings between buyer and seller.

Finally, the information in table 5.2 shows that the terms of seller-mortgage transfers are often less important than other factors in the success or failure of farm entrants using this route into business. Poor quality resources, mistakes in purchasing cattle and equipment, overextended credit, and other management difficulties frequently undermine seemingly inexpensive acquisition of farm assets.

D. Family Assisted Farm Starts

Types of family assistance offered to beginning farmers vary widely. Family help is often an invaluable contributor to getting started in farming, and it is an asset envied by those for whom such assistance is not available. The advantages of help from parents or the family business are many, but a number of problems, both personal and financial, must also be dealt with by those using family assistance to get started. Aspects of family assistance in case-studies for this project are outlined in table 5.3.

Table 5.1. Characteristics of Sales Contract Cases

	Green River Farms (Saddler)	Killdeer's Run Farm (Kramer)
Period	1979 - present	1979 - present
Parties	farm entrant - retiring farmer	farm entrant - crop farmer
Property Involved	230 acres, 2 houses, barns, silos, 140 head cattle	84-cow tie stall barn, 20-cow tie stall barn, 50-cow freestall barn, 5 acres, trailer, silos, milk equipment
Downpayment	None	$10,000
Purchase Price	$200,000	$100,000
Title Transfer Provisions	· Title to cattle transferred after 4 years · Title to machinery transferred after 5 years · Title to land transferred at termination of contract	· Title to farm buildings transferred after 10 years · House trailer purchased at outset
Length of Contract	20 years	10 years
Total Monthly Contract Payment	$1,550[1/]	$925

1/ Assignment on milk check

Black Deer Farms (Snead)	Northern Divide Farm (Green)
1982 - present	1980 - 1981
farm entrant - retiring farmer	farm entrant - farm owner
200 acres, house, barns, silos, 85 head cattle	145 acres, house, barns, silos
None	$42,000
$250,000	$142,000
·Title to cattle transferred after $85,000 principal paid ·Title to machinery transferred after $150,000 principal paid ·Title to real estate transferred at termination of contract	None
25 years	16 years
$2,380	$1,000

Table 5.2. Characteristics of Seller Mortgage Cases

	Key South Farm	Cottondale Farm	Elm Valley Acres
Date of Sale	June 1978	July 1978	October 1980
Property Involved			
Real Estate	280 acres, 100 tillable, house, 50-cow barn, wooden silos	240 acres, 189 tillable, house, 55-cow barn	150 acres, 125 tillable, house, 70-cow barn, hei barns
Cattle	10 cows and young-stock	52 cows, 1 bull	Purchased elsewh
Equipment	Pipeline milking system, full line of machinery	Old milking system, old line of machinery	Milking system
Mortgages			
Seller	Real estate: $100,000 Cattle: $15,000	$195,000	$32,500
Other	NONE	NONE	$75,000 (FLB) $20,000 (Bank)
Downpayment	NONE	$70,000	NONE
Mortgage Interest Rates:	Real estate: 6% Cattle: 7%	6%	Seller: 10.5% FLB: 10.5% (varia Bank:
Repayment Period	Real estate: 20 years Cattle: 3 years	20 years	Seller: 5 years (interest only; d and payable 5 yrs FLB: 30 years Pank: 7 years
Major Problems and Current Situation	Problems: Feed and labor time problems due to old silos and poor purchase decision on grain; Breeding problems Current Situation: PCA now a major creditor, silos replaced, good credit, strong production	Problems: Rundown facilities and milking herd; Sellers first prevented acquisition of financing for needed improvements Current Situation: Refinanced with bank at higher interest, good credit, strong production, plans for expansion	Problems: Inadequ water and feeding systems; Feed "sold out f under us"; Poor relations wi seller Current Situation: Tight cash flow, good credit, stron production

Union Falls Farm	Linwood Valley Farm	Windmill Farm
June 1981	January 1979	April 1980
159 acres, 125 tillable, house, 81-cow barn	179 acres, 120 tillable, house, 45-cow barn, silos	173 acres, 75 tillable, trailer, 45-cow barn
Purchased previous	Purchased elsewhere	Purchased elsewhere
Milking system	Milking system	Milking system, line of machinery in fair condition
$160,000	$27,500	$55,000
NONE	Real estate: $60,000 (Bank) Cattle & Equip: $40,000 (Bank)	$25,000 (FmHA)
NONE	$10,000	NONE
10%	Seller: 8.5% Bank real estate: 9.5% Cattle & Equip: 10%	Seller: 8.5% FmHA: 6%
30 years	Seller: 5 years (interest only; due and payable 5 years) Bank: 12 years	Seller: 20 years FmHA: 40 years FmHA: 40 years
Problems: Cost overruns on major needed renovations; Poor yields; equipment missing; facilities rundown due to previous management Current Situation: Tight cash flow, heavy debt load, good credit, strong production	Problems: Inadequate milking system led to major health problems; Feed problems due to leaking silo Current Situation: Tight cash flow due partly to high interest; good credit, strong production	Problems: Poor crop yields; Major herd health and breeding problems; Heavy soils; Widely spread credit Current Situation: Bankrupt

Table 5.3. Characteristics of Family Assisted Farm Starts

	Date Started	Type of Family Assistance	Starting Net Worth
Bundy Star Farm (Baines)	1-79	Rent and sales contract with father	$ 53,137
Sunlit Plain Farm (Davidson)	4-76	$44,000 starting loan $35,000 additional loan, no interest	$ 51,182
Brushy Ridge Farm (Fontana)	10-78	Rent with purchase option on family farm	$144,038
Straight Stalk Farm (Kenton)	4-77	Rent from parents until outside finance acquired	$ 20,000
Key South Farm (Keyes)	7-78	Gift of heifers, Father's co-signature for line of credit	$ 28,200
Eagle Ridge Farm (Pearse)	6-79	Mother held second mortgage on purchase of family farm	$100,000
Elm Valley Acres (Sanders)	9-76	Uncle co-signed bank mortgage, Father purchased son's first farm	$ 5,400
Rainbow Acres Farm (B. Simpson)	3-78	*Labor and machinery shared with father and brother	$ 17,300
Shady Rest Farm (Smith)	11-81	$4,000 loan from parents	$ 15,785
Black Deer Farm (Snead)	10-78	Father bought milking facility to rent to son, Shared labor and machinery	$ 14,100

* Figures as given by farm entrant when interviewed. Some doubt exists as to their accuracy.

Initial Debt Per Cow	Net Worth 1-1-82	Means of Entry	Current Situation
$ 659	$275,241	Rental and sales contract purchase from father	Profitable operation of part of family farm as an independent business
$3,630	$230,000	Bank financed farm purchase	Profitable operation of 222-acre, 130-cow farm
$2,610	$239,200	Rented family farm and exercised purchase option	Profitable operation of family farm (300 acres, 98 cows)
$1,250	$143,000	Rented farm from parents	Established operation 300 acres, 58 cows
$ 940	$140,355	Rented farm and exercised purchase option	Established operation 280 acres, 40 cows
$4,157	$152,772*	Bank financed purchase of family farm	Left farming April 1982
$1,324	$179,475	Bank financed farm purchase	Established operation 150 acres, 70 cows
$3,375	$ 58,500	Jointly financed (FmHA-Bank) farm purchase	Uncertain operation 110 acres, 44 cows
$1,885	$ 15,785	Leased buildings, equipment, pasture, and livestock	Uncertain operation 39 acres pasture 54 cows leased, 5 owned
$ 857	$ 34,800	Rented buildings from father, bank financed cattle purchase	Uncertain operation (1982 sales contract) 200 acres, 60 cows

The kinds of help provided farm entrants by their relatives could be categorized under the following headings:

1. Financial help: loans, co-signing or guaranteeing, holding mortgages.

2. Gifts: dairy animals, forgiven loans, other concessions.

3. Reallocation and sale or rent of family-owned resources to farm entrant.

4. Sharing land, equipment, feed, or labor.

Differences exist in degrees, as well as types, of assistance given by parents and relatives. In some cases, no help at all was offered by farm owners to their children interested in farming as a career. In other instances small loans or gifts of youngstock, or just the family's good reputation were used as springboards to outside credit or farm rental or purchase opportunities. As shown in table 5.3, very substantial family help, in the form of large, low interest loans or the reallocation of farm assets between father and son was sometimes the main ingredient in starting a farm business.

Along with the advantages of family involvement in a farm entrant's efforts to start farming come some difficulties. Father-son relationships are often very hard to fit into business dealings on a professional level. Some problems faced by fathers and sons working in partnership were identified in an earlier section. Other problems arise in machinery and labor sharing arrangements, rental and contract sale agreements, and borrower-lender relationships between fathers and sons. In most cases, the maintenance of a professional attitude toward business matters between fathers and sons serves both parties best. The quality of relations between father and son often determines the kind of business arrangement that can help beginning farmers make best use of family assistance. Parents and children who cannot work together as managers and decisionmakers should not enter family farm partnerships, but arm's length assistance (gifts, signatures on bank notes) may help fulfill the responsibility felt by a father in helping a son get started.

