Ways to Reduce Borrowing for Your Farm

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Paul D. Mitchell, Agricultural and Applied Economics, UW-Madison
Office: (608) 265-6514 Email: pdmitchell@wisc.edu Web: http://www.aae.wisc.edu/mitchell/extension.htm

Interest rates for new ag loans have reached 15-year highs, averaging 8.5% for short-term loans during the 3rd quarter of 2023 in the region. Farmers are looking for ways to reduce borrowing as they look to buy inputs for the 2024 crop. In my October blog post, I reminded farmers about Marketing Assistance Loans as a Tool for Managing Interest Costs. In this post I quickly review some ways for farmers to reduce overall borrowing as a way to reduce interest costs.

One way to reduce borrowing is to bring in other income to cover input costs. Many farmers already have **off-farm income** that can be used to offset borrowing. Farmers often have opportunities to pursue **new off-farm income activities** based on skills many already have, such as driving heavy equipment for construction, applying pesticides for a local co-op, or working as a short-haul truck driver. With current low unemployment rates, many companies are looking for experienced workers. Also, if you have underutilized equipment and extra time, farmers can do **custom work for other farmers** and use the income to reduce overall borrowing for the farm.

A farm can potentially **lease underutilized equipment or buildings** to another farmer and bring in more income. You can also **sell underutilized or unneeded equipment**. If you still need them for some work, you can lease them back or use a custom operator to meet the need. Not only do you avoid paying ownership costs for underutilized equipment, but you also obtain some extra income to offset borrowing.

Farms may be able to **defer or reduce large capital asset purchases** until interest rates are lower. Buildings can be refurbished and equipment repaired. You may still have to borrow money for this, but it will be less than constructing a new building or buying replacement equipment. Machinery costs can also be reduced by **sharing machinery** with a nearby farmer. If your farm is not large enough to fully utilize a piece of equipment, you can potentially share it with a neighbor and together you will make it economical to own. This arrangement takes a special relationship to avoid conflicts, but can be an effective way to reduce borrowing for new or replacement equipment. You can also potentially **trade use of equipment or buildings** with a neighbor. For example, one of you sell your planter, the other their combine, and you trade machinery to plant and harvest your crops. Communication is important, as is a jointly agreed upon way to value use of different equipment for trades. Custom rates may be useful for this.

Many farmers lease land and rental rates may have been set under more favorable conditions. Farmers may have to **cancel or negotiate lower rental rates** for some of this land; these can be difficult or awkward conversations, but important for the viability of your farm. Another possibility is to **switch to a different type of lease**, such as to an **input share lease** for which the landlord provides some of the inputs in exchange for a share of the yield. Some landlords may prefer a **flexible cash lease** where the farmer pays a lower base rate, and then only pays more rent if yield and price exceed preset levels. Finally, some landlords may accept a **custom farm operation**, in which they pay the farmer to plant and harvest the crop, but the landlord owns the crop and pays for all the inputs. The farmer can use this income to offset the cost of borrowing on their own operation.