

Getting Ready to Apply for a Loan

FSA loans are approved based on two determinations: your **eligibility** to apply, and the **feasibility** of your operation. Your eligibility is determined based on criteria that FSA has pre-set for different categories of loans (for example, your previous experience as a farmer.) You must meet all eligibility criteria before FSA will consider your application. The feasibility of your loan is determined by reviewing your business plan and cash flow. In this section we will discuss how to prepare yourself for the loan application process, and the basics about how to assess your financial resources, and what you need to consider before applying.

Steps of the loan evaluation:

In evaluating your loan application, a bank or FSA will take the following steps into consideration.

Eligibility – do you qualify to apply for the loan (for example: are you actually a farmer, and do you have the required experience.)

Feasibility – is there a clear path to loan repayment, and, if something were to go wrong with the operation, is there the ability to stay current on the loan.

Collateral – If you were unable to make loan payments, what property would the bank take ownership of to recoup the value of the loan? Any time property is placed in collateral of a loan, it is at risk of loss if something were to happen that prevented the repayment of the loan.

Understanding Collateral: What Happens if you Can't Pay Your Debt

Loans are a form of credit, like credit cards. But the difference is that for most credit cards, you do not have to promise the bank that they will have rights to your property – like your house, land, or vehicles – if you can't pay them back, in order to get the card. Credit cards are known as “**unsecured**” **credit** – and as a result, they usually have much higher interest rates, and are not a good option for financing large projects like farm operations. Loans on the other hand usually require that farmers put up some or all of their property as collateral, as a way to assure the bank that they will get their money back one way or another. This lowers the risk to the bank, and thus loans usually have lower interest rates than credit cards. When a borrower signs over rights to their property to a lender in order to get a loan, the loan is known as a form of “**secured**” **credit**, and the properties are known as “**security properties**” or **collateral**.

If you have put up collateral to get a loan, this means that your lender can claim that collateral if you can't meet the agreement for paying back the loan. If the collateral is sold, the lender can claim the profits from selling it. For example, if your house is used as collateral on a farm loan and you are unable to keep up with the payments for that loan, the bank may be able to foreclose on your house in order to get their money back. Missing payments is one way for a borrower to **default on their loan**, or be unable to meet the loan agreement.

There are other ways to wind up in default that are not related to having late payments, including failing to get insurance on a security property. If you go into default because you don't comply with part of the loan agreement, this kind of default is called **non-monetary default**. It is very important that you understand the loan agreement and all of the obligations you'll need to meet before you take out a loan. If you do wind up getting a loan, these obligations will be outlined in detail in the master promissory note, the closing documents, and the acceleration clause. In order to understand them thoroughly, you will need to talk through them with an attorney of your choosing. It may be beneficial to have the same attorney review your mortgage closing documents as reviews your poultry contract, thereby ensuring the two agreements support each other.

Down payments and Assets: What you bring to the table

If you plan to get a loan at any bank, you will need to put up **assets as collateral**, make a significant down payment, or do a combination of both. Making a **down payment** means that at the time of getting the loan, you already pay in cash for a portion of the total amount. For many banks, there is a 25% down payment required for a poultry farm ownership loan. This can add up to a pretty significant amount of cash. If you do not have that cash available, you may still be able to secure the loan through putting up your assets as collateral.

If you are applying for an FSA Guaranteed or Direct loan, it is worth realizing that FSA requires all their loans are at least 100% collateralized, and can require that they be up to 150% collateralized. This means that as the borrower, you must promise FSA the rights to various assets that add up to the total value, or even more than the total value, of the loan they are giving you, in order for the loan to go forward. So if you are taking out a \$1 million loan, you will need to have \$1 million - \$1.5 million as collateral listed on the loan.

The balance between the amount of down payment and the amount of collateral you have to put up is called the **loan to value ratio**. That refers to the amount of the loan, compared to the value of the asset being purchased with that loan. Increasing the down payment reduces the amount of the loan. The larger the down payment you bring in cash, the less collateral will be required.

