

## PREPARING FOR EXTENDED OUT TIMES

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<http://poultrywaste.okstate.edu/Publications/poultry-practices-archive/Web%20Version%20FINAL.pdf>

Regardless of the driving factor, extended out times for poultry producers can provide some unwanted stress and uncomfortable financial positions. A simple definition of farm liquidity is what cash or assets easily converted to cash are available. While liquidity is talked about and encouraged by those in the financial community, it's often goal still "in progress" at the farm level. The discussion of avian influenza migrating south has certainly sparked the "what if" conversations. This is certainly one of those. "What if" we were out of production for six months?

### ***Address the Farm Mortgage***

One of the unflattering issues of poultry house financing is that there is most likely only one way to cover the mortgage payment. And that of course is through the flock settlements received. The dollar amount and term of the loan creates such a sizeable payment that off farm income simply can't cover the debt. This creates a dilemma for the farm finance partnership (grower and lender). The first option is to defer these payments and pick them up at the end of the loan. This simply takes the current principal and interest payments and places them at the end of the loan. The important issue is to discuss this in advance with your lender so that both parties can work a solution that is mutually beneficial.

### ***Track All Expenses for At Least One Month***

Before we can plan for how to fill a cash shortage, we need to know what the cash shortage will be. One step in this process is to identify what we are spending. In most cases the motivation from tax season keeps farm expense recording front and center. The bigger variables may be on the personal side of things. Start a log or spreadsheet tracking all expenses for at least a month and begin to look for opportunities for some saving.

### ***Complete a Six Month Projected Cash Flow***

Using the expense tracking from above, any off farm or other farm income sources and expected future farm expenses build a six month projected cash flow. Building a cash flow is the easiest of financial documents to prepare. It is just a list of all monthly income and all monthly expenses. If expenses out pace income, then we have a deficit. If the opposite happens, we have a surplus. If we add up the results of each of the next six months, we will have an idea of what the cash void will be. Several tools can help producers build a cash flow. One of which is [OSU Factsheet AGEC-751 Developing a Cash Flow Plan](#). Keep on the lookout for farm expenses that will need to be paid regardless of your production or lack thereof. An example of this is your farm hazard insurance. If you are paying a portion of your premium with every flock settlement then this expense will still need to be covered. If we don't cover it now, it could hurt our future cash flow by us trying to make up ground on the payment when birds are placed later.

### ***Develop a Funding Plan for the Deficit***

At this point, we should have a number. This number should tell us what the cash deficit will be in this time period. The easy and ideal way would be to have cash/savings available to fund the deficit. If this is not an option, we need to look for funding. External income from short term off farm income would be another option to pursue. Also, if non-essential equipment has been acquired over the years, it could be liquidated to fund the deficit. Lastly, discussing the development of an operating line of credit to use in this period may be needed. This type of loan will typically have a better interest rate and the terms of repayment can be discussed with your lender. Try to avoid the usage of high interest revolving debt.

The idea of missing six months of production income can be daunting. Keeping open clear lines of communication with your farm team will be important. Your farm team can include your integrator, lender, insurance agent, accountant or others that fit your operation. In addition, it can take years to rebuild a credit score from a short time of financial stress so monitor your score over time. Having a game plan together to overcome prolonged out times, regardless of reason, is one part of your farm management plan that should not be overlooked. □