

Managing Financial Risks

Ten Tips for Dealing with Tough Times on the Farm



Risk Management Project - This project was made possible in part by grants from
USDA CSREES under Award Number 2004-40200-03126
USDA/RMA under Award Number 07IE08310275 - C

1. In Tough Times Cash is King

- ❑ Carefully examine every capital purchase that will require additional debt
- ❑ Ask yourself if the expenditure will generate the cash flow needed to pay for itself
- ❑ If the new item can't create enough new cash to pay for itself over a reasonable period of time, defer the purchase



2. Let a Farm Budget be Your Financial Road Map

- ❑ You are flying in the dark financially if you don't have a budget for all income and expenses
- ❑ A farm budget helps you maintain the direction of the business and must be updated frequently



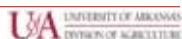
3. Objectively Look at Your Farm's Financial Position and Performance

- ❑ Are you getting the maximum return from your investment? If not, why not?
- ❑ Are your non-farm assets generating a maximum return?
- ❑ Is it possible to sell any farm or non-farm assets that are not contributing to the financial health of your farm and family finances?



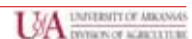
4. Examine how Your Debt is Structured

- ❑ Do you have an imbalance between long-term and short-term debt?
- ❑ Is it possible to increase your long-term debt to pay down your short-term debt?
- ❑ You may be able to increase your monthly cash flow by spreading out your short-term debt over a longer period of time



4. Examine how Your Debt is Structured Continued.....

- ❑ Be cautious when getting a loan against long-term assets such as your farm real estate, it's like drawing against your savings account
- ❑ If you're going to use your long-term equity, make sure your need is extremely significant



5. Prepare for Your Financial Review with Your Banker

- Have current inventories, cash flows and balance sheets ready for your review with your banker
- Provide the information needed

5. Prepare for Your Financial Review with Your Banker

- Often bankers spend time with customers looking for misplaced information instead of concentrating on resolving important issues
- If you are having financial problems, put your thoughts about how to resolve them on paper so your banker can review them with you

6. Ask Your Banker About the USDA's Guaranteed Loan Program

- He/she may be able to restructure your farm debt over a longer period with a lower interest rate if the USDA provides a credit guarantee to the bank
- If he/she does not know about the program, go with your banker to your local USDA, Farm Service Agency to find out how it works

7. Review Your Hazard and Fire Insurance Coverage

- Increasing your deductibles can lower your premium
- Carefully review every item on your inventory list and consider eliminating coverage on obsolete or low-risk items

8. Carefully Examine Your Life Insurance Policies

- What type of life insurance do you have?
- Is it worthwhile to maintain a costly whole life policy when you could get similar coverage from a less expensive term policy?
- You should never be without life insurance
- All key personnel in the business should be covered so the business can continue in the absence of a member of the management team

9. Deal with Financial Problems Immediately

- Talk to your banker early and often
- A good way to avoid serious financial problems is to identify and resolve them early
- Farmers and ranchers are independent, and don't like to talk about financial problems

9. Deal with Financial Problems Immediately

- Solving financial problems often requires a team approach
- Create a personal “board of directors” comprised of people you know and respect who can be your sounding board
- Make sure your banker is a member

10. Maintain a Clear Perspective

- One of the best ways to think through business problems is to get away from them
- For example, take a weekend off-and not just to attend a farm show-or resolve to see at least one movie
- However you do it, it is important for you to put your concerns aside temporarily and shift your focus to other activities-it will make your home team stronger

Presentation References

- University of Arkansas Department of Agricultural Economics and Agribusiness; Fayetteville, AR
 - Jennie Popp; 218 B Agriculture; jhpopp@uark.edu
- USDA/CSREES
 - Janie Hipp; jhipp@csrees.usda.gov
- American Bankers Association Washington, D.C.
 - John M. Blanchfield,

Sources for More Information

- IFMAAPS: A Partner in Farm Financial Planning, WF-239
<http://agweb.okstate.edu/pearl/agecon/tax/wf-239.pdf>
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<http://agweb.okstate.edu/pearl/fci/econ/t-4144.pdf>
- Master Your Dollars: Goals, Choices, and Plans, T-4316
<http://agweb.okstate.edu/pearl/fci/econ/t-4316.pdf>

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- Schedules of Assets, WF-791
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- Liabilities Schedule, WF-792
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Financial Risk Management: Insurance



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Importance of Insurance

- ❑ Workers compensation
- ❑ Premises liability
- ❑ Vehicle and equipment



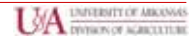
Importance of Good Record Keeping Systems

- ❑ Illness and injury prevention
- ❑ Hazard communication
- ❑ Posters and other notices
- ❑ Employment records



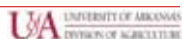
Importance of Good Record Keeping Systems

- ❑ Agricultural management practices
- ❑ Obtaining and maintaining all permits
- ❑ Documenting exceptions to permit requirements
- ❑ Current regulation – environmental, employment, marketing



Types of Insurance

- ❑ Life
- ❑ Homeowner's or Renter's
- ❑ Auto
- ❑ Health



Life Insurance

Choosing the Right Life Insurance Plan

- Life insurance provides protection against financial losses caused by a person's death
- Who does not need life insurance?
 - Individuals with no dependents
 - Individuals with no debt

Benefits of Life Insurance

- Help with final expenses
 - Bills
 - Burial
- Provide funds for survivors
- Can prevent devastating financial situations
 - Depends on beneficiary

Where to Get Life Insurance

- Employer
 - Policies will vary
- Private insurance agency
- Agriculture lender

How to Qualify

- Medical exam
- Age
- Occupation

Who can be Insured?

- Self
- Children
- Spouse
- Other dependents
- Employees

Things NOT COVERED by Life Insurance

- Income and fringe benefits
- Debt
- Financial loss

Types of Life Insurance

- Term insurance
- Whole life or cash value life insurance
- Endowment insurance
- Package contracts

Types of Life Insurance

- Group life insurance
- Mortgage and credit life
- Universal life insurance
- Variable life insurance
- Annuities

Term Insurance

- It provides maximum death protection with the lowest premium cost
 - Benefits are paid only if the insured dies during the contract time period – the policy “term”

Term Insurance

- Types of term insurance:
 - **Level-term contract**- issued for specific time period, same premium and payout throughout the term
 - **Decreasing-term contract**- level of protection falls each year
 - **Convertible term insurance**- can change terms fairly easily

Whole Life or Cash Value Life Insurance

- Provides payment of benefits before insured's death as the cash value accumulates in the policy as well as protection at the time of death

Whole Life or Cash Value Life Insurance

- Types of Whole Life or Cash Value Life Insurance:
 - **Ordinary life or straight life policy**- premiums paid as long as insured wishes or until policy expires
 - **Modified life contract**- lower premiums in early years of contract
 - **Limited payment life policy**- higher premium for set period, after which no further payments are due

Endowment Insurance

- Primarily a savings contract with a small protection that covers insured if they die before they savings plan is completed
 - Policy matures for the face amount at term end
 - ***Most expensive protection coverage***

Endowment Insurance

- Types of endowment insurance
 - Limited-term contract- may extend for 5, 10, 15, 20, or 30 years
 - Retirement income contract- provide \$10/month of retirement income for every \$1,000 of face amount

Package Contracts

- Insurance policies may combine or alter the basic types of insurance to meet special needs for individuals or families

Package Contracts

- Types of package contracts:
 - Family income policy
 - Family maintenance policy
 - Multiple protection insurance contract
 - Juvenile life insurance coverage
 - Jumping juvenile insurance
 - Payor clause
 - Family group policy

Group Life Insurance

- Offered by employers, employee associations, unions, professional associations, savings or investment groups and fraternal societies
- Is usually a form of term insurance
- ***Generally the least expensive form of life insurance for qualified members***