There are many different types of assets that you can use as collateral for a loan. These include property and land, dwellings, etc. If you plan to apply for a loan, it is important to first assess the value of your existing assets. You can get an idea of their value in a couple different ways:

- Recent appraisal: If you have ever had a loan on your facility or property, you would have had an appraisal of its value at that time.
- Tax value: When you pay property taxes, a total value for your property is assessed by the government. Look at your most recent property taxes, and make sure you are looking at the original value, not a discounted value. This number is not precise, but it can give you a ballpark idea of the value of your assets.

Should I put my house on my loan as collateral?

While it is a fairly common practice, it is **extremely risky and should be avoided** in any way possible. Farmers often put their home up as collateral for a loan because it may be one of the most valuable assets they own, and when they are trying to meet a collateral requirement it looks like a good idea at first. Sometimes farmers put their home on the loan because it is built on the same piece of property as their farm and they can't separate it. Regardless of the reasons, it is always a high-risk solution and should be avoided. Many farmers lose their farm, their family land, and their home every year because of problems beyond their control – like natural disasters, industry cut backs, or unexpected changes in price. In the worst-case scenarios farmers lose everything, even the roof over their family's heads. This causes more than just financial strife for families and can be a deeply upsetting experience. This trauma can be avoided by keeping your home off the loan in the first place.

Find any way possible to avoid putting your house on the loan as collateral. Use other land, property or assets, even if that means dividing property tracts to keep your home separate. If you have no other option than to put your house on the loan to get better collateral numbers, then that may be a sign that you are not financially in a stable enough position to get the loan.

When asked about using his personal home for collateral on a poultry loan, one farmer RAFI has worked with replied, “I would tell any other farmer getting into this, don’t do it! Know the bankruptcy laws for your state and start your business with these in mind. Plan for the worst-case scenario. You have to be sure that no matter what you can keep your home.”

Disclosing Liabilities and Debts

In addition to assessing your assets, before you apply for a loan you should also know exactly how much you owe to other lenders. You will have to disclose this information on any loan application, so it is better to get it ready ahead of time. Farmers often have a few different loans at the same time. You may have a home mortgage, a car or truck loan, a farm ownership loan, and a farm operating loan for example.

It is very important to keep track of what assets and property have been used as collateral on which loans. If you have already used a tract of property as collateral for one loan, banks call this having a **“lien against your collateral.”** You must report any existing liens against your collateral to the bank when they are considering your new loan. In general banks do not want to take a **second position** to another bank over collateral – so usually the same piece of property cannot be used as collateral on two different loans. (There may be some exceptions to this.)

Before you go into any bank to apply for a loan, assess your current debts and know how much you owe to whom. This can include debts such as credit cards, medical or hospital debts, back taxes, and contracts or agreements with other individuals. To prepare for applying for a loan, make a list of any debts and current payment agreements. One way to get a full picture of your current debts is to order a credit report. The bank will order one as well, and it is better for you to see what they will see before they see it. The next section explains more about your credit score, and how to access it yourself.

Know your credit score

Whether you're approaching a private bank or FSA, your credit score and credit history will impact whether or not you can get a loan. Your **credit score** is a number on a range between 350 and 850 that tells banks how responsible you have been with credit in the past. Your score is tracked by 3 different credit companies, TransUnion, Experian, and Equifax, and made available to banks when you apply for a new loan or line of credit. These companies look at many different aspects of your borrowing habits. Late payments in the past will have a significant negative impact on your credit score, but so will other details – like keeping a high balance on your credit cards.

When banks check your credit, they get a full **credit report (or credit history)** from these companies. The report will include detailed information like how many accounts you have, how much you owe on them, and how long they have been opened as well as your payment history if you've had late payments in the past. If you've been shopping around for a loan recently, the total number of credit checks banks and lenders have made into your credit will show up on your report as well.

Banks will use this information to determine whether or not they should give you a new loan. The first step to understanding your credit and where you stand before getting a loan, is to check your credit score yourself. You can do that online for free at several different websites. There are several scam websites and companies that may try to charge you in exchange for basic information about your credit. You do NOT need to pay for a copy of your credit report. There are plenty of online services for reviewing your credit for free.

You have the right to request a full report of your credit once a year directly from each of the 3 credit companies. For more information on requesting your free credit reports, call 1-877-322-8228, or visit the Federal Trade Commission's website about accessing your free reports: <https://www.consumer.ftc.gov/articles/0155-free-credit-reports>.

