

## Chris Laughton



Chris Laughton is the Director of Knowledge Exchange at Farm Credit East. He coordinates Farm Credit East's customer education and beginning farmer programs. He holds a bachelor's degree in horticulture from Cornell University, an MBA from the University of Massachusetts, and a Master of Science in applied and resource economics from the University of Connecticut. Chris grew up in Eastern Massachusetts, where he worked in his family's greenhouse/nursery business before joining Farm Credit East.

###

Farm Credit East is a farmer-owned financial services cooperative. They have more than \$10 billion in loans to Northeast farmers, fishers, and forest product producers. They also offer a number of financial services including recordkeeping, tax prep, payroll, and have dedicated programs for young, beginning, small, and veteran farmers.





# Farm Financial Management

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Chris Laughton

Director of Knowledge Exchange

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# Agenda

- Introduction
- Financial Statements
- Cash Flow Budgeting
- Financing and Credit
- Q&A

# THE FARM CREDIT SYSTEM



Established by the U.S.  
Congress in 1916

Not a government agency,  
and does not receive  
government funding



Objective: To provide  
reliable and stable  
credit to rural America

Provide about 60% of total  
farm credit nationally



A network of  
independent, farmer-  
owned cooperatives

About 60 associations, each  
with defined territories

## MISSION

Serve *all* U.S. agriculture: big, small, organic and conventional,  
and all types of crops and livestock.



FARM CREDIT EAST

# FARM CREDIT EAST

- 8 states
- 23 Northeast offices
- 600+ dedicated agricultural specialists
- 18,000+ customers in farming, fishing, and forestry



