

Setting the Table for Ag Credit Mediation

Why is this person at the table?
What power or limits does this person have?
What are they expecting?

The perspective of the secured lender.

The perspectives of the Lender

- Most mediations involve the lender as the lead person to work out a solution
- The lender usually has the most power as they almost always perfect their security interest in the property they have as collateral.
- The lender expects to be paid in full at some point. However some lenders know they have allowed certain borrowers to get in too much debt and are willing to make concessions if the losses can be ended for all parties.
- The lender usually wants to save face and embarrassment by avoiding foreclosure

Different lenders have various policies and restrictions as to how they can react to delinquencies. For instance the Farm Service Agency will use different rules than a commercial bank. Also commercial banks will often deviate from their established guidelines when the borrower has suffered from circumstances beyond their control.

FSA Farm Loan Program loans are subject government regulations on loan making and loan servicing. There are basically two kinds of FSA loans: a direct loan made by the government; and a guaranteed loan where bank makes the loan and services it, but FSA guarantees the loan so that the government pays for a percentage of the loss on the loan up to 95% in some cases. Borrowers have due process rights with respect to any adverse decision made by FSA on a loan (appeal and/or mediation) and very valuable rights to restructure FSA direct loans. Guaranteed loans may also be restructured in ways similar to direct loans.

Farm Credit Services have rules they follow which are fairly uniform across the regions they serve. FCS institutions are required to offer “Borrower Rights” whenever a loan becomes a “distressed” loan including restructuring and review of decisions made on loan application or restructuring. FCS institutions are required to participate in mediation involving a USDA Certified State Agricultural Mediation Program. FCS institutions and local rural banks are often at odds because FCS can offer more competitive interest rates.

A common “rule” the commercial lender must abide by is the issue of loan to asset ratio. For instance in the event of foreclosure the bank wants to make sure the borrower has enough cash to settle the debt to the bank and pay the deferred tax liabilities which will be due from the sale of those assets. This rule prevents a lender from allowing a borrower to become loaned up to the value of the collateral. When a borrower approaches the lenders limit there are usually conflicts regarding valuations of collateral or perhaps the ability for the borrower to make the anticipated payments when in the past they have shown the opposite to be more likely.

The perspective of the unsecured creditor.

By definition an unsecured creditor would be someone who has made a loan or given credit for a purchase without a lien against an asset to back up the credit given. Examples of unsecured creditors would be credit card companies, the fuel, seed, chemical or fertilizer suppliers etc. Most of these suppliers rely upon the good faith of their customer to secure a line of credit at a bank to pay them for the inputs supplied in a timely fashion.

Much of the time the unsecured supplier does not have a lien against the growing crop. So when the unsecured creditor comes to mediation he has almost written off the amount owed as bad debt and is hoping to realize some payment if a deal can be negotiated.

Another important consideration is when mediation produces an agreement where the suppliers will continue to provide credit for inputs after the bank has shut off the line of credit. Most lenders will subordinate their liens to another creditor to help the borrower stay in the business even though they were unable to provide additional credit.

Of course when it comes to credit cards no collateral is required, just a decent credit score and often that isn't necessary. We've seen credit card debts exceeding \$50,000. With no direct method to secure repayment by repossessing collateral the way a bank would, the credit card companies don't bother to show up at mediation. This industry charges such exorbitant interest rates they automatically budget a percentage of write offs each year. Most credit card companies will negotiate one on one with the customer and or their legal representative to buy out their debt for pennies on the dollar. All you have to do is say the word bankruptcy and they cave rapidly to almost any offer you place before them. Of course the borrower's credit score and history are adversely affected.

Increasingly local Coops and large seed companies will provide input financing especially when they have a first lien against the growing crop. Some cooperatives openly compete with local lenders for financing farm inputs with very lucrative interest rates. One might expect those so called "cheap" interest rates are partially subsidized by the profit margins in the products they are selling.

How Producers get to the point of Mediation?

Each year Kansas Farm Management members summarize their business activity for the year and each year there is always a percentage that loose money farming, even when the overall profitably trend is very good compared to historical trends. There are many reasons why some producers fail to be profitable.

- Business isn't growing to keep up with disposable income for family living
- Poor management
- Too much debt
- Below normal resources (there is no substitute for good land)
- Conflict between family members
- Some producers are simply in the wrong line of work
- Some enterprises undergo fundamental changes where certain producers can compete and others can not.

Farm Mediation Case Strategies:

Pre-mediation

Review the overview when you receive it to make sure you understand the potential agenda and info in the overview, and can find the location. Arrive 30 minutes early if possible to prevent pre-meeting problems.

Make sure the parties who are listed actually appear, or can be called if not.

Make small talk, do not allow negotiations to begin without you. (May be some side bar negotiations)

Seating random, selected, or assigned by teams? Want creditors vs. farmer team opposing?

Opening

Check to see who has been in mediation before, explain confidentiality, thank them for agreeing to discuss the issues and attempt to find a solution/settlement.

Inquire who will be speaking for each team; encourage participation by all at the table.

Explain caucus and clarify whether each person at the table has authority to make decisions.

Ask each player what they want to accomplish if the mediation is successful: clarify expectations and limits and reframe as usual to build the agenda. Summarize party statements and make a proposal for how to begin the mediation.* Get their consent to that process.

*It is normal to ask the farmer in financial mediation if he/his attorney/analyst wants to begin. In family or technical mediations, ask each member what issues they would like to add to the agenda.

Data Clarifying Stage

Ask for current figures on the loan balances and accounts, and current interest rates. (Sometimes a month or two has gone by since that information was gathered or a payment has been made, or an account has become delinquent)

Clarify whether the parties have exchanged new information such as proposed plans, cash flows, etc., particularly since the scheduling letter arrived. You may have to make copies of those if they are not provided.

Try to prevent premature negotiation or rejection of options in this stage. Try to reframe and soften early rejections by clarifying interests and goals, and what was missing in that proposal.

If there are data conflicts, ask if those will necessarily affect the outcome of the mediation or can be set aside to spend time talking about solutions in a larger sense? (Don't waste the whole time on data conflicts like prices, family living expenses, etc.)

