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## Financial Information Base of Participants in FSA Borrower Training

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PREVIOUS  
ARTICLE



ISSUE  
CONTENTS



NEXT  
ARTICLE

## Financial Information Base of Participants in FSA Borrower Training

### Abstract

The article presents the results of a survey designed to assess the financial records knowledge of farmers in FSA training. Questions are asked about which records farmers are currently keeping and how they use those records and financial information. Results suggest farmers are keeping track of mainly cash expenses and are not developing much analysis from their records. Farmers do appear to appreciate the importance of financial records, however. FSA borrower training can help borrowers improve their financial record knowledge to make better farm business decisions. Also, the 2-day format of the workshop seems to be successful at providing detailed financial information.

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## Background

The Farm Service Agency (FSA) provides two types of loans to farmers. With the guaranteed loan program, the FSA encourages agricultural lending by guaranteeing 95% of the principal loan amount of conventional lenders. While the conventional lender is responsible for servicing the loan, FSA has the right to monitor the lender. These loans must meet certain criteria to be eligible for the guarantee (FSA, 2001).

The second type of loan is a direct loan from FSA. Instead of a conventional lender being involved, FSA funds and services the loan itself. Most of the direct loans are for farm ownership, operating, and emergency uses. Minority and beginning farmers also receive funds from the direct loan program (FSA, 2001).

One of the criteria for applicants of FSA direct loans is for adequate farm management training or experience (7CFR1924.74). However, little is known about the pre-training financial knowledge levels of FSA loan applicants. The study reported here presents the results of a survey designed to assess financial knowledge and how financial records are currently used by FSA loan applicants.

For Extension educators, this FSA training presents some unique challenges and opportunities. The main challenge occurs because attendance is mandated by the FSA. Thus, training usually starts with an audience that would prefer not to be there. One of the opportunities is trying to build a cohesive 2-day program. Extension educators seldom get a chance to cover so many financial

management ideas all at once.

These results should be useful to policy makers and educators because several of the FSA educational objectives include understanding and utilizing financial statements. Training can then be modified to fit the pre-training knowledge level of participants. The six educational objectives of FSA training are:

- Describe and explain the goals of the business.
- Maintain and utilize a financial management information system to make financial and production decisions.
- Understand and utilize an income statement.
- Understand and utilize a balance sheet.
- Understand and utilize a cash flow budget.
- Be able to identify problems, evaluate alternatives, and make correct decisions.

### Previous Studies

Several other studies have examined issues related to borrower and farmer training. Hanson, Delavan, and Power (1996) outline the FSA training used in Pennsylvania from 1994 to 1995 and discuss implications for future borrower training. Hanson, Parsons, Musser, and Power (1998) expand on the Pennsylvania training to address the results of the course evaluation. Hanson and Parsons (2000) discuss some of the presentation techniques, especially satellite uplink vs. videotape for borrower training. Trede and Whitaker (1998) examine the educational need of beginning farmers in Iowa. They focus on the best method to present information.

These previous studies show some of the results and the techniques of farmer/borrower training. What is missing is some information about borrower knowledge levels and use of financial tools before the training occurs.

### Methods

The study reported here describes what records farmers in the Kentucky FSA borrower training program maintain and how records are used by those farmers. The FSA borrower training is normally conducted with two or three state farm management specialists, an area farm management specialist, and an Extension associate. A financial and production records survey is administered at the beginning of each 2-day workshop. This survey is designed to assess what records are kept and how much farmers know about financial statements prior to the training. Data have been collected from all farms since the inception of the borrower training program in 1995. The study summarized data collected from 226 farms during 18 sessions in 1995-1997. All of the farms are from Kentucky.

Farmers participating in FSA training seem to be fairly typical of other farmers in Kentucky as far as the types of crops and livestock produced are concerned. Tobacco is the most common crop grown, with 87% of the participants in FSA training reporting growing at least one acre on their farms. Corn and soybeans are grown by 51 and 21% of the participants, respectively. From the livestock side, 59% of the participants raise beef cattle, and 26% are involved with dairy. The average size farm is 350 acres.

The survey instrument contains questions designed to determine how farmers currently use records and financial information in their farm businesses. It indirectly tests some of their knowledge of records as indicated through some of the responses.

