

Avoid hazards of new farm market

We crop farm with Mom and Dad. My wife and her friend want to open a farm market near town to sell produce and crafts. They're going to need a loan to get started. How do we make sure that her business doesn't interfere with our farm's borrowing ability?

Profit Planners

Mike Evanish: Being in business together is much like a marriage. It ties individuals together in many financial and legal ways.

Your goal must be to set up the business from the start so individual assets are protected from loss while allowing the business the ability to be successful. In the end, a successful spousal business will enhance your overall credit worthiness, not hurt it.

Start with a feasibility study. It'll tell your wife and friend if the business has a chance of being successful based on their assumptions.

If it has a chance of success, develop a business plan. It takes the feasibility results and adds research into that particular business, labor needs and costs, management structure, degree of owner experience, risk-management tools needed, and more.

All that information is combined to plan out the first three to five years of business. It also looks at cash-flow needs throughout the plan.

Low-cost feasibility studies run \$2,000 to \$10,000. Business plans start at \$10,000 and go up from there. That seems expensive, but the cost is low compared to potential financial losses if the business fails.

Each situation is different, and your concerns are well-founded. The only

Key Points

- Like marriage, a new enterprise can entangle you legally and financially.
- If you can't afford business planning, you probably can't afford the business.
- Keep enterprises separate, with clear, written limits.

way to make sure that the new business doesn't interfere with your farming is to properly plan, then execute that plan. Remember, your wife's debts are also your debts and will affect your ability to borrow.

Dale Johnson: I applaud the effort to separate this new business from the farm, especially if your wife's friend is involved. It should have its own name, accounting records, checking account and insurance policies, and should file its own tax returns.

Organize the new business as a partnership, LLP, LLC or other legal structure. To start with, develop a business plan that includes a mission statement, production plan, marketing plan and financial plan. These components will help them set goals and think through how the business will operate.

If they grow produce on the farm for sale at the market, keep this enterprise as separate as possible. Clearly account for resources, such as land, buildings, machinery or operating inputs borrowed, rented or purchased by the new business. These actions will minimize interference with your farm borrowing.

Be forewarned, your wife and her

friend may have a problem with collateral for their loan. Your farm could make a loan directly to them or they could get a commercial loan backed by specific assets in their names.

Co-signing on a commercial loan would affect the farm's borrowing capacity, so be careful.

George Mueller: Bankers are a friendly part of our team. They're our best friend if we can show a steady, positive trend in our finances.

They also require collateral. They know that even the best businesses can have a reversal. And when that happens, they want to own our property so they can sell it to recoup their investment. Call it a necessary evil.

Their mortgage on our farm, machinery and livestock is their "collateral." They like to have all partners and spouses signed on all the loans to better ensure repayment.

My point: Your wife and friend must keep their loan separate. No other farm members should co-sign on this new loan.

Your wife and friend must start the business from their own savings, not the farm's hard-earned net worth. Pay your wife a separate salary, and perhaps some back pay, to help build up her personal savings.

Glenn Rogers: Quite often, we find that two separate enterprises are at odds because of differing goals — challenging demands for farm machinery, labor and financing. One way to make sure they don't compete is to sit down with all parties and discuss the advantages, disadvantages and demands placed on the primary enterprise.

I strongly recommend a written agreement. It gives you a way to resolve potential time, land, equipment, personal, labor and financial conflicts.

Lack of sufficient financial resources for both enterprises can be damaging. It can even lead to failure of both. The best way to ensure that each enterprise survives on its own is to form two dif-

They said it



"Before doing anything, both parties should look at each other and ask: 'Would I marry this person?'"

Mike Evanish
Pennsylvania Farm Bureau



"It's advantageous to operate the businesses independently. Separation should go far beyond borrowing, though."

Dale Johnson
University of Maryland



"Let the new market sink or swim on its own. Keep the two businesses separate."

George Mueller
Clifton Springs, N.Y.



"One of the biggest potential conflicts is the demand for start-up capital and ongoing financing. It's rarely overestimated."

Glenn Rogers
University of Vermont

ferent business enterprises. One might be set up as a sole proprietorship and one a corporation. It might be two separate limited liability corporations, two partnerships, or any other combination, but they need to be two separate enterprises, with limits of any business or financial ties clearly outlined.

Get an Extension specialist involved, and also maybe a Farm Credit consultant, a farm accountant and an attorney. A few thousand dollars spent for planning now will save you a lot of headaches later on.

Got a question? Our experts await!

OUR Profit Planner panel would like to hear your questions. The panel consists of Michael Evanish, business services manager of Pennsylvania Farm Bureau's Members' Service Corp.; Dale Johnson, Extension farm management economist at University of Maryland; George Mueller, dairy farmer from Clifton Springs, N.Y.; and Glenn Rogers, Extension farm management specialist at University of Vermont.

Send your questions to "Profit Planners," *American Agriculturist*, P.O. Box 4475, Gettysburg, PA 17325. Or e-mail them to jvogel@farmprogress.com. All are submitted to our panel without identification.

Take a look at how your money habits affect your future



On the Money

By JOHN OTTE

AMERICANS have a wide range of financial habits. But only a handful of traits play a major role in determining who becomes financially secure and who doesn't.

Americans fit nicely into four distinct and diverse financial personalities based on attitudes and behaviors that most impact their long-term personal financial achievement. They are:

- Informed but cautious
- Skilled and confident
- Carefree and fearless

Interestingly, people showing what could be considered the most mature financial behavior are not, on average, the oldest. That challenges the notion that age must precede wisdom. Those findings come from Putnam Investments research based on interviews with 1,323 U.S. adults.

The research further shows that the most important beliefs and habits for achieving financial security are:

- Realistic expectations
- Resisting the temptation for quick rewards and fads
- Patience in the face of adversity
- Greater satisfaction from saving rather than from spending

■ Overwhelmed

■ Ability to tolerate above-average risk

■ Receptivity to advice on how to save and invest

"Healthy financial behavior, like healthy physical behavior, must be learned, internalized and turned into habit," says William Connolly, head of Putnam retail management. "Sticking to either a physical exercise program or a financial plan requires a strong will, sacrifice, and objective, expert advice."

Learn your type online

In conjunction with Brightwork Partners, Putnam has developed a free, online, 15-question quiz that matches your financial traits to those of each of

the four personalities. "We want to give investors a tool for understanding how their financial habits impact their financial health. If they choose, they can use this information to change traits standing in the way of their success," says Connolly.

To take the test, go to www.putnam.com/survey. Your responses will be automatically calculated, and you will also find out which of four investment personality profiles fits you most closely.

"Improving financial behavior usually isn't easy," notes Connolly. "Your first step is convincing yourself that doing so is essential to your future. Then, get expert advice and set up a disciplined plan."