Option-generation stage

Listen carefully for the key features of proposals made. (i.e. timing, volume of change, sequences, and types of changes proposed, etc.) within the detailed talk, so you can summarize those after each speaker. Help them cut to the chase. As usual, present the summary as a question..i.e., "it sounded like you are proposing _____ is that correct? Do you want a response now, or should we let that hang and look at other options first?" (this stage may require a puzzle to be put together of multiple, sequenced changes)

Use complex and future questions:

What could happen to change this picture? How large is the change required?

Would it further your goal to _____?

When you envisioned this working, what was the best feature for you?

What would it take to get expenses in line with your goal to _____?

What timing (of payments/contracts/contributions from others) would help make this work?

When do you need this to be finalized so you can catch the next (planting/marketing/harvest) cycle?

How would that proposal affect _____?

What triggers will make this work or fail?

So what is important is _____?

In what sequence do things need to occur?

Who could you think of that would have that information?

Ask technical experts about their ideas and vision of how it could work; i.e. "in your experience, what do you see as a possible solution to this situation?" , "in other cases like this, what have you seen work?" . Summarize verbally, linking them to earlier goals or ideas, and note options in enough detail to use later.

Allow the parties at the table to express their limits and restrictions. Encourage bouncing ideas off one another and using expertise to brainstorm. i.e. "if it is okay with Farmer _____, would you creditors be willing to work together for a minute or in caucus to come up with a potential plan?"

Pose questions based on what you hear... "so it sounds like the sticking point so far is _____. Is there a way to address that issue?"

If they are bogging down, suggest innovative solutions ; i.e. "so would it work to do _____, or is that too crazy or not within regulations? "

Prevent discounting and premature agreements as always

Keep reframing to keep the parties on track with their vision , i.e. "so your interest is mostly on collecting the principal on your fuel bill?"

Propose hypothetical situations i.e. "Would you be willing for a few minutes to kick around numbers? Suppose each of you creditors lowered interest and stretched payments. What numbers would it actually take to make this work?" or "Suppose for a few minutes you divided the current farm corporation into separate functions that cooperated or leased from one another. Who would do what?"

As always, point out areas of agreement and common interests.

Notes on relationships and power imbalances:

These mediations have power imbalances by structure. The presence of counsel protects the rights of the farmer, so the mediator does not have to balance power. The lenders do not have to agree, nor does the farmer, but usually each has an interest in doing so. Sometimes it becomes clear the lender does not trust the farmer and may tell you so in caucus ("bad farmer" history with other financial problems, suspicion of fraud, took/hid proceeds should have given to the bank or has hidden outside income, impairment, etc.)

Farm family mediations (brothers/ intergenerational/siblings) also have inherent power imbalances that are not changed by mediation. The mediator can casually observe out loud that it appears some people are more active in the discussion, and try to draw out the ones who have not spoken.

Important to remember farmers may not feel comfortable at all in this setting; you may have to directly address them to get any input or their viewpoint.

Option evaluation stage

Allow ample opportunity to call a caucus (but try to limit length to 15 minutes) so counsel and analyst can confer with clients as to legal options, or more worse-case scenarios they want to present like selling land, downsizing, etc. The farmer may be holding other options back until this stage.

Don't get in the way of direct negotiation between the parties. Most work gets done that way.

Keep clear notes as they are talking so you can summarize and agreements don't get lost. It can get complicated with multiple ideas being discussed. Use one-down/Columbo statements to clarify what they are proposing after they offer some details.

Loop them back to earlier discussions and ideas that might work with other changes agreed.

Agreement Stage

Use the KAMS forms, and let the parties dictate some of the language to you. Be very careful about choice of words between shall, may, will, and who is making the agreement (i.e. use the agency name vs. a person in case staff changes, "borrowers").

Clarify the agreement by writing it in time sequence. i.e. "1. By July 1, _____ agrees to _____. 2. Within _____ days, _____ will do _____."

Set specific deadlines and always ask how long is reasonable for them to get that info, run the numbers, check with management, etc. Expect delays for conferences, bank examiners, board meetings, planting and harvest, etc. Be aware deadlines too far out will make the agreement fail as it will be back-burnered and the lenders may have pressure to get it resolved as well as the farmer.

Clarify in writing when mediation ends. (more on that later)

Kansas Civil Farm Mediation

May or may not have a history together. May be no personal problems or value differences. At times real history unknown. Not all players on the farm team may agree on a good outcome. Roles of husband and wife may be unconventional. Look for intergenerational role shifting.

May occur very late in the financial problem history (i.e. payment overdue several months usually)

Usually no court involvement, participation voluntary for some and may be mandatory for others

Always multiple parties, scheduled by KAMS without mediator contact or knowledge of details.

Held at neutral locations around the state, so may or may not have ideal conditions for privacy and comfort.

Agenda always about a financial matter, mediation not about roles, and rarely psychological interests , more about procedural interests and fairness

Parties nearly always represented by counsel and also financial planner; have to determine who will speak for the team (may change during the mediation). Need to clarify with the farmer whether he agrees as go along.

Restricted by agency and business regulations and processes

Mediator translates through reframing

Mediator summarizes and creates movement through questions

Negotiation is both circular and linear, trust may or may not be changed during session

Mediator may not know the real agendas of the parties.

Nearly always a "summit"/single meeting format

Outcome is MOU which sets deadlines for further processes most times

Kansas Supreme Court Rule 903 applies

Multi Party Mediation Review

Open Forms

Multi-party negotiation (whole teams negotiating at once):

teams all sit at same table and all parties free to contribute
used to put forth proposals, make final agreements

Sidebar negotiations (with the spokes person for the teams only):

may occasionally occur in caucus with consent of the farmer/family member
eliminates need to talk down and dirty in front of the whole group

Adjunct negotiation (one or more parties consulted by phone during negotiation):

extra parties are consulted during the session (could have authority or some kind of power or information)

Private Forms

Horizontal negotiations (within a team) :

occurs when items are of personal concern
necessary so that team can function as a whole
need a group definition of the problem

Constituent negotiation (with those you represent at the table):

may limit the participant's authority to make agreement
some options may be rejected for "unknown" or illogical reasons
allow those at the table to contact those not at the table by phone during caucus if needed

Vertical negotiations (up and down a hierarchy):

necessary when approval from supervisors is needed
may involve intergenerational negotiation
hierarchy may depend on who has power, leverage, status, or \$

Vested-interest negotiations (negotiate with other side without knowledge of own team):

Indicates much person gain or loss at stake
creates confusion in negotiation
if uncovered, may blow up the mediation

The Role of the Farm Financial Analyst in Mediation

The principle role of the farm analyst is to work with the producer ahead of mediation and prepare alternative plans for the lenders to consider. Often the analyst will dissect the business and discover which enterprises are working but more importantly which are not profitable. During mediation a lender is usually not receptive to restructuring the debt unless fundamental changes are going to be made.

