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Shane Ellis

Iowa State University, shanee@iastate.edu

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Fall 2013 considerations for beginning farmers

by Shane Ellis, extension field specialist, shanee@iastate.edu, 712-792-2364

The opportunities and challenges for beginning farmers have never been so pronounced. Extremes in interest rates, commodity price volatility, land values and rental rates are all converging to both encourage and prevent the entrance of new beginning farmers into production agriculture.

At the time this article was penned, a lack of appropriated funds has stalled the availability of several popular beginning farmer loans supported through the Farm Service Agency of the USDA. Earlier in the year the sequester had put a hold on funds destined for beginning farmer programs, which left some loans approved but unfulfilled and on hold. Eventually, the discord that is disrupting funding will be resolved and these loan programs will once again be a functioning asset to help start-up producers. Recently, the most popular of the beginning farmer loans is referred to as the “5-45-50” loan. In short, it is a 20-year term land purchasing loan requiring a 5 percent down payment from the producer. The FSA and a private lending institution provide 45 and 50 percent of the purchasing funds, respectively. The interest on a “5-45-50” loan is well below that of a conventional loan and could be as low as 1.5 percent. In summary, this is an excellent loan that many private lenders incorporate into their beginning farmer leading packages. For those considering this loan, you can still start the process through a private lender but the funds may not be available until sometime next year.

For a producer still establishing a financial foundation, access to inexpensive outside funding sources is important. Conditions are still favorable for ag borrowers, despite the absence of federal funds. Near record low interest rates still provide a key opportunity. Land purchase rates remain very low and will probably remain low through the end of the year. Data from the Federal Reserve Bank in Chicago suggests that fund availability remains especially high (since 2011) while loan demand is still quite low. The Federal Reserve Bank in Chicago publishes an index for both ag

loan demand and fund availability and the spread between the two continues to be one of the widest in recent decades.

The cost of land will continue to be a hindrance for those needing to acquire additional land base to operate. Land values have continued to increase through the first part of this year, but a softer commodity market for the 2013 crop will help remove some of the pressure that has been driving land values higher. While a significant correction in land values is not anticipated anytime soon, the increasing value of land is slowing to what will likely be a holding pattern for several years. From the most recent Federal Reserve land value survey, land values in Iowa were steady in the second quarter of 2013, after an 18 percent increase from July 2012 to April 2013. If a beginning farmer is willing to be patient, land may be more affordable in the coming years. The downside will be little to no chance of having access to such low interest rates still being available when land values start to decline. The percentage of Iowa farmland owned by individuals under age 35 is at 4 percent, its highest level since the mid-1990s.

Farmland rental rates are expected to start to moderate in 2014, or at least remain close to steady on the average. This will help all producers and hopefully allow beginning farmers to better compete. The Beginning Farmer Tax Credit, a tax credit for landowners that rent to beginning farmers, continues to add some incentive and advantage to renting to a new producer. A certificate of approval is needed to claim this credit and can be applied for through the Iowa Agricultural Development Authority.

Beginning farmers are now faced with making their plans with more variability than ever before. For those in this class of producers, take advantage of the opportunities, but avoid over extending in case things get tight. Money is inexpensive to borrow but is not unlimited and still has to be repaid.

Research Briefs from the ISU Department of Economics

Prices and family interactions influence eating behaviors

Expanding waistlines and rising obesity rates have led to numerous ideas for policies, such as taxes on junk food or vouchers for fruits and vegetables, aimed at getting people to eat a more healthful diet. To better understand what influences food choices, a group of Iowa State University researchers, including Helen Jensen and Alexander Zhylyevskyy from the Department of Economics, looked at how prices, parents and peers affect fruit and vegetable consumption among African-American youths.

Read the full ISU News Service article by Angie Hunt at: <http://www.news.iastate.edu/news/2013/10/30/produceeconomics>.

University's highest honors given to Kling and Eathington

Faculty and staff recipients of the university's most distinguished awards were honored Wednesday, Oct. 2, in the Memorial Union Sun Room.

Professor Catherine Kling was honored with the Charles F. Curtiss Distinguished Professor in Agriculture and Life Sciences award. Kling is credited with developing methods to evaluate how we value environmental amenities and how such information can be used to assess willingness to pay for environment improvements. Her work has had a huge impact on the area of environment sustainability, from how to clean lakes and rivers threatened by runoff to limiting hypoxia in the Gulf of Mexico, and helps shape national policy at the highest levels.

Assistant Scientist Liesl Eathington was honored with the Regents Awards for Staff Excellence, which recognizes staff who are outstanding university citizens and who have rendered significant service to the university or the state of Iowa. Eathington's work as director of the Iowa Community Indicators Program and liaison with the State Data Center of Iowa has earned her respect and a reputation as a source of highly reliable socioeconomic data. A nominator wrote: "Ms. Eathington is arguably Iowa State's pre-eminent expert on sources of

socioeconomic data, and because of this, she is an indispensable resource person for clients on and off campus."

Babcock honored as 2013 AAEA Fellow

Bruce Babcock, professor of economics and director of the Biobased Industry Center, joins the 2013 Class of the Agricultural & Applied Economics Association (AAEA) Fellows.

The Fellow Award is the highest honor bestowed by the AAEA. Individuals receiving this honor are recognized for their continuous contribution to the advancement of agricultural and applied economics. Their achievements may be in research, teaching, extension, business or public service. The 2013 Fellows were recognized at the 2013 AAEA Annual Meeting in Washington, D.C., Aug. 4-6.