Workshop facilitators use the survey data to customize the training for individual audiences. Responses are tabulated during the first session, and results and observations are included to make teaching points during the remainder of the workshops. For example, low response rates to questions about pesticide record keeping are often used to illustrate the need for improvement in this area.

### Findings



The percentage response to each survey question choice is indicated in Table 1. These are the percent of the total number of participants. Therefore, totals for each question might not sum to 100% if more than one response was checked or left blank. Question seven is slightly different because it subdivides the yes responses into why yes was chosen. These sub-yes percentages in question seven are thus the percent of the yes total for that question. Question eight is also different because it asks participants to rank the six choices in order. The number given here is the average numerical ranking for each choice.

**Table 1.**  
Responses to FSA Borrower Training Survey, 1995-97

Question	Response

<b>1. Do you have a separate farm checking account?</b>	
Yes	43%
No	57%
<b>2. How do you keep track of income and expense accounts? <sup>1</sup></b>	
Checkbook	74%
Categorized filing system	20%
Farm record book	15%
Professional bookkeeping service	4%
Computerized accounting system	3%
Other	1%
<b>3. Is your accounting system? <sup>2</sup></b>	
Cash	69%
Accrual	22%
<b>4. Who prepares your tax return? <sup>1</sup></b>	
Tax preparer	61%
Accountant	31%
Do-it-yourself	9%
Other	1%
<b>5. How often do you balance your checkbook?</b>	
Daily	22%
Weekly	27%
Monthly	43%

Quarterly	2%
Other	6%
<b>6. Does one family member have the main responsibility for bookkeeping?</b>	
Yes	76%
No	23%
<b>7. Do you discuss financial matters regularly in your family?</b>	
Yes	91%
No	8%
Yes - major purchases <sup>3</sup>	78%
Yes - big decisions <sup>3</sup>	74%
Yes - financial planning <sup>3</sup>	70%
Yes - family choices <sup>3</sup>	63%
Yes - credit planning <sup>3</sup>	59%
Yes - major sales <sup>3</sup>	39%
Yes - little decisions <sup>3</sup>	36%
Yes - crisis management <sup>3</sup>	34%
<b>8. Importance of financial records (average ranking 1 to 6)</b>	
Enterprise analysis	4.3
Dividing income among partners or landlords	4.2
Tax compliance	3.0
Evaluating farm performance	2.8

Providing information to lenders	2.8
Farm management and decision making	2.1
<b>9. Which of the following do you prepare at least once a year? <sup>1</sup></b>	
Income statement	69%
Farm budget	60%
Projected cash flow	52%
Statement of cash flow	46%
Balance sheet	43%
Schedule F	37%
Personal budget	35%
Statement of owners equity	27%
<b>10. What production records do you regularly use? <sup>1</sup></b>	
Crop yields	66%
Field records	47%
Pesticide use records	42%
Animal health records	37%
DHIA	8%
Weather records	8%
Other	8%
<sup>1</sup> Totals to more than 100% due to multiple responses. <sup>2</sup> Participants may not have understood what  accrual  actually meant. <sup>3</sup> Percent of farms that chose yes that also chose this subcategory. (Multiple responses were possible.)	

Question one asked whether farmers kept a separate farm checking account. The survey shows nearly 43% did, while 57% of the participants did not. This result is probably not surprising because many farms in Kentucky are fairly small and probably do most of their bill paying with one account. It does suggest that well over half the farms combine business and family living income and expenses, making separation of business performance more difficult.

### **Question Two**

As question two indicates, farmers in FSA training do very little tracking of income and expenses. Almost three-quarters of the farmers use their checkbook to record transactions, while another 20% file their expenses into separate files. Fewer than 25% of the farmers use a system (computer, record book, professional book keeping) that makes it easy to perform a periodic analysis of income and expenses. Probably less than 25% could do enterprise analysis because many record books are not designed for dividing income and expenses into enterprise categories. The percentages from question two total more than 100% because many farmers checked two or more choices.