Repairing Your Credit Score and Avoiding Scams

If you have negative information on your credit report that is true and honest, there is little you can do about it other than wait for it to be removed. Different types of negative information stay on your report for different amounts of time. A bankruptcy, for example, may stay on your report for 10 years, but credit checks by banks may be removed in 1 to 2 years. If you have legitimate negative information on your credit report, the best plan is to develop a debt repayment plan that you can handle, and be responsible in managing credit going forward. In time your score will recover.

In some cases, banks and credit reporting companies can make errors on your credit report. For example, you might find outdated information still on your report that should have been removed, and that outdated information could be lowering your credit score. In addition, in cases of identity theft, a drop in credit score may be a first indication that someone else has abused your credit identity. It is important to check your credit reports carefully and ensure that they are accurate, in order to have the highest score you can.

If you find inaccurate or unfamiliar information in your report, you can dispute this at no cost directly with the credit companies – Equifax, Experian and TransUnion. You can dispute these errors online or by sending them a letter. The Federal Trade Commission provides sample letters for disputes and a step by step guide to defending your own credit from errors at this website: <https://www.consumer.ftc.gov/articles/0058-credit-repair-how-help-yourself>.

As you start looking into your credit score, you may come across advertisements or offers for credit repair services. Beware of scams when you see these ads. Regardless of what these ads may promise, no one can legally remove truthful, accurately reported negative information from your credit report. Some of these scam companies may be selling social security numbers or offering bad advice in exchange for a fee. According to the Federal Trade Commission's advice, you will know it's a fraud if the company:

- Insists you pay them before they do any work on your behalf
- Tells you not to contact the credit reporting companies directly
- Tells you to dispute information in your credit report — even if you know it's accurate
- Tells you to give false information on your applications for credit or a loan
- Doesn't explain your legal rights when they tell you what they can do for you

For more information on current credit repair scams to look out for and your rights in credit, visit their website: <https://www.consumer.ftc.gov/articles/0225-credit-repair-scams#Know>

How will my credit score affect my loan application?

Negative information in your credit report or a low credit score will certainly impact your chances of getting a loan at decent terms. For private banks, the Farm Credit System and credit unions, a bad credit report or a low credit score may be a non-starter for your loan application.

The purpose of the Farm Service Agency loan programs, both Direct and Guaranteed, is to extend credit to farmers who need it who cannot otherwise obtain that credit through other lenders. FSA does not consider your credit score itself, but they do look at your credit history. FSA may be more willing than other private lenders to overlook negative information in your credit history, if your loan application – including your cash flow and business plan – is well developed. If negative information in your credit history is more than 3 years old, and you can demonstrate responsible credit and business practices, FSA may be able to overlook past credit score problems. However, problems with your credit history may also have an impact on the financial feasibility of your operation. For example if you are carrying significant debt and have been unable to pay it off in the past, you must disclose this on your FSA application. Even if FSA may overlook your previous payment delinquencies for your eligibility, your current debt load may still make it hard for your business plan to cash flow and could result in your loan being denied.

Understand Your Poultry Contract Terms Before Getting a Loan – Talk to a lawyer

Before you get a loan, it is vitally important that you understand the terms of your contract. Contracts can be long and complicated documents. You should take your contract to a lawyer who has worked with poultry farmers before. Discuss the contract with your lawyer

in detail. These are some of the important questions to ask your lawyer about the terms of the contract:

- 1) What are your rights if the company terminates your contract? Do you have the right or ability to appeal, or the right to compensation for damages or losses?
- 2) On what grounds & in what scenarios can the company terminate your contract? Do they include a clause allowing them to terminate your contract for economic necessity?
- 3) How are disputes settled (example: what if you disagree with the company about the quantity of feed delivered?)?
- 4) Does the company require “binding arbitration” or do they allow you to opt-out?
- 5) Would the contract require you to sacrifice your right to a jury trial, or ask you to sign away your right to join a legitimate lawsuit in the future?
- 6) Does the contract specify how the company will handle upgrades?
- 7) Who has responsibility and liability for environmental damages?
- 8) Would the contract penalize you for acting on your basic freedoms, such as the right to freely associate with other farmers, the right to freely express your opinions, or the right to take photos and pictures of your operation?