Mortgage and Credit Life

- Offered by many financial institutions to consumers who obtain mortgages, car loans, or other large purchases
 - This is decreasing –term insurance that will expire when the loan is paid off

Universal Life Insurance

- This provides both protection and a savings element
 - This is similar to a combination of whole life protection with a savings plan that is tied to interest rates currently being paid in the financial market

Variable Life Insurance

- Allows the insured to choose the investments that are made with the premiums and cash accumulates
- **Should only be used by individuals who are very knowledgeable about investments**
 - Unprofitable investments will slow the growth of the policy's cash value

Annuities

- Actually another form of investment
- *Sold by insurance companies, but these contracts are not insurance policies*
- Designed to provide income for a set period of time in return for the payment of a premium
- Can help protect individuals from outliving their income

Helpful Knowledge

- **Conversion**- many term policies may be turned into a permanent form of coverage at or before the date the term policy expires, without providing proof of insurability
- **Double-indemnity**- a writer that will provide two times the face amount of the policy if the insured dies from an accident

Helpful Knowledge

- **Mortality table**- a table that shows the number of deaths per thousand and expectation of life at various ages
- **Renewability**- allows you to renew a term policy without undergoing a medical examination

Helpful Knowledge

- **Suicide clause**- requires payment of face value of policy if the insured commits suicide after the policy has been in force two years, but no payment during the first two years except for the return of premiums

Helpful Knowledge

- ❑ **Uninsurability**- a person's physical condition does not meet minimum medical and /or other standards such as occupation, which are listed on mortality tables

Sources for More Information

- ❑ University of Arkansas Cooperative Extension Service; Little Rock, AR
 - **Judith R. Urich**; Ph.D., CFP, Extension Family Resource Management Specialist
- http://www.uaex.edu/Other_Areas/publications/HTM/MP-336.asp
- ❑ **State Farm Insurance Homepage:**
www.statefarm.com/insuranc
 - **Tommy Reddick**; State Farm Insurance Representative; Fayetteville, AR; 479-442-2291
 - **Mandy Bergdalle**; State Farm Insurance Representative; Enid, OK; 580-237-3403

Homeowner's Insurance

What is Homeowner's Insurance?

- ❑ Protects you from damage that may affect the value of your home
- ❑ Also includes personal liability and the theft coverage

Homeowner's Insurance

- ❑ An inventory of your possessions helps determine how much homeowner's insurance you should carry, and can help get your things replaced (or returned) if stolen
- ❑ Detailed records of antiques, jewelry, silver, sporting goods, major appliances, and collector's items are very important

Renter's Insurance

- ❑ Works like homeowner's insurance
- ❑ This insurance provides protection for those who rent property to insure their valuables against harm
- ❑ Land lord does not generally provide coverage, must get yourself

How Much Coverage is Needed?

- The amount of personal property coverage you need depends on how much your property is worth
 - The **minimum** amount of coverage a married couple should have is **at least** \$20,000
 - Premium on \$20,000 coverage is \$180.00 per year
 - Will vary from area to area

Sources for More Information

- **State Farm Insurance Homepage:**
www.statefarm.com/insuranc
- **Tommy Reddick;** State Farm Insurance Representative; Fayetteville, AR; 479-442-2291
- **Mandy Bergdalle;** State Farm Insurance Representative; Enid, OK; 580-237-3403

Auto Insurance

What is Auto Insurance?

- An auto insurance policy is a contract between you and an insurance company
- You pay a premium, and in exchange, the insurance company promises to pay for specific car-related financial losses during the term of the policy

Why Do I Need It?

- In some states, to drive (get license plates) you must carry:
 - Liability coverage to pay for losses you cause others, or:
 - No-fault coverage to pay you and your passengers for medical related expenses caused by injuries from a car accident, regardless of fault, or
 - Both coverages

Why Do I Need It?

- Even in states where coverage isn't required, drivers must, by law, be able to pay for losses they may cause others
- Coverage for vehicle damage usually is necessary to finance a car

Without Insurance, your risks are:

- You risk paying for the full cost of:
 - Any harm you cause others, and/or:
 - Repairing or replacing your car if its damaged or stolen
 - No transportation to work, etc.

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Health Insurance

What is Health Insurance?

- Health insurance helps to ensure that you and your family are protected against the financial hardships that may result from health care expenses

Where to Get Health Insurance

- Employer
 - Percentage of coverage is solely up to employer
- Private Insurance Agency
- Agriculture Lender

Types of Health Insurance:

- **Individual Medical Coverage**
 - Primary medical insurance coverage designed for people who don't have this type of coverage through their employer, or another group

Types of Health Insurance:

- **Medicare Supplement Insurance**
 - Designed for the senior citizen who participates in Medicare, yet desires additional coverage to help with many of the expenses that Medicare does not pay

Types of Health Insurance:

- **Hospital Income Insurance**
 - Ideal for supplementing your primary health insurance, it provides a pre-determined, daily benefit amount for those extra, unbudgeted expenses that arise due to a hospital stay for a covered sickness or injury- from meals out and child care to policy deductibles and co-insurance

Disability Insurance

- The amount of coverage a person receives through disability insurance will vary depending on:
 - Occupation
 - Income
 - Age
 - Health

Types of Disability Insurance:

- **Disability Income Insurance**
 - Ideal as a primary income replacement plan or as a supplement to your salary continuation or group disability plan. Designed to keep you financially stable during difficult times by paying a monthly income, directly to you, when you are sick or hurt and unable to work

Types of Disability Insurance:

- **Mortgage Disability Income Insurance**
 - An affordable disability product, designed to specifically protect one of your most important assets - your home. Provides you with funds to help meet your mortgage loan responsibilities should you become totally disabled

Types of Disability Insurance:

- **Individual Credit Disability Insurance**
 - Designed to help those who have a loan payment in equal, regular monthly installments, it pays a monthly benefit directly to your financing institution should you become totally disabled

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Starting your Small Business



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Characteristics of a Successful Entrepreneur

The most common serious mistake made in business is not picking the right one to begin with.

An entrepreneur should have three characteristics:

- ✓Guts
- ✓Brains
- ✓Capital



Characteristics of a Successful Entrepreneur: Guts

Before starting your own business you must:

- ✓ have an overwhelming desire to have your own business
- ✓ start a business in something that you love to do
- ✓ have the dedication to be completely devoted to your business through good times and bad times
- ✓ be happy in your intended business

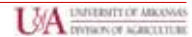
"Find something you love to do and you'll never have to work a day in your life." Harvey McKay



Characteristics of a Successful Entrepreneur: Brains

To become a successful entrepreneur, you should have a working knowledge about the business you plan to start before you start it.

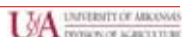
- ✓Common sense, combined with appropriate experience, is the necessary brainpower.
- ✓Prudence, follow through and attention to detail are very important.



Characteristics of a Successful Entrepreneur: Capital

In every business, you need your own money to maintain a positive cash flow for at least a year.

Many businesses can be started on a very small scale with a small investment. Then, as the business grows and you gain experience, cash flow from your business can be used for growth.

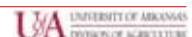


Characteristics of a Successful Entrepreneur: Capital

In some cases, you do not need starting capital to hire other people because you might start by doing everything yourself.

The "do it yourself" start is a good way to learn everything about your business and also makes you better qualified to delegate work to others later on.

You can control your risk by placing a limit on how much you invest in your business.



Decide If You really Want to Be in Business

- You are putting some (not all, hopefully) of your net worth at risk.
- You may run the risk of working long hours, taking away from other family or pleasurable activities.
- There may be levels of stress you have not experienced as an employee.