FARM CREDIT EAST

# ABOUT FARM CREDIT EAST

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## Farmer-Owned Cooperative

Part of the national  
Farm Credit  
System

## 18,000+ customers

Serving 18,000  
customers across  
eight states

## \$12+B

\$12+ billion invested  
in Northeast farming,  
fishing, and forestry

## 100+ years

More than a  
century of  
commitment to  
agriculture

## \$1.4B+

\$1.4B in Patronage  
Dividends paid to  
borrowers

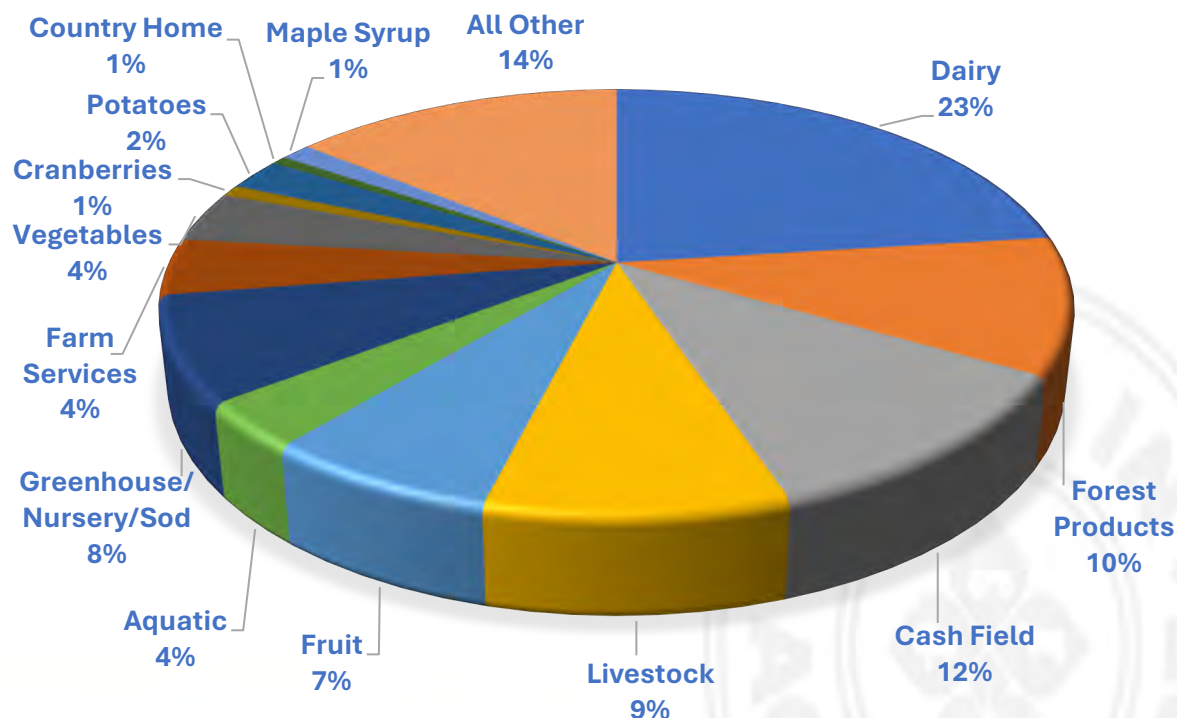
## Committed to the Future

Programs for Young,  
Beginning, Small and  
Veteran farmers



# FARM CREDIT EAST LOAN PORTFOLIO

- Diverse portfolio by industry, size and market segment
- Large number of customers serving local markets
- Serve all types of producers: big/small, conventional/organic, wholesale/retail



# SUITE OF BUSINESS SERVICES



Payroll  
Services



Tax Planning &  
Preparation



Business  
Consulting



Record-keeping



Appraisal  
Services



Estate Planning  
& Farm Transfer



Crop Growers  
Crop Insurance



FARM CREDIT EAST



# Traditional Financing

- Traditional loans and mortgages
- Short, intermediate and long-term
- Capital and operating leases
- Operating lines-of-credit
- Startup expenses
- Expansion
- Generational transfer
- Farm Service Agency and SBA guarantees
- An FSA preferred lender
- Fixed, variable or combination rates
- For full- and part-time operations

# Young, Beginning, Small and Veteran Farmers

- A priority for Farm Credit East
- Incentives include:
  - Discounts on financial services, payment of FSA guarantee fees, and more!
  - a
- FSA preferred lender

GenerationNext





**400+ INVESTMENTS  
MADE TO DATE**

**Designed for new & beginning  
agricultural entrepreneurs who may  
not meet traditional lending criteria**

**Provides operating funds for new or  
growing ventures**

- Not designed to purchase real estate, but can be combined with other financing

**Invests up to \$75,000 in capital (\$125k  
in Year 2)**

- Up to 5 years to pay back funds
- Rate: Variable, WSJ Prime
- No collateral or down payment required

**Work with an experienced FarmStart  
Advisor**



# Financial Statements

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# Financials aren't everything... But they Matter!



- Farming is a lot more than just a business
- Lifestyle goals are equally important as financial goals
- BUT, if you aren't economically sustainable, quality of life can decline in a hurry
- In other words, financial stability is a *pre-requisite* to other goals

# Why should I care about all this financial stuff? I just want to get farming!

Helps you think about what you want your farm to yield in \$\$

Let's you project the farm's likely financial performance early in the process

Helps measure progress over time

Helps you make better-informed investment decisions

Makes it easier to get financing if you need it





# What financial documents would be ideal?



- **Balance sheets** – current and historical
- **Income statements** – current, historical projected
- **Cash flow projections** – month-by-month for at least one year, then annual projections for at least two more years

# The Balance Sheet - Overview



**Assets** – Everything that is owned by or payable to the business on the date the balance sheet is prepared



**Liabilities** – All obligations owed by the business on the balance sheet date



**Owner's Equity or Net Worth** – Total assets minus total liabilities

# The Balance Sheet - Assets

## Assets

(what you own)

Cash, inventory, money that customers owe you (A/R),  
real estate, prepaid expenses, machinery