A complete list of questions to ask before borrowing money for a poultry farm can be found in Appendix 3.

How will you be paid?

As you review your contract, carefully read the explanation of how your flock pay will be calculated, as well as any addendums that affect your pay.

Most standard poultry industry contracts use a system for calculating farmer pay called the tournament system. While some contracts use a base pay tied to square footage in your chicken houses, most contracts determine pay based on your ranking within the tournament system. In order to estimate your cash flow and income estimates, and evaluate if this is a good business for you, it is critical that you first understand the pay system used by the company, and what factors impact your pay.

The Tournament System Payment works like this:

- 1) The company owns the chickens, you do not. The company provides a farmer with the inputs necessary to raise the birds. The company provides the farmer with feed, medications & veterinary care, and will deliver the chicks to your farm at the start of each flock.

- 2) At the end of the flock, the company will send a catch crew to gather up the chickens. The company catch crew will drive the chickens to the company processing facility and weigh them there. You have the right to watch the birds be weighed if you request it.
- 3) The company tracks the amount, and costs, of all inputs delivered to your farm. The company will calculate the total amount spent on each farmer for a flock – the value of all chicks, feed, medications & vet care, etc. sent to your farm during a flock.
- 4) The company will evaluate the total cost of inputs sent to your farm to the total pounds you produced in that flock. This is a way of measuring your “efficiency.” They will use an equation to generate your “settlement cost,” or how much you cost the company to produce one pound of meat. The “settlement cost” is the cost of company owned inputs (chicks, feed, medication, etc.) per pound of chicken produced.
- 5) Farmers with flocks picked up during the same week will be grouped into the same tournament pool.
- 6) The company will evaluate the settlement costs for all farms within a tournament pool, and calculate the average settlement cost for that tournament pool.
- 7) Then, the company ranks farmers in the tournament pool according to their settlement costs. The farmer with the most expensive settlement cost will be on the bottom, and the farmer with the least expensive settlement cost will be on the top. It is important to note, that the settlement cost is the cost to the company.
- 8) The farmer who had the average settlement costs (or performance) will receive the base pay promised in the contract, with no bonus or deduction.
- 9) Farmers who were more expensive than average, and are lower in the tournament pool, will make **less** than the base pay. Farmers who were less expensive than average, and are ranked higher in the tournament pool, will make **more** than the base pay.

Note Deductions made from farmers producing under the average settlement costs (i.e. who have higher than average settlement costs) fund the bonuses made to farmers’ producing better than the average settlement costs (i.e. have lower than average settlement costs).

It is important to realize that while your management skills and hard work are essential, other factors have a **significant** impact on your paycheck. Many factors, such as: the quality of the feed received, the health of chicks placed, the timing of each flock, the density of each flock, equipment or farm upgrades, medications, weather factors, and other factors **are outside your control**, but still **heavily affect** your paycheck.

What is a Flock Assignment and what system is best for my farm?

If you are financing your poultry operation with a loan from a bank, you will most likely have an assignment on your flock paycheck. This means that your bank (or FSA if it's a direct loan) will directly receive a portion of your paycheck before it ever reaches your bank account. Your company will pay the bank directly out of your flock paycheck.

Normally this is set up so that the amount taken out of each check is 1/5 of your total annual loan payment, so that after 5 flocks your annual payment is complete. However, in some areas, assignments have been set up to be a percentage of the farmer's paycheck, rather than fixed amount. This may seem like an attractive idea, because it means you would pay less in low earning flocks and more in high earning flocks. However, the percentage-based assignment checks have exposed farmers to very risky situations in the past and should be avoided.

For example, if you have several high earning flocks in one year, you may wind up getting ahead on your loan payments. But if you need that extra money to pay for things like utilities or living expenses, you will not be able to get it back from the bank. Some farmers have realized, when it was already too late, that they were thousands of dollars ahead on their loan payments, but did not have enough cash to cover other business expenses or pay back other debts. This can destabilize your business plan.