### **Question Three**

Almost 70% of the farmers use cash accounting, as indicated from question three. Given the small size of farms and the benefits of cash accounting for income tax management purposes, this result is not unexpected. What is unexpected is that more than one-fifth of participants indicate that they use accrual accounting. Subsequent workshop discussions suggest that many people were not sure what accrual accounting involves. Also, accrual accounting requires more detailed record keeping, which question two indicates many farmers do not do. This question indicates some additional lack of knowledge of financial records as only 89% of the participants responded to this question.

### **Questions Four and Five**

Question four shows that fewer than 10% of the farmers prepare their own tax returns. Tax preparers and accountants do the bulk of the returns.

Question five may be somewhat misleading because farmers may interpret this as reconciling their bank statement versus how often they strike a balance. At least 22% of the farmers keep a current listing of their checking balance. This could be higher because some of the monthly responses may keep a running total but only reconcile once a month. What is surprising is the 2% of farmers who only balance their checkbooks on a quarterly basis. One would assume that all banks are sending monthly statements.

### **Question Seven**

Most farm families (91%) say they discuss financial matters on a regular basis, as indicated in response to question seven. Of this 91%, 78% discuss major purchases within the family. Other important discussion points are for big decisions (74%), financial planning (70%), family choices (63%), and credit planning (59%). This question depends upon the point of view of who fills out the survey. Often both the farmer and spouse are present; however, sometimes only the farmer attends the training. The results are probably more accurate when both farmer and spouse respond.

### **Question Eight**

Question eight probably reflects what farmers would like to do rather than what they actually do. This question asks participants to rank the six choices in order of importance from one to six. Farm management and decision making was ranked the most important, with an average score of 2.05. This was followed by providing information to lenders (2.79), evaluating farm performance (2.84), tax compliance (2.95), dividing income (4.20), and enterprise analysis (4.28).

Given that few of the farmers are currently keeping very detailed records, the top score to farm management is probably only a goal or a response with the answer they think the instructors want. This idea is reinforced by the fourth-place ranking received by tax compliance, something that all farms actually do. Subsequent workshop discussions often serve to highlight this disparity in farmer response to this question.

### **Question Nine**

Responses to question nine illustrate several points about the financial records knowledge of the participants. First, only 37% report filling out a Schedule F (the IRS form on which farm-related income and expenses are reported), while most participants readily admit to paying income taxes. Participants say this is because their accountants or tax preparers complete their tax forms. However, it could be a lack of understanding about what a Schedule F actually is.

This always becomes a teaching point in the workshops because of the low response rates. The Schedule F is often the only profitability measure many farms have, and this suggests that even it is not widely used. Second, the lack of detailed record keeping indicated in question two would seem to indicate a lower-than-indicated percentage of the financial statements from question nine are really completed.

The lack of farmer schedule completion also demonstrates a possible lack of financial knowledge. In question nine, five of the eight statements have a less than 50% completion rate. Only one statement, the income statement, is marked by more than two-thirds of the participants. However, this response rate for the income statement is inconsistent with the less than 40% response rate for the Schedule F. Farmers either have some confusion about the statements, or they are being completed by some third party such as a lender, tax preparer, or lawyer. Either condition suggests that participants are not readily familiar with the commonly used methods of measuring the financial position and progress of their farm business.

### Question Ten

Question ten examines the production records of participants. Two-thirds of the farmers keep track of crop yields, while only 8% keep track of weather. All the other production records have a less than 50% response rate. The DHIA percentage is low mainly because of the small number of dairy farmers in the program. The low response for both financial and production records seems to indicate a lack of understanding of the importance of record keeping. If some of these records were not required, the response rate might even have been lower.

### Conclusions

The survey reported here seems to indicate that FSA borrower training participants enter the financial management training with substantial management information deficiencies. To that end, the borrower training program is clearly needed and can help farmers meet the educational objectives. The survey data suggests that most farmers are not keeping track of enough information to make informed financial decisions. Further, many of the financial records they do prepare are being completed by others, and there is some lack of understanding of the records themselves.

Through farm financial management training provided by Kentucky's FSA borrower training workshops, farmers can learn to use information more effectively and become more profitable producers. In addition, 2-day workshops like these are successful at imparting detailed information to farmers even when the farmers are mandated to be there.

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