SEPTEMBER / OCTOBER 2011

real-life
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stories

AgriSuccess

Wes and Dana Hill build family-friendly into their Manitoba dream

FEATURES

COLUMNS

SEPTEMBER / OCTOBER 2011

On the cover:
The Hill family enjoys living a healthy, active lifestyle on their Manitoba farm.

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- Canadian Farm Writers' Federation award for periodicals; Bronze 2006, 2007, Gold 2008, Bronze 2009
- Canadian Agricultural Marketing Association (CAMA) Awards; Merit 2006, 2007; Excellence 2009, 2010

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from the editor

Have you ever noticed how debt is a four-letter word? And most adages take a dim view on borrowed money. “Neither a lender nor a borrower be,” is still common advice.

The perception is that if incurred in the first place, you should pay off loans as soon as possible and then never go back into debt. Being debt-free is considered a badge of honour. Horror stories abound on people unable to meet their obligations.

The world isn’t really that black and white when it comes to debt. Too much consumer debt is definitely bad, but borrowing for revenue generation is good business. In fact, if you don’t use debt leveraging, you’re missing out on opportunities.

This has been particularly true in the low interest rate era of recent years. Money is on sale, the cheapest it’s ever been.

Funny how we’ll often wonder if the farm has too much debt, but we seldom muse over whether the farm has too little debt.

The belief that rich people just use their own money and don’t borrow is a fallacy, at least within the business world. Big, successful enterprises use debt financing for the same reasons that small farms do. Because it’s good business.

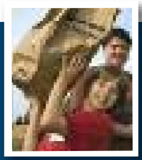
How much debt is appropriate for your operation? What information does your lender need? How quickly are interest rates likely to increase? How do producers across the country make their borrowing decisions? These are the sorts of questions we address in this edition.

AgriSuccess has delved into many farm management topics over the years. This is our first edition dealing specifically with Farm Credit Canada’s core business, so you’ll see a number of people from FCC quoted in the stories. Who better to provide information and insight than the country’s top agricultural lender?

As always, we hope you find the stories interesting and useful. Let us know your thoughts and ideas. I’m at kevin@hursh.ca.

Kevin Hursh

AgriSuccess is an FCC magazine dedicated to helping producers advance their management practices by providing practical information, real-life examples and innovative ideas.



What's your interest rate strategy?

While farm debt has been increasing, interest costs have been dropping. According to Statistics Canada, total farm debt across the country was $66.4 billion as of December 31, 2010, an increase of 6.1 per cent from a year earlier.

Canadian producers paid nearly $3 billion in interest in 2008. By 2010, that declined to about $2.2 billion due to record low interest rates. Analysts expect higher interest rates ahead, so this expense seems poised to become more significant.

The Bank of Canada adjusts its trendsetting rate eight times a year. In 2010, there were three rate hikes of 25 basis points each (one quarter of one per cent) for a total increase of 0.75 per cent. Even with the three increases, the Bank of Canada rate was a mere 1.0 per cent going into 2011.

There was no change to the rate in the first five announcements this year. At the time of writing, the Bank's September 7, October 25 and December 6 announcements were still pending.

According to Jean-Philippe (J.P.) Gervais, senior agriculture economist with Farm Credit Canada, there's some consensus in financial circles that rates may increase by another 175 to 200 basis points before the end of 2012. While that's far from a certainty, it does provide some projections to use in planning scenarios.

If you've been paying a variable rate of around 4.0 per cent, it could increase to 5.75 or 6.0 per cent in the next year or so if the projections are correct. Is that enough to warrant switching loans to a fixed term?

Until now, the lowest interest charges have come from variable rates. Those wanting the security of a fixed term have paid a price for that peace of mind.

Variable rates closely track the Bank of Canada rate. It's difficult to know how much fixed term rates will be affected if the Bank of Canada rate rises.

Variable rates may not be as attractive in the years ahead. Gervais says to reduce interest rate risk, producers may want to have a mixture of fixed term lengths along with loans that carry a variable rate.

Those taking out a large new loan may consider splitting it into more than one term, although this does increase the complexity of managing additional mortgages.

It's difficult to know how much fixed term rates will be affected if the Bank of Canada rate rises.

