

Plain Dirt Financing

Financial Information for Amish Farmers
July 2007

Brick and Mortar—construction planning

By John Mylin

We routinely get calls from farmers who are planning some sort of improvement to their farm. Often the conversation goes something like this:

Farmer: The tobacco market looks favorable and the boys are getting old enough to be good help with tobacco. I would like to increase acreage and need a loan to build a shed.

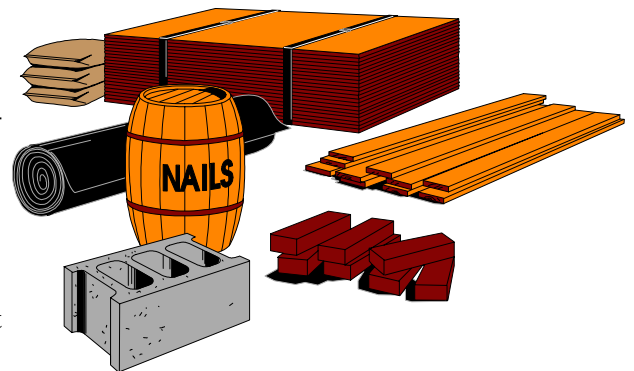
Loan Officer: I would be happy to help with loan for new tobacco shed. Do you know how much the shed will cost?

Farmer: I'm not really sure, but my cousin's son built a shed two years ago and rumor was it cost \$??,???.

You can probably imagine what the loan officer is thinking. How much thought and planning has this farmer done before coming to a decision to make this sizable investment? Increasing tobacco acreage may very well be a good opportunity to increase farm income and better utilize land and labor resources. The cost of a new shed and the required loan payments is certainly an important part of the decision to increase tobacco acreage. If the farmer hasn't made much effort to determine the cost of shed, the loan officer may wonder how much thought the farmer has put into decision to increase tobacco acreage.

I know from personal experience that on improvement projects of any kind, it seems as if the total cost always ends up more than you plan for in the beginning. When we receive requests for construction projects, we normally add an amount to cover cost overruns. While it is common for improvement projects to cost more than expected, the amount of cost overrun can be minimized if an honest effort is made to estimate the cost. It isn't just lenders that feel strongly about cost estimates, it is also good advice from a much higher authority as well. (Luke 14 28- 30)

From time to time we are asked, "What does it cost to build (a house, dairy barn, horse barn, whatever)?" A lender is probably not the best place to get estimates, this is a job for you contractor. We thought it would be interesting, however to take a look at some actual building costs. We were able to obtain actual costs from several individuals who recently completed building projects. They know who they are and we are grateful for their willingness to cooperate. We have tried to provide as much detail as possible.



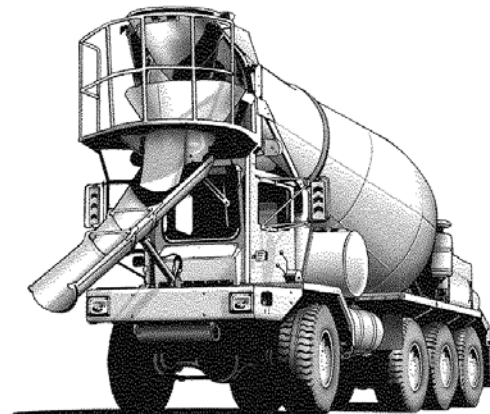
Construction Project #1 Complete Set of Buildings	
General Expenses	
Excavating/Stone	\$37,600.00
Well (3 holes)	\$7,200.00
Concrete	\$33,000.00
Concrete Block	\$15,200.00
Subdivision, Permits	\$7,000.00
Labor	\$10,000.00
Transportation	\$4,000.00
TOTAL for general expenses	\$114,000.00
Dwelling	
Linoleum	\$4,400.00
Windows	\$6,400.00
Cabinets	\$6,800.00
Paint	\$1,000.00
Drywall	\$6,800.00
Shingles	\$2,300.00
Siding	\$4,100.00
Drain field	\$1,700.00
Doors	\$1,700.00
Lumber	\$50,000.00
TOTAL for dwelling	\$85,200.00
Dairy Facility	
14x65 and 16x65 stave silos	\$33,400.00
8x58 manure pit	\$19,000.00
Roofing	\$13,000.00
Siding	\$6,500.00
Flooring	\$7,300.00
I-Beams	\$4,600.00
Curtains	\$2,200.00
Windows	\$700.00
Doors/headlocks	\$2,500.00
Feed manger tile	\$900.00
Cow stalls	\$5,800.00
Water pump, well hook-up	\$4,700.00
Water bowls, hardware	\$5,700.00
Gutter grates	\$2,500.00
Stall Mattresses	\$5,500.00
Framing lumber	\$17,000.00
Sawmill lumber	\$9,500.00
Diesel, bulk tanks, etc	\$25,000.00
Tobacco rails (175 x 12)	\$2,100.00
Spouting	\$1,500.00
TOTAL for dairy facility	\$169,400.00