# The Balance Sheet – Assets and Liabilities

## Assets

What you own

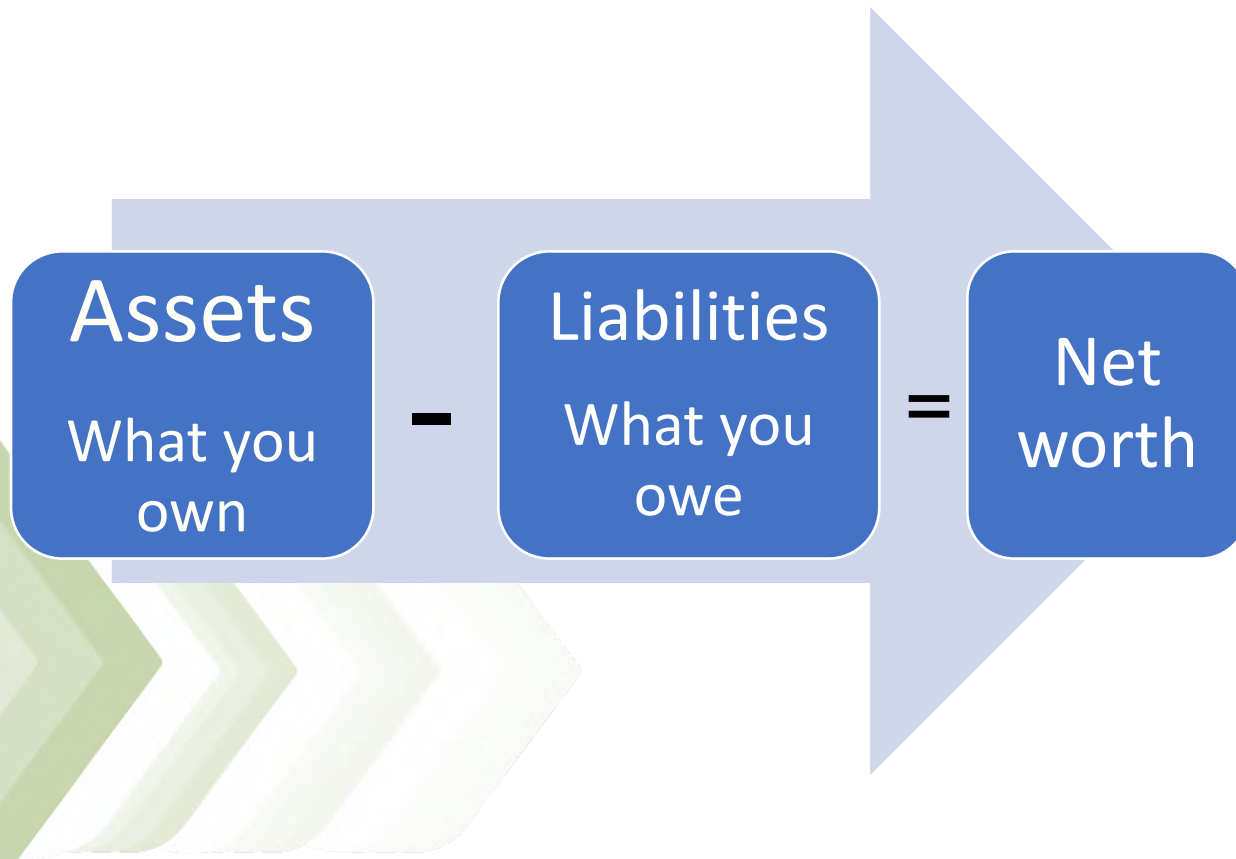
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## Liabilities

(what you owe)

Loans, A/P, capital leases,  
accrued expenses

# The Balance Sheet – Net Worth



# The Balance Sheet - Sample

A Sample Farm Balance Sheet (Dec 31):

Assets		Liabilities	
Checking account \$10,000		Credit card \$4,000	
Supply Inventory	\$6,000	Loan	\$20,000
Equipment	\$15,000	<i>Total Liabilities</i>	<i>\$24,000</i>
Truck	\$10,000		
		Net Worth	\$17,000
<i>Total Assets</i> \$41,000		<i>Total Liabilities &amp; Net Worth</i> \$41,000	



# The Balance Sheet – Another Sample

Another Sample Balance Sheet: December 31, 20xx

Current Assets	Value	Current Liabilities	Value
Cash	\$7,825	Accounts Payable	\$3,500
Accounts Receivable	\$15,846	Operating Line of Credit	\$10,000
Inventory	\$8,540	Total Current Liabilities	\$13,500
Supplies	\$5,000	Intermediate Liabilities	
Prepaid Expenses	\$3,000	Equipment Loan	\$18,500
Total Current Assets	\$39,211	Total Intermediate Liabilities	\$18,500
Intermediate Assets		Long-Term Liabilities	
Vehicles	\$12,500	Real Estate Mortgage	\$190,000
Machinery & Equipment	\$35,000	Total Long-Term Liabilities	\$190,000
Total Intermediate Assets	\$47,500	Total Liabilities	\$222,000
Fixed Assets		Owner's Equity/Net Worth	\$314,711
Land & Buildings	\$450,000		
Total Fixed Assets	\$450,000	Total Liabilities and Owner's Equity	\$536,711
Total Assets	\$536,711		