Decide Whether to Operate Full-Time or Not

Advantages of starting in your off hours while still working at your current job:

- ✓ You avoid losing earnings including retirement, health and vacations.
- ✓ You can avoid conflict of interest with your job by choosing a business that is appropriate for your off hours (i.e., real estate, e-commerce or family-run operations).

Decide Whether to Operate Full-Time or Not

Advantages of starting in your off hours while still working at your current job:

- ✓ You can operate a family business.
- ✓ Your family can run the business while you are at work.
- ✓ You can teach your kids the benefits of being in business.

Decide Whether to Operate Full-Time or Not

Disadvantages of starting in your off hours while still working at your current job:

- ✗ There is a temptation to spend time at your job working on your other business.
- ✗ Competing with your employer, which is not right.
- ✗ Any kind of conflict with your regular work can jeopardize your job and your other business.
- ✗ Overwork can cause mental and physical exhaustion.

How to Have a Successful Business

- ✓ If you have not yet selected a business, take your time and wait for the business that is just right for you.
- ✓ Do not pursue businesses that may be too challenging.
- ✓ Try to identify a business that has long-term economic potential.
- ✓ Operate a business that will grow in today's and tomorrow's markets.
- ✓ Bet on a business you know.

Be careful of ...

- ⊖ Being impatient.
- ⊖ Being over confident.
- ⊖ Not analyzing your business carefully.
- ⊖ Not considering the negative aspects of your business.
- ⊖ Not understanding every aspect of the business before you open its doors.

Selecting your Business

If you have not yet decided on a business, answer the following questions:

- Can I do what I love to do?
- Will I fill an expanding need for which there is no close substitute?
- Can I specialize?
- Can I learn it and test it first?

Selecting your Business

If you have not yet decided on a business, answer the following questions:

- Can I handle the capital requirements?
- Can I learn the business by working for someone else first?
- Should I consider a partner who has complementary skills or who could help finance the business?

Get Completely Qualified

Before you proceed further in your business, get completely qualified:

- The best way to become qualified is to go to work for someone in the same business.
- Attend all classes you can on the skills you need: for example, accounting, computing and selling.
- Read all the "How To" books you can.
- Do not be afraid to ask questions or seek help from the most successful people in your intended business.

If You are Thinking about Starting a Business: Top Ten Do's

1. Begin saving money.
2. Begin a study on what business would be best for you.
3. Begin working part-time in the kind of business you would like to start.
4. Learn from people already in your business.
5. Learn basic accounting, how to use a computer and how to navigate the Internet.

If You are Thinking about Starting a Business: Top Ten Do's

6. Objectively measure your skills and training against potential competition.
7. Remember that your financial commitment includes living expenses.
8. Make a "for" and "against" list describing the business you are in or considering.
9. Prepare a written business plan for your intended business.
10. Test market your product or service before starting or expanding.

If You are Thinking about Starting a Business: Top Ten Don'ts

1. Quit your job before your business is in place and running.
2. Consider operating a business in a field you do not enjoy.
3. Incur in new financial obligations above basic necessities.
4. Sign any legal business document without your lawyer's approval.
5. Risk all the family assets. Limit your liabilities to a predetermined amount.

If You are Thinking about Starting a Business: Top Ten Don'ts

6. Be in a hurry to select a business.
7. Depend on your banker to provide start-up capital.
8. Commit to a concept without proving it first on a small basis.
9. Commit to a business in which you must have the lowest cost to survive.
10. Pick a business that is too high a risk.

For More Information

[U.S. Small Business Administration](#)

Arkansas District Office
2120 Riverfront Drive, Suite 250
Little Rock, AR 72202-1796
Telephone: (501) 324-7379
Facsimile: (501) 324-7394

[Starting your Small Business](#)

[Are you ready to start your own business?](#)

[Getting Assistance for your Project](#)

Presentation References

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Making the Most of Your Business



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1. Are you farming efficiently?

- Can you maintain current farm size with out additional income off-farm?
- Are you adopting appropriate technologies?
- Do you have skills and/or experience to run a farm?



1. Are you farming efficiently Continued...

- Do you manage efficiently:
 - Do things in a timely manner
 - Minimize waste
 - Maintain equipment



2. Are your resources and management ability adequate for new expansion?

- Can manage addition/new responsibilities?
- Do lender and farmer understand current resources and management limitations?



3. Do you have realistic price and yield estimates?

- Need to be conservative to provide a safety cushion
 - For example, assuming a 35 bushel yield when 25 is county average, or 11 pig/litter when 8 is state average, or omitting additional start-up costs are unrealistic
 - First year may not yield normal production, cost can exceed returns



4. Do you have adequate repayment plans?

- Are payments due when cash is running short?
 - Do not understate rapid repayment plan (repayment closer to life of particular asset)
 - Budget family living expenses properly
 - Schedule first "regular" payment to occur in second year of operation as costs are high in first year



5. Do you have control over your living expenses?

- Keep lifestyle in line with income
 - Prioritize expenses: e.g., 4 X 4 pickup for pleasure vs. travel funds for livestock shows vs. vacation
- Clear major business purchases with lender

6. Are you making excessive farm improvements?

- A dollar of improvement does not always add a dollar of value
- Do not spend all your cash on fixed improvements
 - Have cash available for other needs

7. Do you have multiple sources of credit?

- Commercial banks
- FCS
- Land contract
- FSA
- John Deere credit
- GMAC credit
- Sears
- Dillards
- Master Card
- finance companies
- unsecured creditors

Confusion over security and repayment priorities

8. Is there a lack of communication between the lender and the borrow (two-way street)?

- How much money is needed, for what and when?
- Where are proceeds from sales to go and when?
- Surprises are bad news!
- List all assets and debts on balance sheet: what for, when, and how much

9. Do you have adequate records?

- Budget cash flow
 - You know where the money goes
- Evaluate budget plans periodically
 - Was the plan accurate
- Provide income and expense records
 - Important for credit and business assistance programs

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Sources for More Information

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- **Liabilities Schedule, WF-792**
<http://agweb.okstate.edu/pearl/agecon/tax/wf-792.pdf>

Financial Information for Beginning Farmers and Ranchers



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Working with Your Lender

- Who farms
- Who uses debt
- Sources of credit
- 5 C's of credit
- Lending relationships
- Prepare for approval



Who Farms

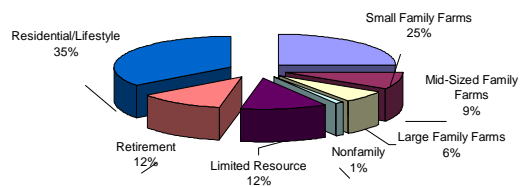


Chart Source: John J. Hays, Farm Credit Council



Who Uses Debt

Type	Number	In Debt	Percent
Young	152,156	79,294	52.1%
Beginning	444,588	203,856	45.9%
Small	1,764,786	680,588	18.6%
Large	146,340	129,609	88.6%
Female	161,328	43,882	27.2%
Minority	47,483	15,519	52.2%



Sources of Credit

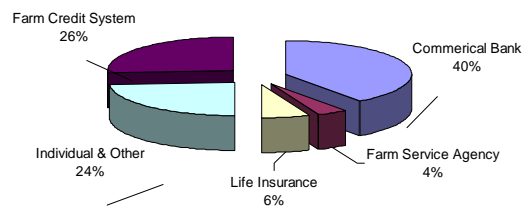


Chart Source: John J. Hays, Farm Credit Council



5 C's of Credit

- Capital
- Capacity
- Character
- Collateral
- Conditions



5 C's of Credit

□ Capital

- The amount of your net worth
- It is determined by total assets minus total liabilities
- This represents your investment in the operation

5 C's of Credit

□ Capacity

- Your ability to repay your debts and meet other obligations such as family needs

5 C's of Credit

□ Character

- Is measured by considering many factors such as credit history, responsible use of credit, management practices (risk, financial, marketing, etc.)

