



Ten Tips for Tough Financial Times on the Farm

1. **In tough times cash is king.** Carefully examine every capital purchase that will require additional debt. Ask yourself if the expenditure will generate the cash flow needed to pay for itself. If the new item can't create enough new cash to pay for itself over a reasonable period of time, defer the purchase.
2. **Let a farm budget be your financial road map.** You are flying in the dark financially if you don't have a budget for all income and expenses. A farm budget helps you maintain the direction of the business and must be updated frequently.
3. **Objectively look at your farm's financial position and performance.** Are you getting the maximum return from your investments? If not, why not? Are your non-farm assets generating a maximum return? Is it possible to sell any farm or non-farm assets that are not contributing to the financial health of your farm and family finances?
4. **Examine how your debt is structured.** The vast majority of the financial problems I have seen producers suffer with during my career has been the result of having debt improperly structured. Remember this: *like finances like*. In other words, finance long term assets, like real estate, with longer term debt. Finance shorter term assets, like machinery, with shorter term debt. You would think this was easy to remember but it is not because so many producers typically end up with too much short term debt that was used to acquire or improve long term assets. Is it possible to increase your long-term debt to pay down your short-term debt? You may be able to greatly increase your monthly cash flow by spreading out your short-term debt over a longer period of time. However, be cautious when getting a loan against long-term assets such as your farm real estate; it's like drawing against your savings account. If you're going to use your long-term equity, make sure your need is extremely significant.
5. **Prepare for your financial review with your banker.** Have current inventories, cash flows and balance sheets ready for your review with your banker. Provide the information needed. Often bankers spend time with customers looking for misplaced information instead of concentrating on resolving important issues. If you are having financial problems, put your thoughts about how to resolve them on paper so your banker can review them with you.
6. **Ask your banker about the USDA's guaranteed farm loan programs.** Your banker may be able to restructure your farm debt over a longer period with a lower interest rate if the USDA provides a credit guarantee to the bank. If your banker does not know about the program, set up an appointment to go with your banker to your local USDA, Farm Service Agency to find out how it works. USDA provides credit guarantees to banks and others for more than 50,000 farmers and ranchers.

7. **Review your hazard and fire insurance coverage.** Increasing your deductibles can lower your premium. Carefully review every item on your inventory list and consider eliminating coverage on obsolete or low-risk items. In other words, purge your insurance schedules of junk.
8. **Carefully examine your life insurance policies.** Many whole life policies contain provisions that allow you to borrow against the cash surrender value at low rates or allow you to deduct the premium costs from the cash surrender value. What type of life insurance do you have? Is it worthwhile to maintain a costly whole life policy when you could get similar coverage from a less expensive term policy? You should never be without life insurance. All key personnel in the business should be covered so the business can continue in the absence of a member of the management team.
9. **Deal with financial problems immediately.** Talk to your banker early and often. A good way to avoid serious financial problems is to identify and resolve them early. Farmers and ranchers are independent, and many of you don't like to talk about financial problems (who does?). Solving financial problems often requires a team approach. Create a personal "board of directors" comprised of people you know and respect who can be your sounding board. Make sure your banker is a member of your board of directors.
10. **Maintain a clear perspective.** One of the best ways to think through business problems is to get away from them. For example, take a weekend off--and not just to attend a farm show -- or resolve to see at least one movie before it comes out on DVD. However you do it, it is important for you to put your concerns aside temporarily and shift your focus to other activities--it will make your home team stronger.

Ten Tips for Tough Financial Times was written by John Blanchfield, Senior Vice President and Director of the ABA Center for Agricultural and Rural Banking with the help of agricultural bankers from all over the country. John can be reached at (202) 663-5100 or by e-mail (jblanchf@aba.com).

The American Bankers Association brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than \$125 million in assets – represent over 95 percent of the industry's \$13.6 trillion in assets and employ over 2 million men and women. Visit our website at www.aba.com.