Farm entrants should also be aware of the financial consequences for their parents of assistance provided in getting started. Can parents afford to sell their farm to their son and hold a mortgage at six percent interest? Are rental rates or mortgage payments set so that parents can live reasonably on the income paid them by their buyer children? Such questions should be carefully considered by beginning operators as they proceed with efforts to establish themselves in the business of farming.

E. Farm Purchases with Outside Financing

Some type of credit from a bank, the Farm Credit Service, or the Farmers Home Administration was involved in every farm start examined in the study.

Sixteen farm entrants used borrowed funds from one or more of these institutions as their major source of capital in purchasing farms. Financial characteristics of these cases are summarized in tables 5.4, 5.5, and 5.6. Farmers who borrowed in order to purchase farm property are compared according to their primary creditors.

1. Financing alternatives

Various credit packages were available to case-study farm entrants. Five operators were jointly financed by the Federal Lank Bank and Farmers Home Administration, or by banks and the FmHA in their purchase of agricultural real estate (see table 5.6). Often, such arrangements were dictated by creditors in order to limit their risk in a farm start venture. In this way beginning farmers were able to take advantage of at least a limited amount of low-interest, long-term FmHA credit.

Case-study farmers also gained, or at least learned from the use of a number of other financing strategies:

i) One 1981 FmHA mortgage on a relatively large farm purchase required payment of 7% interest for the first two years, 9% for the next three, and current interest rates for the remaining 35 years on the mortgage. The scheme was designed to lessen the interest burden on the beginning farmer during his first five years in business.

ii) Two farmers made use of balloon payment plans for cattle and equipment loans. Again, such programs were aimed at allowing farm entrants to "get on their feet" before having to meet difficult repayment requirements.

iii) Two farmers financed their starts with relatively short-term mortgages (12 and 15 years) at variable interest rates (16.5% and 10%). Both operators relied on equity earned before buying their farms and on productivity increases to solve cash flow problems created by these rather heavy debt burdens.

The nature of various farm start financial packages is discussed further in chapter 7. Initial credit and repayment terms, as well as those negotiated for later borrowing, had a strong influence on the ability of farm entrants to meet both the costs of borrowing and the costs of operating a new farm business.

2. Farm buyers and their creditors

FmHA borrowers

Farm buyers who used FmHA credit for purchasing agricultural operations incurred heavy debt responsibilities at the start of their farming careers.

Table 5.4. Characteristics of Farm Purchase Financing: FmHA Borrowers

	Mt. Logan Farm (Asbury)	Musket Bridge Farm (Fell)	Over Hill Farm (Malden)
Farm Purchase Date	Jan. 1980	Jan. 1980	Nov. 1980
Mortgage Terms			
Term	40 years	40 years	30 years
Interest Rate	10%	11%	5-7%
Amount	$175,000	$110,000	$90,000
Second Mortgage			
Creditor			
Term			
Interest Rate			
Amount			
Other Borrowing (Cattle & Equipment)			
Creditor	FmHA	Bank	FmHA
Term	5-7 years	($50,000 annual line of credit at current rates)	7 years
Interest Rate	10.5%		NA
Amount	$100,000		$50,000
Debt/Cow at Time of Purchase	$4,377	$2,444	$3,938

+ First two years 7%; next three years 9%; current rates thereafter

* Various other creditors during farm start period

Rolling Acres Farm (Rawley)		Windmill Farm (Vallee)	Wishing Well Farm (Weston)
Apr. 1978		Apr. 1980	July 1981
40 years	40 years	40 years	40 years
5%	8%	6%	variable+
$50,000	$25,000	$95,500	$110,000
Seller		Seller	
20 years			
5.5%		8.5%	
$75,000		$55,000	
FmHA*		FmHA*	FmHA
7 years		7 years	7 years
8.5%		7%	7%
$29,000		$20,000	$25,000
$4,000		$5,750	$3,300

Table 5.5. Characteristics of Farm Purchase Financing: FLB/PCA and Bank Borrowers

	High Rise Farm (Berenson)		New Start Farm (Logan)
Farm Purchase Date	Apr. 1975		May 1976+
Mortgage Terms			
Creditor	FLB/PCA		Bank
Term	15 years		12 years
Interest Rate	8.5%		16.5%
Amount	$59,600		$64,000
Second Mortgage			
Creditor	FmHA*		
Term	40 years		
Interest Rate	8.5%		
Amount	$84,000		
Other Borrowing (Cattle and Equipment)			
Creditor	PCA	FmHA**	(Cattle and equipment funds included in mortgage package)
Term	7 years	7 years	
Interest Rate	8.5%	8.5%	
Amount	$13,000++	$63,000	
Debt/Cow at Time of Purchase	$1,815		$3,929

+ Original mortgage fell through in 1979, refinanced through another bank in July 1979
* Original loan refinanced through FmHA in 1978
** Additional emergency loan in 1978: $12,500, 7 years, 3%
++ Includes downpayment on real estate

Linwood Valley Farm (Pinter)	Elm Valley Acres (Sanders)	Sunlit Plain Farm (Davidson)
Apr. 1979	July 1979	Apr. 1976
Bank	FLB/PCA	FLB/PCA
15 years	30 years	35 years
10%	10.5%	7.5%
$100,000	$70,000	$135,000
Seller	Seller	
7 years	5 years	
8.5%	10.5%	
$27,500	$32,500	
(Cattle and equipment funds included in mortgage package)	PCA	PCA
	7 years	7 years
	10.5%	8.5%
	$20,000	$59,000
$3,187	$1,307	$3,630

Table 5.6. Characteristics of Farm Purchase Financing: Jointly Financed Borrowers

	Split Rail Farm (Carter)	Straight Stalk Farm (Kenton)
Farm Purchase Date	Apr. 1976	Jan. 1981
Mortgage Terms		
Creditor	FLB	
Term	15 years	
Interest Rate	8.25%	
Amount	$25,000	$143,000
Second Mortgage		
Creditor	FmHA	
Term	30 years	
Interest Rate	5%	
Amount	$19,000	$56,000
Other Borrowing (Cattle and Equipment)		
Creditor	FmHA	
Term	7 years	7 years
Interest Rate	8.5%	
Amount	$35,000	$40,000
Debt/Cow at Time of Purchase	$2,260	$3,929

* Balloon payment due in seventh year

Debt per cow was high for these operators, ranging from $2,444[1/] to $5,750. Most of these borrowers were 100% financed. Debt repayment was a major monthly cash expense. In such cases, there was little room for errors in production and financial management. Poor advice from lenders to 100% borrowers also caused major farm entry problems. Some examples of the kinds of difficulties faced by these beginning farmers are listed below:

i) Delays in approved funding were very costly for two of the six farmers described in table 5.4. One was forced to borrow short-term money from a commercial bank for eight months after the purchase agreement and initial closing at rates up to 17 percent. The other paid $2,000 per month rent for five months while farming and waiting for loan monies to come through. Delays in the arrival of funds from various lenders led to financial headaches of varying degrees for six farm buyers.

ii) Three of the FmHA-financed farm buyers were able to acquire large amounts of credit at relatively low rates only to find themselves on farms with poor soils, broken-down equipment or, in one case, an imbalance between the value of farm buildings and cropland purchased. Easy credit did not solve productivity problems stemming from poor purchase decisions based on inexperience and poor advice. A fifth farmer borrowed heavily to get started on a farm with excellent resources. His management skills, however, did not match the levels required to cope with heavy debt and a large farm enterprise.

Federal Land Bank and bank borrowers

Commercial bank and Farm Credit Service borrowers incurred less debt from these lenders than those who borrowed from FmHA. Smaller amounts of credit from FLBAs or local banks were augmented with seller-held second mortgages in two cases, and a generous loan from parents in another. Interest rates were typically higher than for FmHA borrowers (although the date of the loan had a major effect on rates) and repayment periods were shorter (see table 5.5). Further lessons included:

i) A strong contrast was evident between those borrowers who had good, open relationships with their lenders and those who did not. Mutual respect was important between farm entrant and creditor, especially when farm problems (lost production, herd health losses) required a change in credit terms or additional financing.

ii) One farmer changed lenders and refinanced his FLB/PCA loans through FmHA after three years as a Farm Credit

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1/ This farm entrant purchased a farm after three years of building equity on a rented farm. He has managed to keep his level of equity at 38% and meet his stated objective of limiting debt per cow to less than $3,000.

verina Farm armody)	Beacon Farm (Reiner)	Rainbow Acres Farm (B. Simpson)
c. 1978	Apr. 1979	Mar. 1978
FmHA	FLB	FmHA
years	30 years	40 years
3.5%	9.5%	5%
,000	$70,000	$50,000
Bank	FmHA	Bank
years	40 years	20 years
.5%	9%	8.5%
,000	$56,000	$55,000
mHA		FmHA Bank
ears	7 years	7 years 1 year
.5%	8.5%	8% current
,000*	$70,000	$27,000 $3,000
,890	$5,025	$3,375

borrower. He acquired additional credit and lower cost terms. He believed that FmHA terms would allow him to improve his equity position at that early stage of his farm entry effort.

