Farm Leasing Arrangements

**Background**

Andy Smith always wanted to farm. He attended the local Community College and got a degree in Ag Production Technology. He went to school and farmed with his folks at the same time. Andy met a teacher, Ann, who had grown up on a farm and wanted to raise her family on a farm.

Andy was renting 300 acres from a retiring farmer when he met Ann. After they had been married for a few years a farm came up for sale nearby with a decent house. With some help from Ann’s parents, a beginning farmer loan and a willing lender they were able to buy the home and 160 acres. He rents 200 acres from Ann’s Aunt, Esther Jones, who lives in the neighboring town. Andy rents another 140 acres that is owned by Doc Warbler who lives in California. Neither he, nor Ann are related to Doc Warbler.

Over the past seven or so years there’s been stress with the uncertainty of increasing cash rents. Now that grain prices are declining a different kind of uncertainty is occurring as Andy communicates the disappearing profits to his landowners. The interest rate on the farm loan is locked in. Increasing interest rates are still a concern for future borrowing.

**Current Situation**

Andy and Ann are now well into their 30’s with two children. Andy has enough equipment to farm more land and is always looking for newer equipment. He and his father co-own the combine and the sprayer.

For years his father said he wasn’t planning on retiring anytime soon. Dad recently said he wanted to start handing things over. It hasn’t been necessary for Andy to have an off-farm job, because they seem to be doing well financially between Ann’s teaching and his farming. He likes helping his parents, and they always seem to have things to keep him busy. The two kids kept him busy during the school year when Ann was coaching basketball and cross country. Now that the children are older, he thinks he’s ready to take over more of his father’s operation or look for an off-farm job. Maybe they should be thinking about a college fund for their children who are in junior high.

Andy knows he needs to find answers to some questions before taking over his father’s operation.

1) Is my farm making money? If not, what can I do about it?

2) How will 2015’s lower prices affect my cash flow? Will I have enough cash?

3) Will taking on the ground my father farms improve our situation?

What questions do you think Andy needs to find answers to?
Farm Leasing Arrangements

Background

Esther Jones enjoyed much of the time she and her husband Robert spent farming. There were good times and bad times. They decided to not buy land when land values took off in the 1970’s. While that might have been the right decision in hindsight, it also meant that off farm employment was an important part of making their farming operation work. Esther’s husband was able to farm full-time for a few years after he retired from his job in town. After Esther retired, she and Robert would spend January and February traveling in Arizona or Texas. Robert passed away 8 years ago, but she still travels and joins friends in Arizona each winter.

Esther’s niece Ann moved nearby after getting her teaching certificate. Ann met and married a farmer within a few years of starting to teach. Esther had been unhappy with the uncertainty of crop share income when she and her husband started leasing their farm. She saw an opportunity to switch to a cash rent and to help her niece build her farm operation. She started cash renting her ground to Andy, and they ended up working well together.

Moving from the uncertainty of crop share income to increasing cash rents has been a welcome change. Now that she hears cash rents are declining a different kind of uncertainty is occurring. Andy is telling her that the profits are disappearing. She doesn’t know whether Andy and Ann are stable financially, because when stresses hit in the 1980’s a person couldn’t tell who was stable and who wasn’t.

Current Situation

Esther has enjoyed going from the farm being a small, but important, part of her retirement income to a replacement for other sources of income. When interest rates fell and the stock market fell apart, the farm income was growing. Her health care costs have taken up more and more of her income. A reduction in income isn’t welcome, and it will demand sacrifices.

If the cash rental rates decline significantly then stocks will need to be sold or certificates of deposit liquidated. Interest income and dividends won’t make up the difference.

Esther knows she needs to find answers to some questions before reducing the cash rent at the level Andy’s asking.

1) Is Andy the best tenant for this farm?

2) What are other tenants willing to pay?

3) What will happen to cash rents over the next few years? Is this a one-time reduction, or do I need to plan for more reductions?

What questions do you think Esther needs to find answers to?