5 C's of Credit

□ Collateral

- What assets are pledged to the lender to protect the lender in the event of default

5 C's of Credit

□ Conditions

- Requirements a lender makes a part of the loan agreement
 - Some conditions are in the form of performance requirements a borrower has to meet or maintain

Prepare for Approval

□ Scorecards

- Basic information when applying for credit approval

Prepare for Approval

- Full approval
 - Financial analysis with projections
 - Appraisals and evaluations
 - Business plan review
 - Risk management considerations
 - Protecting assets
 - Protecting income

Presentation References

- University of Arkansas Department of Agricultural Economics and Agribusiness; Fayetteville, AR
 - **Jennie Popp**; jhpopp@uark.edu
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 - **Janie Hipp**; jhipp@csrees.usda.gov
- The Farm Credit Council; Washington, D.C.
 - **John J. Hays**; Vice President Policy Analyst and Development; hays@fccouncil.com

Sources for More Information

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<http://agweb.okstate.edu/pearl/fci/econ/t-4144.pdf>
- **Choosing Financial Advisers, T-4228**
<http://agweb.okstate.edu/pearl/fci/econ/t-4228.pdf>

Understanding Financial Statements



Risk Management Project - This project was made possible in part by grants from USDA/CSREES under Award Number 2004-49200-03126
USDA/RMA under Award Number 07IE08310275 - C

Accounting Ideas

Concepts and Techniques

Read and interpret the basic financial statements.

The Need for Accounting

Managers, investors, and other internal groups want the answers to two important questions:

How well did the operation perform?

Where does the operation stand?



The Need for Accounting

Accounting answers most financial questions with two major statements:

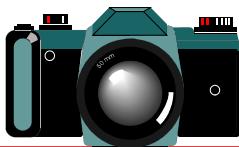
Income Statement

Balance Sheet



Balance Sheet

- The *balance sheet* is a snapshot of the financial status of an organization at a point in time. A summary of what is owned and what is owed.



Income Statement

The *income statement* measures performance of a firm by matching its accomplishments (revenue from customers, often called *sales*) and its efforts (*cost of the goods sold* and other expenses).



Cash Flow Statement

The *cash flow statement* summarizes a firm's cash receipts (sales, income) and cash expenditures (capital purchases, operating expenses) over a given period of time.

Calculating Interest Rates

If you use a credit card and the interest rate on the card is 3% per month. What is the annual rate that you are actually charged?? 36%?? NO! It's actually 42.57%.

•The Nominal Rate is 36% .

•The Periodic Rate is 3% (you are charged 3% interest on your balance every month)

•The Effective Annual Rate is 42.57%

m = the number of compounding periods

•i = the nominal interest rate

Effective Annual Rate = $(1 + i / m)^m - 1$

•Effective Annual Rate = 42.57 %

Calculating Interest Rates

•m = the number of compounding periods

•i = the nominal interest rate

Effective Annual Rate = $(1 + i / m)^m - 1$

•Effective Annual Rate = $(1 + .36 / 12)^{12} - 1$

•Effective Annual Rate = $(1 + .36 / 12)^{12} - 1$

•Effective Annual Rate = $(1.03)^{12} - 1$

•Effective Annual Rate = $(1.4257) - 1$

•Effective Annual Rate = .4257

•Effective Annual Rate = 42.57 %

Calculating Payback Rates

Purchase of Equipment for \$100,000 with \$10,000 year Maintenance and sell it after 5 years for \$15,000 Salvage/Trade in Value.

Initial Cost	-100,000				
Annual Maintenance		-10,000	-10,000	-10,000	-10,000
Benefits:					
Annual Savings		70,000	50,000	50,000	80,000
Salvage Value					15,000
Net Cash Flow	-100,000	60,000	40,000	40,000	85,000
Cumulative Cash Flow	-100,000	-40,000	0	40,000	125,000

Calculating Payback Rates

Principle x Amortization Figure
x Number of Payments

10,000 Dollars at 8% Interest For a period of 10 Years

\$10,000 x 0.149 x 10 = \$14,900 Total Paid
At \$1,490 Annual payments

Amortization table. Annual principal and interest paid per \$ borrowed by length of loan and interest rate.

No. of annual pmnts	Annual Interest Rate					
	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
3	0.388	0.3915	0.3951	0.3986	0.4021	0.4057
4	0.3019	0.3053	0.3087	0.3121	0.3155	0.3189
5	0.2505	0.2538	0.2571	0.2604	0.2638	0.2672
6	0.2163	0.2196	0.2229	0.2263	0.2296	0.233
7	0.1921	0.1954	0.1987	0.202	0.2054	0.2088
8	0.174	0.1773	0.1807	0.1841	0.1874	0.1909
9	0.1601	0.1634	0.1668	0.1702	0.1736	0.1771
10	0.149	0.1524	0.1558	0.1593	0.1628	0.1663
11	0.1401	0.1435	0.147	0.1504	0.154	0.1575
12	0.1327	0.1362	0.1397	0.1432	0.1468	0.1504

Balance Sheet

Assets = Liabilities + Owners Equity

Assets— *Things that you own*-- are economic resources of an operation, such as Cash, Equipment, or land.

Liabilities— *Something you owe*-- are what the operation owes to others, such as bills, mortgages, loans

Owners Equity – The Value of the Enterprise to you. The difference of what you **own** and what you **owe**

Business Transactions

A *transaction* is any event that affects the financial position of an operation and requires recording. The purchase of a new piece of equipment, or the selling of the crop or herd. These *transactions* help you prepare, income statements, or statements of cash flow.

Sterling Farms Transactions April 1- April 30, 2002

1. Feed was purchased for A. \$325
2. A Mortgage payment of \$750 B. \$700 principal
 C. \$50 interest
3. Livestock costing: D. \$6,000 sold for a cash
 payment. E. \$7,500.
4. Heating Bill received for F. \$67.25
5. Electric Bill Paid G. \$56.00

Revenues

Revenues are increases in ownership claims arising from the delivery of goods or services, such as the sale of the crop or livestock.

Revenues must be *earned*.

Revenues must be *realized*.

The Power of the Balance Sheet Equation

The balance sheet equation can highlight the link between the income statement and balance sheet.

Assets = Liabilities + Owner's Equity

Sterling Farm Balance Sheet March 31

Assets	=	Liabilities	+	Equity
Cash				2,500 H
Livestock				8,000 I
Crop				2,250 J
Land/Bldg				75,000 K
Equipment				20,000 L
Loans (1 yr)				6,000 M
Loans (Other)				22,750 N
Account Payable				850 O
Totals		\$107,750		\$29,600 \$78,150

Expenses

Expenses are decreases in ownership claims arising from delivering goods or services or using up assets.
Mortgage payments, fertilizer, fuel

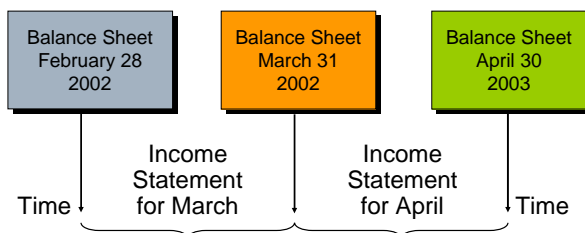


Profits

Profits (or earnings or income) are the excess of revenues over expenses.