What's the probability of an interest rate spike and the onerous rates experienced in the early '80s? Gervais says no one is predicting a return to the extreme rates of 30 years ago. "We have a totally different framework monetarily than we did back then."

Since no one knows for sure how fast or far interest rates will rise, it's always good advice to look at how your debt is structured and make adjustments accordingly.

Choosing between fixed and variable rates is not an all-or-nothing proposition: a balanced approach may help you manage interest rate risk. To find out more, view a video at **www.fcc.ca/agrisuccess092011**.

BY **KEVIN HURSH** / *Kevin is a consulting agrologist and journalist based in Saskatoon, Sask. He also operates a grain farm near Cabri, Sask., growing a wide array of crops.*

Relationships matter

Not too long ago, borrowing money to expand or run your farming operation was simple. The local lender knew who you were, knew your character and was familiar with your operation. Today, you need more than just a good reputation in the community.

Your ability to get a loan approved depends on several factors including how well you can sell your case, so it's becoming increasingly important to develop a good working relationship with your lender.

"Financial institutions base their lending decisions on the three 'Cs' of lending: capacity, collateral and character," says Terry Betker, president of Winnipeg-based Backswath Management Inc. "Capacity is the farmer's proven ability to make the payments. Collateral is the security they offer and character is the lender's opinion of the borrower's management capability." Integrity also plays a big role.

Betker says historically, collateral played a significant role in lending decisions; basically, all loans were secured by land and assets. Today, farmers rent more land and own less, but they still need to borrow a lot of money.

"So while the numbers are getting bigger, the collateral available to secure financing is changing. This means lenders have to increasingly rely on their opinion of the producer's management skills when developing a risk profile."

Betker says since lending institutions are being forced to change the way they determine who is a good credit risk and who isn't, producers should keep the other four "Cs" in mind when dealing with their loans officer: clarity, communication, consistency and consideration/courtesy.

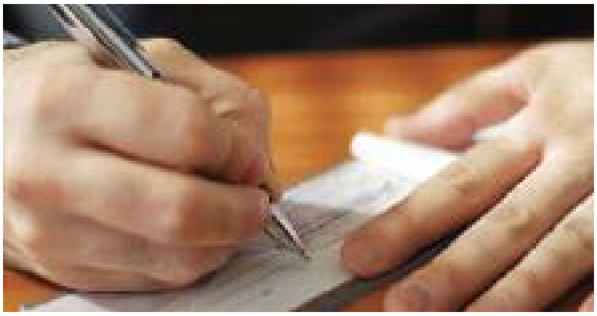
"Clarity is number one," Betker explains. "You don't ever want your lender to say 'I don't understand.' If they are confused, their perception of risk increases. The next C, communication, means you need to regularly tell your lender what's going on. Make sure there are no surprises! Don't go to them out of the blue and tell them you need $500,000 by Monday. Be proactive. Go in and meet with your lender on a quarterly basis and keep them up to date on what is happening in your operation."

The third C, consistency, is about presenting financial information to the lender in a consistent way. If you're presenting corporate financial statements, make sure inventory, livestock or crops in the field are valued in a consistent manner.

The final C is consideration and courtesy. "It's important to understand that the lender you're dealing with has job and family pressures too, so it just makes sense to be as considerate and courteous as possible. It will go a long way towards fostering a good business relationship," Betker says.

BY **LORNE McCLINTON** / *Lorne has worked in the communications field for the last 20 years as a journalist, photographer, scriptwriter and corporate writer. He divides his time between Quebec and his grain farm in Saskatchewan.*

Plan your capital purchases



Few people would buy a $300,000 tractor on impulse. Producers generally plan out capital equipment purchases months, if not years, in advance. Sharing your capital equipment purchase plans with your lender eliminates surprises and helps build a good relationship.

"A good business person knows how to run credit properly, and drawing up a budget outlining your planned capital purchases for the coming year is a fantastic way to show your lender that you know what you're doing," says Scott Dickson, director of livestock services with MNP (formerly Meyers Norris Penny) in Red Deer, Alta.

A capital plan doesn't need to be elaborate. It just needs to outline your planned capital expenditures for the coming year or two. It lets your lender know well in advance what type of dollars you're planning to spend and approximately when you think you might spend them. Unforeseen expenses or the unplanned deal of a lifetime could always pop up, but at least the lender knows the planned expenditures.

