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8-28-2019

Ag Lenders Panel Provides Insight into Beef Systems Initiative

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Parsons, Jay; Redfearn, D. D.; and Drewnoski, M. E., "Ag Lenders Panel Provides Insight into Beef Systems Initiative" (2019).
Cornhusker Economics. 1013.

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Cornhusker Economics

Ag Lenders Panel Provides Insight into Beef Systems Initiative

| Market Report | Year Ago | 4 Wks Ago | 8-23-19 |
|--|----------|-----------|---------|
| Livestock and Products, | | | |
| Weekly Average | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight. | * | 112.40 | * |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. | 176.47 | 173.66 | 162.40 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. | 163.87 | 151.70 | 152.91 |
| Choice Boxed Beef, 600-750 lb. Carcass. | 213.86 | 213.11 | 239.87 |
| Western Corn Belt Base Hog Price Carcass, Negotiated | 36.85 | * | * |
| Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. | 64.40 | 76.40 | 79.44 |
| Slaughter Lambs, woolled and shorn, 135-165 lb. National. | 141.26 | 160.86 | 153.60 |
| National Carcass Lamb Cutout FOB. | 383.67 | 405.55 | 387.84 |
| Crops, | | | |
| Daily Spot Prices | | | |
| Wheat, No. 1, H.W. Imperial, bu. | 4.59 | 3.89 | 3.42 |
| Corn, No. 2, Yellow Columbus, bu. | 3.26 | 4.23 | 3.67 |
| Soybeans, No. 1, Yellow Columbus, bu. | 7.34 | 8.02 | 7.66 |
| Grain Sorghum, No.2, Yellow Dorchester, cwt. | 5.12 | 6.46 | 5.48 |
| Oats, No. 2, Heavy Minneapolis, Mn, bu. | 2.82 | 3.06 | 3.02 |
| Feed | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. | * | 172.75 | * |
| Alfalfa, Large Rounds, Good Platte Valley, ton. | 102.50 | 125.00 | 110.00 |
| Grass Hay, Large Rounds, Good Nebraska, ton. | 105.00 | 100.00 | 105.00 |
| Dried Distillers Grains, 10% Moisture Nebraska Average. | 139.00 | 149.50 | 131.50 |
| Wet Distillers Grains, 65-70% Moisture Nebraska Average. | 41.49 | 43.25 | 44.00 |
| * No Market | | | |

In 2017, the University of Nebraska-Lincoln Institute of Agricultural and Natural Resources (IANR) and Nebraska Extension made a commitment to implement a multidisciplinary Beef Systems Initiative (BSI). The BSI is administered by the Center for Grassland Studies and is comprised of six projects designed to develop and support the implementation of beef production systems that optimize feed resource use, natural resource conservation, and producer success in Nebraska through improved management of perennial grasslands and systems of integrated crop-beef cattle production. In addition to the BSI, a parallel project funded by the Foundation for Food and Agriculture Research (FFAR) is studying the best practices for incorporating beef cattle into cropping systems while improving ecosystem services to ensure sustainability. Both of these efforts include components focused on producer and community outreach through Nebraska Extension. To this end, an agricultural lenders panel and five geographically identified producer panels have been formed to provide input and feedback on the project results as they become available. Recently, the lenders panel met for the first time to provide their perspectives about the important information that should be communicated to producers who are considering developing an integrated beef enterprise.

The lender panel consists of eight agricultural lenders associated with banks located throughout Nebraska. The lenders were asked ahead of time to consider two different scenarios: (1) the possibility of a producer looking to add a new enterprise to their operation and (2) the possibility of a producer looking to expand their operation to accommodate the next generation returning to the farm or ranch. They were then asked to consider the question, “What are the key pieces a lender would like to see from a producer seeking financing that would support one or both of these sce-

narios, especially in the case where the new enterprise is something in which the producer has very little or no experience?”

The lenders provided many insightful comments, but three key themes came up consistently during the discussion.

1. Cash flow sensitivity analysis

All of the lenders emphasized the importance of completing a thorough cash flow analysis. Producers need to understand a one-year snapshot of expectations is not enough. A three-year cash flow projection would be ideal to provide to a lender when seeking a loan for a new enterprise or an enterprise expansion. Producers should also consider what will happen in a bad year. A sensitivity analysis that includes a worst-case scenario is extremely important information to have available to share with their lender. Multiple lenders described a need for validation of the cash flow. In particular, it is important to make sure all expenses are included and, in the case of a new enterprise, provide information about the origin of the numbers. If the farm is expanding to support more families, it is especially important to validate that family living expenses are being fully accounted for in the projections.

2. Cattle industry learning curve

Several lenders expressed concerns about the cattle industry learning curve for producers looking to add a cattle enterprise to their operation. One lender described looking for evidence that the producer has a commitment to the cattle industry with a good network of people to work with including a nutritionist and relationships with feedlot operators. Others described producers new to the cattle industry not understanding the scale needed to make it work from an income standpoint. For example, do they understand how many cows it will take to feed a family? Do they have enough capital and access to enough pasture to make it work? Do potential new cattle producers understand the commitment and effort needed to make a cow herd a success?

3. Beginning farmer barriers

All of the lenders acknowledged that significant barriers impede the flow of new and beginning farmers and ranchers getting started in the business. Farm Service Agency (FSA) programs and various other beginning farmer programs accessible through banks can help, but there are still major issues of concern. Land costs place a tremendous burden on cash flow commitments. At present, there is little chance for the younger generation to start without

investor help or significant off-farm income. One lender mentioned that interest from the next generation in beginning a new enterprise has declined over the last six years. Another lender described how some older producers in their area are actively seeking someone from the next generation who is interested in taking over the farm someday.

One other item came up that seemed to have consensus among the lenders, the need for Standard Performance Analysis (SPA) type of data. SPA data allows cattle producers to compare their operation with other producers in the industry. Among the primary things mentioned during this discussion was the importance of understanding cost of production and costs per cow.

Future plans are to continue online meetings with the lender panel over the next two years and an in-person meeting after that when more research results are available. One of the primary purposes of the in-person meeting will be to elicit input from the lenders on the best approach to synthesizing the research results into effective educational programming for producers and other agribusiness audiences. In the meantime, our conversations with the lenders will continue to explore ways to collaborate on communicating with producers.

Research reported in this publication was supported by the Foundation for Food and Agriculture Research under award number 534675 and the Beef Systems Initiative at the Institute of Agricultural and Natural Resources, University of Nebraska-Lincoln

The content of this publication is solely the responsibility of the authors and does not necessarily represent the official views of the Foundation for Food and Agriculture Research.

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