IS IT TIME TO QUIT FARMING?

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With the combination of the effects of the 1999 drought and the present low commodity prices, many farmers are under financial stress. It is important now to take a critical and honest look at the operation to help us decide if there is a future for this farm. To do this, let's look at the process and the questions to be asked and the factors that we need to check.

Can This Farm Survive?

That depends upon many factors, which include the history of the business, the equity situation, profitability, management decisions, and good fortune, blessings or luck, depending on our viewpoint.

How Do We Decide to Continue Or Not?

1. Check Family satisfaction.

Is everybody happy with the situation?

Is each member achieving his/her goals?

Are temper outbursts under control?

Are you resolving all major differences?

Is this the way you want to live the rest of your lives?

If you say "no" more than twice, consider change.

2. Check the history of the business.

Is there a regular pattern of setbacks?

Has it been refinanced one or more times?

Are operations often untimely?

Are you a victim of circumstances?

If you say "yes" more than twice, consider change.

3. Check profitability.

Has Schedule F been negative regularly?

Have accounts payable grown most years?

Are you working away to support the farm?

Are you accumulating operating losses?

If you say "yes" more than twice, consider change.

4. Check equity.

Is it growing over time? If so, you are better able to handle a setback. Is it eroding? (Inherited farm free and clear, now you have very little equity.)

Remember "the first law of holes." When you are in the hole, stop digging!

Three example farms will help us to examine equity. To the casual observer they all appear to be the same:

Assets:	Farm A $,000	Farm B $,000	Farm C $,000
Current	50	50	50
Intermediate	300	300	300
Long-term	600	600	600
Total Assets	950	950	950

The banker can see some differences

Liabilities:	Farm A $,000	Farm B $,000	Farm C $,000
-Bills	60	60	60
-Line of Credit	50	50	50
-Credit Cards	40	40	40
Current total	150	150	150
Intermediate	300	200	200
Long-term	400	400	200
Total Liabilities	850	750	550

We see that all three farms enjoy the same level of assets, and all have the same problem of current liabilities. But there is considerable difference in term debt. This can make a big difference to their chances of survival.

Three example farms summary.

	Farm A $,000	Farm B $,000	Farm C $,000
Total Assets	950	950	950
Total Debt	850	750	550
Equity	100	200	400
Debt.Asset	89.5%	79%	58%
Suggests:	Hang it up	Maybe?	Room?

Farm A has already taken on more debt than the farm should be carrying. Either they purchased real estate before the cattle and machinery were paid down, or they have already been forced to refinance.

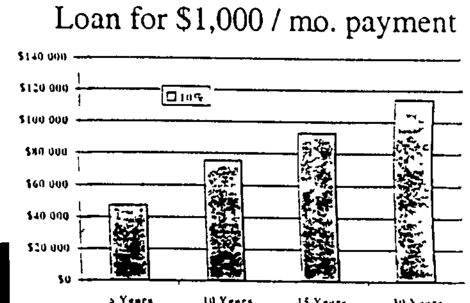
Farm B is still in the "red light" zone, but they might be able to survive a refinance, however they should seriously consider partial liquidation to reduce the debt burden, or complete liquidation to preserve the equity they still have.

Farm C has some options, but they are not out of the woods. They can not survive many more bad years.

When we look at debt, there is a danger that we just look at the advantages of refinancing obligations into longer repayment periods to give us "breathing room."

The charts below illustrate the credit we can get for a payment of $1,000 per month at 10 percent interest.

4. Cont. Check Equity - Growth
Loan for $1,000 / mo. payment



We must also check on the long-term impact of stretching payments. The chart below shows that if we keep our term of debt to 10 years, then in 30 years we can retire three 10-year obligations of $76,000 each, a total of $227,000 and pay $133,000 in interest.

If we stretch our debt out to 30 years, we can only retire one "dose" of $114,000 and pay $256,000 in interest for the privilege. Stretching out payments kills our chance of enjoying healthy equity growth.

7. Check liquidation.

1. Consider partial liquidation if there is valuable equipment, livestock and even land.

2. Try to keep any asset sale voluntary–you control it.

3. Avoid forced sales where banks, and creditors control things. These result in bargain priced auctions and serious loss of your equity.

8. Check bankruptcy

This is never desirable, but it may preserve a little equity and it may provide some tax protection. It is important to consult a CPA and consult an attorney.

Consider the future consequences–can you live with these.

9. Check alternatives.

Sell out and start over. Perhaps the definition of insanity applies–doing the same thing and expecting a different outcome.

Off-farm employment may be a mixed blessing. How long do you want to subsidize an unprofitable farm?

New career opportunities do exist in our present economy. Remember, there is life after farming!

10. Check heroes.

Abraham Lincoln continued to pursue his goals despite numerous setbacks. Milton Hershey failed at several businesses before he made a success of the last one.

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