"All good relationships are built on trust," Dickson says. "Waiting until the last minute to schedule an appointment to borrow money for a long-planned expenditure just gets everyone frustrated." LM

Build your lender's confidence in you

Farmers have traditionally played their financial cards close to the chest. Many don't want to share any more information with their lender than absolutely necessary. Terry Betker, president of Winnipeg-based Backswath Management Inc., says that if you're a small farmer and business is good, it's not an issue. But if you want to borrow $500,000 or $2 million, the lender shouldn't have to try and guess what you're up to. Betker says it's important for producers to do everything possible to convince lenders they understand their farm business and are a good credit risk.

One common mistake is using an operating line of credit to purchase machinery, says Scott Dickson, director of livestock services with MNP in Red Deer, Alta. "If you are going to buy a long-term asset, take a long-term loan. If you use your operating loan to buy a tractor in the summer, you won't be able to pre-buy fertilizer in the fall, because your tractor is eating up all of your capital. This sends a message to the lender that you don't know how to manage your credit."

Don't underestimate the importance of demonstrating that you have good farm management skills, Betker says. While it's possible to objectively measure a producer's debt-servicing ability by looking at the farm's financial records, hard-to-measure intangibles like the farmer's management capabilities are considered too. LM

The Hills build a dream

Ask Wes Hill what he likes best about farming and the answer is easy: "Being able to see my family during lunch and supper breaks and at other times while farming."

The Hills – Wes, 34, and Dana, 32 – are kept busy with their three children, four-year-old Charlie and 19-month-old twins Levi and Lydia. The choice to farm further enhances their commitment to an active way of life.

"Living in the country gives us peace of mind," Dana says of their farm in Miami, Man., about 120 kilometres southwest of Winnipeg. "It enables our kids to grow up in a rural community, which allows our family to live an active and healthy lifestyle." And, she adds, there's the thrill they get every time they come home.

"It's an amazing feeling to drive up over the hill and know we own all of the land that surrounds our home, and our children will grow up exploring all the beauty it has to offer."

From an operations point of view, the couple enjoys the diversity of the farm and the opportunities for the future. With 70 purebred Simmental cows and 4,100 acres of crops such as canola, beans, soybeans, confectionary sunflowers, spring wheat, winter wheat, corn, flax, oats, seed alfalfa and hay alfalfa, each day brings a new challenge.

"Farming isn't a repetitive work environment," Wes says. "There are many different aspects to keep it interesting."

Wes's parents, Don and Deb, had a commercial cattle operation several years ago, but sold that part of the business to focus on land expansion and growing more grains and oilseeds. They also started taking winters off. Wes and Dana started farming with Don and Deb about 11 years ago and last year created 5 Corner Cattle, a purebred Simmental cattle operation. They took their own approach to the cattle operation, selling breeding stock like replacement bulls and heifers.

"The cattle bring us another source of income that is manageable while grain farming," Wes explains. "We also have ideal land for cattle, areas that aren't suitable for grain farming such as steep valleys and reclaimed gravel pits."

Like most young couples, the Hills assumed debt as they developed their business. But they've made sure to use it as a tool for growth.

"Taking on debt has helped us diversify and expand our farming operation, which has allowed our farm to be more profitable, gain more equity and run more efficiently," Wes says. "Operating an efficient farm allows us to get the work done on time and helps us do a better job of farming, which increases our total income."

Dana also works part time for Manitoba Agriculture Food and Rural Initiatives as a landscape stewardship specialist. "This is another aspect of bringing diversity to our farming operation while helping us to manage our debt in more challenging years," Dana says.

At the end of the day, farming is letting Wes and Dana live their dream.

"Working close to, around and with family puts a smile on my face when I'm having a challenging day," Wes says. "The ability to watch my children grow up on the farm and the thought that someday we'll be able to pass the farm down to them also keeps us enthusiastic. Working outside, close to home, being active and my own boss and owning our own business makes us love what we do."

BY **ALLISON FINNAMORE** / *Allison specializes in cultivating words. Based in New Brunswick, she is an agriculture and business communicator with nearly two decades of experience. She contributes to publications nationwide and works to help industry promote farming and rural living.*

Debt and employee relations

Michelle Painchaud, president and owner of Painchaud Performance Group (PPG HR), is one of Canada's premier human performance consultants.

