AGRICULTURAL ECONOMICS

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Cornhusker Economics

Things to Consider before Co-signing a Loan

2-1-19Market Report	Year Ago	4 Wks Ago	3-1-19
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	126.50	*	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	195.06	177.15	180.85
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	152.56	149.16	145.98
Choice Boxed Beef, 600-750 lb. Carcass.	221.18	216.65	219.98
Western Corn Belt Base Hog Price Carcass, Negotiated	62.20	50.22	44.81
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	77.46	66.11	59.64
Slaughter Lambs, wooled and shorn, 135-165 lb. National.	137.80	131.38	134.24
National Carcass Lamb Cutout FOB.	363.22	380.90	374.77
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	4.67	4.63	4.03
Corn, No. 2, Yellow **Columbus**, bu.	3.52	3.52	3.52
Soybeans, No. 1, Yellow **Columbus,** bu.	9.82	8.15	8.06
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.84	5.70	5.45
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.97	3.30	3.13
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	150.00	*	175.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	98.00	100.00	105.00
Grass Hay, Large Rounds, Good Nebraska, ton.	*	85.00	92.50
Dried Distillers Grains, 10% Moisture Nebraska Average.	152.50	142.50	144.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	50.25	52.50	50.00

* No Market

Parents co-signing loans for their children is common in agriculture. This usually happens when the child needs a loan to purchase land, livestock, or farm equipment. Lenders are more willing to make the loan to a beginning producer if the parents co-sign. This means the parents promise to repay the loan if the younger producer cannot. Parents have been doing this as a way to help their kids get started in agriculture for decades. If the child turns out to be an effective producer, the risk of the parents being on the hook for the unpaid loan balance is pretty manageable.

There is another situation when parents may be asked to co-sign or guarantee payment of a child's debt–when the younger producer can't pay their loans. This may be the case today for some Nebraska producers, given current low crop prices and thin operating margins. The lender's request for the parents loan guarantee is a common way to provide additional security for loan repayment.

Obtaining the loan guarantee from the younger producer's parents often ends up being a late step in the ultimate loan foreclosure process, as illustrated in a 1987 Nebraska Supreme Court case (226 Neb. 314). In May 1983 the lender notified the son that it would need the father's guarantee of the son's operating loan to continue the loan. The amount owed was over $120,000 and the son's net worth was under $500. The father signed the guarantee, and the lender continued the loan. Five months later–November 1983, the lender called the loan because the son couldn't pay. After the son's property had been sold, the father paid over $75,000 to cover the unpaid balance. If the father hadn't co-signed, the lender probably would have started foreclosure in May, perhaps with some unpaid balance, and Dad would have kept his $75,000.

Here are some points to consider before you sign a loan guarantee for a family member who is heavily in debt:

1. *Will the loan co-signing work?* Get an outside financial analyst to give you an opinion regarding (a) can the operation be turned around financially and (b) will co-signing the loan help in that process. If the answer to either question is *no*, see Question 4.
2. *Cap the amount of the loan guarantee.* You don't want an open-ended liability, so fix the maximum dollar amount for which you will be liable.
3. *Find out from the lender how much debt payback is needed this year for the lender to continue operating financing next year*. If the family member has to pay everything off in one year, it isn't likely to happen unless you believe in miracles (see Question 1).
4. 4. *Can you afford to lose the amount of the loan guarantee* (see Question 2)? If you can't afford to lose the money (and it may be more likely than not that you will), then you can't afford to sign the loan guarantee.

This is a very difficult situation–no one wants to be part of losing the family farm or ranch. But if the loan guarantee isn't part of a financial turnaround plan that has at least a fighting chance of success, don't sign the guarantee unless you absolutely don't need the money for your own retirement.

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