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Beef Cattle and Capital

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Though some of the areas of our states vary to a great extent, I'm sure you are witnessing in a good portion of South Dakota the same situation we have in Iowa -- a change in the entire pattern and concept of beef cattle production and feeding.

It has been typical in Iowa to purchase most of our feeder cattle from other states. In fact, one-half the entire value of our corn crop has traditionally been spent on feeder cattle from outside of Iowa. Over one million dollars per day has been expended for feeder cattle to be finished in Iowa farmer-feedlots to make Iowa with its corn crop number one in beef production in the nation. Suddenly, it seemed, the picture changed. Kansas, Oklahoma, Texas, Colorado and Nebraska went the route of commercial feedlots and started to feed out more cattle than they raised. Operators proceeded to secure their replacements from the Dakotas, Iowa and other states as needed. Our supply of heavy feeders has become depleted, per capita consumption of beef has increased, commercial feedlots are a common thing instead of a rare sight and farmer-feeders are wondering what route to take. In the meantime, packers are taking a hard look at their situation - where do they expand and what plants will in years to come have sufficient fat cattle to justify plant modernization.

Speaking in South Dakota, I do not like to refer to the Iowa situation but feel it necessary because of the situation we faced and the resultant action. Packers asked to meet with representatives of the banking industry and posed the simple question, "Is Iowa going to continue as a beef producing state or simply a grain exporting state?" Soon others became involved such as ISU and Extension, the Iowa Development Commission, other lenders and the press.

Certain facts became very evident: (1) We had a certain amount of labor on farms not being fully utilized without livestock enterprises or with a limited amount of livestock, (2) We were not utilizing about one-half of our already available roughage, (3) Corn stalks were being left to rot which represented a goodly portion of the feed value of the corn plant depending upon the method of utilization, (4) We had the potential roughage production to produce from 400 to 600 pounds of beef to the acre but had, for the most part, not looked into that area of potential income. We had 1,500,000 cows - could increase to 3,000,000 with little effort by using what we had - and agronomists tell us we have the potential of 7,000,000 if we really work on it to full capacity, which we realize is not going to be for years to come - if ever.

My own role in this has been primarily as a banker. This I think leads into, what I feel, is the major key to success or failure of the program -- the "operator." It is not enough to have decided a certain individual has the feed and labor going to waste and the additional land on which he can produce ample roughage. He must

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Prepared for Cow-Calf Field Day, Highmore, South Dakota, August 25, 1972 be a "cow-man" and a "manager." Not all "cow-men" are good managers and capable of tying these factors together. Not all "managers" are good cow-men and are interested in and inherently capable of handling this type of program. As in most other enterprises -- it is the ability of the operator that will be the deciding factor.

Once we have determined a cow-calf program will work on a given farm and the man shows a reasonable degree of competence in this area, the next question is -- can it be financed and how? For many years we have followed a program suggested in a news article about Kermit Anderson who is in a bank in Nevada, Iowa. Prior to that, we made one or two year cow loans and a few times much to our disgust. Invariably when we thought we would get a reduction at time of renewal, the proceeds of the cattle produced from the herd went to other creditors for machinery, farm payments, cars, etc. We now follow a variable policy of three to five years on a cow loan. Date of maturity will vary with the individual and his circumstances and program. At weaning time, we make a loan on the calves going into the feedlot for a nominal amount which will vary from $60 to $100. The proceeds of that loan are applied on the cow note. When the cattle are sold, the calf note is paid off. A new financial statement will show the increase in herd size due to the retention of heifers and justify a slower than normal repayment. Each case is something that calls for separate terms but this plan has been basically sound and workable. I should add at this point that thought to developing a covenant agreement which will be signed at the onset of the loan which will set forth certain conditions operators will be expected to adhere to in order to make for a more acceptable term loan is being given by a group of bankers. This would provide more protection to the lender by clearly setting forth terms under which the loan will be continued. It will eliminate misunderstandings from verbal agreements. This repayment plan has and will work if adhered to by the borrower. It won't work if the money from the sale of the proceeds goes for other items and nothing is paid on the loan. The ultimate goal of any farmer should be to own his breeding herds of cattle and hogs. This does not mean I am opposed to their use as collateral for future debt to facilitate some other worthwhile acquisition.

The financing of cow-calf operations does not necessarily end upon purchase of the cow units. Very often there are other inputs required for a complete success. Pasture improvement and renovation is most essential. Agronomists tell us we can double our cow numbers in Iowa to 3,000,000 head by simply utilizing our excess pastures, hayland and diverted acres plus more complete utilization of our cornstalks. Other Mid-West states are probably in the same position. Nutritionists tell us we are wasting 25 to 50 percent of the feed value of our corn plant by picking only the ear, depending upon how and when it is harvested. Equipment for handling silage and/or fodder and storage facilities may be required. This takes additional capital on a term basis.

Pasture improvement also involves the use of funds. Experiments have shown that southern Iowa land is capable of producing from 400 to 600 pounds of beef to the acre through the use of improved grasses. This is without irrigation. The cost of seeding, fertilization and fencing must be taken into consideration along with certain bulldozing and clearing costs which might be involved. Cost per acre can vary from $20 to $100, depending upon the situation. A good example of the return per acre on good land producing top forage is a local customer. His farm management records reveal a return in excess of $250 for every $100 of feed costs with a small beef herd utilizing good pasture, diverted acres and often wasted cornstalks.

The method of financing the equipment, renovating, fencing and other inputs involved must of necessity vary with the individual. In some cases, one is dealing with a farm owner with minimal or no indebtedness on his land. In some instances the operator is a contract purchaser with very little equity. In others, a tenant might be involved where tenant-landlord cooperation is required. The point I want to make is that financing cow-calf operations does not stop with the purchase of the cow, who immediately returns a coupon in the form of a new-born calf, without other expenditures when developing an efficient operation producing to the maximum.

One practice we try to encourage is the maintenance of some feed reserves. During a year of extremely good production of pasture and hayland, operators are encouraged to store some extra feed in the form of hay and silage to help tide them over in the event of a drought or some other adversity affecting production. Anyone in the cattle business with many years of experience is aware of the possibility of adverse weather forcing the liquidation of breeding herds on a depressed market. If producers would set aside excess feed when available they could often ride through the storm. One might say this is a way of putting "money in the bank." Granted, there may be some loss of feed value but it still beats not having any feed available.

I would like to pass on a "thought" at this time that might be applicable in some areas. If a farm produces a fair amount of grain and the producer desires to feed out his cattle, can he afford to set up an efficient feeding operation on his own farm? Should certain communities consider raising local capital and setting up "community feedlots" where cattle and feed could be contributed to finish out the cattle? I feel there might be places this would work and should be explored to secure the maximum sales value of the farm's production without creating too large a capital investment on each individual farm unit.

Financing a beef cow operation is not a quick "in and out" situation. As I have mentioned, it calls for the cows, the time to market the production, the other costs of living and operating continues, other capital for equipment is needed - and it all takes time for repayment. That being the case, the borrower must enter the financial program of beef production knowing he has a responsibility to the lender to run an efficient operation with all pertinent information passed on to the lender at all times. Lenders don't like "shock" treatments. Term loans require a complete and honest relationship between lender and borrower. A well-planned enterprise operated by a cow-man with management ability and adequate land properly financed can and will succeed to the benefit of the borrower and the lender -- but it takes full cooperation between both parties.