How much of the farm's financial situation should you share with your employees?

It depends on the employee. If it's a seasonal employee hired to do some specific tasks, there isn't much value in sharing your overall financial picture. But for employees with ongoing responsibilities and longer-term commitment to the operation, it's useful for them to know what you're facing. I don't recommend sharing all the financial specifics, but employees should know the broad picture.

Let's say a farm is facing some financial challenges. Perhaps debt repayment has become an issue. Why is it useful for employees to be aware of that?

If you share the situation with employees, they can often help you come up with cost savings and strategies for recovery. Staff that know what you're facing can better understand decisions being made on equipment replacement and staffing levels. Making it through a tough time with the help of your employees can build a strong team and a sense of loyalty.

Don't underestimate what your employees can do to help. On a smaller operation, there may be something you can provide them in lieu of wages, such as a place to live, the use of a truck or a side of beef. Money isn't everything. The biggest reason for employees leaving is actually a lack of appreciation, not wages.

What if your farm is in a growth mode? Let's say you're borrowing for a large expansion. Is that something you share with employees?

If employees can see your vision, that can be exciting and energizing for them too. While their expectations need to remain realistic, knowing the future plans for the operation can give them a sense of purpose. You might also be pleasantly surprised by their observations and suggestions. Expansion plans are also a great tool for recruiting. Employees are drawn to an operation that has growth plans.

Is it correct to assume your attitude is going to rub off on your family members and employees?

That's certainly the case. During financially stressful times, monitor your own drive and enthusiasm and recognize that this affects those around you. And if you're busy with a major expansion plan, don't forget to give your employees the attention they need to thrive. Employees often describe "a poverty of attention," where they feel they're operating in a vacuum and don't know whether or not they're appreciated.

You can set goals and create a vision for your operation with help from Michelle. View her farm management video at **www.fcc.ca/agrisuccess092011.**

MICHELLE PAINCHAUD
Based in Winnipeg, Painchaud Performance Group works with small to medium-sized businesses to help them optimize employee performance. www.ppghr.com

Sensible **borrowing**

Borrowing money is usually necessary if a farm is to become successful. Yet with the purchase price of farms now often over $1 million, the decision to borrow can be daunting at first, even with the prospect that increased acreage or more quota can lead to increased profits.

The decision to borrow is the first in a series of choices over the life of the loan. How much to borrow, what type of rate to use and whether to lease or buy are some of the other decisions producers face. With new loan features appearing on the market regularly, it can be a complex process that each producer handles differently, depending on the operation, goals and background knowledge of loans. Depending on farm size, goals, crops and livestock types, locking in to a fixed interest rate may be your best choice, or perhaps you're best to have a variable rate over a shorter amortization period.

Here, three Canadian producers share their approaches to borrowing, with a few tips on how to effectively manage borrowed money. All agree that borrowing can be helpful, but you need to do your research and find out what works best in your business operation.

While these producers have different backgrounds, interests and operations, they all learned some truths along the way about how to plan for and manage their debt. These three particular producers favour owning land rather than leasing/renting. However, we should note that many producers have compelling reasons for why leasing/renting works in their situations.

Sandra Van Aert and her husband Luke own two poultry farms in Watford, Ont., with quota for 45,000 layers and 60,000 pullets. With such an operation, skilful money management plays an integral role in their success.

"Because we have a quota system, we basically know our income, so it's a lot easier to figure out how much debt we can have and what our payments are," Sandra says.

But there are some ways to ensure they borrow the right amount of money in the right way, such as choosing between fixed and variable interest rates. It used to be a rule of thumb that if the rate was below a certain per cent for five or more years, they'd lock it in. Now, they make sure to consider all options. "We don't always lock in lately because rates seem to be staying low," allowing them to maximize interest savings, Sandra says.

When it comes to making payments, the Van Aerts prefer advance payment options because, "if you have a good year and you have extra money, it's kind of nice to pay the principal down." She says that with the FCC Advancer Loan, which can be disbursed, repaid and then disbursed again, more expensive items can be purchased without having to get another mortgage.