**Tobacco Shed Specs
(Shed #1)**

45x100 with 3 tiers to square and
three tiers above square
8,000 lath capacity

Tobacco Shed #1	
Concrete block	\$6,000.00
Used framing & timbers	\$1,600.00
Weatherboarding	\$6,000.00
Tin roof	\$7,700.00
Concrete	\$4,000.00
Miscellaneous	\$2,700.00
Excavating	\$5,000.00
Paid labor	\$8,000.00
TOTAL	\$41,000.00



Dwelling Specs

38x30, 2 story
22x10, 1 story wash house
38x12, 1 story enclosed porch

Dairy Facility Specs

40x80, 2 story bank barn (box stalls-upper/feed & M/E lower
100x40, 1 story dairy addition (48 stalls)
Milk House
Diesel Shanty
8x40 calf kennel (12x40 overhang roof), 10 calf stalls

Construction Project #2 Complete Set of Buildings	
Permits	\$2,200.00
Driveway & Stone	\$19,000.00
HOUSE	
Excavate	\$3,500.00
Septic & spout runoff	\$9,700.00
Footer & block	\$5,000.00
Well	\$2,100.00
Windows	\$6,100.00
Drywall	\$7,400.00
Plumbing	\$4,000.00
Cabinets	\$7,400.00
Paint	\$1,380.00
Flooring	\$3,800.00
Labor	\$5,600.00
Framing, siding, insulate, roof, paneling	\$20,611.00
TOTAL for house	\$76,591.00
BARN	
Excavate	\$20,000.00
Footer & block	\$18,100.00
Stable con	\$8,000.00
Grates/gates	\$4,000.00
2 Silos	\$21,400.00
Manure Pit	\$19,000.00
Sawing (heavy timber/roof lath)	\$5,000.00
Fence	\$7,000.00
Mattress	\$4,000.00
Stalls	\$6,200.00
Spouting	\$2,500.00
Plumbing	\$4,000.00
Bulk tank, compressor	\$11,800.00
Labor	\$23,000.00
Frame, siding, roof, floor	\$66,954.00
TOTAL for barn	\$220,954.00



Tobacco Shed #2	
Permit	\$52.00
Block	\$8,228.00
Framing	\$14,754.00
Gabelt	\$3,524.00
Flooring	\$2,511.00
Roofing, metal, siding	\$12,278.00
Labor	\$6,370.00
Window & Misc.	\$1,250.00
Grading	\$5,383.00
TOTAL	\$54,350.00

**Tobacco
Shed Specs
(Shed #2)**

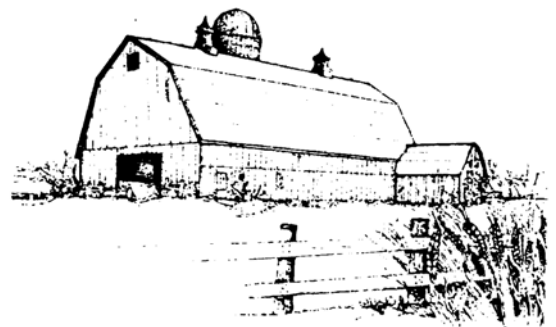
32x75
6,000 lath
Full cellar
Stripping floor
Tin Siding

Dwelling Specs

32x38, 2 story
12x26, enclosed porch
20x28, wash house
No paid labor

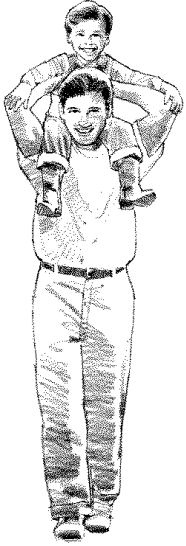
Dairy Facility Specs

46x64 bank barn
40x90 lip roof dairy wing (47 stalls)
32x50 heifer addition
16x20 milkhouse
(2) 14x60 silos
Manure Pit



How poor are you?