Income Statement



Sterling Farm Income Stmt

Income Statement for the Month Ended April 30, 2002

Sales	\$7,500 E
Cost of goods sold	<u>6,000 D</u>
Gross profit	\$1,500
Operating expenses:	
Mortgage Interest	\$ 50.00 C
Gas Bill (owed)	67.25 D
Electric Bill (paid)	<u>56.00 F</u>
Net income	\$ 173.25
	<u>\$ 1326.75</u>

Sterling Farm Cash Flow

Cash Flow for the Month Ended April 30, 2002

Sales of Live stock Cash	E \$7,500
Operating expenses:	
Mortgage Principle	B \$ 700
Interest	C 50
Feed/Seed	A 325
Electric Bill (paid)	G <u>56</u>
Net Cash Flow	1,131
Beginning Cash Balance	H \$2,500
End of Month Cash Balance	\$8,869

Sterling Farm Balance Sheet

March 31

	Assets = Liabilities + Equity
Cash	8,869
Livestock	2,000
Crop	2,250
Land/Bldg	75,000
Equipment	20,000
Loans (1 yr)	6,000
Loans (Other)	22,050
Account Payable	917.25
Totals	<u>\$108,444=28,967.25+\$79,476.75</u>

Accrual Basis versus Cash Basis

The *accrual basis* of accounting recognizes revenues and expenses when they occur instead of when cash is received or paid. Better for planning and budgeting

The *cash basis* of accounting recognizes revenue and expense when cash or check is received or written.

Accrual Basis versus Cash Basis

The accrual basis is the best framework for relating income with expenses. It is more complicated.

The cash basis can fail to match expenses and incomes in a timely manner. And can distort the financial picture of the firm. But is the easier of the two.

Farm Revenue

- The Sale of Farm Goods.
- Selling of your Livestock, Produce, Crop, Used Equipment, or any other thing produced as part of your farming operation.

Farm Expenses

- Anything you bought for your operation
- Buying Livestock, Seed, Fertilizer, Equipment (Tractors or Tires), Consulting Services, or any expense that is for your farming operation.

Depreciation

Accountants usually...

Predict the residual value of an asset.

Predict the length of the assets useful life.

Allocate the cost to the years of its useful life.

Depreciation Table

Straight Line Method - Half Year Convention

Year of Depreciation	Property Class			
	3	5	7	10
1	16.67%	10.00%	7.14%	5.00%
2	33.33%	20.00%	14.29%	10.00%
3	33.33%	20.00%	14.29%	10.00%
4	16.67%	20.00%	14.29%	10.00%
5		20.00%	14.29%	10.00%
6		10.00%	14.29%	10.00%
7			14.29%	10.00%
8			7.14%	10.00%
9				10.00%
10				10.00%
11				5.00%

Changes in Net Worth

- ❑ Changes in Owners Equity show the profitability or loss that and operation sustains.
- ❑ Positive Changes in Owners Equity indicate successful operations.
- ❑ Unexplained Negative changes are a cause for concern.

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Presentation References

University of Arkansas
Department of Agricultural Economics
Mr. J. Ashley Goodwin
Dr. Jennie Popp

Budgeting

Selecting New Enterprises for Your Farm & Survival Strategies for Small and Limited Resource Farmers & Ranchers



Risk Management Project - This project was made possible in part by grants from USDA CSREES under Award Number 2004-49200-03126 USDA/RMA under Award Number 07IE08310275 - C

Budgeting Methods

- Enterprise budgeting
- Partial budgeting
- Cash-flow budgeting
- Whole-farm planning
- Sensitivity analysis



Enterprise Budgeting

- Estimate returns, costs and profits for a single enterprise
- Helpful in comparing two enterprises because everything is on a per unit basis
- Can calculate return to land, capital, and management



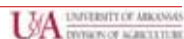
Partial Budgeting

- Calculates expected change in profit from a proposed change in business plan
- Only considers changes in expenses and revenues



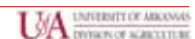
Cash-flow Budgeting

- Sets up timing of cash inflows and outflows
- Helps determine when you will need cash for projects
- Very helpful when talking to a lender



Whole-farm Planning

- Detailed physical and financial plan for total farm operation
- A must for all organizations
- Helpful in evaluating impact of new enterprises
- Evaluate periodically



Sensitivity Analysis

- Calculate the impact of unforeseen circumstances on an enterprise's profitability
- Best accomplished through the use of spreadsheets

Resources

- Questions one should ask:
 - How much land, labor, capital, and/or entrepreneurial skill will it require?
 - Where can I attain these resources?
 - Can I use any resources that I presently have access to?

Resources

- Questions one should ask:
 - If I purchase new capital, will it be useful in another enterprise?
 - What is the seasonality of labor required?

Resources for Use

- Use resources that you already have access to first
- Lenders/investors for capital resources
 - Use of budgets will be very helpful from lender's viewpoint
 - Seasonality of labor

Rule of Thumb

- Decision-making rule
 - As long as VALUE of additional output
IS GREATER THAN
the COST of additional input
continue to add input

INFORMATION

- Questions one should ask:
 - Who can provide me with information on the enterprise?
 - What will be the costs associated with obtaining this information?

INFORMATION

- Questions one should ask:
 - Will the information be reliable?
 - Are there any trade organization or publications already established in this area?

Sources and Costs of Information

- University/extension specialists
- Trend/industry associations
- Publications and world wide web
- Present operators and records from these

Presentation References

- University of Arkansas Department of Agricultural Economics and Agribusiness; Fayetteville, AR
 - **Jennie Popp**; jhpoppp@uark.edu
- USDA/CSREES
 - **Janie Hipp**; jhipp@csrees.usda.gov
- University of Kentucky Department of Agricultural Economics; Lexington, KY
 - **Steve Isaacs**; 303 Charles E. Barnhart Bldg; sisaacs@uky.edu

Sources for More Information

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- **Liabilities Schedule, WF-792**
<http://agweb.okstate.edu/pearl/agecon/tax/wf-792.pdf>
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- **Getting Started: Saving and Investing, T-4144**
<http://agweb.okstate.edu/pearl/fci/econ/t-4144.pdf>
- **Master Your Dollars: Goals, Choices, and Plans, T-4316**
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The Key to Success is Information

Establishing and Using a Farm Financial Record-Keeping System



Risk Management Project - This project was made possible in part by grants from USDA/CSREES under Award Number 2004-49200-03126
USDA/RMA under Award Number 07IE98310275 - C

New Business Statistics

- ❑ 40% of start-up businesses fail within the first year.
- ❑ Within 5 years 80% will have failed.
- ❑ Of those that survive the first 5 years, 80% will fail within 10 years.

Financial Records Needed

- ❑ **Minimum requirements**
 - Inventory of assets and liabilities
 - Transaction journal listing income & expenses
 - Copies of tax forms filed
 - Employment records

Financial Records Needed

- ❑ **A "good" financial record keeping system:**
 - The minimum requirements, plus
 - Balance sheet
 - Accrual adjusted income statement
 - Cash flow statement
 - Enterprise budgets

These should be timely, accurate and complete!

Financial Record Maintenance

Cancelled checks	3 to 6 years
Investment records	6 years
Loan agreements	Until updated
Receipts for large purchases	Until item is sold
Service contracts and warranties	Until item is sold
Tax returns	6 years from filing date

Record-Keeping Alternatives

- ❑ Except in a few cases, the law does not require any specific kind of records
- ❑ You can choose any record keeping system suited to your business
 - Should at least show your income for your tax year.
 - Keep a complete and separate set of records for each business in which you are involved.

Record-Keeping Alternatives

- **The most important use for a computer on the farm is for:**
 - financial record keeping and
 - ANALYSIS.