Farm analysts use a financial planning and analysis software program called FinPack™ designed to help producers understand their financial situation and make informed decisions. FinPack™ is not a record keeping system. It provides tools to effectively use farm records to make business analysis, long-range goals and cash-flow planning as complete, easy and meaningful as possible. Throughout the process, FinPack™ explains financial concepts and their relationship to each specific farm or ranch.

When a debtor/creditor dispute arises, a farm or ranch manager's goal is to restructure and keep operating. However, it is not in the producer's or the creditor's interest to resume operation without a clear analysis of what went wrong, what will change, restructuring alternatives and review of annual results. A typical analysis involves formulation of a base plan and outlining how the business is structured. When consensus is developed on an accurate base plan, alternative plans are formulated. These can range from restructuring debts to considering alternative enterprises

By role the farm analyst is a facilitator in the mediation process. Their role is to support the mediator with ideas while interpreting the complexity of modern day agriculture. Their role is a neutral resource person that provides input to all parties to the process, both borrowers and lenders. These issues bring forth "teachable moments" where knowledge can be shared to enable all parties the opportunity to succeed.

Mediation and facilitation have been useful in building consensus to achieve great results in these situations.

July 21, 2005

To: Ben & Theresa With

Re: **How to Get Ready For FINPACK**

Appointment: **Pending**

(Please allow 6 to 8 hours for the appointment to complete the analysis)

Balance Sheet (also known as the financial statement)

1. Detailed information on loans
 - including date of last payment
 - the month payments are due
 - amount of principle and interest due for the next payment
 - current principle balance
 - current interest rate
 - accrued interest to date of financial statement
 - number of years remaining on amortized loans
2. Detailed list of machinery and equipment with current fair market values (use your own estimate of value or check with your lender to determine correct values)
3. Detailed list of crop inventories
 - bushels of grain and if for sale or feed use
 - tons of forage and if for sale or feed use
4. List of accounts receivable and payable
5. Cash value of life insurance (note: term insurance carries no cash value)
6. Credit card debt
 - separate personal credit card debt from business credit card debt

Crop and livestock budgets

1. List direct inputs for an acre of each crop produced
 - for seed cost per acre
 - for chemical cost per acre
 - for fertilizer cost per acre
 - for Federal crop insurance premium per acre
 - for any custom hire per acre (that would be normal each year)
2. List typical yields for each acre
 - bushels for grain crops and tons for forages
 - use FCIC actual production history if available
 - use actual scale tickets for livestock sold averaged for last three years
3. List direct inputs for each head of livestock
 - pounds of grain fed per head for period owned
 - pounds of forages fed per head for period owned
 - \$ of purchased feed per head for period owned
 - vet expense per head

- marketing expense per head
4. List share rental arrangements you have for various farms
 - determine what items the landlord shares in the cost of production

Cash Flow/Income Statement

List annual average costs or projections for next year for

1. Fuel and oil
2. All repairs and supplies
3. Hired labor
4. General farm insurance (excluding crop insurance)
5. Utilities (farm share)
6. Custom hire (not listed on crop budgets)
7. Real estate taxes (farm share)
8. Cash rent for cropland and pasture (list separately)
9. Miscellaneous fees (please list)

Other information

1. Off farm income (gross salary before deductions)
2. Family living expense (every dollar spent except those listed for business expenses or principle payments, are dollars spent for personal living)
3. Government payments that are "guaranteed" to be paid for those farms enrolled in Farm Agency Service programs. (separate out CRP from annual fixed payments)
4. A detailed list of how many acres of each crop you intend to produce broken down into any share arrangements. IE: 200 acres of Wheat @ 60/40
300 acres of Wheat @ 67/33
200 acres of Wheat @ 100/0
5. Please list the annual numbers of livestock for each intended enterprise

Useful documents to have on hand and other items

1. Tax returns for last three years (particularly schedule F)
2. FSA farm and home plan, if applicable
3. Crop insurance information (previous years acreage report and billings)
4. Number of acres of each crop and what shares for each crop are planned for the next production year
5. Alternatives for discussion and review after producing the current year plan

Please call if you have further questions.

Sincerely,

Duane Hund
Extension Farm Analyst
33291 E. Spring Creek Road
Paxico, KS 66526
Phone (785)636-5462
Email dhund@oznet.ksu.edu

Why do Businesses Fail?

- **Failure to Plan**
- **Failure to Understand Financial Position**
- **Failure to Manage Cash Flow**
- **Failure to Manage Growth**
- **Failure to Structure Debt Properly**
- **Failure to Transition the Business**

Failure to Plan

- Is there a written business plan?**
- What are the goals of the business?**
- What matters most?**
- Are we communicating about long range issues?**
- Are all family members involved with business issues?**

Failure to Understand Financial Position

- Where does the business stand financially?**
- Is there an accountant in the family or someone hired to do the books?**
- Do we keep track of finances just for the IRS?**
- Do we use accrual accounting methods?**
- What is the difference between an income statement and a cash flow statement?**
- Does the business build a complete balance sheet each year?**

Failure to manage cash flow

- Are personal living withdrawals accounted for in the business plan?**
- Does the business build monthly cash flow plans and monitor those plans?**
- Do we conservatively plan the business cash flows to account for production and price variability?**
- Do we summarize the year with an accurate and complete cash flow statement?**

Failure to Manage Growth

Is the business growth based upon profits or debt?

“25% of all businesses filing bankruptcy were coming off their best year profit-wise.”

Does the business have the resources to do what we want to do?

Is the business entity adequate for growth?

Is the business growing to provide for necessary family living withdrawals?

Failure to Structure Debt Properly

Are debt payments scheduled when sales income is available?