On renting versus buying land, Sandra sees advantages to both – they rent about 100 acres from people who aren't ready to sell. On renting in general, "we just don't think it pays," she says.

Like many producers, the Van Aerts look to financial advisors to provide insight and advice for decisions that affect the bottom line, including how much debt they can afford.

And despite changing rates and plans, one constant at the Van Aert farm is family support. Just as Van Aert's parents helped them get into the business, they are helping their children by offering collateral so they can start their own farms. Their daughter has a 100-acre farm (9,500 pullet quota) and one son has 400 acres (12,000 pullet quota). The youngest son just graduated high school, and still helps out on the main farm.

"We couldn't have done it without our parents. They helped us start, just like we are helping our kids," Sandra says.

Scott Stephens is a relative newcomer who farms in Clarendon, Que. He started his operation in 2008, but two years ago his financial priorities changed when he got married. Now, he wants to build a house on the farm and start a family. His wife Jessica is a nurse who works on the farm on her days off.

"With the house construction and mortgage on the horizon, it is more important than ever to have a profitable business in good financial condition," he says.

Stephens has a mixed farm of 40 beef cow-calf pairs and 60 ewes, with 158 acres of land. On top of that, he rents another 60 acres. "When it comes time to acquire more land, I will always buy over lease," Stephens says, citing the advice of an older producer who told him the chance to buy a neighbour's land only comes up "once in a lifetime."

He believes land is the "number 1 best investment a farmer can make." Since the price of land where he farms has always remained strong, Stephens believes he's guaranteed to at least break even on resale. "And whether you farm it yourself or rent it back out to another producer until you're ready to farm it, land will always have a return on your investment."

Stephens also works closely with his father's operation. "Machinery is purchased jointly and labour is shared back and forth regularly," he says. That helps cut costs, but borrowing money is still required. Stephens prefers variable interest rates, but with the option to lock in at any time.

"With the house construction and mortgage on the horizon, it is more important than ever to have a profitable business in good financial condition."

"It has allowed me to obtain very favourable interest rates on my financing, which in turn has allowed me to pay off more principal faster," he says.

He keeps an eye on various financial ratios so necessary adjustments can be made before it's too late.

A few years back, a financial manager asked Lois Fuhrhop to provide a five-to-10-year projection of her farm. She laughed and said if she could do that, she wouldn't need to borrow money. However, the financial support she receives from her lender provides a solid foundation to help her plan and manage risks. With so many unpredictable elements like the weather and the economy, Fuhrhop believes that borrowing money is an important part of managing a farming operation.

"There can always be too much debt, but there has to be a comfort zone," says Fuhrhop, who along with her husband Lorne, their son Regan and his wife Christie farm 2,000 acres and run a dairy operation in Wetaskiwin, Alta. Regan and Christie also work their own land and are raising three children.

Lois and Lorne work together on financial decisions. When it comes to leasing or buying, they tend to do a bit of both, depending on the situation.

"We lease land from our neighbours because it's not for sale," she says. But given the chance, they would rather buy. She remembers one time when she and her husband bought land and neighbours couldn't understand it. How could they afford it? But she says sometimes, you can't pass on these chances. "That opportunity and price of land won't come again."

They're also flexible in deciding whether to use fixed or variable interest rates. "If it goes up to eight or 10 per cent, that would break us. But you need the best of both worlds."

She says variable rates are generally better but you need to be gutsy. And there is the innate problem that the rates fluctuate and your situation changes from one year to another. She prefers to lock more of their loan portfolio down because she remembers the days of 18 to 20 per cent interest rates.

She doesn't expect interest rates to go to those extremes, but she's cautious just the same.

They have agreed on a 10-year term for amortization, which works for their farm because with dairy quota, they can make accurate predictions of the turnaround rate.

Overall, it all comes down to timing, Fuhrhop says. Depending on the year and the situation at that moment, borrowing techniques should adjust accordingly.

The most important advice she says she could offer is to be flexible while looking at life day-to-day.

"You can make plans, but when dreams don't come true you have to make new dreams."

BY **HUGH MAYNARD** AND **CHRISTINA FRANC** / *Hugh is a specialist in agricultural communications based in Ormstown, Que. A graduate in farm management from Macdonald College (McGill University), Hugh is a seasoned journalist and broadcaster. Christina is a communications co-ordinator for Qu'anglo Communications and Consulting and a graduate of the Carleton University journalism program.*

How do you view debt?