Record-Keeping Alternatives

- **Computerized Records**
 - Increasingly affordable
 - Especially useful for manipulating data
 - Cash-flow statements
 - Profit and Loss statements
 - Graphs and charts

Advantages of Computer Records

- Immediate availability of key reports
- Improved planning and budgeting capability
- Improved asset purchase decisions
- Pinpointing and elimination of unprofitable enterprises

Record-Keeping Alternatives

- **Hand kept records**
 - Suitable for smaller, less complex operations
- **"Farm Account Books"**
 - Good for small and part-time farmers
 - Provides a record of all basic information
 - Available through:
 - Cooperative Extension Services
 - Ag Lenders (USDA-FSA)
 - Farm management firms

Financial Statements

- **Ask your Cooperative Extension Service for:**
 - Crop & Livestock planning budgets
 - Balance sheets
 - Cash flow statements
 - Equipment inventory list

How to get Started

- Identify your needs
- Commit financially to what you need
- Commit the time

Don't Buy a Computer First

- The computer only runs the software
 - Decide what software you need first
 - Then buy the computer you need
-

How to Evaluate Your Needs

- Prepare a check list of your needs**
 - Do you have multiple business or multiple entities?
 - List everything that comes to mind
-

Starting the Software Review

- From your list of needs, develop a questionnaire for potential vendors.
 - Be completely satisfied with the software; don't buy "futures".
 - Vendor response is important
 - Try the "full" program, not a demo.
-

Trying out the Software

- Before you Buy**
 - Assemble your data
 - Diagram your farm
 - Separate owners
-

During the Program Trial Period

- STEP 1.** Install the program
 - STEP 2.** What is the first thing you enter to access the software?
 - STEP 3.** Entering your farm diagram
-

During the Program Trial Period

- STEP 4.** Enter an expense that requires multiple divisions
 - STEP 5.** Enter an income transaction
 - STEP 6.** Add/delete a name from a vendor file
-

During the Program Trial Period

- STEP 7.** Checking your bank balances
 - STEP 8.** Search your financial data
 - STEP 9.** Produce a balance sheet
-

During the Program Trial Period

- STEP 10.** Using a cash flow
 - STEP 11.** Generate an income statement
-

Cash Versus Accrual Accounting

- Cash Accounting Systems**
 - Income recorded when the money is in your possession.
 - Expense recorded when the goods and services are actually paid for.
-

Cash Versus Accrual Accounting

- Accrual Accounting Systems**
 - Attempts for match expenses with generated revenue.
 - Identifies income and expenses with specific periods of time, without regard to the date of cash receipt or payment.
-

Questions to Ask Vendors

- How long have you been writing agricultural software?
 - Do you have programmers on staff to handle error corrections, updates, and new programs?
-

Questions to Ask Vendors (cont'd)

- What kind of support do you offer?
 - Full time support staff
 - Toll free number
 - Seminars
 - Dealer support available
 - On line Internet support
-

Questions to Ask Vendors (cont'd)

- What kind of documentation is provided?
 - What kind of help can I expect with set-up?
 - Do they provide user references to contact?
-

What Kind of Computer Should I Buy?

- Ag software companies are writing mostly for the Windows operating system.
 - Ask the software company
 - Remember, decide on the software before you buy the computer
-

What Kind of Computer Should I Buy? (cont'd)

- Typical Pentium System**
 - 800 MHz processor speed
 - 128 MB SDRAM RAM memory
 - 30.0 Gigabyte hard drive
 - 8 MB RAM SVGA video card
 - 104 keyboard
 - One 1.44 MB 3.5" disk drive
 - Zip or tape backup system
-

What Kind of Computer Should I Buy? (cont'd)

- Typical Pentium System**
 - One parallel and two serial port
 - Windows operating system
 - 52x CD ROM sound card, speakers
 - 56k high speed modem
 - 17" monitor
 - One year warranty
 - Notebook or Laptop**
-

Commercial Software Products

- **Quicken**
 - User friendly
 - Widely available
 - Inexpensive

www.agecon.okstate.edu/quicken/
 - **QuickBooks**
 - Double-entry accounting
 - Handles payroll
-

Commercial Software Products

- **Farmworks**
 - Can integrate field level and whole-farm records
 - **FINPACK**
 - Excellent tool for developing
 - Balance Sheets
 - Budgets
 - Cash-Flows
 - Provides key financial measures
-

Do's and Don'ts for Farm Records

Don't:

- Wait until 2009 to do 2008's bookkeeping.
 - You will forget things
 - And, it's a real pain
 - Act like record keeping isn't a REAL job.
 - Play with balance sheet values
 - Ignore balance sheet trends
-

Do's and Don'ts for Farm Records (cont'd)

Do:

- Keep records
 - Put someone in charge
 - Preferably someone who likes to do it
 - Provide the right tools
 - Provide dedicated space and environment
 - Hire it done if you have to
-

"Create out of all people rulers of tens and rulers of hundreds and rulers of thousands that they may help to bear the burden with thee."

Exodus 18

"Even the world's greatest violinist probably can't play the cello."

*Peter F. Drucker
Management Consultant*

Attributes of Outstanding Managers

- "When in doubt, ask for help and guidance from someone you trust."
ABA 10 tips for beginning farmers
- "They are able to objectively and accurately assess strengths and weaknesses in people, including themselves."

*Danny Klinefelter
Texas A&M University*

Do's and Don'ts for Farm Records (cont'd)

Do:

- Keep records updated
 - Keep business and personal accounts separate
 - Consider record-keeping a vital part of your business
-

Thank You!



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Financial Risk: Insurance Questions and Answers



Risk Management Project - This project was made possible in part by grants from USDA/CSREES under Award Number 2004-49200-03126 USDA/RMA under Award Number 07IE08310275 - C

What is an insurance policy?

- A legally binding contract
- Insurance company and the policyholder (person insured)
- In exchange for payment (premium)
- The insurance company agrees to pay for certain types of loss or damage

The loss is covered when it meets all of the requirements described by the terms of an insurance policy



What is insurable interest?

A person has an insurable interest in something when loss or damage to it would cause that person to suffer a financial loss or certain other kinds of losses

Example

If the house you own is damaged by fire

- the value of your house has been reduced
 - You can rebuilt or sell it at a reduced price

you have suffered a financial loss resulting from the fire



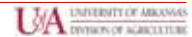
What is insurable interest?

If your neighbor's house is damaged by fire

- you may feel sympathy for your neighbor

BUT you have not suffered a financial loss from the fire

You have an insurable interest in your own house but you do not have an insurable interest in your neighbor's house



How does an insurance policy protect me?

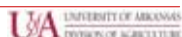
It offers protection against economic loss such as loss or damage which can be measured in purely financial terms and compensated by money

Example

an insurance policy can pay for the cost:

- to repair or replace a damaged automobile
- to rebuild a building damaged by fire,
- to treat (medical treatment) for an injury or illness
- to pay for the lost income of a person who dies or is unable to work

The purpose is to place the injured party, as nearly as possible, in the same financial position as if the loss had not occurred



How does an insurance policy protect me?

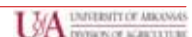
There are many types of losses which cannot be compensated by money

Example:

An insurance cannot:

- replace a life
- take away the emotional injury or pain which often accompanies an accident or serious illness
- compensate for loss of the sentimental value of an item of property

you are insuring only the economic value of the home when you buy homeowners property insurance



What are exclusions and how do they affect my coverage?

An **exclusion** is a statement in an insurance policy which describes a condition or type of loss that is not covered by the policy

Example

An auto liability policy typically states that it will pay damages for bodily injury or property damage because of an auto accident

Exclusions

- the injury is caused intentionally
- the injury is caused by a person who uses an insured vehicle without permission

What are limitations and how do they affect my coverage?

A limitation also is an exception to the general statement of coverage but is applicable only under certain circumstances or for a specified period of time

Example

A health insurance policy

- preexisting conditions limitation
- after the policy has been in effect for a specified period of time the limitation will no longer apply
- treatment for the preexisting illness or condition will be covered

What am I required to do when I have a claim?

