



## Brockett's Ag Advice

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### DEBTS - HOW MUCH - RESERVES

The difference between a farm's debt carrying capacity and its actual debt could be called a reserve debt capacity. This reserve is a buffer against downward changes in farm income, upward changes in interest costs, unexpected capital requirements, or uninsured disasters. Unfortunately many farms in Pennsylvania have no more reserve. Some have even going in reverse. This means trouble. Furthermore present farm commodity prices in relation to operating costs could mean there will be a further erosion or loss of debt carrying capacity in the next 2 or 3 years.

#### What About You?

Where are you today in relation to 2 years ago? Can your farm

carry as much debt now as it could then? Do you have any reserve left? How far from being in trouble are you? Let's look at where you are right now - read on.

**No problem** - debts less than 20 percent of assets, payments less than 10 percent of income, income adequate, no unpaid bills. That's great - my suggestion is don't plunge, move cautiously on any financial commitments but be ready to buy needed items when price is advantageous. Put some cash reserves aside for these purchases.

**Problems Small** - debts are 20 to 30 percent of assets, payments less than 15 percent of income, income adequate, no unpaid bills. Real good - keep it up - try to build some cash reserves - borrow very carefully so you don't get behind. Expansion is possible if you are sure you can handle it even if income remains the same. Keep good records.

**Problems Growing** - debts 30 to 50 percent of assets, payments 15 to 25 percent of income, income adequate, no unpaid bills. Not bad - in fact you are at a crucial crossroad. This is the area a lot of farmers have been in at one time or another. Records are of utmost importance to you. At your debt level you may have a lot of reserve left or you may be at your limit. It is important for you to know before making any major moves. You could probably sit tight and survive. Or you could expand when costs are advantageous and prosper or sink. The risk is reasonable if you know exactly

where you are. Records and a good business analysis will probably be more valuable to you than to other farmers on either side of you economically.

**Problems Big** - debts 40 to 60 percent of assets, payments 20 to 30 percent of income, income barely adequate, either debt payments are delinquent or there are unpaid bills in excess of 5% of your gross annual income. Your operation can be salvaged if you are willing to work for it. You need to sit down and analyze your business. You probably should make some management changes. Any additional loans or capital purchases should be made only after you have explored all other possibilities. You should also be aware that any additional burden on your financial structure will increase your risk to the point of starting your slide out of business. Records and business analysis are essential if you wish to continue.

**Real Problems** - debts in excess of 60 percent of assets, payments in

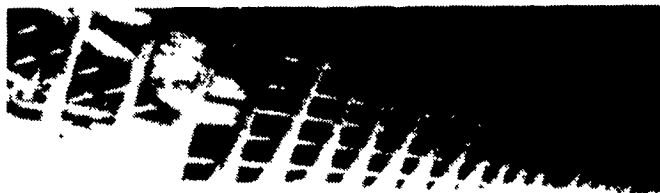
excess of 30 percent of income, either delinquent debt payments or unpaid bills indicating that part or all of your family living comes from borrowed money. Salvation of your business is dependent on your actual dedication, the patience of your lenders, the good will of your service and supply people. You need good records to show to lenders and supply dealers. You also need a plausible plan to show how you will come out of your troubled situation. Risks for you and your backers are very high. If you have equity in the business and can sell out, perhaps you should consider this as a viable alternative.

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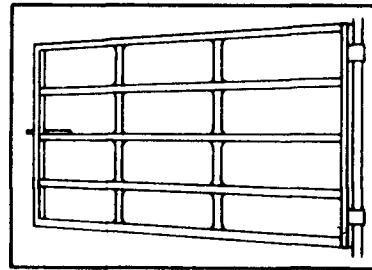
## Martin Cow Control Equipment: Custom Gates/Tubular Steel Fencing



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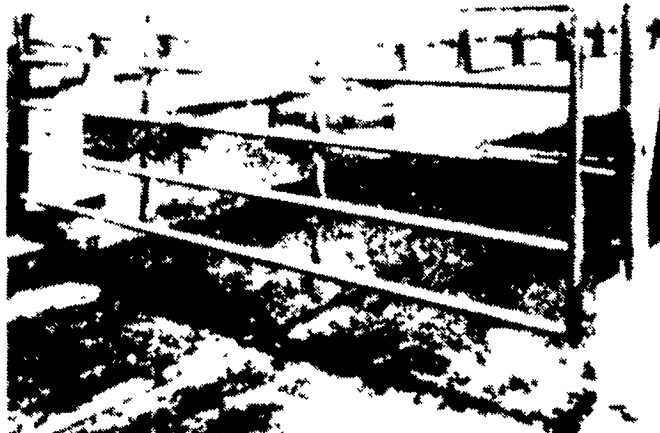
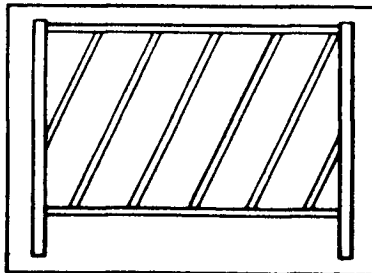
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