Many factors shape our debt attitudes including age, upbringing, culture, past experience and personal make-up.

Some fear debt and try to avoid it at all costs. Others keep borrowing until they have repayment issues. Sometimes very different attitudes exist within the same family farm unit.

Lenders see it all.

Bruce Bishop has been a relationship manager with FCC in Truro, N.S., for the last 11 years. His main customers are dairy producers and those in the wild blueberry industry. All are family-based operations.

"Sometimes one partner is more conservative, which leads to lots of discussion on purchase and expansion decisions," Bishop says. Some of that is age-related because there are two generations involved in the ownership. "A 20-year loan looks different to a 30-year-old versus someone who is 55."

He notes that despite differences of opinion, farms need to have a process for eventually moving beyond discussion and making a decision.

"Sometimes the younger generation needs a better understanding of the financial side of the farm," Bishop says. He sees instances where they're never exposed to all the financial information and therefore don't have a good basis for contributing to decisions.

In ideal cases, families have a succession plan. To make this work, it's necessary that those departing still want the farm to succeed without them. That means they've organized their affairs so they don't need every last penny when they sell their farming interest. This provides the upcoming generation with the break they require for success.

Key questions should be asked before every borrowing decision such as, is the purchase going to generate revenue? What's happening with the farm's operating loan?

Some producers bring their own rule-of-thumb wisdom to the table. Bishop has one customer who always buys new when it comes to small equipment. He doesn't want time-sensitive operations, in this case forage harvesting, to be delayed by a breakdown on a piece of equipment that's relatively inexpensive.

While exceptions abound, in Bishop's experience, older people are typically more debt-averse, while female partners or shareholders are more likely to consider how a farm plan might infringe on the family unit.

On the other side of the country, Lang Ellison deals with a diverse group of borrowers. Based at the FCC office in Kelowna, B.C., Ellison lends to producers of cherries, peaches, apples, dairy, chickens, turkeys, beef and even cheese.

"Sometimes one partner is more conservative, which leads to lots of discussion on purchase and expansion decisions."

"There are people who have granddad's 'don't borrow' debt attitude, while there are others who have no hesitation," Ellison says.

It's tough for a young person to get started in the orchard business with prime orchard land selling for as much as $75,000 an acre. While returns can be very good for well-run orchards, land prices have been pushed up by people who want to build a house in the country rather than paying half a million dollars or more for a small lot in an urban area.

The B.C. interior has a lot of people moving into agriculture who didn't grow up on a farm. Some restaurateurs have a desire to be in primary agriculture. Other entrants are advocates of and see opportunities within the local food movement. For good producers with a strong marketing plan, impressive returns can be generated from a relatively small acreage.

"I've found long-time producers can be quite astute about debt," Ellison notes. For those moving into the sector with a dream but not experience, it can be tough. "They don't really know what they're getting into. Orchards may look idyllic, but there's a lot of work that isn't very glamorous."

As he lays out borrowing options and repayment terms, Ellison often sees families that have to make hard decisions about their lifestyle for the economics to work. That changes debt attitudes in some instances.

With every loan, a lender needs to make sure that everyone involved is comfortable with the new debt. Risk tolerance needs to be gauged.

The whole process is easier for the borrower and the lender when there's an overall plan. Unfortunately, few producers actually arrive at their lender's office carrying written goals and objectives.

While most farmers have an overall plan, committing it to paper can be very useful. For one thing, it ensures that everyone involved in the farm knows the direction and purpose. That can help when it's time to discuss a new loan. Family members may still have different attitudes about debt, but at least everyone can view it in the proper context.

BY **KEVIN HURSH**

Don’t fear the lender

Being afraid of debt can sink your business.

Debt is a fact of life in much of Canadian agriculture. Producers use mortgages to buy land and quota or build new facilities. They take out capital loans to fund equipment purchases and use lines of credit to keep day-to-day operations running smoothly. Most farmers have heard horror stories about operations that have run into financial difficulties by carrying excess debt.