3. Summary

The management of credit and borrower-creditor relationships are discussed further in chapter 7. Balance was the key word for case-study farm buyers. The quality and amount of farm assets, starting equity, managerial ability, and lender advice and ability had to be present at proper levels to insure a successful farm start. Operating costs had to be controlled and balanced with debt repayment obligations. In some cases timing was crucial. Those who encountered farm production problems while operating under relatively small debt loads or easy credit terms found it easier to recover from those problems than those with heavier debt obligations. Timing should also be a factor in borrowing decisions made after the initial farm purchase is made. Two case-study farmers argued that additions and farm improvements should be postponed until after a beginning farmer has organized and consolidated his financial and production situations.

A crucial question for farm entrants who faced cash flow difficulties related to debt load and repayment requirements was asked by another case-study farm buyer: "Are we using credit or is credit using us?" An assessment of the success of particular financing plans and financial management strategies could be based on the answers to the following, more specific questions about characteristics of new farm businesses:

* In what direction is income earned by the farm business flowing? Is earned income helping to increase owner equity?

* Is the use of available credit helping or creating cash flow problems? What kind of balance exists between short- and long-term borrowing? Is there a desirable or undesirable trend in short- versus long-term debt relationships? A shift toward short-term debt can lead to cash flow problems.

* Will the purchase and operation of a particular farm by a beginning farmer benefit the lender, the borrower, both, or neither?

* Do needs for operating credit in the second, third, and fourth years of business increase or decrease? Is increased use of credit planned and managed, or is it necessary for survival?

To several case-study farm entrants, getting a handle on the problems listed above was synonymous with getting established in farming. Coordinated efforts by borrowers and lenders were the most effective means of generating positive answers to such important farm entry questions.

F. Profit Share Schemes

Two case-study farmers participated in profit sharing plans with farm owners (employers) as means to get started on their own. As with farm partnerships, the compatibility of objectives pursued by farm owner and farm entrant is important to the success of profit sharing arrangements. A third case-study operator was asked to leave his management position and give up a profit sharing opportunity because his outside interests did not coincide with the farm owner's business goals. In the two case-study examples, employers wanted competent assistance in the management of their dairy operations. In one case, the farm owner was also planning to retire in the near future, and a profit share arrangement with his farm manager provided a chance to evaluate the prospects for a successful, later transfer of assets from employer to employee. The beginning farmers involved were interested in an opportunity to earn income and equity from their labor and management abilities and to obtain ownership of some farm assets. These earnings could then be applied to an eventual farm start on their own.

Details of the two profit sharing arrangements are presented in the collection of case-study summaries. General observations on the two plans are summarized below.

1. One beginning farmer earned equity directly. On a 50-50 split of milk check, 15% of his share of milk profits was designated toward purchase of one-half of the owner's milking herd. The second farm entrant shared 6% of profits. In addition, the owner paid him for rental of his 11 cows. This "indirect" form of farm equity was to be invested in his own farm business in several years' time.

2. In both cases ownership was limited to livestock in the first years of the agreement. One plan provided for gradual purchase of equipment and land once the employee had taken over ownership of the milking herd. In the second case ownership of other assets had to wait until enough equity and credit could be accumulated to make an independent start.

3. The beginner's farm management ability was a very important starting asset in each profit share arrangement. Ability and hard work were invested in building respect between employer and employee. Without this respect, opportunities for shared profits or gradual transfer of asset ownership would have been short-lived.

G. Part-Time Farming

A very brief discussion on part-time farming as an avenue into agriculture is presented here. This brevity is not a reflection on the importance of this means of farm entry, but is due to the fact that only two case-study farmers had experience with this way to get started, and only one was farming part-time at the time of the interview.

In partnerships and profit-sharing arrangements the risks involved in getting started in farming are reduced by farm entrants because someone else owns or shares in the ownership of farm assets. In the part-time farm case example additional security is provided lender and borrower alike through the farm entrant's off-farm income. Experience and economies of controlling a large milking herd or many crop acres are less important to the success of the part-time beginner. Income from a well-paying, skilled job was the major factor in the survival of the part-time dairy enterprise. Credit was obtained for the purchase of cows and equipment based on outside income, family living expenses were met from this source, and additional investment in equipment was made with off-farm earnings. After three years the dairy enterprise provided income for the purchase of replacements for the 18-cow herd.

Equity and farm management experience can be earned through part-time farming. Mistakes made in herd health and breeding management were costly to this case-study farm entrant, but lessons learned in these areas were inexpensive compared to the costs of similar errors by beginning farmers depending on farm earnings alone. Further details on this example of part-time farm entry are presented with the case-study summaries.

Chapter 6

Farm Exit and Farm Entry

A. Overview

Beginning farmers are perhaps the most fragile participants in the risky business of agriculture. Given small starting equity, limited experience, high interest rates, and some inevitable bad luck in getting started, any beginning farm business is a potential early farm failure. Seven farm entrants who took part in this study left farming during the course of this project. The differences between these farmers and those who have achieved more positive results are related to the following factors:

1. The quality of beginning resources.
2. The quality of financial, asset transfer, and business agreements involved in farm entry.
3. The pressures placed on marriages by beginning farm problems.
4. The quality of everyday as well as long-term farm entry decisions made.
5. The ability to recover from inevitable and sometimes severe farm entry setbacks.

These factors influence all farm entry efforts. Lessons learned from those who chose or were forced to terminate beginning farm operations are discussed below and reassessed in chapter 7. Selected characteristics of discontinued farm businesses are presented in table 6.1.

B. Resource Quality and Farm Exit

Evidence summarized in table 6.1 indicates that poor soils, run-down housing and milking facilities, unhealthy or low producing cattle, and unreliable machinery and equipment are often important contributors to early termination of the farm entry process. Poor advice, inexperience, and poor initial investment decisions sometimes saddled case-study farmers with such unproductive farm assets. The costs of keeping those assets in production were high. These costs were reflected in feed shortages, health and breeding problems, lost production, and finally lost equity and a departure from farming.

The quality of human resources applied to a beginning farm situation must be high. Technical experience with cattle and crops was often not enough to offset the effects of poor financial decisions on the farm entry process. In some cases, milking or field skills learned as hired men on other farms were wasted due to an absence of the financial expertise needed to make good borrowing and investment decisions.

C. The Quality of Farm Entry Agreements

Aspects of credit and capital acquisition decisions affecting farm entry are reviewed in chapter 7. One farmer, who terminated operations shortly after our case-study interview, had taken over a rundown operation with heavy soils as well as the heavy debt obligations incurred by the previous operator. Production levels could not be raised to meet those obligations given the resources and experience available. Farm entrants who agree to carry heavy debt responsibilities in order to purchase a farm must measure their skills and the productivity of the farm assets to be purchased against the size of the debt taken on. Beginning farmers with moderate debt repayment obligations can afford to incur some costs and spend time to correct production problems. Case-study entrants with debt loads of $4,000 per cow and more did not enjoy this luxury. Any crop or milk production setbacks intensified the pressures of debt service. In some cases poor matches of experience, resource productivity, and debt load were obvious, and neither lenders nor farm entrants took measures to prevent later, serious financial difficulty.

The possible negative effects of flawed farm entry agreements can be illustrated by example. One operator used all of his credit to purchase cattle and machinery to start farming under a rental agreement considered faulty by his lawyer. Disputes between landlord and tenant over feed to be included in the contract, poor quality milking equipment, crop planning, and living arrangements created a bad farming situation. The poor relationship between landlord and tenant offset improved milk production and creditor confidence in this entrant's abilities. Alternatives were few because no more credit was available to move to a new farm. The strain of circumstances eventually led to a broken marriage and an early departure from farming.

D. Management Decisions and Farm Exit

Farmers who faced early mastitis, breeding, herd disease, milk production or crop yield problems were sometimes unable to take measures necessary to correct those problems. In one case poor milk production led in turn to an investment in high cost feed storage facilities. Then, unsuccessful crop management practices in the next season left this beginning farmer with a heavy debt load, empty silos, and the same production headaches with which he started. Other case examples showed that failures in the diagnosis of everyday problems, the evaluation of alternative solutions, and in the setting of investment priorities contributed to eventual farm business failure. This was true even for some operations with quality resource bases and an abundance of available credit.

