DEHM ASSOCIATES, LLC

NEWSLETTER

September 2005

www.DehmAssociates.com

From Bruce Dehm's Desk

I am proud to announce that Joel Stauring has joined the Dehm Associates' team. He helps clients with financing needs. Joel has a Master of Business in Business Management and commercial lending experience.

Joel and his wife, Yvonne, moved home to New York from Hawaii where he spent 7 years in the U.S. Army and 8 years in commercial lending. On March 17, 2005 "Patrick" was born to Joel and Yvonne. At just over 4 months old, Patrick already owns a set of camouflage clothing, so I'm sure he will follow in his father's avid hunting boots.

We finished the 2004 year-end Dehm Dairy Benchmark in record time this year. Despite the early planting season, we were able to get those reports to clients before the spring rush started. Many thanks for getting your information to us in a timely manner.

Finally, Dehm Associates is ready to announce an entirely new level of monthly benchmarking tools that provide cost details far beyond our current reporting capability. We will be able to benchmark items such as parlor repairs, bedding and feed ingredients for energy and protein on a monthly basis. Stay tuned for details about this exciting reporting system.

INSIDE AG LENDING: WHY WAS MY LOAN REQUEST REJECTED?

Farmers often respond to a loan being rejected by asking, "Doesn't my lender trust me anymore?" In the past, more loans were based on a personal relationships. More commonly, lenders now base credit policy on government requirements and the lender's mission. Often the framework for credit approval is referred to as the five Cs of credit: Capacity, Capital, Collateral, Conditions, and Character.

Let's focus on Collateral as an important piece of the loan evaluation process. Collateral is an asset(s) to secure a loan. The lender retains rights to the collateral to motivate the borrower to repay the loan and provide a source other than cash to repay the loan if necessary. Banks lay claim to the collateral by a mortgage for real estate and a Uniform Commercial Code (UCC) lien on livestock or equipment.

The objective of the lender is to secure the "first position" (first dibs) on collateral to cover the loan should you default. Lenders avoid subordinating (take second) a lien position on collateral because it increases their exposure to losses should the loan be in default.

This being said, banks do not like to foreclose or sell your collateral. Foreclosure is a last resort and most often the lender still has a loss after legal fees and discounts associated with a sale under duress. Most local banks prefer to sell under performing loans to others who have no such problem using all available means to collect their money.

The more valuable the asset the higher the motivation to repay the loan. If a lender has a mortgage for $200,000 on a $1 million farm they have a 20% loan-to-value (LTV). You have 80% equity in the property and are more likely to repay because you have $800,000 to lose. Lenders set LTV limits because they know this to be true.

Joel Stauring, Agricultural Finance Specialist at Dehm Associates, LLC.

Two general rules apply for LTV. Lenders do not lend more than 75% LTV of an asset, and they often require an overall 40% or greater before making loans. This gives them some leeway in the event values decline or more funds are required to complete a project.

Collateral is only one of the five Cs of credit, but a rather intense component on which lenders base loan approval or rejections. Continue to have a good relationship with your lender, but don't assume that it is the only component that will secure a loan.

If you need financing or refinancing, give Joel a call to see how he can help in the process.

Agricultural Credit Sources Tighten Up: Questions and Answers

My bank sold my farms loans—What's Up?

Bank regulators have been very hard on commercial banks in recent years. Loan officers are asked to defend loans to farms that show a history of weak earnings, shaky collateral positions or insufficient cash flows in years where low milk prices pushed almost everyone to the brink of collapse. When bank senior managers don't or can't defend the decisions made by loan officers against bank examiners, credits are downgraded which can impact overall bank profits and credit ratings. If a lot of these loans are on the books, banks often decided to sell them at a discount to improve their overall profitability. Some banks just decide they don't want to specialize in agriculture and sell their entire farm portfolio. If you are unlucky enough to be one of these borrowers, you will find yourself in the unnerving position of having a new creditor that is not as helpful as your last loan officer was.

Is There Any Good News?

The good news is that the new owner of your loans may be willing to help you where your bank could not. You may be able to negotiate a pay out at less than you currently owe. Perhaps they may be able to agree to interest-only for an extended period of time. Having a detailed plan to show your new creditor is a must to be successful. Hiring a third party to negotiate can be very helpful too.

How Do I Avoid This Fate?

Find out who is one the board of directors at you bank and insist they support agriculture with excellent management and stringent lending practices.

There is no shortage of capital for farms with strong profits, collateral and cash flow. Make this your mission.

Dehm Milk Check Analysis: Milk Income vs. Pay Price

Adding a few Jerseys to a herd to improve milk income by increasing pay price may have worked before pricing was based on components. It's not true now that everyone is paid the same price per pound of butterfat, protein, and solids. Whether those pounds are from Jersey or Holstein cows is of no consequence when trying to improve total milk revenue.

Milk price is no longer the measure to follow when comparing your performance to others. Instead, we recommend using *income/cow/day* as a true measure of milk receipts.

We compared a cow that ships 60 lbs of 3.8 butterfat to one shipping 80 lbs with 3.5 butterfat. Analysis shows that the 60lb cow produces a pay price of $15.51, while the 80lb cow produces a pay price of $14.90. Upset?

Now, consider that the 80lb cow is producing 2.8 lbs butterfat per day while the 60lb cow is producing only 2.3 lbs. The higher producing cow is generating $2.61 more revenue per day even though her milk price is $.61 lower. Feel better

		Price	Lbs/Cow/Day		Income/Cow/Day		Difference
			60	80	60	80	
Butterfat	**3.8/3.5**	$2.05	2.28	2.8	$4.67	$5.74	$1.07
Protein	2.99%	$2.43	1.794	2.392	$4.36	$5.81	$1.45
Solids	5.68%	$0.08	3.408	4.544	$0.27	$0.36	$0.09
Milk Income/Cow/Day					$9.31	$11.92	$2.61
Milk Price/Cwt. Basis					$15.51	$14.90	($0.61)

Higher price does not mean higher income. Find more information in the Dehm Dairy Benchmark.

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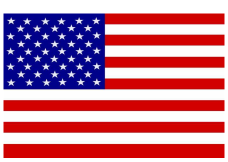

Check our website
www.DehmAssociates.com

ABOUT DEHM ASSOCIATES, LLC

For almost 15 years Dehm Associates, LLC has helped dairy farmers and managers operate more profitably. We offer our clients a range of business services from budgeting to benchmarking so they can improve how they manage their dairy operations. Our Dairy Business Management Program provides farmers with current, accurate and easy to understand financial reports and analysis of their dairy business. We facilitate Dairy Advisory Teams to help solve bottlenecks. Dehm Associates gives producers the information they need to lower costs and increase productivity.

For more information about how Dehm Associates can increase the profitability of your dairy farm, call now.

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