# What's the value of a balance sheet?



- Documents value of all assets and outstanding liabilities at a point in time
- Allows us to calculate important measures of liquidity and solvency
- Shows progress you are making in the farm business even if cash flow seems tight
- Aligns with your federal tax return, which makes financial analysis easy

# Key information from balance sheet

- **Liquidity** – Ability of the farm to meet its current (short term) liabilities with current assets
- **Solvency** - Ability of the farm to pay off all of its debts if it were to be sold tomorrow



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## Mary's balance sheet:

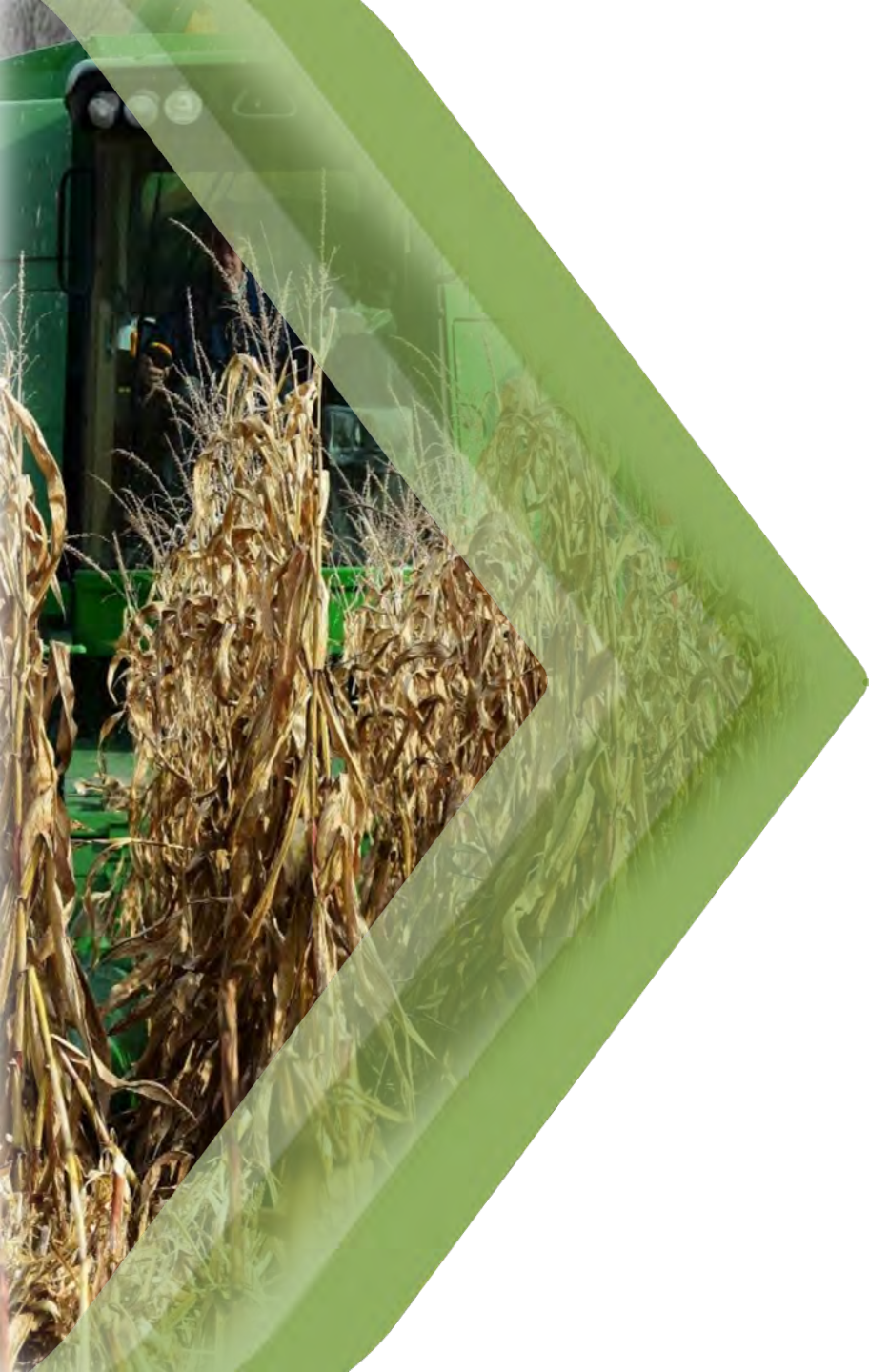
### Liquidity:

Current Assets/Current Liabilities = 2.9  
Want it to be more than 2.0

Current Assets – Current Liabilities = \$25,711  
This is called *working capital*

### Solvency:

Net Worth (Equity/Total Assets) = 59%  
Want it to be 50% or greater over the long term



# The Income Statement

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# The Income Statement - Income



Income

Revenues &  
sales

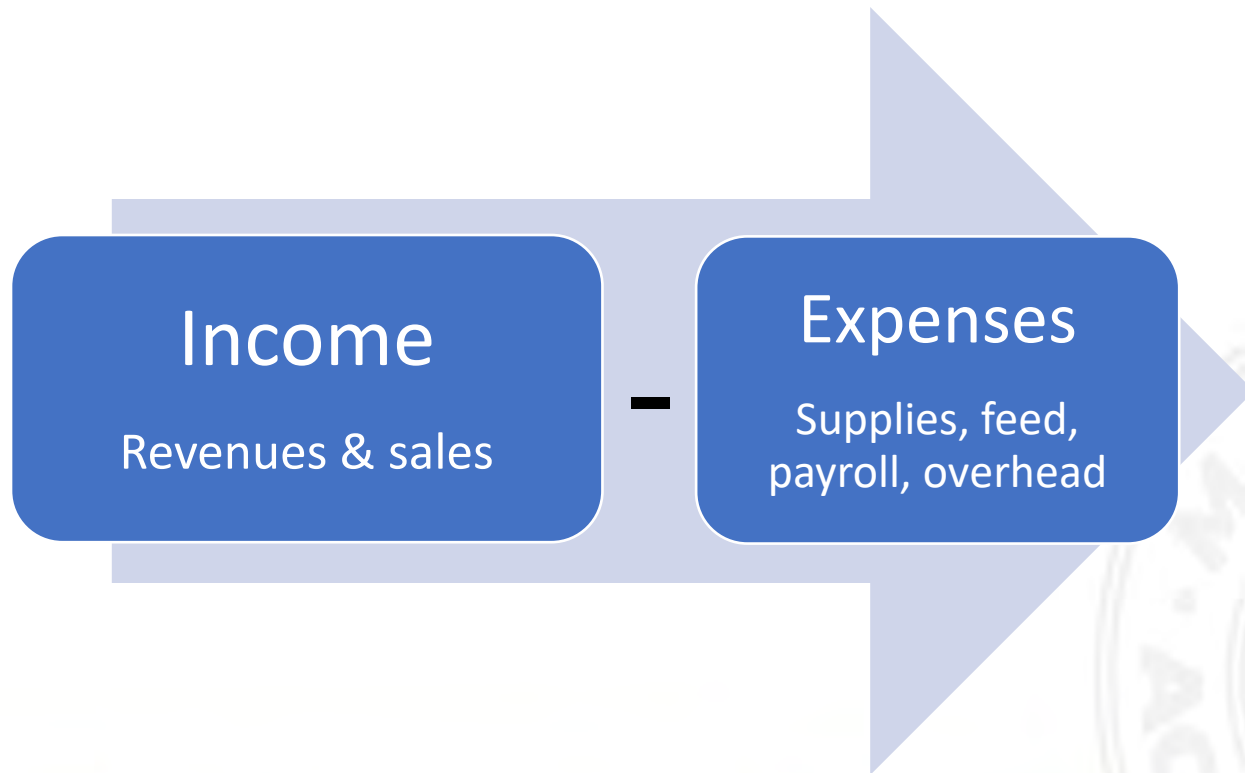


FARM CREDIT EAST

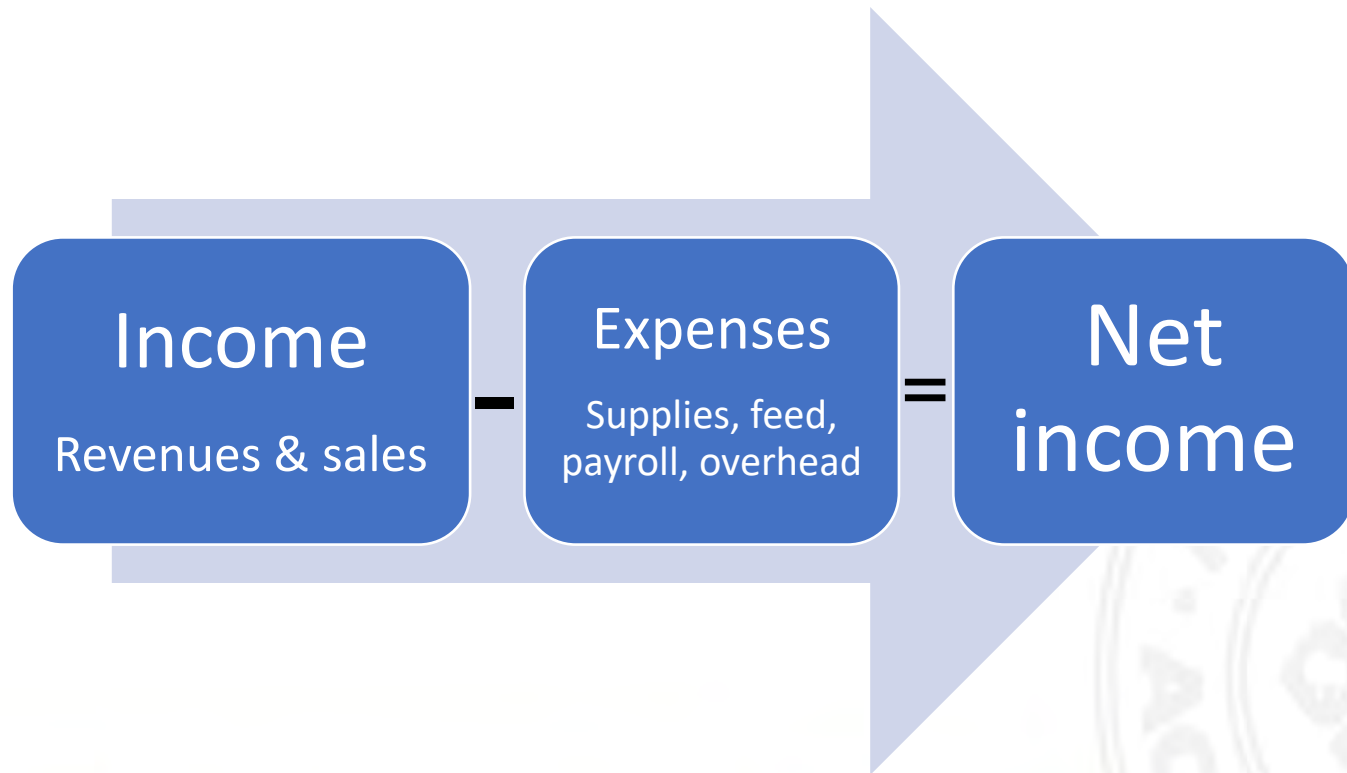




# The Income Statement – Income and Expenses



# The Income Statement – Net Income



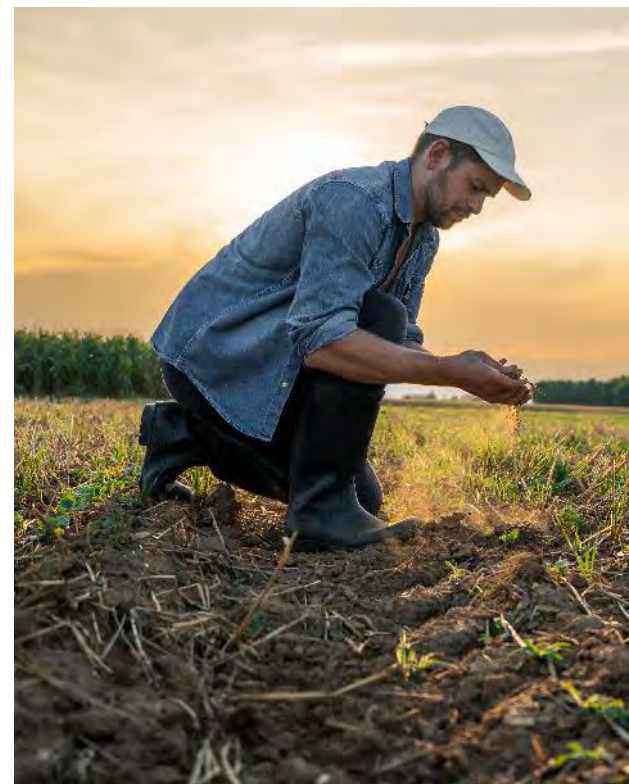
# The Income Statement - Calculation

Income Statement (for a whole year)	Dollars	% of Sales
Gross Sales or total sales, or income	\$134,400	100%
- <u>Cost of Goods Sold</u> or variable costs	<u>\$80,096</u>	<u>60%</u>
= Gross Margin	\$54,304	40%
- <u>Overhead Costs</u> or fixed costs	<u>\$40,345</u>	<u>30%</u>
= Net Margin or net profit, or profit	\$13,959	10%

# Cost of Goods Sold (Variable Costs)

**COGS = any expense that helps produce one more unit of output**

- **Production labor**