- Every insurance policy specifies certain duties that an insured must perform after a loss has occurred
- The exact duties vary among different policies and will be different for:
 - property damage claims
 - liability claims
- Policies usually require an insured to give "prompt notice" of any loss, including:
 - basic information about what property was damaged or
 - the time and place of an accident or injury

What am I required to do when I have a claim?

- If there has been property damage, the insured will be obligated to take reasonable steps to protect the property from further damage
- If there is a theft loss, policies often require that the police must be notified
- In the event of a liability claim, you must promptly send the insurance company copies of any notices or other legal papers you receive
- Almost all property and liability policies contain a general requirement that the insured must cooperate with the insurance company in the investigation, settlement or defense of the claim

Does my insurance company defend me in court?

- When you buy liability insurance, part of the insurance company's obligation is to provide a defense for you if you are sued
- The insurance company will do this by hiring and paying for an attorney to represent you in court
- Even though the insurance company selects the lawyer and must approve the payment of all legal fees and other expenses of the lawsuit, the lawyer represents you

Are there any government agencies that regulate how insurance companies operate?

- A primary function of the Arkansas Insurance Department is to assure that insurance companies operating in the state are financially sound, so that the company will have the financial ability to meet its obligations to pay claims

Property Insurance: Business

Is a business required to have certain types of insurance?

- ❑ All businesses must provide Workers' Compensation coverage for the benefit of their employees who may be injured while on the job
- ❑ This is a requirement of the law in every state
- ❑ This requirement is satisfied by purchasing Workers' Compensation insurance, which is available from private insurance companies in most states

Is a business required to have certain types of insurance?

Sometimes businesses are required to have certain types of insurance

Example

- ❑ Lease for an office or store or factory - usually will require the tenant to have certain types of insurance to cover its operations conducted on the leased premises
- ❑ Leases for office equipment - may require insurance to cover potential damage to the equipment

Is a business required to have certain types of insurance?

- ❑ Because of frequent contact with the public by many businesses, there is usually a much greater exposure to legal liability arising from the conduct of a business
- ❑ Most businesses should purchase liability insurance to cover all business related activities
- ❑ This insurance should be specifically tailored to the type of business being conducted

What kinds of insurance can I buy?

The four most common forms of insurance for real property include:

Liability insurance: provides coverage if someone is injured or harmed on your property or as a result of your ownership of the property

Typically it is sold in a package policy (renter's, homeowner's or business liability)

What kinds of insurance can I buy?

Title insurance: guarantees that you are receiving full legal ownership of the commercial property that you are buying

It will pay attorney fees, as well as all other costs in defending the title from a legal problem

This type of policy covers the costs of defending your title against the claims of another

What kinds of insurance can I buy?

Mortgage insurance protects the lender (usually a bank) against the risk of nonpayment by the buyer who makes a low down payment (less than 20% of the sale price)

The only reason to buy this insurance is if your lender insists upon it

Mortgage life insurance pays off the balance of your mortgage when you die

What type of business insurance do I need?

Whether you need insurance depends on:

- your business activities and
- the amount of liability exposure that you have from the activity

Insurance may be required for employees:

- worker's compensation insurance
- state disability insurance
- unemployment insurance

What type of business insurance do I need?

Some common forms of business insurance include:

- commercial multi-peril policies (covering a variety of exposures)
- liability insurance covering premises, activities, and products
- business interruption insurance

In deciding whether to purchase insurance, an analysis of your risk exposure should be performed

If you are unable to determine your risk of loss from engaging in business, contact a commercial lines insurance broker

What kinds of insurance should I buy for my commercial building?

- Property damage insurance will help protect your investment if your building is damaged or destroyed by fire or other causes
- Public liability coverage will protect you if someone is hurt in the building and sues you
- But also consider rent interruption insurance to make sure you do not lose rental income while you are repairing damage caused by a fire or tornado

How should I take legal title to commercial property?

- You may want to consider forming a corporation or limited liability company (LLC) and putting the legal title in the name of the business entity

- more paperwork
- more expense

but you limit your personal liability if someone gets hurt on your property

How should I take legal title to commercial property?

- By limiting personal liability, you decrease the risk that you could lose your other assets such as your home and personal bank accounts if there is a big verdict in favor of an injured person
- Your lawyer can help you decide if putting your commercial real estate into a separate legal entity is the best thing for you to do

Property Insurance Personal

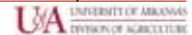
What coverage do I get from a homeowners' policy?

Homeowners insurance includes a broad package of both property and liability coverage

Homeowner's insurance pays for the repair or rebuilding of a house which is damaged by:

- fire
- wind damage
- freezing
- vandalism

Earthquake and flood, among other things, are not covered unless specifically provided and paid for



What coverage do I get from a homeowners' policy?

- This policy also pays for replacement of the personal items inside your home if they are damaged by the same causes that damage the house or if they are stolen
- A Homeowner's policy also covers your legal liability which could arise if someone is injured on your property
- Without this type of liability insurance, all of your personal assets could be at risk if you are sued and found to be responsible for:
 - causing injury to someone or
 - damaging to another person's property



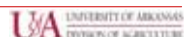
If I own a house, am I required to buy homeowner's insurance?

- If you borrow money to buy a house, the bank will take a mortgage to protect its interest until the loan is repaid
- The mortgage will require that you have an adequate amount of insurance to cover the repair or rebuilding of the house in the event it is damaged
- Normally the bank is the beneficiary on your policy this is to assure that the money is used to rebuild or repair the house or, if you choose not to rebuild, to pay off the loan



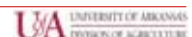
Do I need an insurance if I rent a house?

- Even if you are not the property owner, you have potential legal liability to someone who is injured on property you occupy
- A renters policy is similar to homeowners policy but without coverage for the buildings or structures
- Renters policies usually cost far less than homeowners policies



Should I have insurance on the building?

- The homeowner should always carry fire and liability insurance on the building, even though the construction has not completed



Farm Property Insurance

What coverage do I get from a farm property policy?

- The typical farm property policy covers the farm dwelling (If used as a residence)
- Unattached items must be specifically itemized to be covered
 - Detached garages
 - Barns
 - Equipments
 - Crops
 - Animals
- Farm structures rented to others need separate coverage



What coverage do I get from a farm liability policy?

- A liability policy protects a farmer against claims or lawsuits brought by persons whose property or person has allegedly been injured by the farmer's negligence
- Liability policies contain critical exclusions

Example:

- Liability policies routinely exclude coverage for family members injured by farmer's negligence
- Other non-farm employees injured by a farmer's negligence are also routinely excluded from coverage



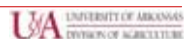
What coverage do I get from a farm liability policy?

- Farmers often engage in business pursuits other than farming
 - Leasing their land to individuals or organizations for hunting, fishing and camping
 - U-pick operations
 - Other recreational activities
-



What coverage do I get from a farm liability policy?

- Liability policies, however, exclude coverage for business pursuits other than farming
- It is desirable to seek liability coverage for hunting activities that will occur on your land
- A written hunting lease is an essential tool for protecting you and your assets if an accident should occur on your leased property



For more information

Arkansas Insurance Department

www.insurance.arkansas.gov Phone 1-800-282-9134

Insurance Series: Managing Risk

www.uaex.edu/Other_Areas/publications/pdf/FSHEC-77.pdf

Insurance Series: Disability Insurance

www.uaex.edu/Other_Areas/publications/pdf/FSHEC-68.pdf

Choosing the Right Life Insurance Plan

www.uaex.edu/Other_Areas/publications/PDF/MP336.pdf

Wildlife Leases and Liability Issues on Private Lands

www.uaex.edu/Other_Areas/publications/PDF/FSA-9089.pdf



For more information

Getting Started on an State Plan

www.uaex.edu/Other_Areas/publications/PDF/FSHEC-36.pdf

Managing Financial Losses from a Natural Disaster

www.uaex.edu/Other_Areas/publications/PDF/FSHEC-67.pdf

Law and Legal Advice

www.freeadvice.com/

Legal Framework for Risk Management

www.rma.usda.gov/training/trainer/copeland.html

Risk Management

http://www.rma.usda.gov/pubs/2000/manejoderiesgos_b.html



Presentation References

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SURVEY – NEW BUSINESS

Completion of this survey is voluntary.

