generation? A useful approach is to determine the amount of debt service that the farm business can absorb. Five variable must be considered. These are, net income available for debt service, price, interest rate, length of contact and amortization schedule.

Family expenses must be subtracted from the net income to determine the amount of income available for all debts. In determining this amount a trend line analysis should be performed. What is the trend over the last ten years of operation and what is the average amount available for debt service? The remaining factors are price, interest rate, length of contract and amortization schedule. Each of these variable can be adjusted.

The maximum amount of the debt must be equal ability of the farm business to generate sufficient income to fund a payment determined by price, interest rate, length of contract and amortization schedule. The impact of each of the variables is not the same. Length of contract and amortization schedule have a relatively greater impact that acceptable interest rates. Price is the greatest determinate. If one assumes an interest rate a percent below commercially available loans, a 20 year contract, and a twenty year amortization schedule then price must be discounted to a level where the net income available for debt service can make the payment.

A simple spread sheet is available from the Beginning Farmer Center at Iowa State University to calculate the discounted price.

The farm business owners and the non-farm heirs may be concerned that the farming heir could purchase the farm asset at the discounted price and the immediately sell it at fair market value. A shared appreciation agreement can allay such concerns by requiring he farming heir to share the windfall from the sale of the asset should the sale occur during a specified period of time.