One day, the father of a very wealthy family took his son on a trip to the country with the express purpose of showing him how poor people live. They spent a couple of days and nights on the farm of what would be considered a very poor family.



On their return from their trip, the father asked his son, "How was the trip?" "It was great, Dad," "Did you see how poor people live?" the father asked. "Oh yeah," said the son. "So, tell me, what did you learn from the trip?" asked the father.

The son answered:

"I saw that we have one dog and they had four. We have a pool that reaches to the middle of our garden and they have a creek that has no end. We have imported lanterns in our garden and they have the stars at night. Our patio reaches to the front yard and they have the whole horizon. We have a small piece of land to live on and they have fields that go beyond our sight. We have servants who serve us, they serve others. We buy our food, but they grow theirs. We have walls around our property to protect us; they have friends to protect them."

The boy's father was speechless.

Then his son added, "Thanks Dad for showing me how poor we are."

Isn't perspective a wonderful thing? Makes you wonder what would happen if we all gave thanks for everything we have, instead of worrying about what we don't have. Appreciate every single thing you have, especially your friends!

Parable of the Carrot, Egg, and Coffee

You may never look at a cup of coffee the same way again.

A young woman went to her mother and told her about her life and how things were so hard for her. She did not know how she was going to make it and wanted to give up. She was tired of fighting and struggling. It seemed as one problem was solved a new one arose.



Her mother took her to the kitchen. She filled three pots with water and placed each on a high fire. Soon the pots came to a boil. In the first, she placed carrots, in the second she placed eggs and the last she placed ground coffee beans. She let them sit and boil, without saying a word. In about twenty minutes she turned off the burners. She fished the carrots out and placed them in a bowl. She pulled the eggs out and placed them in a bowl. Then she ladled the coffee out and placed it in a bowl. Turning to her daughter, she asked, "Tell me, what do you see?" "Carrots, eggs, and coffee," she replied. She brought her closer and asked her to feel the carrots. She did and noted that they were soft. She then asked her to take an egg and break it. After pulling off the shell, she observed the hard-boiled egg. Finally, she asked her to sip the coffee. The daughter smiled as she tasted its rich aroma. The daughter then asked, "What does it mean, mother?" Her mother explained that each of these objects had faced the same adversity—boiling water—but each reacted differently. The carrot went in strong, hard and unrelenting. However after being subjected to the boiling water, it softened and became weak. The egg had been fragile. Its thin outer shell had protected its liquid interior. But, after sitting through the boiling water, its inside became hardened. The ground coffee beans were unique, however. After they were in the boiling water they had changed the water. "Which are you?" she asked her daughter.

"When adversity knocks on your door, how do you respond? Are you a carrot, an egg, or a coffee bean?" Think of this: Which am I? Am I the carrot that seems strong, but with pain and adversity, do I wilt and become soft and lose my strength? Am I the egg that starts with a malleable heart, but changes with the heat? Did I have a fluid spirit, but after death, a breakup, a financial hardship or some other trial, have I become hardened and stiff? Does my shell look the same, but on the inside am I bitter and tough with a stiff spirit and a hardened heart? Or am I like the coffee bean? The bean actually changes the hot water, the very circumstance that brings the pain. When the water gets hot, it releases the fragrance and flavor. If you are like the bean, when things are at their worst, you can get better and change the situation around you with God's help. How do you handle adversity? When adversity strikes, ask yourself...ARE YOU A CARROT, AN EGG, OR A COFFEE BEAN?