Dermot Hayes, Center for Agricultural and Rural Development (CARD) researcher and professor of economics, nominated Babcock for the award. "Bruce Babcock has made substantial and continuous contributions to the advancement of agricultural economics through his research discoveries in several distinct areas, through dedicated service to the profession and to policy analysis, and through demonstration that outstanding scholarly contributions can be motivated by active engagement with industry, policymakers and other academics," Hayes said in his nomination letter.

Babcock's research areas have varied historically, but his most recent work has examined the economic impacts of biofuel industry expansion and biofuel policies, which has garnered him national attention. He is now the sixth Iowa State Department of Economics faculty member and CARD researcher to be honored as an AAEA Fellow—others include Helen Jensen (2012), David Hennessy (2010), Dermot Hayes (2007), Catherine Kling (2006), and GianCarlo Moschini (2003).

Swenson offers editorial on the costs of job creation

Dave Swenson, associate scientist with the Department of Economics, wrote a guest op-ed for the Cedar Rapids Gazette on the high cost per job

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of economic development in Iowa. Read more at thegazette.com/2013/07/27/jobs-at-all-cost-wont-pay-off/.

Department faculty and students featured in Stories Magazine

Mike Duffy, Keri Jacobs, John Lawrence, and ag business student Scott Thellman are all featured in the spring 2013 edition of Stories Magazine, a publication of the College of Agriculture & Life Sciences. Download the PDF at stories.cals.iastate.edu/archives/2013spring/Stories_2013Spring.pdf.

Retail specialist Prescott part of new effort to revitalize rural downtowns

This fall, approximately 75 students in the colleges of human sciences and design will help rural businesses with makeovers and consultations as part of the Iowa Retail Initiative. Ron Prescott, program coordinator in Community and Economic Development Extension and Outreach, is forming a grassroots committee of retailers and trade centers as part of the Iowa Retail Initiative. He's working to assess their needs so that Iowa State can develop effective services, ranging from storefront renovation to social media coaching. Read a recent article about the initiative at www.hs.iastate.edu/2013/07/08/iowaretail/.

William Edwards retires

Department of Economics faculty, staff and students attended a retirement reception in honor of Dr. William Edwards on Thursday, June 27. Edwards served the department for 39 years as an ag extension and outreach economist. Learn more about Edward's career and retirement plans through a profile published in the spring 2013 edition of Alumni Update, www.econ.iastate.edu/sites/default/files/edwards_retirement_story.pdf.

Kling named director of the Center for Agricultural and Rural Development

Catherine Kling has been named the new director of Iowa State University's Center for Agricultural and Rural Development (CARD).

Kling, a Charles F. Curtiss Distinguished Professor of Agriculture and Life Sciences and a professor of

economics, has served as interim director of the center for almost two years. She has served as head of CARD's Environmental and Resource Policy Division since 1999.

For 55 years, CARD has provided in-depth analysis of agricultural policy issues using modern economic models and tools. CARD conducts innovative public policy and economic research on agricultural, environmental and food issues designed to inform and benefit society. CARD researchers develop and apply economic theory, quantitative methods, and interdisciplinary approaches to create relevant knowledge. Communication efforts target state and federal policymakers; the research community; agricultural, food and environmental groups; individual decision makers; and international audiences.

"It's terrific to be stepping into this job with such a rich history," Kling said. "Each director has brought distinct skills and interests that were relevant for the agricultural policy issues of the day. Each left CARD with a stronger academic reputation and credibility in policy analysis."

With new challenges to agricultural policy arising as products such as biofuels become more intertwined with other economic sectors, Kling sees an opportunity to expand the reach of CARD. "The demand for interdisciplinary analysis to help solve problems continues to grow, and reaching across disciplines takes effort," she said. "I can see CARD becoming a catalyst for such work."

For more, visit www.econ.iastate.edu/about-department/announce/news/27-2013-kling-named-director-center-agricultural-and-rural-developmen.

Link Magazine (LAS) features Miranowski, Weninger and Singh

Link Magazine, a bi-annual publication of the College of Liberal Arts and Sciences at Iowa State University, focuses on the topic of sustainability in its spring 2013 edition. It features three Department of Economics faculty including John Miranowski, Quinn Weninger and Rajesh Singh. View the latest edition of Link at <http://www.las.iastate.edu/alumni-friends/link-alumni-magazine/>.

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2013 Alumni Update now available

The spring 2013 Alumni Update, an annual publication of the Iowa State Department of Economics, is now available both online and in hard copy. It features news and information about alumni, faculty and staff in the department. This year's edition places special emphasis on undergraduates from the department who represent some of the university's best and brightest. Diverse departmental research and a special focus on one of our graduate disciplines are also featured.

Alumni Update can be viewed online at <http://www2.econ.iastate.edu/newsletter/spring-2013/newsletter.pdf>. Hard copies are available upon request by emailing ksenty@iastate.edu. Feedback and comments are always welcome.

Updates, continued from page 1

Internet Updates

The following information files and decision tools have been updated on www.extension.iastate.edu/agdm.

Complete Financial Statements – C3-20-25-55 (Decision Tool)

Financial Performance Measures – C3-55 (Decision Tool)

Iowa Beginning Farmer Tax Credits and Loan Program – C4-30 (2 pages)

Overview of Letters of Intent – C5-85 (2 pages)

Sample of Letter of Intent – C5-86 (6 pages)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

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Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.

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