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DON'T BET THE FARM! 3 WAYS REFINANCING FARM MORTGAGE CAN BENEFIT YOU NOW

In today's volatile markets, there are precious few ways to materially reduce expenses on the farm or ranch without impacting production levels. However, today's financial environment provides you a unique and valuable opportunity to improve the cash flow of your farm while simultaneously reducing risk and uncertainty.

As the Federal Reserve has attempted to stimulate economic activity by increasing the supply of money in the economy, interest rates have fallen to levels not seen in several generations. For the farm or ranch owner, these remarkably low rates come at time when payment terms for farm mortgages are attractively flexible, making the refinancing of farm mortgages a great opportunity for virtually all owners of farmland. Whether an existing mortgage is close to its maturity date, or there are still several years remaining, it is important to act now to take advantage of the lower rates and longer maturities currently available. The sooner you can lock in these rates and terms, the sooner you can benefit from the improved cash flow from the lower payments.

There are 3 benefits to refinancing your farm mortgage now.

1. **Rate Reduction**: While this is an obvious benefit, it seems few people are aware of the magnitude of change available. Today 7 year fixed rates are available to strong borrowers at rates around 3.50%[1], and 15 year rates are available around 3.90%[1], which are approximately 1% below equivalent rates as recently as January of this year, and well below rates of a year ago or more.
2. **Repayment extension**: In addition to the overall decline in rates, longer term rates have actually fallen more than short term rates, providing an opportunity to lengthen the repayment period (maturity and/or the period the payments are calculated over). The cash flow effect of the rate decline can be "super- charged" by lengthening the time over which the principal payments are spread and reducing each payment even further. The amount of this benefit in cash flow will be determined by the terms of the debt being refinanced, as today's farm mortgages can have amortization terms as long as thirty years.
3. **Target important objectives**: While many borrowers will want to use this favorable refinancing environment to maximize the cash flow benefit of reduced mortgage expenditures, some may instead want to use the range of payment structures available to target specific planned life events. For example, if current earnings are good, a borrower who wanted to retire debt free at a specific date may want to choose a payment structure with an accelerated payoff calendar targeted to that date. Alternatively, if the borrower planned on selling the land within a few years, they could choose a longer term amortization with a shorter term maturity in order to minimize current cash flow costs prior to the planned sale.

Uncertainty has always been the nemesis of the farmer. From weather, to insects, to government policy, the value of production is subject to forces beyond our control. However, the financial structure of your farm has never offered as much opportunity for improvement as it does today. Technology has even made the process quicker and more efficient than in the past. Now is a great time to take control of your financial future and review the opportunities and alternatives for refinancing the mortgage on your farmland

A good lender should be able to listen intently to your objectives and help you select the loan terms that best permits you to take advantage of today's exceptional rates and structural alternatives. While many banks may not be able to offer the full range of long-term fixed rates currently available, McHenry Savings Bank, through its relationships with FarmerMac and other leading farm lenders, can provide a full menu of attractive financing alternatives. Please feel free to contact me to discuss your situation or address any questions you may have.

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McHenry Savings Bank, NMLS# 630527, Equal Housing Lender, Farmer Mac Lender

[1]Annual Percentage Rate is effective as of 11/06/2020 and may vary based upon borrower's creditworthiness. All rates shown are based on a 25 year amortization.

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