This situation can be avoided by practicing good financial management. **Always keep track of your debts. Know how much you owe, and how much you have paid back.** Keep track after each flock. Do not assume it is taken care of.



Establishing Cash Flow

Your cash flow for your business is not the same thing as your income, but it is equally important to consider when looking into a farm investment. Cash flow is basically cash coming in compared to cash going out. When you develop a **cash flow projection**, you are evaluating when you will be receiving payments, and when you will have expenses, so you can check your ability to make steady debt payments and find out when you may have surpluses and deficits in your available cash over a period of time.

Before starting an actual loan application, you will need to work out what your estimated cash flow for your operation would be. This is a critical step for two reasons. One is that you will need to demonstrate an adequate cash flow in order to get a loan. The second, and more important reason, is that you will need to assess for yourself if this business will really allow you enough income and adequate cash flow to be financially healthy.

Some farmers have gotten into financial trouble at this step by not looking carefully at all the expenses and possibilities. If your focus is just to present a good looking cash flow in order to get a loan, without carefully checking all the details, you may find yourself with a large amount of debt and a failing business plan after a couple of years that puts your collateral in jeopardy.

You will need to make sure that your cash flow takes into consideration all realistic expenses you will have, and that you can reasonably expect to run your business and cover your necessary expenses for you and your family.

To get started, you will need to get certain information together. In this section we explain what kind of information you will need, and some sources to get it from. You will then need to plug in the numbers and make some estimates of your own. We have included a sample worksheet for calculating your cash flow in Appendix 1. Our worksheet is a starting point. It may not include everything you need, and should be adapted to your circumstances. (For additional assistance in understanding cash flow, contact us at 919-542-1396 and ask to speak with staff members in our Farm Advocacy team.)

Step 1: Get realistic estimates for your projected income. Whether you are starting a new operation, buying an existing farm, or upgrading with new equipment, the company you will be working with should provide you with your draft contract before you get your loan. You need to be able to review it before you sign any loan documents. This is because your contract will contain information about your pay – including how it will be calculated (per pound, per square foot, etc.) and about how much you can expect to make, based on information such as the density or number of birds per flock, and the number of flocks per year.

If you are building new construction or making an upgrade, you may also receive pro-forma or sample cash flow estimates from the company. If you have not received these, you

should ask for these estimates. These can be very helpful, but must be reviewed carefully. You should not take a company's sample cash flow estimate for granted – you must adjust it to include your own estimates.

If you are buying an existing farm, the previous owner or the company may provide you with information about the farm's past financial performance, and/or future income projections. You can use these in the same way as the company's estimates.

Once you have your unsigned contract and any relevant income projections or estimates in hand, check the following before proceeding:

- Do the income projections match up with specific guarantees in your contract?
- Does the contract guarantee the number of flocks that you would need in order to make the income projected in the pro-forma estimate?
- Does the contract guarantee the density or number of birds per flock that you would need in order to make the income projected in the pro-forma estimate?
- Does the contract guarantee an unchanging base pay per flock that would allow you to consistently meet your projected income estimates?

If the contract guarantees these things, you can proceed with using the company estimates as a guide. But in many standard industry contracts, these guarantees are not present. Many companies retain the right to change the number of flocks you get per year, the number of days between flocks, the number of birds in each flock, or the weight of birds that you are raising at any time. In addition, many contracts pay farmers based on a tournament system that does not guarantee a solid base pay per flock. Under a tournament system, roughly half the farmers in the tournament pool will make less than the base pay promised in the contract each flock. If your contract does not have firm guarantees, or uses a tournament payment mechanism, you will need to make sure you plan for variability in pay. In developing your cash flow projection, you should adjust the company estimates to ensure that you are accounting for variability in your financial planning. (Steps to doing this are included in our worksheet in Appendix 1).

When looking at the possible range in income estimates, you will need to become familiar with how the payment process works in your contract. Some companies use what they call a **“floor” payment**, which is the absolute minimum pay per pound or per flock that a farmer can make. This is *not* the same thing as the **“base pay,”** which is the amount written into the contract, and corresponds to the average pay per pound for any given flock. Read through your contract and its addendums and find the floor or minimum payments, keep these in mind for reference as you develop your cash flow projections.