“Farmers as a rule have an aversion to debt; they hate it even though they have lots of it,” says Scott Dickson, director of livestock services with MNP (formerly Meyers Norris Penny) in Red Deer, Alta. “However, having no debt isn’t necessarily a smart business decision either; it can lead to missed business opportunities. You should be prepared to use debt to your benefit if the opportunity is there. That doesn’t mean you should rush out and buy the latest and greatest tractor, but it does mean having the right amount of debt for what your needs are and being able to cash flow it properly.”

Dickson says that it’s important for producers to keep in mind that there is good debt and there is bad debt. He defines good debt as funds that are borrowed to buy something that will make money or reduce costs down the road, while bad debt sets your operation up for continued losses. Sometimes, he says, it’s difficult to tell the two apart.

“Land is an investment, quota is an investment and a grain truck is an investment,” Dickson explains. “Show me how buying these things will make you more money and I’ll tell you whether it’s a good investment or not. You have to understand your return on investment no matter what the investment is. If you’re going to buy a new combine because your repair costs are driving you nuts, show me how much your repairs are. Sometimes new shiny things don’t make any more money and can actually hurt your bottom line.”

“If you are going to incur debt, it should generally be for productive assets,” agrees Rémi Lemoine, chief operating officer for Farm Credit Canada. “However, if you are quite well off and want to buy a new tractor because you want to buy one, then more power to you. It’s not necessarily bad debt even though you might not really need one. Good and bad debt is always relative to your financial situation.”

Lemoine says bad debt usually occurs if the borrower isn’t prepared. He cautions against basing your decisions on tax return information, instead of good budgeting and financial information. Good financial information takes a lot of guesswork out of the decision. You can use it to see how sensitive your operation is at different points of the price cycle or calculate the impact of high interest rates, changes in exchange rates or a crop failure.

“If you’re not trained in accounting or finances, it’s relatively cheap to have your financial advisor or your accountant help you,” Lemoine adds. “Whatever their fees are, it’s worth it to get good information.”

Proper debt structure also plays a role, Lemoine says. Operating lines of credit, for example, shouldn’t be used to purchase capital assets. One of the golden rules is to match the term of the loan to the life of the asset. If you know a piece of equipment will only have a five-year lifespan, it doesn’t make sense to spread the loan out over six years.

“The biggest challenge for a dairy operation would be to make sure that the quota debt is repaid over the life of the asset,” Lemoine says. “Of course, the million-dollar

question is, 'What is the life of that asset?' If you are dealing with an unknown, you should lean towards a shorter term instead of a longer payback period."

Determining the level of debt you can live with can boil down to asking yourself hard questions.

"Every ag sector has its own risks so you have to look at how much variability your budget can afford," Lemoine says. "You really need to step back and ask yourself questions. What will happen if whatever you've invested in doesn't work? Will it sink this farm?"

In the end, it's about balancing the known with the unknown and getting as much information as possible on which to base your borrowing decisions.

BY LORNE McCLINTON

Wise words on borrowing

I remember my grandmother saying "all good things in moderation." She was likely referring to our cries for more dessert, but her advice is just as sound for the recent meltdown of housing loans in the United States.

Debt is a useful tool when used appropriately. Who among us would own a farm today if financing wasn't available? And it's not just the level of debt that can be problematic when things don't go as planned. How the debt is used is also important, as is the ability to adjust to changing circumstances.

A report released late last year by Statistics Canada shows that Canadian families have actually taken on proportionately higher debt levels than their American counterparts, yet the housing debt crisis occurred on the other side of the border. Too many Americans got themselves in too deep, with no room to manoeuvre.

These are important points to keep in mind for farming, especially given that farmers face much greater levels of year-to-year variability from weather and markets.

Borrow because it makes business sense. Will a loan and the terms it is secured on help pay for something that increases revenue or reduces cost? This includes borrowing for fiscal management as well – there are times to borrow to have available funds to help lower taxes (RSPs), which makes business sense even if it doesn't directly involve physical assets.

Borrowing should be done for strategic reasons, not for emotional ones. Acquisitions have to be made within the context of a plan. Otherwise they may not provide adequate payback.

Even with a plan, remember that you're borrowing based on anticipated scenarios that can change rapidly – like the dramatic floods of this past spring. Your capacity to adjust to sudden changes that could impact your ability to repay debt is critical. This includes debt consolidation to overcome unforeseen circumstances such as barn fires and significant downward shifts in markets. Proper insurance coverage also plays a role.