Are the terms of debt payments in reason based upon expected profits?

Is there flexibility for growth when amortizing debt repayment?

Note: statistics show 25% of all businesses filing bankruptcy were coming off their best year profit-wise.

Failure to Transition the Business

Who is in charge?

What are the plans for retirement?

Are estate plans in place for the retiring generation and the succeeding generation?

What are the goals for continuing the operation?

Is it financially feasible for another generation to operate the farm?

Are the business assets protected from insurable concerns? (Health, LTC, casualty)

These questions cover many of the issues we need to research for client families to be prepared for mediation. Many of these issues create conflict among family members.

Often the solution to resolve financial problems lies in the lender's belief the next generation will be actively engaged in the business and improve its profitability.

If re-amortization of debt is required, the lender is more willing to restructure a 30 year loan for a younger successor than for the 70 year old farmer.

ROLE OF AN ATTORNEY IN THE PRE-MEDIATION PROCESS

1. Find out the farmer's goal(s)
 - a. Whether they want to continue farming
 - b. Whether they are wanting and/or willing to make changes.
2. Try to ascertain how the farmer got where he is today.
3. Determine the position/relationship of the creditors.
 - a. Secured/unsecured
 - b. Priority of lien
 - c. Value of collateral
 - d. Properly perfected secured interest
 - e. Past workouts/mediations/restructures
 - f. Past relationship with creditors
4. Understand client's operation/situation
 - a. Production history
 - b. Income/expense history
 - c. Condition of equipment/land
 - d. Whether there is off farm income or potential for off farm income
5. Explain applicable regulations and/or policies affecting each of the creditors to the client.
 - a. FSA & FCS pertinent regulations and requirements
 - b. Coop policy/bylaws
 - c. Guaranteed loan regulations
 - d. Statute of limitations
 - e. Banking regulations
6. Require that the client, either with a financial advisor or attorney, put together options to present at the mediation and discuss options that may be brought up by the creditor and whether they are in the client's best interest.
7. Advise farmer to be open minded/flexible and explain the mediation process.
8. Explain where farmer will be if no agreement is reached.

Negotiable Issues in Agricultural Credit Mediation

- I. **Farm Service Agency (FSA) Farm Loan Program (FLP) Agricultural Credit Cases**
 - A. Primary Loan Servicing (1951-S)--Negotiable Issues and Options for Mediating a Restructure of Delinquent FSA Direct Loans.
 1. FSA primary loan servicing options:
 - a. Rescheduling/Reamortization. Changing the loan payment schedule to lower payments by stretching the loan out over a longer term.
 - b. Consolidation. Combining two or more like-type loans.
 - c. Reducing interest to the "limited resource program rate".
 - d. Deferral. Delay payments to FSA for a period of up to 5 years and allow the borrower to pay other creditors off during that time.
 - e. Write-down. FSA reduces the amount of the debt down to an amount roughly equal to the value of FSA's collateral.
 2. Typically, going into a mediation on these cases, FSA has done all they can to restructure the FSA debt with the options in "1" above, so that the borrower must then show a realistic change in expenses or income, or in the payments to other creditors to make a restructure work. FSA loan servicing regulations require a mediation if the borrower cannot develop a feasible plan under FSA's guidelines. FSA and key non-FSA creditors mediate with the borrower to determine what adjustments are possible.
 3. "Feasible Plan"-- Finding enough money (cashflow) to pay: family living and operating expenses; debt payments to other creditors; and payments on restructured FSA direct loans. Negotiable issues include:
 - a. Figures (expenses and income) used to determine if a feasible plan can be developed.
 - (1) Borrower's figures vs. FSA's figures (DALR\$ program)
 - (2) "Typical Year"- five-year average- how is that calculated?
 - (3) Disaster year yields may be substituted with county average yields in certain cases
 - (4) Can prices other than FSA's set prices for commodities be used in calculating production income?
 - b. Will creditors other than FSA agree to restructure their debt so that more money is available in the producer's cashflow to pay FSA?
 4. "Valuation of Collateral"-- Is negotiable to some extent if errors can be shown in the FSA appraisal. The issue arises in the following situation:
 - a. If there is an increase in the value of land over a period of five years after FSA writes off a certain amount of debt on the land, then FSA may require the borrower to payback a certain percentage of that increase in value under a "shared appreciation agreement."
 - b. Valuation and repayment ability are negotiable issues under this circumstance. However, FSA will only negotiate on value of the land if the borrower can show there are errors in the appraisal.
 5. Time for more analysis of new figures developed at mediation.

- B. FSA Loan Application Denial— A producer who applies for a direct FSA FLP loan may appeal a decision by FSA denying the producer's application for the loan. The producer may choose mediation as an option in the appeal process. The issues and options include the following:
1. Creditworthiness. Does the loan applicant's credit history show a good record of payment on debts? The issue that is negotiable is the interpretation of the FSA regs governing the criteria for creditworthiness including the following:
 - a. Is the failure to make payment on a debt an isolated incident?
 - b. Is the bad credit history due to circumstances beyond the applicant's control?
 2. Lack of a Feasible Plan. (See "I.A.3." above)

II. **Negotiable Issues and Possible Outcomes in Non-FSA Ag Credit Cases**

- A. Reamortization, reducing interest, deferral of a payment, write-down.
- B. Putting carryover operating losses on a separate note and reamortize.
- C. Liquidation of all or part of the assets to pay down on debt making it more manageable for the borrower's ability to service the debt.
- D. Negotiating with secured creditor to pay for some of the tax liability that results from liquidation of the creditor's collateral out of the proceeds from the sale.
- E. Developing a timetable and strategy to liquidate assets, i.e.: to avoid certain tax consequences that could result from the liquidation; to take advantage of increase in market prices at a later date; to accommodate the times during the year when sales would bring the most money; etc.
- F. Refinancing operating or intermediate debt by putting it against land so that it can be stretched out over a longer period of time.
- G. Using FSA direct or guaranteed loans to refinance the debt.
- H. Late charges, default interest rates (i.e. higher rate if loan is delinquent), and other penalties are often negotiable as to the final amount the bank will agree is owed in settling the debt by restructure or otherwise.
- I. Forgiveness of debt in exchange for a lump sum payment.
- J. Restructuring a bank's debt by making payments on the secured portion of the debt (where there is sufficient collateral to cover part of the debt) and setting aside the unsecured portion on a separate loan with low or no interest, with the unsecured portion being paid after completion of payment of the secured portion.
- K. Appraised value of land, livestock, machinery, and equipment is often an issue. It is important to whether or not the bank, or the bank examiners, are secure enough to continue it's relationship with the borrower.
- L. Unsecured creditors agree to receive a percentage of the proceeds from the sale of assets after payment of the secured creditors.
- M. Developing a timetable for gathering additional information and for exchange of that information, such as: recalculating cashflow numbers; verifying the numbers presented at mediation; getting approval of bank's loan committee; review of documents and new proposals presented at the mediation; etc.
- N. Reinstating loan after foreclosure or collection action filed, or delaying action.
- O. Setting conditions for making operating loans in conjunction with restructure.

