Anticipating 2015 Farm Income Decline

With a drop in grain prices and sustained drought in many states, the USDA forecasts a 32 percent decline in farmers’ incomes for 2015, its lowest level in six years. Two years ago, producers posted record farm profits of $129 billion. The projected farm income for 2015 is $73.6 billion. Trends also suggest grain prices will be 25 to 40 percent less than a year ago.

Many producers experienced the 1980’s downturn and knew high grain prices would not last. As they finish spring planting, farmers may be more conservative with inputs on new crops, which remain high. “Input costs for seed, chemicals and fertilizer have not changed even though crop prices have dropped over 35% since 2012,” said Duane Hund, Farm Financial Analyst for K-State Research and Extension.

“Additionally, farmers have increased costs for machinery and equipment they are making payments on now, with minimal cash flow. These costs of operating will make it challenging for some to remain profitable and pay back debt.” Hund also emphasized the importance of carefully assessing the current operation in addition to costs of living and making adjustments as needed. “Many producers may not realize the impact this cost price squeeze will have on their operation unless they become proactive in their business planning,” he said.

Livestock producers may benefit from low grain prices; however, they are also rebuilding herds sold-off as a result of multi-year drought. On the other hand, holding back cattle may leave some feedlots and packing plants short of operating at top efficiency.

Producers and ag creditors looking for information and resources to help operations remain financially viable during uncertain economic times as well as referrals to K-State Research and Extension’s Farm Analyst Program, should contact Kansas Agricultural Mediation Services, 800-321-3276. Calls are free and confidential.

FSA Direct Loan Delinquencies and Restructuring Options

Since most Farm Service Agency (FSA) direct Farm Loan Program loans come due at the end of the calendar year, FSA’s direct loan delinquency report for the month of February gives a fairly accurate statement of how many borrowers were unable to make payments on their FSA direct loans and where they are located. The map available at ksre.k-state.edu/kams shows the number of FSA direct farm loan borrowers who are delinquent on their loans as of January 31, 2015.

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5.4 percent of FSA direct loan borrowers were delinquent on their loans, which translates into a total of 161 borrowers statewide. This is less than in years past; for example, in 2009 the delinquency rate was 15.1 percent and it has been declining each year since then with record grain and cattle prices bolstering the ag economy.

However, for those who are delinquent it is still distressing. The recent substantial drop in grain prices has contributed significantly to the delinquencies and will have an impact in the years to come as borrowers adapt and recover. There are several areas where the regional delinquency percentage is more than the statewide average such as north-central, south-central, south-west, and west-central Kansas where the drought has had its worst impact.

**FSA Direct Loan Restructuring Options**

Once a FSA direct loan borrower becomes 90 days delinquent (usually around April 1st) then FSA will send out the required paperwork to the borrower to apply for restructuring of their FSA direct loans. That application must be filled out and returned within 60 days from the date of receipt. Borrowers have valuable rights and a substantial variety of options if they are delinquent on an FSA direct loan, but they need to respond timely FSA's notice of loan servicing alternatives to take advantage of them.

*If the borrower responds timely, but FSA denies the restructuring application because a feasible plan cannot be shown to make payments on the FSA loan as well as with other creditors, then one of the options the borrower has is to request mediation through Kansas Agricultural Mediation Services (KAMS). KAMS can help borrowers explore options and generate solutions through mediation and with assistance from financial counselors and attorneys in preparation for mediation.*

**Assistance Available for 2015 Disaster Designations**

Ninety (90) Kansas counties are now officially designated disaster areas due to drought. Sixty-seven of those counties had a disaster declaration due to drought affecting the 2014 crop year, and fifty-one of those counties had a declaration affecting the 2015 crop year. Twenty-eight (28) counties had disaster declarations for both the 2014 and 2015 crop years. These declarations make Kansas producers in those counties eligible for USDA Farm Service Agency (FSA) Farm Loan Program (FLP) emergency loans available for physical and/or production losses related to the disaster.

In addition, FSA FLP direct loan borrowers may be eligible for the Disaster Set-Aside program which allows the borrower to defer a payment owed on a FSA direct loan to the end of the loan term if they can show an inability to make the required payment, pay other creditors, or pay other operating expenses due to the disaster. This may be particularly helpful this time of year because FSA is now considering applications for restructuring FSA direct FLP loans that were delinquent as of January 1, 2015.

*Any producer with concerns regarding FSA loan programs or any other ag credit issue can contact Kansas Agricultural Mediation Services for no cost, confidential support at 800-321-3276.*