Decisions to leave farming are not always forced on new farm entrants by adverse financial circumstances. Such choices can be planned and implemented as part of the management process. One couple rented farm land and buildings for three years. After this "trial run", they chose to sell their cattle and equipment, and embarked on a career raising and showing registered dairy animals. The sale was profitable, and the couple made the career change under favorable financial circumstances. Further aspects of making positive moves to end or delay the farm entry process are examined in the following chapter.

Table 6.1. Selected Characteristics of Case-Study Farmers Who Left Farming

	Broken Hill Farm (Andrews)	Eagle Ridge Farm (Pearse)	Hard Acres Farm (Malden)
Date Started	April 1980	June 1979	November 1980
Date Left Farming	April 1982	April 1982	March 1982
Age	21	26	24
Education	High school graduate	1 year community college	High school graduate
Experience	Farm hand and tool maker	Grew up on farm	Farm hand
Starting Net Worth	$6,680	$100,000	$13,000
Initial Means of Entry	Farm rental; FmHA finance	Purchased family farm; bank finance	Assumed mortgage; FmHA finance
Ending Net Worth	($1,010)	$152,772	$21,000
Starting Debt/Cow	$1,472	$4,157	$3,938
Starting Production/Cow	12,000 lbs.	12,848 lbs.	10,500 lbs.
Ending Production/Cow	10,000 lbs.	12,730 lbs.	10,500 lbs.
Ending Debt/Cow	$2,375	$3,055	$4,767
Major Problems	· Poor land, poor yields · Breeding and health problems · 90% calf losses	· Inadequate vacuum system · Mastitis · Overinvestment in machinery · Poor balance between debt load and productivity	· Heavy debt load · Little experience · Rundown facilities · Heavy, wet soils · Low milk production

Hawk's Nest Farm (Farrell)	Red Apple Farm (Odell)	Rolling Acres Farm (Rawley)	Windmill Farm (Vallee)
May 1976	November 1980	April 1974	April 1980
October 1980	April 1982	March 1982	April 1982
25	29	21	30
High school graduate	9 years education	High school graduate	High school graduate
Grew up on farm	Grew up on farm and farm hand	Farm hand and farm supply manager	Grew up on farm and oil and gas rig work
$5,975	$11,900	$10,476	$16,414
Farm rental; bank finance	Farm rental; FmHA finance	Farm rental to farm purchase; FmHA finance	Farm purchase; FmHA and seller finance
$40,248	$32,251	$147,260	($23,237)
$1,000	$2,412	$1,600	$5,750
11,680 lbs.	14,520 lbs.	10,000 lbs.	12,000 lbs.
17,600 lbs.	14,520 lbs.	12,730 lbs.	8,500 lbs.
$1,764	$2,308	$7,512	$8,653
• Chose to sell cattle and equipment at favorable prices and took position working with registered herd	• Inadequate vacuum system • Mastitis • Poor hay yields • Poor relations with landlord • Heavy debt load	• Too much credit • Poor crop yields • Herd health and production problems • Overinvestment in feed storage • Poor relations with creditors	• Too much credit • Poor quality cows • Major breeding, health problems • Poor quality equipment • Heavy, wet soils

Chapter 7

Factors Affecting the Farm Entry Process

A. Introduction

The summary of lessons learned by those who abandoned efforts to get started in farming illustrates the kinds of decisions made by beginning farmers, factors that influenced those decisions, and the possible results of particular farm entry strategies. A successful start in farming depends on the quality of a sequence of decisions, ranging from the choice of a means to acquire control of a particular set of farm assets to later financial, crop, and livestock management decisions that determine the profitability of a new farm business. Lessons about these kinds of farm entry decisions were learned through the experience of case-study farmers, regardless of the ways they had chosen to get started. These lessons are of particular interest to other prospective beginners, and they are reviewed below.

B. Capital Acquisition Decisions

Case-study farmers chose among available methods of acquiring capital (borrowing to purchase, renting, joining a partnership, etc.) according to their own abilities, "connections", experience, and financial circumstances at the time they started farming (table 7.1). This choice involved searching out the "right" farm, and finding the best way to combine starting human and financial assets with a means to acquire and put those farm resources to work.

1. Matching equity and means to start farming

Choosing a way into farming is a gamble. Prospective farm entrants begin their careers with a fixed level of assets to be applied to an investment in a farm start. These assets include farm and other experience, a certain degree of managerial ability, outside income, savings, or equity in a home or other assets. The size of this stake may vary, but most case-study entrants attempted to gain control of farm capital given relatively low levels of starting equity. Choosing the right combination of starting assets, potentially productive land, buildings, livestock, and equipment, and the means of acquiring that property is a crucial step for a beginning farmer. A decision to purchase marginal farm resources, combined with inexperience, limited starting equity, and a heavy debt repayment responsibility could lead to the loss of some or all of the initial investment in a farm business. Guidelines for making more effective use of beginning resources were developed from both successful and unsuccessful strategies for capital acquisition.

Relationships between various levels of starting equity and the routes of farm entry used by case-study farmers are shown in table 7.1. Generally low levels of beginning net worth influenced capital acquisition decisions in the following ways:

i) Prospective farm entrants with limited equity chose from a very short list of credit sources in financing farm purchases. All eight beginning farm buyers with less than $40,000 starting equity were financed by FmHA. Even starting farm owners with relatively higher levels of initial equity used family assistance, seller financing, or pooled their resources to improve their chances of establishing their own farm business.

ii) Buying a farm was an especially risky, and expensive, first step available to farm entrants in the study. Starting debt loads of $4,000 to $5,000 per cow, coupled with later management errors and some inevitable bad luck, forced three farm buyers out of business within three years of getting started. The acquisition of large amounts of credit to finance a farm purchase, even at low interest rates of six to ten percent, was no guarantee for successful farm establishment. Two farmers who obtained large FmHA loans based on less than $20,000 net worth and little else started farming with built-in cash flow problems. Cash flow difficulties were also experienced by others who chose to finance farm purchases as their initial means of acquiring assets. Without some kind of credit break, family help, or other means to limit early debt repayment obligations, farm purchase appeared to be a difficult and risky strategy for developing limited financial resources into an established farm business.

iii) Renting, part-time farming, and profit-sharing strategies allowed farm entrants to augment limited amounts of beginning capital. Case-study farmers did this by investing time, labor, proven managerial ability, and relatively small amounts of borrowed capital to acquire control of farm assets. Income generated by farming operations could then be used to gradually build equity in those same assets or in other farm property.

Scarce starting equity is not an insurmountable barrier to getting established in farming. A secure place in the dairy business, however, cannot be earned by purchasing a farm with borrowed funds today and starting to milk cows at 4:00 a.m. tomorrow morning. The process of getting started may take several years while sufficient capital is accumulated to improve the odds in favor of success on a farm owned and operated by a beginning farmer. Getting established may also require farm entrants to work hard at developing good business relationships with partners, employers, farmers about to retire, landlords, or parents in order to create opportunities for which substantial starting equity is not a prerequisite to controlling farm assets. A focus on growing into the business of farming, rather than on immediate ownership of farm property was part of the successful farm entry strategies followed by many case-study entrants.

Table 7.1. Equity and Means to Start Farming

	Date Started	Starting Net Worth	Initial Means of Entry
Mosely	1-78	$ 675	Father-son partnership
Henry	*	$ 2,000	Part-time farm
Berenson	4-75	$ 3,294	Rented buildings from relative
Malden	11-80	$ 13,000	Assumed mortgage, FmHA finance
Weston	4-79	$ 4,000	Farm rental, FmHA finance
Green	11-78	$ 5,000	Brothers in partnership
Sanders	9-76	$ 5,400	Bank financed purchase, family help
Farrell	5-76	$ 5,975	Farm rental, bank finance
Hammer	10-79	$ 6,610	Nonfamily partnership
Andrews	4-80	$ 6,680	Farm rental, FmHA finance
Saddler	1-78	$ 7,000	Nonfamily partnership
Talbot	1-82	$ 10,000	Profit-share, rent, PCA financed purcha
Rawley	4-74	$ 10,476	Farm rented from relative, FmHA finance
Odell	11-80	$ 11,900	Farm rental, FmHA finance
Mills	2-79	$ 14,100	Nonfamily partnership, bank finance
Snead	3-78	$ 14,100	Rented buildings from father, bank fina
Smith	11-81	$ 15,785	Building, pasture, cows leased
Vallee	4-80	$ 16,414	FmHA financed farm purchase
B. Simpson	3-78	$ 17,300	FmHA bank financed farm purchase
Kenton	4-77	$ 20,000	Rented farm from parents
J. Simpson	4-79	$ 20,050	Father-son partnership
Carmody	12-78	$ 23,000	FmHA financed farm purchase
Fell	4-77	$ 24,000	Farm rental, bank finance
Kramer	10-78	$ 27,000	Rented buildings, PCA finance
Keyes	7-78	$ 28,200	Farm rental with purchase option
Patterson	NA	$ 29,475	Profit-share in active farm business
Driessen	1-77	$ 30,966	Purchased home farm, nonfamily partnersh
Carter	4-76	$ 23,000	FmHA financed farm purchase
Asbury	4-80	$ 36,557	FmHA financed farm purchase
Logan	4-79	$ 45,000	Bank financed farm purchase
Davidson	4-76	$ 51,182	FLB/PCA finance, family assistance
Baines	1-79	$ 53,137	Rent and sales contract with father
Reiner	3-79	$ 98,000	FLB-FmHA financed farm purchase
Pinter	1-79	$ 98,100	Bank-seller financed farm purchase
Cottondale	7-78	$100,000	Partnership bought farm, seller finance
Pearse	6-79	$100,000	Bank financed purchase of family farm
Fontana	10-78	$144,038	Rent family farm with purchase option

* Date started is hard to determine. Farm entrant does not farm full-time.