1) Which of the following actions must always be taken to start a successful business?

- a) You should be prepared to risk all of your family assets**
- b) Be prepared to put down a lot of money**
- c) Choose a business that is in a field you enjoy**
- d) Plan to quit your job before starting**

2) The most common and biggest mistake made by entrepreneurs is not having sufficient money.

TRUE [] FALSE []

3) You can control your risk by placing a limit on how much you invest in your business.

TRUE [] FALSE []

4) What is the single most frequently made mistake that leads to failure?

- a) Lack of experience in the business chosen.**
- b) Under capital.**
- c) Not selecting the right business to begin with.**
- d) Lack of knowledge of accounting.**
- e) Lack of familiarity with the competition.**

5) Which one of the following is NOT a good reason to consider starting a your off hours business?

- a) Family members can become involved in your business**
- b) You have the time and equipment available on your regular job to conduct your own business**
- c) If a part-time business proves out and becomes successful, you can decide at that time whether to quit your job and become a full-time entrepreneur.**

6) Which one of the following answers would be a good decision for picking a business?

- a) It would be better to jump right in and get something started and see what happens.**
- b) A fresh start in an entirely new field is much better than a business in which you already have experience**
- c) You would take your time to seek out that one great opportunity.**
- d) If your heart is really set on opening a business, you would go for it no matter what.**

7) In most cases, the very best way to become qualified in a business you intend to open is to:

- a) Talk to everyone you can who is in that business.**
- b) Do a "for" and "against" analysis.**
- c) Work for someone in the same business.**

- 8) You have always dreamed of opening a supermarket but now that you are ready to start, you realize that Wal-Mart would be too hard to challenge. You should:
- a) Find a niche segment in the supermarket business that you can specialize in. For example, ethnic food or organic food.
 - b) Find another business.
 - c) Go to work for one of the "big supermarkets" chains and see if any needs exist that you could uniquely fill.
 - d) All of the above

9) What is the single most frequently made mistake that leads to failure?

- a) Lack of experience in the business chosen.
- b) Under capital.
- c) Not selecting the right business to begin with.
- d) Lack of knowledge of accounting.
- e) Lack of familiarity with the competition.

10) A service business is less subject to price competition than a product business.

TRUE [] FALSE []

11) The "do it yourself" start is a good way to learn everything about your business and also makes you better qualified to delegate work to others later on.

TRUE [] FALSE []

12) Before starting a business you should consider the negative aspects of your business

TRUE [] FALSE []

How would you rate your interest in obtaining additional information or education on each of the following risk management topics? (circle one in each row)

TOPIC	No Interest	Low Interest	Interest	Strong Interest
Estate planning	0	1	2	3
Direct marketing	0	1	2	3
How to keep financial records	0	1	2	3
Liabilities related to employees	0	1	2	3
Insurance	0	1	2	3

Would you be interested in attending a FREE seminar on any of the following risk management areas? (circle one in each row)

TOPIC	No Interest	Low Interest	Interest	Strong Interest
Estate planning	0	1	2	3
Direct marketing	0	1	2	3
How to keep financial records	0	1	2	3
Liabilities related to employees	0	1	2	3

Insurance

0

1

2

3

Do you plan to start a business?

YES []

NO []

If you answer affirmatively to the previous question, do you plan to set up a basic record-keeping system in your commercial enterprise?

YES []

NO []

How well do you read in Spanish?

[] Not at all

[] Beginning (1-2)

[] Intermediate (3-4)

[] Advanced (5)

How well do you write in Spanish?

[] Not at all

[] Beginning (1-2)

[] Intermediate (3-4)

[] Advanced (5)

How well do you read in English?

[] Not at all

[] Beginning (1-2)

[] Intermediate (3-4)

[] Advanced (5)

How well do you write in English?

[] Not at all

[] Beginning (1-2)

[] Intermediate (3-4)

[] Advanced (5)

Would you be interested in obtaining information regarding FREE English language classes?

YES []

NO []

Would you know how to browse a web page on the Internet?

YES []

NO []

SURVEY - INSURANCE

Completion of this survey is voluntary.

1) What is the main reason for buying life insurance? (circle one)

- a) To become rich
- b) To protect yourself
- c) To protect others
- d) None of the above

2) Which of the following is NOT a type of life insurance? (circle one)

- a) Term
- b) Whole Life
- c) Universal
- d) Disability

3) The only way to obtain a health insurance is through an employer.

YES [] NO []

4) Health insurance not provided by an employer is expensive.

YES [] NO []

5) There are two types of property: personal and real.

YES [] NO []

6) What insurance may NOT be required for employees?

- a) Worker's compensation
- b) Disability
- c) Mortgage
- d) Unemployment

7) Mortgage life insurance pays off the balance of your mortgage when you die.

YES [] NO []

8) Workers' compensation coverage is required by Arkansas's law.

YES [] NO []

9) Homeowner's insurance pays for replacement of the personal items inside your home if they are damaged by the same causes that damage the house or if they are stolen.

YES [] NO []

10) When you rent a house, your personal property is covered if the landlord has homeowner insurance.

YES [] NO []

11) Homeowner's insurance covers your legal liability which could arise if someone is injured on your property.

YES [] NO []

12) When you buy liability insurance, part of the insurance company's obligation is to provide a defense for you if you are sued.

YES [] NO []

13) Without liability insurance, all your personal assets could be at risk if you are sued and found to be responsible for causing injury to someone or damaging to another person's property.

YES [] NO []

14) Auto insurance includes different coverage for different losses. The main coverages include: (circle one)

- a) Liability (bodily injury and property damage)
- b) Medical payments and Collision
- c) Comprehensive and Uninsured motorists
- d) All of the above

15) In Arkansas, you are required by law to have:

INSURANCE	YES	NO	NOT SURE	INSURANCE	YES	NO	NOT SURE
Life	[]	[]	[]	Homeowner's	[]	[]	[]
Health	[]	[]	[]	Renter's	[]	[]	[]
Automobile	[]	[]	[]	Worker's compensation	[]	[]	[]
Property	[]	[]	[]	Mortgage	[]	[]	[]

Test your knowledge of insurance terms. Match the following words with their definitions.

- A) Beneficiary
- B) Deductible
- C) Face Value
- D) Insured
- E) Premium

1. _____ the amount the insured must pay before the insurance company will begin to pay
2. _____ the amount of money to be paid when the insured dies
3. _____ the person whose life is covered by the insurance
4. _____ the amount paid for the insurance
5. _____ the person who received payment when insured dies

How would you rate your interest in obtaining additional information or education on each of the following risk management topics? (circle one in each row)

TOPIC	No Interest	Low Interest	Interest	Strong Interest
Estate planning	0	1	2	3
Direct marketing	0	1	2	3
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How to keep financial records	0	1	2	3
Liabilities related to employees	0	1	2	3
Insurance	0	1	2	3

Do you plan to incorporate any kind of insurance in your personal life?

YES [] NO []

Do you plan to incorporate any kind of insurance in your commercial enterprise?

YES [] NO []

How well do you read in Spanish?

[] Not at all [] Beginning (1-2) [] Intermediate (3-4) [] Advanced (5)

How well do you write in Spanish?

[] Not at all [] Beginning (1-2) [] Intermediate (3-4) [] Advanced (5)

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YES [] NO []

Would you know how to browse a web page on the Internet?

YES [] NO []