

Agricultural Outlook Forum

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VIABLE CREDIT FOR SMALL OPERATIONS

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Contract farming has allowed farm families to remain on the farm. It has given them an opportunity to create a viable business and accumulate wealth by using prudent management practices, and the expertise and guidance of the company technical advisors. It has provided a standard of living that would not have been available to them on their small farms.

In the early to mid-60's, the lock and dam across the Arkansas River was nearing completion along with Interstate 40. A lot of our rural people were without jobs and unable to be gainfully employed in the Arkansas River Valley area.

A retired vo-ag instructor, by the name of Harold Snyder, had a vision to expand his small company and increase his contract poultry production in the Arkansas River Valley.

In the early stages, there was no automation. Therefore, it took the whole family to take care of the poultry houses. In those days there were only chicken growers and it was considered a way of life. Today it has evolved into a big business with houses being automated with very sophisticated equipment. It is now considered a business and not a way of life. In the early 60's, poultry housing and equipment cost 50 cents a square foot. Today, housing and equipment cost \$5.75 a square foot.

We currently have 5,500 poultry producers and 340 contract swine producers in Arkansas.

A producer is able to get into business with a relatively small amount of investment or without having a large amount of operating capital. The company supplies birds, feed, medication and technical support. They also provide all the marketing for the finished product.

We have people who are handicapped and have no formal or very little education that are able to provide a living for their family, educate their children, and have a higher standard of living as a result of contract farming. If it were not for contract farming, a lot of these people would be forced to go on public assistance.

In the beginning, the company produced broilers and hunted a market. Today, the company produces for a market. Having the market in advance enables them to place birds into contract farmers' houses on a systematic time frame.

The producer or businessman can make plans as to diversifying his operation because he is assured of five to six flocks per year, depending on the size of the bird produced.

The lender plays a vital role in the success or failure of this business. Many operations have failed because the lenders did not tailor the loan to fit the income stream and the needs of the farmer.

Five or six paydays a year will not match quarterly or monthly payments. If a loan is structured in such a manner, the farmer is unable to meet his obligations and becomes an absentee owner/operator on the farm and part-time jobs are needed to supplement the farm income. When this happens production levels of poultry goes down and income stream is also reduced.

It is also critical for the lender to work closely with the producer and tax preparer to make sure depreciation coincides with the amortization of their loan.

If accelerated depreciation is used then a lot of farms are forced to liquidate because the income stream is not sufficient to make payments, pay operating expenses, and income tax after buildings and equipment are totally depreciated.

Many farmers in our area have poultry houses and cattle as major sources of income. One member of that family works off-farm to help support family living. This is very common when the farm family wants to accelerate repayment of their farm debt. Then both members retire to the farm and have a very good income stream.

Most farmers do not have a conventional retirement plan, as most non-farm employment provides. This is a means of our rural families having a retirement plan.

Contract farming, be it swine or poultry, has its place in providing food for the world. With the producer, company, and lender working together as a team, it provides our farmers with a good business and not just a way of life. The largest single problem facing the company producer and lender is communication. If we could ever learn to communicate, we would solve most of our problems.