Initial Debt Per Cow	Net Worth 1-1-82	Present Situation
$ 1,900	$ 6,500	Same arrangement
NONE	$120,000	Part-time farming
$ 933	$ 37,050	Operates own farm, FmHA finance
$ 3,938	NA	Out of farming
$ 1,304	$ 10,537	Operates own farm, FmHA finance
NONE	$ 63,011	Operates own farm, FmHA finance
$ 1,324	$179,475	Operates another farm, seller-PCA/FLB finance
$ 1,000	$ 40,248	Out of farming
NONE	$ 37,710	Same arrangement
$ 1,472	$ (1,010)	Out of farming
NONE	$203,951	Operates same farm, sales contract, bank finance
$ 2,200	$ 10,000	Same arrangement
$ 1,600	$147,260	Out of farming
$ 2,412	$ 32,251	Out of farming
$ 928	$ 39,515	Rents same farm, bank financed purchase of cows/machinery
$ 857	$ 34,800	Operates own farm, sales contract with seller
$ 1,885	$ 15,785	Same arrangement
$ 5,750	$(23,237)	Out of farming
$ 3,375	$ 58,500	Operates same farm, refinanced by FmHA
$ 1,250	$143,000	Operates same farm, FmHA financed purchase
NONE	$ 39,366	Same arrangement
$ 2,890	$158,703	Operates same farm
$ 1,000	$ 95,000	Operates own farm, FmHA finance
$ 900	$ 75,000	Operates own farm, sales contract for buildings only
$ 940	$140,355	Operates same farm, seller mortgage, PCA finance
NONE	$ 29,475	Plans to purchase farm within 2 years
$ 3,010	$266,767	Operates own farm, FmHA, PCA, bank finance
$ 2,333	$ 96,069	Operates same farm, some bank finance
$ 4,377	$ 83,376	Operates same farm
$ 2,560	$ 70,000	Operates same farm
$ 3,630	$230,000	Operates same farm
$ 659	$275,241	Operates same farm, owns cattle
$ 5,025	$100,785	Operates same farm
$ 3,187	$169,000	Operates same farm
$ 2,541	$241,443	Operates same farm, refinanced FLB/PCA
$ 4,157	$152,772	Out of farming
$ 2,610	$239,200	Operates same farm, FLB/PCA, parents' finance

2. The quality of farm resources

A careful assessment of the quality of soils, buildings, milking facilities, and livestock is required of any prospective farm operator, regardless of the method chosen to acquire such assets. Case-study evidence demonstrated the existence of a strong link between the quality of and price paid for control of farm resources and the kinds and magnitude of later farm entry problems.

Livestock

Dairy animals were critically important resources in all of the beginning farm situations studied. The quality of early livestock acquisition decisions affected cash flow in the first years of farming, and often significantly influenced the final results of farm entry processes. Several case-study farmers dealt with health, breeding, and production problems with animals acquired to start dairy operations. Important factors in livestock acquisition decisions are discussed below:

i) Generalizations about the relative merits of livestock purchases from auctions, from operating herds, or from cattle dealers are difficult to make. The seller's reputation, however, was often an indicator of how purchased animals would perform in a newly formed herd. Buying animals without records prevented beginning farmers from anticipating costly breeding, production, and disease problems. Knowledge of the seller's history, as well as herd records, would have been valuable to several beginning cattle buyers.

ii) Pregnancy checks on cows to be purchased or leased could have prevented production problems for a number of beginners who discovered too late that they had acquired unbred dairy animals. This frequently caused income and cash flow problems. A less serious, but expensive hurdle was faced by entrants who spent much time, money, and effort to revamp breeding programs for purchased herds with undesirable freshening patterns.

iii) Four beginning farmers achieved impressive production results with herds that had been poor producers under different management. The ability to identify the reasons for low production, recognize the potential of particular dairy animals, and implement and adjust practices to achieve that potential was an invaluable asset to these farm entrants.

iv) At least seven case-study farmers discovered the great importance of an adequate number of replacements in a dairy herd. When cows are sold, or lost to disease, or

when a high percentage of animals in a small herd is dry at one time of year, replacement animals must be available to maintain production and cash flow. Failure to plan for the cost of acquiring a replacement herd forced some beginning farmers to borrow at times when little cash was available to repay additional debt.

v) Good management is reflected not only in how well farm entrants choose their livestock, but in the advice that they seek and follow once herd health problems are encountered. The relationship between a new farmer and his veterinarian is very important in minimizing the duration and severity of herd health setbacks. Herd health plans, including regular visits by the veterinarian to check for disease and other problems, helped some entrants to prevent later herd health difficulties.

Land

Three case-study entrants went out of business within two years of starting on farms with heavy, poorly drained, or poorly maintained soils. Dismal first-year cropping results and high expenditures on lime and other essential land improvements contributed to early farm business failures. The inability to recognize problems of soil quality and related effects on yields and costs can severely damage prospects for establishing a farm business. Several of the successful study farmers cited good land as a major criterion in their selection of a beginning farm. One farm couple rented, and later purchased, a farm with good-quality soils despite FmHA advice to start on a lower-priced, but less promising property.

Milking facilities

At least seven case-study farmers suffered the consequences of renting or buying inadequate vacuum milking systems as part of their first farms. This led to major mastitis problems, curtailed cash flows, and the loss of producing livestock. Replacement of such an essential set of dairy equipment was costly and often involved taking on additional debt that had not been anticipated in initial farm plans. A careful check of the condition of any milking system to be used in beginning dairy operations would help avoid later costs and problems. The potential capacity of a vacuum system is information that should also be included in any plans for the expansion of existing milking facilities.

Machinery

The costs of renting or purchasing poor quality machinery as part of a farm unit were incurred by four case-study farmers. High, unanticipated expenditures to replace old, broken down equipment may hinder efforts to get

started in farming. Equipment in poor condition is also costly in terms of time loss in cropping and other operations whenever the machinery is down for repairs. A careful judgement as to the value of equipment included in farm transactions could reduce later machinery costs. Beginning farmers and their lenders should include such information in their negotiation of terms in rental or purchase agreements. A careful appraisal of machinery condition by a knowledgeable farmer or mechanic prior to purchase could be very useful to the prospective new entrant.

3. Credit acquisition

Just as with cattle, land, or other farm resources, good decisions must be made as to the kinds and amounts of credit to be used in attempts to establish farm businesses. As discussed in previous sections, the size of loan commitments by beginning farmers can be adjusted through choices among methods of farm entry. Farm entrants who rented assets required lesser amounts of outside funds to operate than those who chose to purchase farms. Gradual rental or part-time farming approaches involved substituting time and patience for borrowed capital. Farm entrants also used skill and experience to work into established operations as partners, managers, or employees, thus limiting their individual farm credit needs and improving their credit standing.

Beginning farmers found ways to increase amounts of borrowed capital available to them. One prospective entrant's nonfarm income overshadowed problems such as limited farm experience in his lender's decision to finance a start in farming. Credit for use by beginning farmers was also available through the Farm Credit Service, Young Farmer Program, FmHA limited resource financing, or seller held mortgages at relatively low interest rates.

As noted earlier, seven farmers failed to provide for replacement animals when they first put their milking herds together. In many of these cases, initial loan packages lacked the funds needed for this kind of investment. By borrowing enough capital early on, farm entrants could have avoided the need for more costly credit when replacement shortages showed up. Better information on this part of farm entry capital requirements would lead to the development of higher quality loan packages.

The availability of credit is not a cure for poor quality resources, limited experience, or bad management. In one case, a beginning farmer failed to make profitable use of FmHA funds to operate a small farm with poor soil resources. He moved off that farm and acquired much more financing to purchase a large farm with excellent soil resources. In 1982, the heavy debt load, some major management errors, and severe crop and milk production problems forced this farmer out of business. A bad assessment (by borrower and lender) of the possibilities for profitable use of a large amount of credit led to the making of a poor quality loan and eventual (if not predictable) business failure.