Creditors' Mediation Preparation Tip Sheet

What will happen at mediation?

- ✓ Introductory statement by the mediator
- ✓ Initial statement by parties sharing their view of the conflict, their needs, and interests.
- ✓ Identification/clarification of issues and problem-solving facilitated by the mediator
- ✓ The mediator may choose to meet privately with one or all parties in a "caucus".
- ✓ If an acceptable solution is found the mediator will write up an agreement for all to sign.

What is your role in mediation?

- ✓ To the extent possible, come to the mediation with authority to resolve the dispute.
- ✓ Come prepared to discuss current loan/account information and possible alternatives
- ✓ Decide what the issues are for you
- ✓ Look for solutions
- ✓ Work with the other parties to determine which solution is most appropriate
- ✓ The parties construct the agreement--the mediator only facilitates the process

What is the mediator's role in mediation?

- ✓ Sets the ground rules and explains the process, including rules of confidentiality
- ✓ Maintains a neutral and nonjudgmental atmosphere
- ✓ Controls communication during the mediation process by:
 - Providing "equal" access to the communication process
 - Encouraging respect and honesty
 - Allowing venting of emotion, and control of excessive emotions
 - Acknowledging the validity of the parties emotions
 - Preventing name calling
 - Summarizing the parties issues and pointing out common interests and agreement
- ✓ Listens to actively to gather facts, clarify discrepancies, identify interests of the parties
- ✓ Reframes and clarifies into more neutral language
- ✓ Probes/tests positions and discusses alternatives to reaching an agreement
- ✓ Assists parties with the review, discussion and development of options
- ✓ Puts the agreement, if one is reached, in writing for the parties

Reasons for Creditors to Use Mediation

- ✓ Mediation's goal is to avoid litigation and bankruptcy
- ✓ The mediation process gives you firsthand knowledge of the producer's situation
- ✓ Facilitates communication and understanding
- ✓ Rumors and rhetoric are stopped and managed
- ✓ Other key creditors will be there to discuss and offer plans
- ✓ If you are not there, other creditors will discuss your account
- ✓ Even if you have tried to work with the producer without success, when the producer requests mediation, your work has paid off— wanting to participate in mediation says that the producer is now ready to listen and resolve the problem
- ✓ KSU Farm Analyst program offers objective and realistic financial counseling for producers through use of the FinPack computer program.

**IDEAS FOR
WORKING WITH CREDITORS
PRIOR TO MEDIATION:**

A.. Obtain Initial information:

1. Is client delinquent or not going to be able to make payment in the future?
2. What type of loans does client have?
 - a. term notes with annual or semi annual payments;
 - b. line of credit
3. Has a notice to accelerate been sent?
4. Has there been a set off of the bank account?
5. Is the action coming from loan officer or bank board?
 - a. loan officer usually has some flexibility
 - b. If from the board less flexible
6. What type of security does the bank have
 - a. Is it purchase money security interest
 - b. secured – is it properly secured and perfected
 - c. unsecured
7. Who else is out there to be paid
 - a. statutory liens: for material; services; rent; feed
8. Past issues or relationship with the client?
 - a. turned in documents timely?
 - b. provide information as requested?
 - c. sold collateral without giving proceeds?
 - d. physically abused the creditor
10. How long has the situation been going on
11. Does client have something to offer the creditor?
 - a. a partial payment,
 - b. security
 - c. How does what the client offers affect the over all situation

B. sometimes the creditor just wants to know the client is taking the situation seriously. So suggest they let the banker know that they are meeting with a financial analyst to look at the situation. And give the time periods that you expect to have some information.

C. Be on the offence, by making suggestions to the bank as to what your client can do and keeping the options open. If you make the suggestions, before the bank makes them, then you start from your point instead of working down from the banks position to yours.

D. Discuss with banker the affect their action has on the overall operation and the bank's recovery if they don't work with the client. Give the bank an option that has some benefit for them.

1. partial payment; consider whether it should go to interest or principal
2. security
3. suggest they come out and see the collateral

E. If there are releases needed for creditors for rent, feed, work done see about getting those releases. Show bank the benefit in getting those creditors paid - EX: Client needs to pay the landlord if they wan the land to rent in the future. Feed for the cattle has to be paid for if cattle in the future are to be fed. Banks reputation and how it is viewed in the community is also on the line, if they do not release for items that have priority.

F. Make sure you or your client document in writing, agreements.

G. Sometimes if Creditor is hard to work with, get it to their attorney who is removed from the emotion.

H. Have the client look at refinancing. A lot of time a bank will hang in there with the client if they know they that refinancing is an option..

I. Keep lines of communication open

J. Feel out if creditor is even willing to work with your client, I often act dumb about the situation (although I hopfully already know the facts), start the conversation out like " Mr. farmer contacted me and I am trying to understand where he is at. Let them vent or what ever

FSA Farm Loan Program Appeals/Mediation

Appeal/Mediation Issue

An appeal is a written request by a Farm Service Agency (FSA) Farm Loan Program (FLP) applicant or borrower to challenge a decision made by the agency that an applicant or borrower thinks is adverse to their interests. The decisions may include any of the following examples:

- Denial of Direct and/or Guaranteed Loan Applications
- Denial of Loan Servicing Requests such as Release of Collateral or Subordination
- Denial of Primary Loan Servicing Requests on Delinquent Direct Loans
- Non-Compliance with Regulations
- Other Program Issues

Appeal/Mediation Requirements

Any person that receives an adverse decision with respect to a FSA Farm Loan Program issue must be given rights to appeal the decision. The Code of Federal Regulations (CFR) at 7 CFR Part 780 and Part 11 provide the FSA informal appeal process for FLP adverse decisions. If an adverse action has been taken by FSA on a FLP issue, the producer is entitled to the following appeal rights:

- Alternative Dispute Resolution (Mediation).
- Reconsideration of decision of the Farm Loan Manager or Farm Loan Officer
- Appeal to the National Appeals Division (NAD).