Step 2: Get realistic estimates for your flock-to-flock and annual expenses. If you have a pro forma cash flow or income estimate from the company, it likely will also contain an estimate of costs of production. Similarly, if you are buying a farm from another farmer, they may be able to give you information about the costs of production.

When you receive information about costs of production, make sure the estimates include at least the following categories:

In the past, several Universities and Cooperative Extension offices have produced estimates of their own for broiler operation costs of production. Contact your local Extension office to find out if they have additional, current information about local costs for broiler production.

A very important step in understanding what your costs of production will be, is to talk to other farmers in your area. Some complexes have higher costs than others (such as fuel, litter management vs. opportunity for litter sales, or utility costs due to weather). Make sure you get estimates for flock costs from farmers in your area so you know what to expect.

Step 3: Expect the unexpected – develop multiple cash flow projections. Now that you have gathered the necessary information, use our worksheet in Appendix 1 as a guide and develop cash flow projections. Remember that even the best plans change. Specifically, flock paychecks for broiler producers tend to be highly variable. Plan for ups and downs by developing multiple cash flow projections, based on different possible scenarios.

The following section uses company provided costs to create an estimated cash flow for a prospective poultry farmer, or pro forma cash flow. This “pro forma” uses average costs and payments to estimate yearly income of a new poultry farmer. However, life rarely follows the estimates a person makes, and you should prepare for the possibility of less than ideal returns.

How to use pro forma cash flow & income estimates provided by your company:

The following chart is summarized from a sample projected income analysis (often referred to as a pro forma income estimate) given to prospective farmers by a major poultry integrator in 2017. In Appendix 4 of this guide, we have provided the full company pro forma, as well as detailed cash flow scenarios based on the company estimates.

Companies generally provide income estimates based on averages, but because of how farmer payment mechanisms work (see the tournament pay explanation in the previous section) **pay variability is almost unavoidable in broiler production.** The number of flocks placed per year, the density of flocks placed, or the size of chicken being raised may change, resulting in large pay variation from “average” estimates. As a result, your paycheck may vary by thousands of dollars, with little change in effort or skill on your part. Income estimates can be helpful guides, but they are **not guarantees.**

Cost/Income, Cash Flow Estimates – Summary (See Appendix 4 for full detail)					
	Company Based Estimates	Farmer-Based Estimates*	High-Performance Estimates**	Low-Performance Estimates[†]	Disease Outbreak Estimates[*]
Est. Loan Amount	\$966,000.00	\$966,000.00	\$966,000.00	\$966,000.00	\$966,000.00
Est. Gross Income	\$164,212.48	\$164,212.48	\$170,592.12	\$158,328.88	\$155,661.40
Est. Yearly Loan Payment	\$94,668.20	\$94,668.20	\$94,668.20	\$94,668.20	\$94,668.20
Est. Yearly Farmer Costs	\$36,400.00	\$79,700.00	\$79,700.00	\$79,700.00	\$79,700.00
Est. Yearly Net Income	\$33,144.28	\$-10,155.72	\$-3,776.08	\$-16,039.32	\$-18,706.80

Where do the numbers in this chart come from?

*Farmer-based estimates: these are cost estimates created by consulting current poultry farmers on the costs they have experienced while operating their poultry farm.

**High-performance estimates: these are cost/income estimates created using current farmers' cost estimates, combined with real-world examples of farmers' pay when they "out-perform" tournament averages.

[†]Low-performance estimates: these are cost/income estimates created using current farmers' cost estimates, combined with real-world examples of farmers' pay when they "under-perform" tournament averages.

* Disease outbreak estimates: these are cost/income estimates created using current farmers' cost estimates, combined with real-world examples of farmers' pay when they experience a "disease outbreak" in a flock. The disease outbreak significantly impacts their pay.

While the costs of operating your farm may not significantly vary from one flock to the next your pay may. Using these cash flow estimates will help you better understand all costs associated with operating a poultry farm, and safeguard your business. Remember, while your pay varies your loan payment will remain constant. It is important to consider if an under-performing flock will allow you to pay back your loan and operating costs.

