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 Cooperative
Extension Service



Farm Update

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AGRICULTURE & NATURAL RESOURCES
EDUCATION

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Interest Rate Decisions

Jennifer Rogers, Purchase Area Extension Specialist for the Kentucky Farm Business Management Program, wrote the following article on interest rates and refinancing considerations. The Federal Reserve increased interest rates 11 times between March 2022 and July 2023. This rise in interest rates has increased the cost consumers and businesses pay on borrowed money at all levels. Our Kentucky farms are no exception to this increase in cost. Farm businesses have been paying more on operating loan interest as well as intermediate and long-term rates. This increase in interest expense affects the profitability of the farm business. However, the struggle does not end there. Increased interest rates affect the ability to use refinancing to manage cash flow issues.

Refinancing has long been a tool to help provide for cash flow. Refinancing can be used to extend the repayment period on a loan, typically reducing the required annual payment amount. Reducing required annual payment helps free up cash to use for other purposes. Refinancing may result in paying out more interest over the life of the loan, however, the reduced cash requirements each year may help consumers meet their other financial obligations in the current financial year.

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Refinancing can be done on any class of debt. Long-term mortgage loans can be refinanced and stretched out over a longer term to reduce the payment. When interest rates drop, refinancing a long-term loan for a reduced interest rate may allow the borrower to shorten the loan's length or significantly reduce the payment amount. Refinancing can also convert short-term debt to long-term, allowing the borrower to pay off the debt over time instead of in the current year.

Many farm businesses in particular have benefited from being able to convert short-term debt into long-term debt to improve cash flow and keep that farm business operating. This practice typically takes money borrowed to pay for operating expenses such as seed, fertilizer, and labor, and uses long-term collateral such as land to convert the debt to long-term. This will result in mortgaging a farm to pay off the short-term debt. The payments on the mortgage are typically spread out between 10 and 30 years, making the annual payments affordable and allowing the farm to continue operations. This is never the situation that farm businesses would hope for, but given the volatility and risk associated with farming, it is sometimes the only option to continue after a bad year.

The increase in interest rates has negatively affected the ability to refinance debt to help with cash flow. Most farm mortgages are currently held at interest rates much lower than the current interest rate. By refinancing the debt, the entire mortgage principle (existing and refinanced) would be mortgaged at the current higher interest rates. These higher interest rates impact the required annual payment, decreasing or negating the cash flow benefits that refinancing might have provided.

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In Kentucky, we have recently seen a decrease in farm profitability. Decreased crop prices along with highly volatile input costs have put many farms in financial struggle. Higher interest rates impact many farm costs. If farms are unable to meet their current financial obligations, these higher interest rates may also prevent farm producers from utilizing refinancing to help with cash flow. Cost management, budgeting, and profitability are more important than ever for survival of the farm business.

Pest Management Field Day

The annual Pest Management Field Day will be this Thursday, June 27 at the University of Kentucky Research and Education Center at Princeton (UKREC). The event, tailored for grain crop producers and industry representatives, offers a unique opportunity to stay informed of the latest research and strategies in pest management. Due to ongoing construction at UKREC, the day will commence with introductions at 8:30 a.m. CDT at the Princeton First Baptist Church Christian Life Center, located at 300 W. Main St.

Following the introductions, participants will travel to the UKREC field plots to explore cutting-edge research conducted by UK Cooperative Extension specialists. This research forms the UK College of Agriculture's recommendations for managing weeds, diseases, and insect pests affecting Kentucky's corn and soybean crops.

Participants can pre-register by calling the UKREC at 270-365-7541, extension 22569, or emailing jason.travis@uky.edu. Continuing education units for Certified Crop Advisors and Kentucky pesticide applicators will be available.

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