FSA FLP Personnel Involved in the Decision/Mediation/Appeal Process

- Farm Loan Manager (FLM)—Individual in the local FSA FLP office responsible for making and servicing FSA Farm Loan Programs to individual producers.
- Farm Loan Officer (FLO)—Assistant to the FLM with some loan making and servicing authority.
- Farm Loan Chief – Top State administrator responsible for overseeing FSA direct and guaranteed loans in the state.
- State Specialists—Staff of the FSA State FLP Office with responsibility for administering specific areas of FSA Farm Loan Programs statewide.



Primary and Preservation Loan Servicing for Delinquent FSA Borrowers

When FSA borrowers are unable to make scheduled payments on their farm loan programs debt to the agency because of reasons beyond their control, Federal law provides a process by which their FSA loan accounts may be serviced to avoid foreclosure and liquidation.

- When a borrower becomes 90 days past due on an FSA loan account, the Agency provides a servicing packet outlining available options.
- Borrowers who respond with a completed application within 60 days from receipt of the packet are considered for restructuring of the debt -- rescheduling, reamortization, consolidation, deferral, or write-down of the amount owed -- as long as FSA will receive an equal or greater net return than it would realize through foreclosure.
- Borrowers who are not delinquent, but will not be able to make their next payment, may request the servicing packet at any time and may qualify for all of the options noted above, except write-down. (Federal law limits debt forgiveness to one instance of no more than \$300,000.)
- Calculations to determine appropriate servicing options are made by the electronic Debt and Loan Restructuring System (eDALR\$), a sophisticated computer program, using information provided by the borrower.
- The account may be restructured if a feasible plan is possible. If eDALR\$ indicates that no feasible plan is possible, State-sponsored mediation or a meeting of creditors is offered.
- If restructuring is not possible after mediation, the borrower may have the opportunity to buyout the debt at the current market value of the security and any non-essential assets. The remainder of the debt is written off when the buyout is accomplished.
- If the borrower is unable to take advantage of the buyout option, FSA is required to proceed with foreclosure in an effort to recover as much as possible. In certain situations, borrowers may avoid foreclosure by voluntarily conveying the security property to the Government.
- Prior to such a conveyance or foreclosure, and again if FSA takes the property into inventory, borrowers are provided the opportunity to apply to lease with option to purchase their homestead

and up to 10 adjoining acres of land, including farm buildings. To take advantage of Homestead Protection, borrowers must meet certain statutory requirements concerning farm income and continuous occupation of the property. The Agency will make every effort to allow qualified borrowers to remain in their homes.

FOR MORE INFORMATION

For more information about FSA and its programs, visit your local FSA office or online at www.fsa.usda.gov. To find your local FSA office, visit <http://offices.usda.gov>.

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family-parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at http://www.ascr.usda.gov/complaint_filing_cust.html and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by:

- 1) mail: U.S. Department of Agriculture Office of the Assistant Secretary for Civil Rights 1400 Independence Avenue, SW Washington, D.C. 20250-9410;
- 2) fax: (202) 690-7442; or
- 3) email: program.intake@usda.gov.

USDA is an equal opportunity provider, employer, and lender.

Farm Service Agency Farm Loan Program Regulations and Handbooks

General program Administration 7 CFR Part 761 and Handbook 1-FLP

(Appeals; Appraisals; Supervised bank accounts; Borrower supervision)

Guaranteed Loan Making and Servicing 7 CFR Part 762 and Handbook 2-FLP

(Lender Eligibility; Loan purposes; Loan evaluation; Servicing options; Distressed loans)

Direct Loan Making 7 CFR Part 764 and Handbook 3-FLP

(Application process; Eligibility; Security requirements; Loan types and requirements)

Direct Loan Servicing—Regular 7 CFR Part 765 and Handbook 4-FLP

(Limited resource criteria; Borrower graduation; Loan payment; Subordination of liens; Borrower rights and responsibilities with respect to collateral; Disposal of collateral; Transfer of security and assumption of debt)

Direct Loan Servicing—Special 7 CFR Parts 766 / 767 and Handbook 5-FLP

(Disaster Set-Aside; Loan restructuring options and servicing; Primary loan servicing notifications forms; Homestead protection; shared appreciation; unauthorized assistance; loan servicing for borrowers in bankruptcy; acceleration and liquidation; inventory property management, sale and lease)

“Your FSA Farm Loan Compass”

(Farmer friendly explanation of maintaining and servicing an FSA direct or guaranteed loan.)
https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/Farm-Loan-Programs/pdfs/loan-servicing/farm_loan_compass_9-22-17.pdf

FSA Farm Loan Programs Website

<https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index>

Website Addresses for FSA Handbooks and Administrative Notices

FSA Handbooks:

<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=lare&topic=hbk>

FSA Administrative Notices:

<http://www.fsa.usda.gov/FSA/notices?area=home&subject=lare&topic=not&setflag=FROMURL&getData=NONE>

Farm Credit Services (FCS) Institutions

12 C.F.R. Sec. 617.7430 Must qualified lenders participate in agricultural State mediation programs?

Yes. A qualified lender must participate if a borrower requests it and a State mediation program, certified under section 501 of the Agricultural Credit Act of 1987, exists in the State where the borrower lives or where the farm operation is located. Qualified lenders must cooperate in any mediation by presenting and exploring all debt restructuring proposals discussed during the mediation and providing information to facilitate the mediation process. If allowed in the State, qualified lenders may, on their own, initiate mediations—but may not require the borrower to participate. Qualified lenders may also never ask for, nor condition loan servicing on, the borrower’s waiving mediation rights.

