5 TIPS FOR POWERING THROUGH LEAN TIMES

AgCredit

Central Kentucky Agricultural Credit Association

Low commodity prices are pushing some farmers into troubling financial territory.

It's tough to think about the future when you're worried about making mortgage payments or paying off equipment, but you don't have to face bankruptcy or foreclosure if you take stock of your situation early on and talk openly with your lender. Farmers are often the only decision makers in their business, which can be a lonely place in times of financial stress. Here are five tips to help you power through those inevitable, difficult times.

1 COMMUNICATE WITH YOUR LENDER EARLY – AND OFTEN.

Many farmers want to give their crops time to fully develop before contacting their lenders to alert them that yields may be disappointing or that they're mired in a low commodity price environment. Others expect lenders to know how crops in the area are performing overall and think that there's no need for such contact. Whenever it appears that things may not go as expected, the best thing a farmer can do is to contact his lender as early as possible to begin to devise a strategy for moving forward.

The Farm Credit system has government-mandated restructuring options offered by no other lending institution. While most banks move directly to foreclosure, Farm Credit Associations work with farmers to explore multiple options if crops don't produce as expected or prices are low. Ask your lender to come out to the farm and explain what you've done to manage the crop. Doing so can make a huge difference in the overall outcome. Also remember that a borrower's character is key to securing future lending opportunities. Farmers who are upfront about their difficulties and open to suggestions about resolving them are more likely to receive additional loans.

2

THINK OF YOUR DEBT SERVICE ON A PER-ACRE BASIS.

We get it! You need equipment to operate. Renting someone else's equipment or paying for custom hire labor can negatively impact your cash flow. But, if you consider your cash flow needs on a per-acre basis, you'll be better prepared for lean times. After repaying your operating note, you'll want to be able to repay your annual loan and lease payments. If you're looking at an average crop in the middle of the year and know that you'll have trouble repaying your debts on a per-acre basis, you may want to consider selling equipment in the short term and renting what you need. We've seen some farmers with term debt repayment requirements of $500 per acre, which is enormous. You don't want to wait until you're desperate to sell equipment to unload debt. At that point, you're not going to make sound decisions, and you'll be selling to get whatever it takes to get rid of the loan. If you wait too long, you may be forced to sell, and that's when you really won't get much from your equipment value.

3

CONTRACT WHAT YOU CAN – ASAP.

In a low commodity price environment, don't pass on opportunities to sign contracts because you anticipate better prices down the road. Once you see a contract that offers enough to meet your debt requirements, jump on it! At the very least, contract a portion of your crops. Waiting for higher prices when you owe someone else is gambling with your balance sheet. It's important to preserve your balance sheet in a low commodity price environment. The name of the game is to sustain your equity during bad times and build your equity in good times.

4

DIG INTO YOUR SOIL QUALITY.

Not all dirt is created equal. If you're renting, are you farming the best dirt you can get? Whether the land is dry or irrigated, whether you're growing crops or pasture for livestock, soil testing is an important management practice on any farm. Analyze all of your rented acres annually – what fields are consistently producing low yields and failing to deliver results? If your fields aren't generating a profit, consider letting them go and looking for some better dirt to rent. Your bottom line will appreciate it.

CONTEMPLATE DIVERSIFICATION.

5

If commodity prices for row crops are low, it may be a good time to consider other ways to generate income. If you farm row crops, consider adding something new into your rotation. If you raise livestock or poultry, think about raising other types of animals, selling hay or planting some row crops. In some areas, planting a U-Pick section or opening a roadside stand so the public can buy directly from the farm are great diversification options. Every commodity experiences down cycles, so creating multiple revenue streams can increase your chances for long-term success and help offset those lean times.

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