- **Seed**
- **Fertilizer**
- **Feed**
- **Fuel**
- **Supplies**



# Fixed Costs (Overhead)

**Costs that remain the same regardless of variations in productivity**

- **Office expenses**
- **Property taxes**
- **Interest**
- **Depreciation**



# The Income Statement – Whole Year

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# Reasons for a Low Gross Margin

- **Pricing is too low**
- **COGS is too high**
- **Shrink is too high**
- ***Shrink*** is any product grown or made (or purchased) but not able to be sold, due to:
  - Lack of demand
  - Poor quality
  - Spoilage
  - Theft
  - Or other factors...



# Earnings Worksheet

## COMPARISON BETWEEN YEARS / Earnings Worksheet Per Cwt.

	2018	2019	2020	2021	2022
Number of Farms	305	267	204	164	139
Average Number of Cows	478	600	685	568	821
<b>Receipts</b>	<b>DOLLARS PER CWT. OF MILK</b>				
Milk Sales	\$17.19	\$19.18	\$18.48	\$19.21	\$26.66
Cattle Sales	1.18	1.12	1.25	1.22	1.60
Crop Sales	0.51	0.40	0.49	0.89	0.92
Government Payments	0.37	0.39	2.18	0.78	0.37
Other	0.70	0.65	0.69	0.79	1.03
<b>CASH RECEIPTS</b>	<b>\$19.95</b>	<b>\$21.74</b>	<b>\$23.09</b>	<b>\$22.89</b>	<b>\$30.58</b>
<b>Accrual Adjustments</b>					
+ Change in Inventory-Raised Livestock	\$0.25	\$0.21	\$0.25	\$0.01	\$0.02
<b>VALUE OF FARM PRODUCTION (a)</b>	<b>\$20.20</b>	<b>\$21.95</b>	<b>\$23.34</b>	<b>\$22.90</b>	<b>\$30.60</b>
<b>COST OF GOODS SOLD</b>					
Chemicals & Sprays	\$0.19	\$0.20	\$0.23	\$0.20	\$0.28
Custom Hire	0.73	0.81	0.83	0.61	0.82
Purchased Feed	6.45	6.30	6.64	6.90	8.04
Fertilizer & Lime	0.48	0.42	0.49	0.69	1.07
Freight & Trucking (Marketing)	1.14	1.14	1.22	1.29	1.42
Gasoline, Fuel & Oil	0.69	0.63	0.48	0.67	1.25
Hired Labor	3.19	3.26	3.35	3.42	3.10
Seed & Plants	0.47	0.44	0.50	0.44	0.57
Supplies	0.89	0.92	0.93	0.94	1.28
Veterinary, Medicine & Breeding	0.75	0.76	0.76	0.76	0.72
Cow Replacements	0.01	0.02	0.07	0.04	0.27
<b>Total Cost of Goods Sold</b>	<b>\$14.99</b>	<b>\$14.90</b>	<b>\$15.50</b>	<b>\$15.96</b>	<b>\$18.82</b>
<b>Gross Margin</b>	<b>\$5.21</b>	<b>\$7.05</b>	<b>\$7.84</b>	<b>\$6.94</b>	<b>\$11.78</b>