Credit terms must fit the ability of a beginning farmer to repay his debts if the farm entry process is to succeed. Even credit that is

"embarrassingly easy" to get must be matched by the income that a farm can generate in order to meet repayment terms on time. Meeting costs of operation and cash flow commitments by use of larger and larger amounts of short-term debt causes losses, not gains, in equity. Cash flow problems in such cases also become increasingly severe.

There is a significant difference between available financing and good quality financing. It is possible for a prospective beginning farmer with limited equity, limited experience or a poor management track record to shop around for a lender who overlooks potential shortcomings that caused other lenders to turn down his loan applications. The combination of large amounts of credit at high interest, and poor management by a beginning farmer is unlikely to yield positive results for the farmer or his creditors.

Several farm entrants set specific investment priorities as a means to allocate starting and borrowed capital profitably. The investment of credit and beginning equity in herd improvement projects was a key factor in the success of several case-study farmers. Overinvestment of limited capital in the ownership of new equipment led to results that were much less than successful.

As in the evaluation of all starting resources, information is a valuable tool in the acquisition and use of good quality credit. The exchange of information between borrower and lender on business problems, proposed purchases or farm improvements, and the quality of available farm assets was a feature of successful beginning farm experiences.

C. Farm Management and Getting Started

This report is not intended to be a textbook in production and financial management for beginning farmers. The case-study evidence shows, however, that the principles of profitable farm management are particularly important tools for new farm entrants. Their margins for managerial error are narrower than those enjoyed by more established operators, and the effects of management mistakes in the first years of farming can be devasting to a starting farm business. Some of the countless management lessons learned through trial and error by dairy farmers in this study are reviewed below.

Management is not a discrete farm input. It is difficult to measure, difficult to evaluate, and difficult to break down into its component parts. Choices among alternative means of getting started, among investments in farm assets of different size and quality, and among available financing packages are all elements of the beginning farmer's management task. Such decisions are made relatively infrequently. Everyday herd, crop, and financial management decisions also affect the course of the farm entry process. These managerial functions are examined in this section.

1. Dairy herd management

The importance of good herd health to a successful start in farming was highlighted in the discussion of livestock acquisition by beginning farmers. The maintenance of a healthy herd requires substantial management effort after the first cows and heifers are purchased.

Mastitis, calf losses, IBR, lepto, and more severe diseases were dealt with by 22 case-study farm entrants. The ability to diagnose, correct, and recover from early losses due to herd health problems was a characteristic of those beginning farmers who appeared to be succeeding. Causes of disease problems varied. The relationship between vacuum systems and mastitis was mentioned earlier. Inadequate freestall facilities, bad feed, and infections brought into beginning herds by purchased animals also contributed to herd health setbacks. These problems were reversed with the help of good veterinary advice (or worsened by poor advice), timely diagnosis of causes, or by improving milking and housing facilities. At least four of the study farmers implemented regular herd health checks by reputable veterinarians after experience with costly herd health losses. Health problems left undiagnosed and blamed on bad luck severely damaged two beginning farm businesses.

The establishment of an appropriate breeding program is a critical part of the farm entry process for those starting on their own. The need for an adequate replacement herd was discussed in a previous section. A number of farmers purchased herds bred to freshen in the spring or fall (others were not bred at all). Some found it extremely difficult to meet seasonal operating expenses with as many as two-thirds of their milking herds dry at one time. This kind of situation created annual cash flow crises which could be eliminated only through slow, costly changes in breeding programs.

Poor quality feed, moves from one farm to another, poor management by previous herd owners, and missed detection of animals in heat were all factors contributing to early problems with breeding. Several farmers cited inexperience as their biggest enemies in recognizing and correcting the effects of poor breeding practices. Problems were corrected by purchasing new animals, adjusting feeding practices, culling programs, and developing raised replacement herds. Regular pregnancy checks were regarded as essential to successful farm starts. Advice from veterinarians and experience gained while working on established operations were especially useful in the establishment of sound breeding programs.

Culling practices on beginning farms were often unconventional. Older, less expensive animals were purchased by farm entrants to provide immediate production results and cash flow. Animals that would normally be culled by other farmers were kept in herds managed by beginning farmers in order to maintain production. In some case, short-term benefits of these methods were eventually outweighed by the costs of health and breeding problems described above.

Mistakes in matching herd size to land and feed available, the size of debt commitment and housing space available for youngstock were costly.

Some beginning farmers experimented with three-times-a-day milking. In some cases, however, these efforts ran into unforeseen labor shortage difficulties and were short-lived.

2. Crop management

While crop management rated behind herd improvement strategies as a farm entry priority, poor cropping strategies can prove fatal for some new farm businesses. Information gathered from case studies point to a number of crop issues for beginning farmers to consider.

When buying or renting a farm, the quality of soils is not the only determinant of farm land quality. Factors to consider before capital acquisition decisions are made include:

i) Are growing crops included in the farm transfer?

ii) Were growing crops sprayed for weeds and insects by the previous operator?

iii) How much fertilizer was applied to crop acres in the previous year?

iv) Were previous liming and other soil improvement practices adequate to maintain soil quality?

Some case-study farmers found unsatisfactory answers to such questions at the end of their first crop year on new farms and suffered the consequences in terms of unplanned feed purchases and lost production.

The tradeoffs between buying and raising roughage and feedgrains can be important considerations in making early farming decisions. Case-study farmers reached different conclusions on this matter, and sometimes disagreed with the recommendations of their lenders. A good choice between raising or purchasing feed turned on such factors as the necessary (or feasible) level of investment in machinery, the balance between herd size and tillable acres owned and rented, and the price and availability of feedstuffs in particular regions of the state.

Hiring custom planting and harvesting services proved to be a cost-saving technique for beginning farmers interested in spending their limited time and capital on herd improvement rather than on expensive equipment. Most case-study farmers felt a reliable manure spreader and a good set of haying implements were minimum requirements for a starting dairy operation with cropland. Beyond such a basic investment, machinery purchase decisions were made very carefully.

Timing and timeliness were very important determinants of success for beginning farmers. Farmers starting in poor crop years such as 1977 or 1980 found it very difficult to recover from the costs, lost production, and

increased debt commitments that resulted from such unlucky timing. The time of year in which a farm start is made can also strongly influence the outcome of the farm entry process. Lenders point out that farmers with a good crop year behind them stand a better chance of establishing a strong cash flow position than those who must spend heavily on feed to make it through the first winter. The advantages of starting in the spring could have improved the results of getting started for a number of case-study farm entrants.

Timeliness in the first years of farming was an important factor of success. Timeliness and punctuality were especially important for machinery sharing arrangements used by beginning farmers. New entrants sometimes learned the hard way how important timely planting, timely weed control practices and timely crop harvesting were to successful operations.

Finally, judgements on feed storage were important in setting up strategies for the first few years of farming. Many farms listed for sale or rent had no feed storage facilities, and the costs of doing without or adding facilities are high. Farmers who made large investments in storage structures to improve on existing facilities or to increase milk production often ran into cash flow difficulties. Their production often dropped while feeding programs were adjusted to new storage systems.

3. Financial management

To many, farm management includes only those decisions that directly affect the technical aspects of agricultural production. In reality, such decisions are inextricably linked to the factors and decisions that affect the financial direction of a farm business. Good production management shows up in financial measures of business performance, and good credit and investment management allow improvements to be made in production performance. Several case-study farmers lamented their lack of financial management expertise, and two cited previous banking experience as valuable to their farm establishment efforts. Some lessons, some trade offs, and some factors affecting the financial performance of beginning farms are reviewed below.

Once financing for the acquisition and operation of a farm has been obtained, plans for the use and repayment of borrowed capital must be implemented. No optimum repayment plan emerged from discussing financial management experiences with case-study farmers, but their observations of important considerations in repaying debts provide useful guidelines for other beginning farmers.

Terms of repayment are not the only determinants of a farmer's ability to repay a loan. The effectiveness of any set of repayment rules in facilitating a farm start depends on the farm's productivity. Repayment requirements should be matched to repayment abilities.

Cash flow management is important not only in making payments on time, but in protecting and improving the equity position of a new farm business. For example, some repayment terms call for a fixed percentage to be assigned

from monthly milk checks for principal and interest repayment. Such plans are designed to tie debt repayment to seasonal or other changes in monthly milk income, and to insure that meeting debt obligations rates a high priority when the farm's monthly bills are paid. Some farmers agreed that this kind of arrangement was beneficial in slow production months. Setting this assignment at an appropriate level, however, is important to the financial health of a farm business. A debt and principal payment of 35 percent of the monthly milk receipts made payment of other bills extremely difficult for one case-study farmer. Striking a balance between debt repayment obligations and meeting other costs of operations should be a joint borrower-creditor enterprise. A cash flow budget of expected receipts and expenses could be useful in arriving at an appropriate debt repayment plan.