Note: When starting a poultry farm, there are fixed investments you can expect to make. For example, you can expect to need a wash sprayer for your poultry farm. The total purchase price of that wash sprayer is roughly \$5,000. However, these costs would not be reflected in your yearly operating expenses as they are one-time investment necessary to operate the farm. This list of fixed investments is not all-inclusive, but does include some of the most commonly needed items for poultry farming. These investments **HAVE NOT** been added into the estimated yearly operating costs, and should be separately considered when estimating the cash flow, or starting cost, of the farm.

Fixed-Intermediate Investments:		Useful Life
Wash Sprayer	\$5,000	5 years
Caking equipment	\$15,000	7-10 years
Tractor w/ front-end loader & mower	\$45,000	20+ years
Manure storage & composting shed	\$2,500	Life of Facility
Total:	\$67,500	

For a full explanation of these cost/income, cash flow estimates, please refer to Appendix 4.



Will this be a good investment?

A poultry operation is a serious investment. Now that you have considered potential income and cash flow, you should also consider this: **is investing in a poultry operation the best use of my time, money, and capital resources?** When investors put money into the stock market, they try to choose stocks that they think will have a high profit return on investment. You are facing the same decision. Getting a loan is likely to tie up your capital and assets for a long time. If you put assets up as collateral for a loan, you will not be able to leverage those assets for other purposes until you have paid off your chicken loan. You will also be spending a lot of your time raising chickens. Thus, you want to make sure before you start, that you are going to get a good return for your hard work. Even if the cash flow balances out, you could still have a negative return on your investment. There may be other farming operations or business ventures that would offer a better return.

To assess this, you may want to calculate your estimated **return on investment**. This is basically the ratio of the money you earn or lose, compared to the actual cost of your investment or to your actual time spent working on the operation.

When considering if operating a poultry farm is a good return on your investment, a simple way to analyze the investment would be to compare the poultry operation to a standard, wage-paying job requiring *no* investment be made on your part. If we consider a very low paying job, say just above minimum wage at \$8.00 per hour, a person would gross roughly \$16,640, and would net approximately \$14,950 by working 40 hours a week for 52 weeks per year. Now, consider that the low-wage paying job **does not** require large loans, collateral, and has a direct relationship between hours worked and pay earned.

You may want to look for alternative options in your area before investing in a poultry operation. Be sure that you are satisfied with your decision before continuing in your loan application process.

Co-signers

In some cases, if you have low credit or other limitations and cannot get a loan by yourself, you may be able to get a loan by having someone else agree to back you up if you can't pay the loan back. This person is generally referred to as a **co-signer**. They will also sign for the loan, and agree to guarantee the debt.

Before anyone co-signs a loan, they should make sure they can afford to pay for the debt if it is called in full. Lenders can legally require co-signers to pay for the debt if the borrower can't, including late fees and other charges that the borrower incurred. Lenders can use all forms of debt collection to get the money from the co-signer, including suing them or garnishing their wages.

In addition, the loan will show up on the co-signer's credit report as well as on the borrower's credit report. Even if the borrower is paying off the loan on time, the co-signer may not be able to get other forms of credit as long as they have this large liability on their credit report. If the loan goes into default because the borrower cannot pay it back, this might lower the co-signer's credit score as well as the borrowers.

It is risky for a co-signer to guarantee the entire amount of the loan. In some cases, a co-signer may be able to limit their liability to a specific piece of the collateral. This is more responsible and safer for the co-signer, but must be spelled out very clearly in the loan documentation. If you are considering your options in finding a co-signer, be sure to review the situation carefully with an attorney. (NOTE: The FSA has several classifications for *types* of co-signers, including **co-borrowers, co-signers, and guarantors**. Each classification involves slightly different obligations legally. Be sure to review this information in detail with your attorney and with your FSA loan officer to fully understand your and your co-signers responsibilities.)

State and federal regulations

The last important step before making a final decision to get a loan for a poultry operation, is to find out if you will be able to meet all of the necessary state and federal regulations required. These will be different from state to state, but will include requirements related to waste and litter management, cleanup of dead birds, and where you can legally build your facilities. The easiest way to find out what regulations affect your operation is to call your state regulatory offices directly. Please refer to Appendix B for a listing of state regulatory agencies, and their contact information.