Understanding your collateral responsibilities

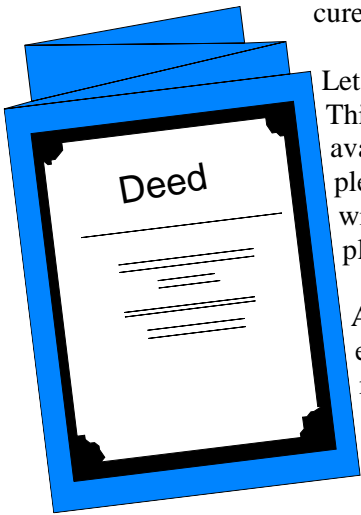
By Jerry Phillips

When MidAtlantic Farm Credit evaluates loan requests, we essentially look at five credit factors:

- What is the purpose of the loan?
- What financial position does the borrower currently have?
- What management ability does the borrower have to make it work?
- What is the repayment ability of the borrower?
- What collateral is being offered to 'back up' the request?
-

I want to spend some time talking about the collateral, and your responsibility to the lender in this regard.

Collateral is something that a borrower pledges to the lender to secure or 'back up' the loan that is being given to the borrower. This could be a mortgage on real estate, it could be a secured transaction with cows and equipment, it could be a secured transaction with business inventory or crops (tobacco, feed inventory, etc.)



Let's suppose that dad has pledged his farm on a mortgage as part of helping a son buy a farm. This is typically done to provide sufficient financing to buy a farm when there is not enough cash available from the son to cover the entire amount against the farm being purchased. So...dad pledges his farm to cover the money needed, until the son's loan is paid down enough to cover with just a mortgage on his farm. Dad needs to be aware that this may take some years to accomplish and that in the meantime it may affect other financing that he would like to pursue.

Another example of real estate collateral concern is if the parents transfer the deed to the real estate to a son or daughter, subject to the lender's mortgage, without paying off the debt. This may limit future financing options for refinancing the debt that remains in the parent's name, and it may limit future financing options for the son or daughter when they have a farm that has more debt on it than they may realize.

With livestock or equipment, the lender typically expects the loan to be paid in full when the collateral is sold...whether it is sold to a son getting started or sold at public auction. Failure to do so is a serious concern that may affect not only the seller of the collateral but the buyer of the collateral as well.

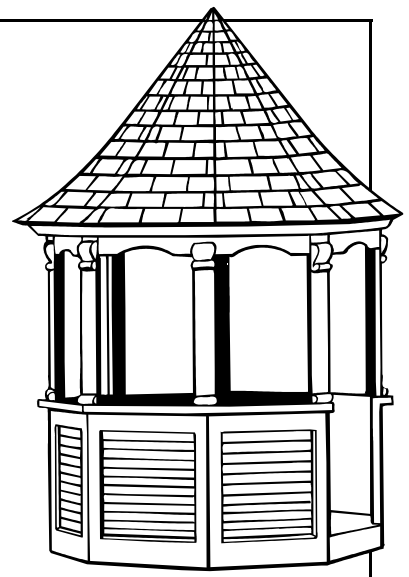
One of the best ways to handle these concerns is through communication with your lender. By sharing your thoughts and plans with your lender ahead of time; everyone gets to be on the same page, and there are fewer chances for 'surprises' for everyone. Good communication with your family is essential when making changes in your operation, and it is essential in working with your lender when changes are being made.

Help us spread the *Dirt*

By Dale Peifer

For the past year or so we've been reminding you that Farm Credit can loan money for more than just farms. We have the ability to finance properties that are primarily residential. We realize that most of our **Plain Dirt Financing** readers are full-time farmers; and many have no need to be familiar with what we can do with non-farm properties.

We know, too, that some of you have passed along the **Plain Dirt** to children or friends that you thought may be interested...we appreciate that; thank you. And we encourage you to continue to do that. If you have a business or shop with a lunch room or waiting room, we'd be glad to regularly send you some extra copies for distribution to employees or visitors to your business. Just give us a call or drop us a note.





MidAtlantic

Farm Credit

PO Box 7327
Lancaster PA 17604

PRESORTED
STANDARD
U.S. POSTAGE
PAID
LANCASTER, PA
PERMIT NO. 472

This newsletter
is for you.

*If you have story ideas
or a financial topic
you'd like us to feature,
give us a call!*

John Mylin
Dale Peifer
Jerry Phillips

800.477.9947

Dates you'll want to know!

Farm Safety Event

October 6

Family Farm Safety Day
Robert Fulton Fire Hall
Wakefield

Another event of interest!

August 14-16

Ag Progress Days
Rock Springs, PA