Save Pennies, Lose Dollars

Tim Tightfist has been getting poor crops from one 60-acre field all his life. The field is wet, but it could be drained quite easily. Tim has been reluctant to borrow $1,500 of intermediate credit to install drains. Yet, he has lost about half that amount each year because he raises such poor crops on the field. Tim could pay off the loan in 2 or 3 years just out of bigger crops if he installed drains. The higher yields would mean lower costs on each unit of crop he sold. And he would have more to sell. Tightfist is losing money by staying out of debt.

Pick the Right Credit, Repay from Earnings

Frank Foresight and Tim Tightfist can get all the intermediate credit (1 to 5 year loans) and long-term credit (5 to 40 year loans) they need for good farming. They have no problem getting intermediate-term loans to buy livestock, to make major repairs on buildings, or to start a system of conservation farming. But Frank did have difficulty during the war. He had to pay off a loan used to put in tile drains in one year. This was unfair, because in one year the drains had very little chance to increase Frank's earnings through better crops on that land. Where credit is not available, farmers are forced to delay needed improvements too long. This postpones the time when that farm can produce as much as it should. The only choice for these farmers is to use the money needed for seasonal operating expenses for capital investments, an expensive use of money.

Frank found out it is too expensive to use operating capital (savings or loans) for intermediate or long-term capital investments. He pays 5% to 7% interest on loans for seasonal operating expenses. Intermediate and long-term credit cost 4% to 6%. Frank now uses the more expensive operating credit only for his seasonal expenses. Where he offers security for his loan and plans to repay it over a year or more, Frank has lower interest rates.

Make Your Savings Work

Farmers plan to use their income to pay bills and have some left for the future. Sam Shortcash found it doesn't always work this way. He had none left for the future. Those with savings should plan to put that money to work for them. One way to have savings work is to buy some nonfarm investment such as corporation shares or bonds, or put the money in a savings account. Frank Foresight has a better way. He uses his savings to expand and improve his farm. Money invested in good land, in land improvements, in good live-

stock, or in labor-saving machinery can be expected to earn good returns. These investments make the farm more productive and cheaper to operate.

Let Credit Work for You

Credit—Borrowed Money

- Use as much credit as will pay for the loan.
- Don't save pennies on costs, if you lose dollars on income.
- Use the kind of credit suited to your needs.
- Reasonable repayment plan.
- Interest rates in line with the job to be done.
- Use budgeted credit.
- As much credit as is really needed.
- For the time periods when actually used.

Your Own Money

- Use your savings where they will earn the most.
- To make your farm produce more or better.
- To earn good interest on nonfarm investments.

Being out of debt may be an expensive luxury for you.
Let Credit Work for You

SAM SHORTCASH smiled as he fingered the limp billfold in his pocket. He knew it had no money in it. Neither did his bank account. But he didn't care.

He had no bills to pay. He had paid cash for seed, fertilizer, feed, spraying, gas and oil, and repairs. He had saved a little money by paying his taxes in full and getting the discount. Sam recalled the depression when his father had almost lost his livestock because he had borrowed too much when prices were high in 1929.

Next week he would have cattle ready for market. Next month his seed would be cleaned and ready to sell. Sam smiled with a sense of security and well-being. Neither a drop in farm prices nor a bad crop year could hurt him very much. He felt proud of his skill in farm management.

Sam had used various means to save money through the year. Last spring when he applied fertilizer to his ryegrass seed crop, he decided 100 pounds of nitrogen to the acre would cost too much. He cut the recommended amount in half. This way he "saved" $8 per acre.

The High Cost of Scrimping

Sam's neighbor, Tim Tightfist, has good dairy cows. They give him 7,000 pounds of milk with 320 pounds of butterfat a year. They do this on feed grown only on the Tightfist farm.

Tim figures feed for each cow costs him $195 a year. He had no bills to pay. He had paid cash for seed, fertilizer, feed, spraying, gas and oil, and repairs. He has saved a little money by paying his taxes in full and getting the discount. Sam recalled the depression when his father had almost lost his livestock because he had borrowed too much when prices were high in 1929.

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Sam and Tim know that their land and livestock should produce up to capacity to repay all expenses and to make highest incomes. But to them full production means spending more on each acre and animal. They forget increased production results in lower costs on each bushel of grain, each ton of hay or beans, each hundred pounds of milk or meat, or each dozen eggs.

The added production means greater returns. Tim is beginning to suspect that it doesn't pay to scrimp if production decreases. Sam would be wise to use credit to increase his production and lower his costs.

Budgeted Credit

Frank Foresight, who lives down the road, takes a different attitude toward farm financing. For him February is "See Your Banker" month. By that time he has last year's records completed. He uses them in sizing up his cash needs for the coming season.

Frank considers the feed, fertilizer, groceries, and supplies he will need. It will take $6,000 to see him through until fall. He takes his farm records to his banker or the local Production Credit Association. Others not so well financed turn to the Farmers Home Administration.

Frank has $2,000 saved from last year, so he applies for a loan of $4,000. Since he won't need all of the money right away, he arranges to draw only what he needs from time to time during the season. This is called "budgeted credit."

Frank pays interest on only the amount actually borrowed for the time it is used. He may find he uses only $3,500. He won't pay interest on the $500 he did not draw. If he uses the full $3,500 only three months, he pays a low interest charge.

Frank places more importance on having the money available to work for him than on the saving and convenience. He can buy the things he really needs to make his farm produce to present capacity.

Credit for Capital Investments

Long-Life, Long-Repayment Plan

Sound financing of the capital investments of a farm is an important business matter. Frank Foresight figures these investments should be paid for during their useful life. Machinery, equipment, vehicles, livestock, and some farm structures have a useful life of 3 to 10 years. When Frank is short of cash he pays for these items with intermediate term credit (loans for 1 to 5 years). Thus, he is not forced to pay off the loan faster than the investment helps increase his earnings.

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stock, or in labor-saving machinery can be expected to earn good returns. These investments make the farm more productive and cheaper to operate.

Farmers who already are well-financed, who have a good farm, and who are operating efficiently have less chance to put their money to work on the farm. It is better for them to make nonfarm investments, or buy another complete farm unit.

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This circular was prepared by C. V. Plath, Department of Agricultural Economics, assisted by J. K. Munford, Publications Office, Oregon State College.