In some cases, only interest payments are required for the first three to seven years of beginning farm loans. Such loans are then amortized over varying periods. Balloon payment schedules were followed by two case-study entrants. In these situations early repayment requirements were low, with a large final payment (balloon) to be made when the loan was due. Both schemes were designed to lessen debt repayment pressures on farmers in the years when they were "getting their feet on the ground." Cash flow considerations were especially important to farmers who paid back borrowed funds in this manner. One loan was set up to have interest only paid for five years. Interest payments were due in a lump sum at the end of each year. Feed costs competed with this year-end obligation, and the borrower found it difficult to cover these costs from yearly farm income. The farmer, therefore, borrowed short-term money to pay long-term interest, damaging his equity position and defeating the purpose of the interest only repayment plan. Better cash flow planning might have led to adjustments in the timing or amount of annual interest repayments that could have prevented equity losses.

An important trade-off was illustrated in the experiences of the two farmers who followed balloon repayment plans. One farm entrant found that the scheme worked well--he got through some difficult early years without having to carry a heavy debt repayment burden. Another operator, however, felt that his repayment terms were more costly than those of a more conventional financing arrangement. He appreciated the lower payments in early years, but he disliked the need to refinance the final lump sum over another period of years. Assuming that higher monthly payments could have been met early on, a more conservative approach could have allowed faster loan repayment and stronger growth in equity as well as lower total outlays for principal and interest.

The importance of finding a balance between short-, intermediate-, and long-term debt commitments was illustrated by case-study evidence. Two family partnership examples demonstrated cash flow problems and severe borrowing limitations imposed by an unbalanced debt structure. Difficulties stemming from imbalances in asset structure were also part of farm entry experiences. Heavy borrowing for new farm machinery without a balancing commitment to herd management and cost control proved to be a disastrous approach to getting started for one respondent. In another case, building values represented an overly large proportion of the total value of a purchased farm, leading to serious problems in generating enough income to repay debt obligations.

4. Further lessons on farm exit

Several, if not all, of the farmers interviewed for this study reached a point where the prospects for continued successful operations were in doubt. Below are some examples of the approaches taken by case-study farm entrants when faced with the dilemma of continuing or ending the farm entry process:

* One farm entrant, faced with major cash flow, herd health, crop loss, and debt repayment problems in his first year, vowed that his creditors would have to drag him off his farm before he would give up.

* After a bad crop year which led to the forced sale of his herd, another beginning farmer attempted to continue on his 200-acre farm by boarding heifers on contract. His chances of turning the business around without an adequate source of farm income proved to be nonexistent.

* One participant in the project lost all of his beginning equity and his reputation through farm bankruptcy. He now acknowledges that he made a major mistake in hanging on to a lost cause until his credit and equity were gone.

* Another beginning farmer, whose case was discussed in chapter 6, reevaluated his goals and the prospects for achieving them after three years of farming on rented land. Based on this assessment, he voluntarily sold out when cattle prices were high and took a job managing a registered dairy herd. By taking this approach, he enhanced his equity position, continued with work that he enjoyed, and protected his option to start again on his own at a later date.

* A fifth farmer found his production and financial position severely damaged after a year of disease losses and cash flow shortages. He assessed the situation, considered selling out, and decided that he could reverse the slide by purchasing more cows. This decision was reached jointly with the advice and assistance of the farmer's lender--whose best interest also lay in finding the most profitable alternative to a deteriorating business position.

Evidence collected from successful, struggling, and failed farm entrants points up the value of recognizing the day when losses should be cut and a new course taken. Decisions to sell off assets, reorganize farm debt, change the structure of a farm business, or pursue a more promising career can be made before forced farm sales or foreclosures become realities. On the other hand, the "drag me off the farm" approach usually hastens the coming of auction day. In all of the above cases, a realistic and thorough reevaluation of beginning farm business performance was preferable to a continued financial slide backward. Allowing the erosion of beginning equity and living with worsening cash flow crises is not compatible with the ultimate

goals of establishing a farm business. In some cases, an objective analysis of the prospects for continuing viable farm operations could have been substituted for pride in the farm entry process, with positive results. The assistance of lenders in carrying out such analyses periodically would help minimize losses for beginning farmers and credit institutions alike.

Chapter 8

Summary and Concluding Comments

A. The Farm Entry Process

Getting started in farming is a complicated, risky process. It begins with a decision to make farming one's career and a commitment to take on the financial risks of operating a farm business. The possible courses that the farm entry process might take are charted in figure 8.1. A variety of factors, described in chapter 7, influence the direction and final outcome of farm entry efforts. Figure 8.1 was developed using the experience of the case-study farmers interviewed for this project. It can be used as a framework for making or planning future farm entry decisions.

Two important decisions must be made before direct financial responsibility is assumed and the farm entry process begins. The first is the choice of farming as a career. This choice depends on an individual's background, goals, and attitudes. The decision to become a farmer should not be made without an understanding of the financial and personal commitments required. Farming is no longer (if it ever was) a profession for those who can do nothing else. The skills required to establish a successful dairy operation are considerable. Good advice should be sought and used in the career decision.

If farming is chosen as a career, a second decision as to the means of entry must be made. Various routes into dairying--renting, buying, partnership, farm employment, and part-time farming--were illustrated and discussed earlier. In addition, the selection of the particular farm assets with which a start is to be made needs careful evaluation. The factors shown in figure 8.1 and discussed in previous chapters need careful consideration. Five general methods of getting started were identified in this study. Nine more specific means of entry were also reviewed, and decision factors related to each were evaluated in terms of case-study examples. An awareness of these alternatives to farm entry, and of particular variations illustrated by the case-studies, is a much more useful approach to getting started than the assumption that all farm starts involve heavy debts and farm purchases.

In making the choice among alternative means of entry a number of capital acquisition factors should be considered. Asset quality, means of controlling farm assets, the balance between land, cattle, and equipment used to start farming, and the relationship between the cost and value of farm assets acquired are factors that can alter the course and the results of farm entry.

Management factors determine the outcome of the farm entry process. Dairy and crop management decisions had major effects on the fortunes of all those interviewed for the study. Specific approaches to breeding, herd health, and timeliness problems were reviewed in this report. They are illustrated in the collection of case study reports. Financial management strategies are at least as important as other facets of farm management in influencing the results of farm start efforts. Timing and outside factors such as the weather and the state of the economy affect the kinds of strategies needed to make a successful beginning in farming.

Four general outcomes to the farm entry process were observed:

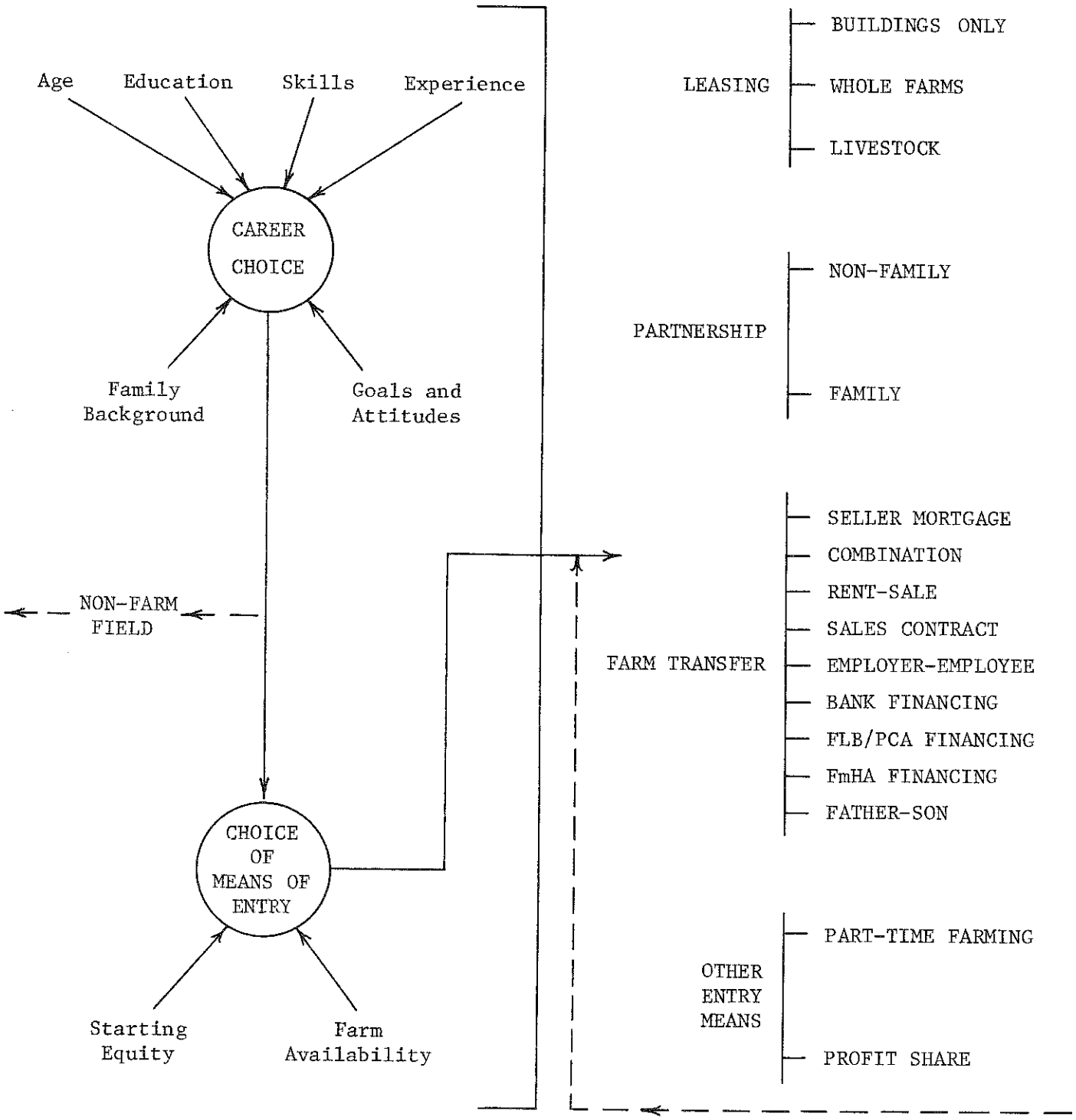
i) An established farm business represents successful completion of efforts to start farming. Those who counted their businesses as established characterized their farms in various ways. Planning credit use for farm improvements rather than needing credit to get through another year marked the point of establishment for some. Another beginning farmer felt he had established himself once he received backing for investment in major, costly farm improvements. "If I had to, I could meet all my needs without borrowing," was another way of depicting an established farm situation.

