



The University of Georgia

**Cooperative Extension Service**

College of Agricultural and Environmental Sciences / Athens, Georgia 30602-4356

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## ***BROILER TIP . . .***

### **REFINANCING CAN IMPROVE GROWER RETURNS**

Since January of 2001, the Federal Reserve Board has pursued an aggressive policy of reducing interest rates in an effort to strengthen a weakening national economy. The Prime Rate peaked at 9.5% in the fall of 2000 but has been reduced to 5.5% in October 2001 due to the Fed's actions. The Prime Rate is the interest rate charged by banks to their most creditworthy customers. As a result, interest rates for construction of poultry production houses have declined from around 10.5% last year to 7.5 - 8.0% currently. This significant reduction in rates charged to farmers represents an opportunity for many poultry growers to improve their farm cash flow situations by refinancing existing loans.

The following example demonstrates the savings that can be achieved through the refinancing of a two house broiler production unit built in October of 2000. The two houses were 40' x 500' tunnel ventilated houses built in North Georgia with a total financing of \$276,000. The \$276,000 was financed at a 10.5% interest rate in 2000 and compared to refinancing in October 2001 with an 8.0% rate. The amount to be refinanced is \$269,331. This is the principal remaining after one year of debt retirement on a 15 year mortgage plus a one half percent refinancing fee. The new principal is fully financial over a 15 year period at 8.0%. The table below compares the first year principal and interest payments for both loans.

#### **ANNUAL PAYMENT COMPARISONS**

<b>First year payment</b>	<b>Initial Loan (\$276,000 @ 10.5%)</b>	<b>Refinanced Loan (\$ 269,331 @ 8.0%)</b>
Principal	\$8,009	\$9,690
Interest	\$28,602	\$21,196
Total	\$36,611	\$30,886

#### **PUTTING KNOWLEDGE TO WORK**

The University of Georgia and Ft. Valley State College, the U.S. Department of Agriculture and counties of the state cooperating.  
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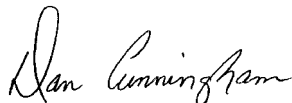
For this example, refinancing results in an annual reduction in the mortgage payment of \$5,725 (\$36,611 - \$30,886). In addition, over the life of this 15 year loan, total interest payments would be reduced by \$50,596 with refinancing (see table below). The benefit to the grower is that these reductions in mortgage payments are retained by the grower and can be used to improve cash flow or make capital improvements on the farm. Refinancing could be the difference between profitability or non-profitability for some growers.

**PAYMENTS OVER TERM OF LOAN**

	<b>Initial Loan (\$276,000 @ 10.5%)</b>	<b>Refinance Loan (\$269,331 @ 8.0%)</b>
Principal	\$276,000	\$269,331
Interest	\$273,162	\$222,566*
Total	\$549,162	\$491,897

\*Includes interest paid for the year prior to refinancing

Interest rates and refinancing arrangements vary from lender to lender. The example presented here is to demonstrate what might be achieved with refinancing but is not intended to be representative of all grower situations. Growers should discuss their individual situations with their mortgage providers to determine if refinancing is a viable option.



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County Extension Coordinator/Agent

\*\*Consult with your poultry company representative before making management changes.\*\*

“Your local County Extension Agent is a source of more information on this subject”