



DIBS

**Dairy
Issue
Briefs**



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Plummeting prices in the dairy industry are creating critical cash-flow and long-term survivability issues on Ohio's 3,328 dairy farms. Cost-cutting decisions must be made with full awareness of both short and long-term production and economic consequences. OSU Extension's Dairy Working Group, a collaboration of OSU Extension Educators and Specialists discuss:

Reducing costs to improve short term cash flow

Are there opportunities to decrease my current debt payments?

Maybe. Interest rates have been declining, so it may be possible that you have loans with higher fixed-interest rates than are currently available.

If so, it may be possible to shave a little – or a lot off of these fixed-rate loans by refinancing the loan at one of today's lower rates. There is typically an up-front cost or conversion fee, to refinance a loan, so the potential savings in interest has to be greater than the cost to refinance. Loans with flexible or variable interest rates have payments that fluctuate with interest rates and will already reflect lower interest rates. Just be aware that the payments will also increase as interest rates increase.

Example:

A mortgage note has a current balance of \$111,700 with interest fixed at 6.6%. There are 129 monthly payments of \$1245 remaining. It will be paid off in 2020. A new rate of 5.85% is available with a one-time conversion fee of \$656. New monthly payments would be \$1156.

The difference in monthly payments is \$89 per month. In this case, it will take more than seven months before the farm actually realizes savings from the change (the length of time it will take to recoup the fees). However, the farm will save more than \$10,900 in interest over the remaining life of the loan.

Potential savings are greater for loans with later maturity dates. More of each payment is going towards interest than principal. In the last year or two of a loan, most of the payment is going towards the principal rather than interest, so savings may not be worth the fees to refinance the note. Visit with your lender, find out what the opportunities might be and push a pencil before making a decision.



Bottom Line #1: If you have not reviewed and refinanced your existing debt recently, there may be an opportunity to lock in lower interest rates, decreasing your total debt payments once conversion fees have been covered. Because of the fees involved, most savings will be realized later this year and in future years.

Bottom Line #2: Interest rates are currently very low. If you have variable interest rate loans, consider converting them to fixed-rate loans to lower the risk of interest rates increasing rapidly in the future.

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