[Section 4.14E of the Act; 7 USC §§ 5101 and 5103; § 617.7430]

At what point in distressed loan servicing may a borrower request agricultural State mediation?

Borrowers have the right to seek mediation at any time during a distressed loan servicing, including after a decision has been made by the qualified lender or a review by the Credit Review Committee has been requested. However, mediation may not be requested after a Credit Review Committee has met on the matter or issued its decision: Credit Review Committee decisions are final decisions on matters under its review.

[7 USC §§ 5101 and 5103; § 617.7430]

When an agricultural State mediation is requested, what is the effect on loan servicing timeframes, including deadlines for review by Credit Review Committees?

If the borrower requested mediation before a decision letter was issued, the qualified lender’s time to issue a decision would start at the conclusion of the mediation. This is because the mediation process would be included as part of the plan negotiations. For example, if the mediation did not result in a plan of restructure that all parties agreed to, the lender would have the full 15 days after the mediation concluded to issue an adverse decision letter. If the borrower requests mediation after receiving the adverse decision letter, timeframes are frozen from the point a borrower requests mediation to the conclusion of the mediation. The timelines restart after the borrower receives notice of the results of the mediation. This notice would include any remaining time the borrower has to request a review by the Credit Review Committee. However, the 15-day notice to the borrower before a Credit Review Committee meeting remains intact. Similarly, independent collateral evaluations may proceed during the mediation to the extent that the contract appraiser may work on the appraisal—not to the extent that the lender or the Credit Review Committee acts on the independent evaluation.

[7 USC §§ 5101 and 5103; §§ 617.7310, 617.7420(a), and 617.7430]

12 C.F.R. PART 617—BORROWER RIGHTS

Restructuring of distressed loans - Letter giving 45 days to apply for restructuring.

Notice of loan and/or restructuring decisions – Letter giving 30 days to apply for review.

Reconsideration of loan and loan restructuring decisions – “credit review committee”

Right of first refusal – right to buyback land from FCS if they sell it.

Protection of borrowers who meet loan obligations – Can’t foreclose where loan payments current.

<https://www.fca.gov/about/BorrowerRightsFAQs.html>

Important Farm Business Terms Defined — Finance

Department of Agricultural Economics — www.agmanager.info



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Livestock Production

A clear understanding of terms used in discussing farm business operations is important. The following terms are among those that are often used; although there are many others that could be discussed. The terms are grouped by type rather than alphabetically. Additional information on financial performance measures can be found in MF-470, *Financial Ratios Used in Financial Management*.

Cash

Cash: Refers to cash and funds in checking accounts, savings accounts, and certificate of deposits.

Cash Available: The amount of cash that the business has for meeting cash flow requirements.

Cash Required: The amount of cash that is needed to meet all of the cash expense needs of the operation, which include operating expenses, interest expense, debt payments, capital purchases, and family living withdrawals.

Net Cash Flow from Farm Operations: The amount of cash that is available after cash operating expenses are subtracted from cash operating income.

Repayment Capacity: Measures the ability of the business to generate sufficient receipts to meet its debt and capital replacement obligations. Income available for capital replacement and term debt obligations is equal to net farm income from operations plus net nonfarm income plus depreciation minus taxes paid minus unpaid family labor or family living withdrawals.

Statement of Cash Flows (Historical): A financial statement that shows the dollars flowing in and out of the business. The cash flow statement is often divided into operating, investing, and financing activities. Cash flows can be presented by week, month, quarter, or year for each income and expense category.

Statement of Cash Flows (Projected): An estimate of the cash inflow and outflow for a business for some future time period.

Income

Accrual Basis of Accounting: A method of accounting under which revenues are recognized in the accounting period when earned regardless of when cash is received; and expenses are recognized in the accounting period when incurred regardless of when cash is paid.

Cash Basis of Accounting: A method of accounting under which cash receipts are recorded when cash is received and cash expenses are recognized when cash is paid.

Income Statement: A financial statement that provides a summary of accrual income and expense for a specific time period, such as a calendar or fiscal year. The income statement is useful in analyzing the financial performance or profitability of the business. An income statement is sometimes referred to as a profit and loss statement.

Profitability: The ability of the business to generate income in excess of expenses. Profitability can be analyzed using the income statement, the balance sheet, and financial ratios.

Gross Income

The measures discussed below; gross farm income, gross revenue, and value of farm production; represent three distinct accounting methods. All three measures are computed on an accrual basis. The method used in measuring gross income should also be used in expense and net farm income computations.

Gross Farm Income (GFI): The income to the business based on sales plus other receipts minus cost of items purchased for resale, such as feeder livestock, plus or minus changes in operating inventories.

Gross Revenue (GR): The income to the business based on sales plus other receipts plus or minus changes in operating inventories.

Value of Farm Production (VFP): The income to the business based on sales plus other receipts minus costs of items purchased for resale, such as feeder livestock, minus cost of purchased feed plus or minus changes in operating inventories.

Expenses

There are numerous expense or cost values used in economics and accounting. The definition, and thus derivation, will depend on the financial statement being developed and in what context the business is being analyzed. The discussion below focuses on some commonly used expense or cost values.

Variable Costs: Expenses that vary with output for the production period under consideration. Examples include hired labor, seed, fuel, feed, herbicide, insecticide, and fertilizer.

Fixed Costs: Expenses that do not vary with changes in output for the production period under consideration. Examples include real estate taxes, depreciation, and interest on land.

Cash Costs: Expenses that result in an actual payment of cash.

Noncash Costs: Expenses that do not result in an actual payment of cash. Examples of noncash costs include depreciation, changes in operating inventories, and accrued interest.

Direct Expenses: Expenses that are directly related to a production activity such as seed.

Indirect Expenses: Expenses that are not directly related to a production activity such as depreciation.

Accrual Farm Expense: The amount of expense, even if not paid, that is associated with production in the current accounting period.

Depreciation: The allocation of the original cost of a capital asset over the useful life of the asset.

Financial Costs: Includes all expenses recorded in an accrual income statement. Expenses include cash and noncash costs.

Prepaid Expenses: Expenditures made in the current accounting period for items that will be used in a future period to realize income.

Total Operating Expenses (GFI): The sum of cash and noncash expenses plus or minus accrual and expense inventory adjustments. Includes cost of purchased feed, but does not include purchases of items purchased for resale and interest expense.

