

What Dairy Producers Should Do Now with the Pending Milk Prices

1. Complete a current Financial Statement dated January 1, 2009.

- a. This should be complete with accurate feed, cattle and machinery inventories with cattle and machinery values reflecting current market values.
- b. Real Estate values should reflect real values but lean on the conservative side.
- c. Make sure all liabilities are accounted. Have all bills over 30 days listed, be specific and do not round off numbers.

2. Complete a 2008 Cash Flow.

- a. Make sure all expenses are listed including Family Living and Income Taxes that were paid in 2008.
- b. The Cash Flow should include Principal payments. These will not show on the Schedule F taxes because the IRS considers Principal as profit. Make sure these are included with the Interest paid.
- c. Put in some Depreciation. The number may not be as large as the tax preparer enters but the Depreciation should reflect wear and tear on equipment.

3. Complete a 2009 Projected Cash Flow.

- a. This is your best guess at what cost will be.
- b. The key number is the Cost of Production not necessarily the price of milk which could be a real guess. What you want to show is what the real cost of production will be. Then compare that to what your shortfall will be monthly. This shortfall will be critical to discuss with your lender to see how much of a line of credit you can get.

4. Make an appointment with your lender. *Lenders appreciate producers that respect their time. This way the lender can also prepare for the meeting by reviewing your file. Let the lender know what you want to talk about when you make the appointment.*

- a. When you go in prepared with a Current Financial Statement, 2008 real Cash Flow and a thought out 2009 projection you will go in looking like you're really prepared for the meeting.

5. Review your prepared reports with the lender.

- a. Allow them time to ask questions, understand the numbers and your logic.
- b. Ask the lender first what their suggestion is rather than you sounding like you have the better answer. They will be easier to work with if their ideas come out first to help you achieve stability.

6. Then be prepared to ask questions!

- a. How much of a Line of Credit can you get to cover your shortfalls for the next XXX months?
- b. Are interest only payments possible?
- c. Can the loans be restructured to reduce the monthly payments?
- d. Can Interest and Principal be deferred?
- e. Will the lender do FSA (Farm Service Agency, government programs) guarantees?
- f. Is direct money available from FSA? How much can I get?
- g. An appointment and stop at the FSA office may be necessary on your part. Ag bankers should be well aware of FSA programs.

7. You should also visit with your key suppliers.

- a. Tell them what is going on with your projected Cash Flow.
- b. You may need to share your Financial Statement and Cash Flows with them as well.
- c. Let them know you contacted your major lender.
- d. Find out how much credit they will allow you to have and at what interest rate and terms.
- e. Do not surprise your key suppliers by building a bill and not making payments. They will be easier to deal with when you are up front with them early.



January 9, 2009