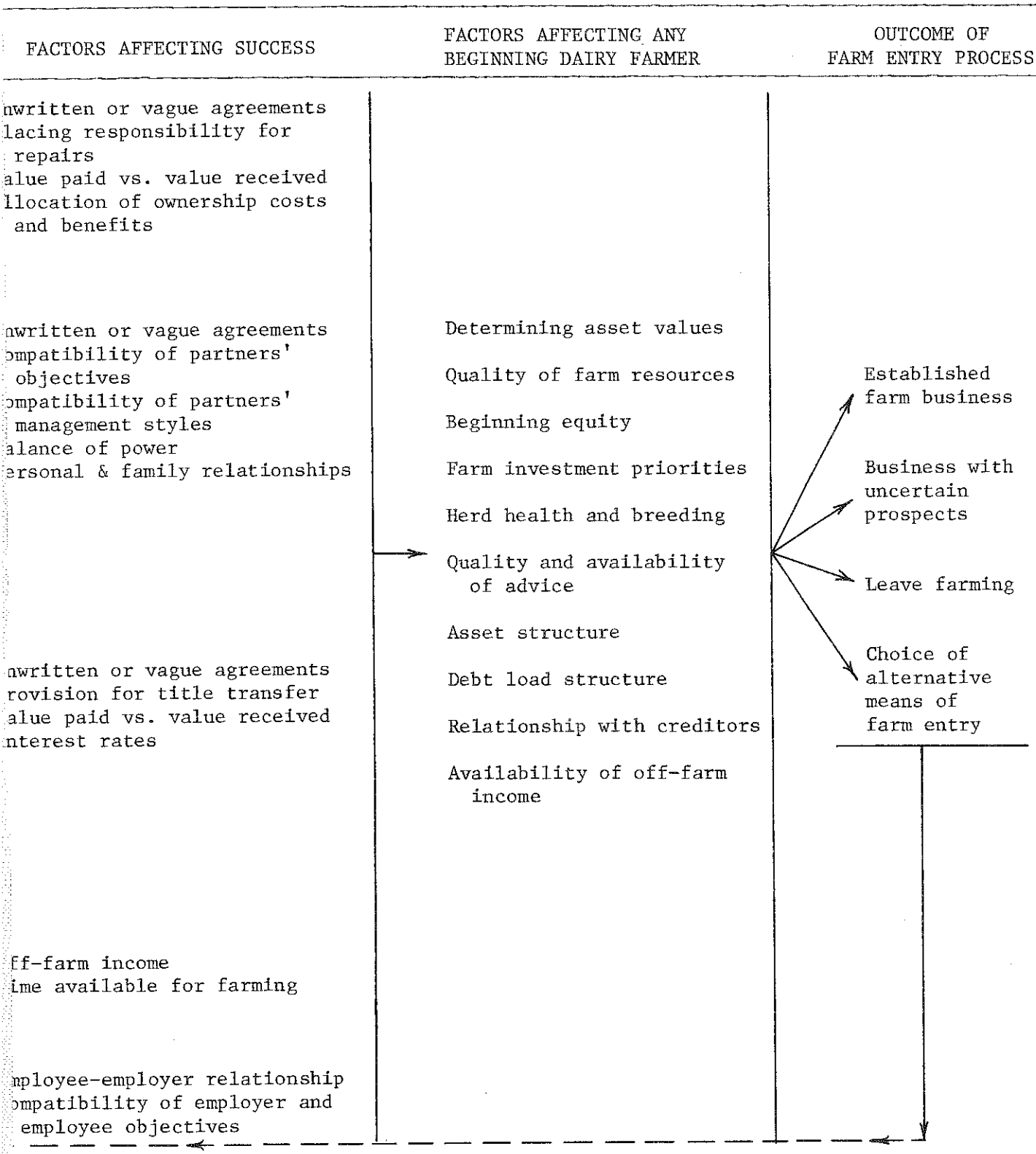
ii) For many case-study entrants the verdict on attempts to get started was not yet in. These were farms facing uncertain prospects. Operators of these businesses viewed establishment as having to do with reaching higher production levels, realizing anticipated returns to investments in growth and improvements, or weathering difficult economic conditions.

iii) Several farm entrants reached the end of a farm rental or partnership arrangement and continued the farm entry process by following a new approach to getting started. Beginning farm experience earned via one means of entry was often wisely invested in making improved decisions the second (or third) time around. Even bankruptcy did not end the farm entry efforts of one case-study operator. Saving enough equity, or rebuilding that equity in nonfarm pursuits, to turn a bad experience into a successful farm start was an important characteristic of some lengthy but ultimately rewarding attempts to get started.

iv) Unfortunately, financial failure and farm exit are sometimes part of the farm entry process. In some cases, more careful consideration of factors involved in getting started could or should have led to a decision not to start at all. Farming with poor resources, or with little experience and ability sometimes left farm entrants much worse off than when they started. In other situations, farm entrants started with little, finished with less than that, and financial institutions carried the losses. In either case, early farm failures were very costly in both financial and human terms. Such costs could usually have been avoided through more informed capital acquisition and farm management decisions on the part of beginning farmers and their creditors.

Figure 8.1. The Farm Entry Process




FACTORS AFFECTING SUCCESS
FACTORS AFFECTING ANY BEGINNING DAIRY FARMER
OUTCOME OF FARM ENTRY PROCESS
nwritten or vague agreements
lacing responsibility for repairs
alue paid vs. value received
llocation of ownership costs and benefits
nwritten or vague agreements
ompatibility of partners' objectives
ompatibility of partners' management styles
alance of power
ersonal & family relationships
nwritten or vague agreements
rovision for title transfer
alue paid vs. value received
nterest rates
ff-farm income
ime available for farming
mployee-employer relationship
ompatibility of employer and employee objectives
Determining asset values
Quality of farm resources
Beginning equity
Farm investment priorities
Herd health and breeding
Quality and availability of advice
Asset structure
Debt load structure
Relationship with creditors
Availability of off-farm income
Established farm business
Business with uncertain prospects
Leave farming
Choice of alternative means of farm entry

B. Final Lessons

Recognition of alternatives available for solving farm entry problems often helped case-study farmers around seemingly intractable barriers to farm entry. Patience, time to improve one's financial position, experience, and managerial ability, and efforts to establish strong business relationships can be substituted for limited starting equity with positive results.

An appreciation of the value of planning and evaluating alternative courses of action is earned with farm entry experience. Someone who turns down available credit for farm purchase based on his own informed assessment of repayment capacity has done some valuable homework. Carrying this approach through and applying it to other kinds of farm entry challenges could result in successful farm establishment.

The resiliency of many case-study farmers in the face of hardship was noteworthy. Resourcefulness in adjusting to and recovering from farm entry setbacks was a valuable asset that contributed to the eventual establishment of successful farm businesses.

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