Total Operating Expenses (GR): The sum of cash and noncash expenses plus or minus accrual and expense inventory adjustments. Includes cost of purchased of feed and purchases of items purchased for resale, but does not include interest expense.

Total Operating Expenses (VFP): The sum of cash and noncash expenses plus or minus accrual and expense inventory adjustments. Does not include cost of purchased feed, purchases of items purchased for resale, and interest expense.

Total Expenses (GFI): Total operating expenses (GFI) plus interest expense.

Total Expenses (GR): Total operating expenses (GR) plus interest expense.

Total Expenses (VFP): Total operating expense (VFP) plus interest expense.

Net Income and Returns

Net Farm Income from Operations (GFI): Gross farm income (GFI) minus total expenses (GFI).

Net Farm Income from Operations (GR): Gross revenue (GR) minus total expenses (GR).

Net Farm Income from Operations (VFP): Value of farm production (VFP) minus total expenses (VFP).

Net Farm Income: Net farm income from operations plus (minus) the gain (loss) from the sale of capital assets and change in base values of breeding livestock. Net farm income is an accrual measure, and represents a return to operator's labor, management, and equity capital.

Net Profit Margin: The portion of gross income, gross revenue, or value of farm production the business receives as profit.

Return to Capital: A measure of the operator's capital earnings from the business. The measure is equal to net farm income plus interest expense minus a charge for unpaid family labor.

Return to Management: A measure of the operator's management earnings from the business. This measure is equal to net farm income minus a charge for unpaid family labor and equity capital.

Return to Labor and Management: A measure of the earnings to labor and management from the business. This measure is equal to net farm income plus hired labor expense minus a charge for equity capital.

Return to Capital, Labor, and Management: A measure of the earnings to capital, labor, and management from the business. This measure is equal to net farm income plus hired labor expense plus interest expense.

Balance Sheet

Balance Sheet: A financial statement that shows the financial condition of the business at a specific point in time. A balance sheet lists all assets and liabilities and the resultant owner equity. Both book value and fair market balance sheets should be derived to analyze changes in owner equity.

Statement of Owner Equity: Reconciles the change in owner equity between the beginning and ending balance sheets.

Accumulated Depreciation: The amount of depreciation expense taken on machinery, equipment, and buildings from their acquisition date to the balance sheet date.

Book Value: This value is equal to original cost or basis of an asset minus any accumulated depreciation.

Market Value: The value that would be received for the farm's assets if the business was liquidated on the same date for which the balance sheet was prepared.

Liquidity: The ability of a business to generate sufficient cash to meet total cash demands without disturbing the ongoing operation of the business. Liquidity is examined by comparing current assets to current liabilities. A business that is relatively more liquid has a relatively higher ratio of current assets to current liabilities.

Solvency: Related to the dollar value that would remain if all assets were converted into cash and all debts paid. A business is solvent if total assets are greater than total liabilities and insolvent if liabilities exceed assets.

Leverage: The relationship between debt and equity, or debt and assets. Earnings on debt must be greater than the cost of debt to have a positive effect on business performance.

Assets

Assets: Resources owned by or owed to the business. Examples include cash, accounts receivable, crop inventories, livestock inventories, machinery, equipment, buildings, and land.

Current Assets: Cash and assets that can be readily converted to cash with little loss of value. Current assets include cash, accounts receivable, marketable securities, crop inventories, feeder livestock inventories, and cash invested in growing crops.

Noncurrent Assets: Assets that would be more difficult to convert to cash and that are used to generate long-term profits. Noncurrent assets include breeding livestock, machinery, equipment, buildings, and land.

Total Assets: Equal to the sum of current and noncurrent assets.

Operating Inventories: Include crop inventories, feeder livestock inventories, and supply inventories.

Liabilities and Owner Equity

Liabilities: Debts owed by the business.

Deferred Taxes: Taxes contingent on the sale of a farm's assets. Deferred taxes are separated into current and noncurrent portions. Deferred taxes are relevant to a market value balance sheet and irrelevant to a book value balance sheet.

Current Liabilities: Liabilities that will come due within one year. Current liabilities include accounts payable, accrued expenses, principal payments on current loans, principal payments on noncurrent loans, and deferred taxes on current assets.

Noncurrent Liabilities: Liabilities that will come due in a time period longer than one year. Noncurrent liabilities include the principal balance of noncurrent loans and deferred taxes on noncurrent assets.

Total Liabilities: Sum of current and noncurrent liabilities.

Owner Equity: The difference between total assets and total liabilities. This value provides an indication of the dollar amount of assets actually owned.

Net Worth: Another term for owner equity.

Retained Earnings: A measure of the real growth in the business. Retained earnings are equal to the change in owner equity adjusted for inflation or deflation in asset values. The adjustment for inflation or deflation in asset values applies to the market value sheet, but not the book value balance sheet.

Budgeting vs. Cash Flow

Budget: A budget is a systematic way of organizing relevant farm management information by listing expected income and expenses.

Partial Budget: Many changes in a farm business do not require a complete reorganization. The partial budget is an appropriate tool in analyzing these kinds of changes. Examples where partial budgeting is useful include an examination of the addition of an enterprise, an examination of a change in enterprise size, or an examination of asset purchases.

Short-Run Feasibility: The income-generating ability of a business or segment of a business in the short-term (1 to 5 years). Short-run feasibility is usually studied through the use of a projected cash flow. Actual cash inflow and outflow during the period is compared, and reflects payment requirements to credit institutions as well as projected income and expenses.

Long-Run Profitability: The income-producing ability of a business or a segment of a business in the long-run (more than 5 years). Long-run profitability is usually studied through the use of budgets.

Miscellaneous

Family Living Withdrawals: Cash withdrawals paid by the business to cover family living expenses. These withdrawals can be viewed as compensation for owner's management and labor.

Opportunity Cost: The income that could have been received if a resource had been used in its most profitable alternative use. The opportunity cost for noncurrent assets is typically difficult to estimate. For nonland costs, a long-term interest rate could be multiplied by the asset values to obtain an opportunity cost. For land costs, cash rental rates could be used.

Unpaid Family Labor: Represents an opportunity cost on the family's and operator's time spent operating the farm.

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