

USING COMPUTER MODELS
TO
ANALYZE FARM LOANS

GUIDELINES AND RESOURCE MATERIALS
FOR EDUCATIONAL MEETINGS

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WHAT IS A MODEL?

- a small imitation of the real thing
- computer models are mathematical representation of a real situation
- the real thing in this instance is a farm business

WHAT IS THE PURPOSE OF A MODEL?

- to predict the effect of a decision or action prior to taking the action
- experimentation
- test before you invest

HOW TO DETERMINE THE EFFECT OF AN ACTION

TAKE THE ACTION

- The only sure way to find out
- Time consuming
- Costly
- Conditions may change

WATCH SOMEONE ELSE

- Faster
- Less costly
- Learn from his mistakes
- Situations may differ

USE A MODEL

- Fast
- Inexpensive
- Your own situation
- Vary conditions
- Can locate trouble spots

WHERE DO COMPUTER MODELS FIT IN THE DECISION
PROCEDURE?

AFTER THE FARMER

- has clearly identified his problem
- has decided upon a solution(s) to his problem
- has provided information needed for the analysis

BEFORE

- Making a decision on the loan
- The action !!

SOME MODELS THAT CAN BE USED TO ASSIST IN LOAN ANALYSIS

INVST

- An after tax present value analysis of a proposed investment in equipment, buildings, and/or land

OHIO CROP BUDGET

- An optimum cropping plan for a farm
- Economic analysis of changing equipment

DAIRY FARM PLANNER

- Economic analysis of proposed changes in the organization of a dairy farm

HIRE

- Economic analysis of question "Should I buy a piece of equipment or hire the job done"

WHY COMPUTER MODELS IN LOAN ANALYSIS?

PREDICT EFFECT OF CHANGE

- Test before you invest

EXPERIMENTATION

- Alternatives
- Speed
- Accuracy

RIGOROUS ANALYSIS

- Complexity of decisions
- Consider more factors
- Maximize profit
- Minimize cost
- Forces collection and consideration of relevant information

TEACHES PROBLEM SOLVING PROCEDURE

HOW CAN THESE MODELS BE USED?

JOINT ENDEAVOR

- Ag lender
- Co-op Extension Service

CURRENT ACCESS

- Remote terminals in Area Extension office
- Mail in system
 - Area and/or County Extension office
 - OSU

FUTURE ACCESS

- Remote terminals in PCA offices

EDISON LOGO