Grandma's advice on dessert wasn't too popular at the time, but it turned out to be pretty sound for many things in life. When it comes to borrowing money, it's good advice for the ages.

BY HUGH MAYNARD

Respirators offer crucial protection

For producers, the name of the debilitating medical condition that people can get from breathing in mouldy dust sounds downright ominous.

Farmer's Lung is an allergic respiratory disease marked by nagging coughs, shortness of breath and general feelings of malaise. Attacks can be acute and become chronic over time if exposure continues, requiring intensive medical care.

According to Canadian Centre for Occupational Health and Safety (www.ccohs.ca), the few studies carried out on the subject suggest that anywhere from two to 10 per cent of Canadian farm workers have the disease.

As many as 40 per cent (depending on the region) have been exposed to moulds, dust and other farm-common materials like organochlorines and carbamate pesticides that are believed to cause Farmer's Lung.

But Glen Blahey believes it doesn't have to be that way.

A health and safety specialist with the Winnipeg-based Canadian Agricultural Safety Association, he says there is a long list of airborne dangers that regularly lurk in barns, bins and tanks on farms across Canada.

But all of them, he says, can be countered by using common sense and the proper respiratory equipment for the job at hand.

In addition to saving lungs from dust-borne particles that can carry everything from bacteria, moulds and fungi to dried urine and feces from hantavirus-carrying mice and rats, Blahey says respirators can protect wearers from deadly gases in oxygen-deficient environments and from dangerous chemicals.

"Hydrogen sulphide is extremely toxic, even in low concentrations," says Blahey. "Two breaths and you're dead."

As a result, doing work in a liquid manure tank or in any other confined space like a manure storage pit or a silo where high-moisture hay is ensilaged – even in a grain bin that's been fumigated for bugs – requires supplied oxygen like firefighters and scuba divers use.

For other dangers like fumes from galvanized metal in welding workshops and handling or spraying pesticides, Blahey says half or full-face chemical or canister respirators are essential.

"Respirator selection should always be predicated by the risk present," he adds.

In addition to buying respirators that fit snugly on the clean-shaven face of each individual user (no sharing of masks) Blahey cautions against buying lower-priced respirators that aren't certified by the Canadian Safety Association or another recognized North American standards agency.

"Trying to save a few bucks could be dangerous – even deadly," he says. "Erring on the side of caution is always best. The bottom line is that if there is no way to avoid the hazard, wear the proper protection."

BY **MARK CARDWELL** / *Mark is a writer and freelance journalist who lives in the Quebec City region. He is a regular correspondent for a dozen newspapers, magazines, trade and specialty publications in Canada, the United States and Europe.*

Canada's food banks report
867,948 Canadians were hungry
And that's just in one month

Last March, 867,948 Canadians walked through the front door of a food bank asking for help. That's the highest level of food bank use on record.

In 2010, food bank use in small towns and rural areas increased by 13 per cent from the year before. Considering that rural food banks make up almost half of food banks in Canada, hunger is hitting closer to home than ever.

Thanks to partners like you, FCC Drive Away Hunger returns to rally against hunger and support food banks across Canada.

From September 19 to October 14, drop off your donation of food or cash to any FCC office or come out and donate directly to a tour in your area.

You choose where your donation goes. Whether it's your local or provincial food bank, or Food Banks Canada, your contribution will help fill empty plates.

From its humble beginning, when one FCC employee drove a tractor and trailer through Ontario for eight days, FCC Drive Away Hunger is making a difference. Since 2004, 26 tractor tours across the country have contributed a total of over 5.2 million pounds. This year's goal is to collect over a million pounds of food.

For more information or to donate online, visit www.fccdriveawayhunger.ca or call 1-800-387-3232.

Special thanks to our national partners, BDO, Parrish and Heimbecker, Limited (New-Life Mills), and Windset Farms.™

FCC Drive Away Hunger - October 2011

Support a tour near you. Visit www.fccdriveawayhunger.ca for dates.

Tours are planned in British Columbia, Manitoba, Southern Ontario, Quebec, Nova Scotia, and in Regina, home of FCC's corporate office.

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