

# FARM MANAGEMENT

## What Is Your Lender Thinking Of The Drought?

Alan Strock

This may not be your burning question of the hour due to the drought in progress. But, by this time next year, it may be critically important because of all of its ramifications.

NOW is the time to meet with your lender and discuss your present livestock productivity goals, future cropping needs, feed and machinery purchase plans, along with the total financial health of your operation. I'm sure your banker is very concerned about his large investment in your operation.

NOW is an excellent time to prepare a balance sheet so that, once all the drought's effects have impacted you, you can visually

show your lender how much the dry weather cost. Talk to your lender about setting up a flexible repayment plan that will give you freedom to make extra payments or miss a month or two when cash flow is tight. Also, talk about moving some of your current debt to intermediate debt as a last resort. But remember the lender is still most concerned about your repayment ability, especially your current cash flow, but he knows droughts cause problems.

So what can you do to improve your financial position? Now, while cash flow has not been severely affected by the drought, try to pay off as much short-term

debt as possible. Pay down that line of credit, pay off that operating loan, and maybe even pay off early that machinery piece that only has a couple payments left. The current liabilities you free up now will probably be available later for feed purchases and next year's cropping input needs. If you don't have a line of credit see your lender about opening one, it's normally quite simple.

If you have one and have never abused it, then see if your lender will increase the upper limit so that you can take advantage of feed and crop input volume discounts and harvest "bargains" if any occur near you. If prices continue to rise, buying your grain and forage needs now for the winter may be a wise use of the line of credit. That interest expense may be much less than the increase in price of that grain or forage that you'll need later.

You may also want to look into consolidating some of your loans. Some of those old loan interest rates may be higher than those available today, and it's easier to talk to one or two lenders than to five or six. Machinery company loans especially should be paid off by a local lender. It's easier to talk to the person across your kitchen table than someone on the phone a

thousand miles away who may have heard the same story twenty times before.

Acquiring new intermediate or long term debt now can be extremely fatal. NO additional debt should be taken unless it IMMEDIATELY improves your cash flow. Also remember in times of high feed prices that adding five sows, cows, or ewes may not improve your net cash flow.

So what can you do now or in the near future to improve your cash flow? Carefully cull your breeding herd. This is not the year to carry nonproductive females in your herd. Set culling standards that eliminate all unprofitable units. This means you must have accurate current costs of production. Get rid of those problem breeders, those health nightmares, and those females that have great bloodlines but haven't proven themselves yet.

This may also be the year to sell your crops and not feed them to your cows, sows, steers, or sheep, and to look for more energy and protein cost efficient feeds. Whatever livestock enterprise you have, this is the year to try different rations and formulate a least cost

ration to which your animals respond. You may have to settle for feed efficiency, growth rate, or milk production levels less than you are used to, but your bottom line may still be better. In other words this won't be the year to reach new levels of productivity, but will be the year to strive for new levels of efficiency. One last item is to really look at your machinery inventory. This may be the year to sell that combine, corn planter, corn picker or tractor that only gets used one week a year and to have the work custom done. Custom work may benefit your cash flow this year.

In other related areas, listen to see if your county is declared a disaster county. This may make you eligible for FmHA low interest loans, and you may be able to harvest hay on your conservation reserve ground. Also, don't plan on any 1988 deficiency payments as corn will surely stay above the \$3.03 target price. Also, the Extension offices of Lancaster and Chester Counties will be holding meetings on feeding during shortage of home grown forages and grain, controlling your feedbill, and the use of pasture.

# Whose Milk Is It Anyway?

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