

Critical First Step: Understand the Risks Before Financing your Farm

Before you start a loan application, the first step is to carefully consider the risks of taking on significant debt, and make sure that you are financially prepared to take that step. Loans used for poultry operations can be very large, especially if you are considering buying or building a farm. On average new poultry farm construction loans are over \$1 million dollars. In order to get loans this big, you may need to put your house or other assets up as collateral for the loan. If you are not able to pay the loan back, the bank may be able to foreclose on your home or other assets. This significantly increases your risk.

Know the company and the industry first

Before buying or building a poultry operation, and even before adding on to or upgrading an existing operation, you should talk to others who have done the same thing about their experience, and learn about the viability and reliability of the industry.

- Talk to your neighbors and other farmers who have worked with this company or made the same investments. Did it work for them? Why or why not?
- If a company is recruiting new farmers or adding new houses in an area, go to every meeting and educate yourself about the company and its history. In order to make a good business investment, you should learn as much as you can about the company. Some important questions to ask are:
 - Have they shut down any plants in other regions in the past?
 - How much are they investing in your area?
 - Is the company doing well?
- You should also look up information about the poultry industry and its relevant regulations. At the end of this guide in Appendix 2 you will find links to websites where you can find regulation information for different states. Some important questions to ask are:
 - What laws would protect your rights as a farmer and contractor?
 - What regulations would you have to meet in order to construct and run a poultry operation?
 - Are there other companies in your area that you could grow for if something didn't work out with this company?

Know the business, does it fit your lifestyle?

Raising poultry is often described by farmers as a 24/7 job. While farmers are not in the houses all day every day, they have to be on-call at all times in case something goes wrong.

- Ask other poultry farmers about their daily routines. How do they handle emergencies?
- What are the typical hours they tend to the chickens? How many late nights, early morning, or all “midnight” days are they pulling?
- Ask about their paychecks if you can. How regular is their pay? How much does their pay vary? How much control do they have over their pay? Are they earning enough from the poultry business to meet all their goals?
- Ask about their relationship with their integrator. What’s their relationship with their field tech like? How does the company handle their complaints?
- Talk to your family about the responsibility of being present on the farm at all times and make a plan for how to handle family events out of town if necessary.

Know your options – Are there other companies you could work with?

Poultry is a very geographically specific industry. Most companies do not want to offer contracts to farmers that are further than 50 to 60 miles from their processing or feed facilities, because it costs them extra money to drive feed and chicks to/from these farms. The result is that in some areas in the US poultry market farmers have only 1 or 2 companies to choose from. According to USDA data, in areas where farmers had only 1 integrator to work with they were paid on average 8% less than in areas where farmers had 4 or more integrators to choose from.

- Is the marketplace competitive in your area, meaning are there more than 4 integrators nearby that you could go to for a contract?
- If you signed a contract with one company, are the requirements for houses and facilities significantly different than the other companies in your area? Would you be able to switch to a contract with a different company?

Can you Manage Your Risk or Buy Insurance for your Operation?

Many farmers are familiar with the idea of crop insurance, and with how important it can be for their own security and for obtaining credit. In many cases, lenders expect farmers to

obtain crop insurance in order to be approved for a loan, because it guarantees the farmer will have at least a certain amount of income, even in the event of a catastrophic loss, which will allow them to cover their debts. In other words, if you're growing corn and you take out an insurance policy on that crop, you will be guaranteed at least a minimum income from the insurance claim even if a storm wipes out your crop before the harvest. This would allow you to stay current on your debts.

It is very important to realize that there is no form of “crop insurance” available for raising poultry. While Hazard Insurance and insurance on physical structures is certainly available and will be expected by lenders, it is not possible for farmers to insure the chickens because the company owns the chickens, not the farmer.

This can add significant risk to your business in times of emergencies. For example, if a tornado were to take out several of your chicken houses, you would be able to file insurance claims on the structures. You could even get an Emergency Loan from FSA for physical damages. But in addition to physical damage, you will likely spend several weeks without a flock – and you will have lost the flock you had at the time, before you were paid for it. But without any form of “crop” insurance for the chickens, you would not be able to recoup the lost revenue. You also would not be able to get an Emergency Loan for the amount of revenue you lost.

This means that you will need to have your own private financial cushion to be able to survive inevitable emergencies. Disease, weather related events, family illnesses – many things can happen while you are managing a poultry operation. Without the option of crop insurance, you will need to be sure that you have enough cash in savings to cover your debt, mortgage, and business and living expenses for several months in order to get through emergency situations.

If you are considering getting into the poultry business for the first time, you will want to carefully consider all of the risks. Use our checklist in Appendix 3 as a resource to inform your decision making process. This checklist is based on our expanded guide, *Questions to Ask Before Signing a Poultry Contract*, available for download on our website: www.rafiusa.org.