# Earnings Work Sheet

<b>Total Cost of Goods Sold</b>	\$14.99	\$14.90	\$15.50	\$15.96	\$18.82
<b>Gross Margin</b>	\$5.21	\$7.05	\$7.84	\$6.94	\$11.78
<b>OVERHEAD</b>					
Insurance	0.24	0.23	0.23	0.30	0.43
Interest	0.76	0.80	0.57	0.60	0.84
Rent	0.42	0.51	0.54	0.40	0.47
Repairs	1.13	1.21	1.50	1.42	1.79
Property & Misc. Taxes	0.28	0.29	0.27	0.30	0.39
Utilities	0.38	0.34	0.34	0.43	0.56
Other	0.40	0.31	0.34	0.38	0.99
<b>Accrual Adjustments</b>					
+ Depreciation	1.28	1.20	1.16	1.31	1.82
<b>Total Overhead Expenses</b>	\$4.89	\$4.89	\$4.95	\$5.14	\$7.29
<b>Total Farm Production Costs (b)</b>	\$19.88	\$19.79	\$20.45	\$21.10	\$26.11
<b>NET FARM EARNINGS (a) - (b)</b>	\$0.32	\$2.16	\$2.89	\$1.80	\$4.49
- Family Living & Income Taxes	0.48	0.41	0.34	0.40	0.70
<b>NET EARNINGS</b>	<b>-\$0.16</b>	<b>\$1.75</b>	<b>\$2.55</b>	<b>\$1.40</b>	<b>\$3.79</b>



# What the Income Statement Tells Us

- **The profitability of a business**
- **Gross sales**
- **Spending on various categories of expenses**
- **Net earnings**





**Now we need to expand  
the P&L to a month-by-  
month cash flow  
projection**

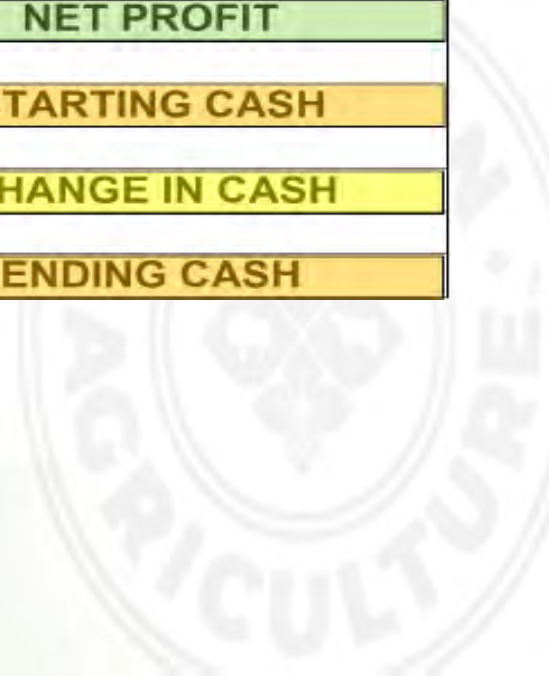
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# The Cash Flow Budget

JANUARY	FEBRUARY	MARCH
INCOME STREAMS	INCOME STREAMS	INCOME STREAMS
COST OF GOODS SOLD	COST OF GOODS SOLD	COST OF GOODS SOLD
GROSS MARGIN	GROSS MARGIN	GROSS MARGIN
OVERHEAD EXPENSES	OVERHEAD EXPENSES	OVERHEAD EXPENSES
NET PROFIT	NET PROFIT	NET PROFIT
STARTING CASH	STARTING CASH	STARTING CASH
CHANGE IN CASH	CHANGE IN CASH	CHANGE IN CASH
ENDING CASH	ENDING CASH	ENDING CASH



FARM CREDIT EAST




# Mary's Cash Flow Year 1

Mary's Cash Flow Year 1	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Sales						500	1000	1000	1000	500			4000
Cash IN						500	1000	1000	1000	500			4000
Car Mileage				50		50	100	100	100	50			450
Soil Amendments				200									200
Insurance	100												100
Seeds & Plants				400									400
Supplies				400	100	100	20	20	20	20			680
Market Fees						25	50	50	50	25			200
Cash OUT	100			1050	100	175	170	170	170	95			2030
Beginning Cash	3000	2900	2900	2900	1850	1750	2075	2905	3735	4565	4970	4970	3000
Change in Cash	-100	0	0	-1050	-100	325	830	830	830	405	0	0	1970
Ending Cash	2900	2900	2900	1850	1750	2075	2905	3735	4565	4970	4970	4970	4970



# Simply Fresh Farm Budget Cash Flow

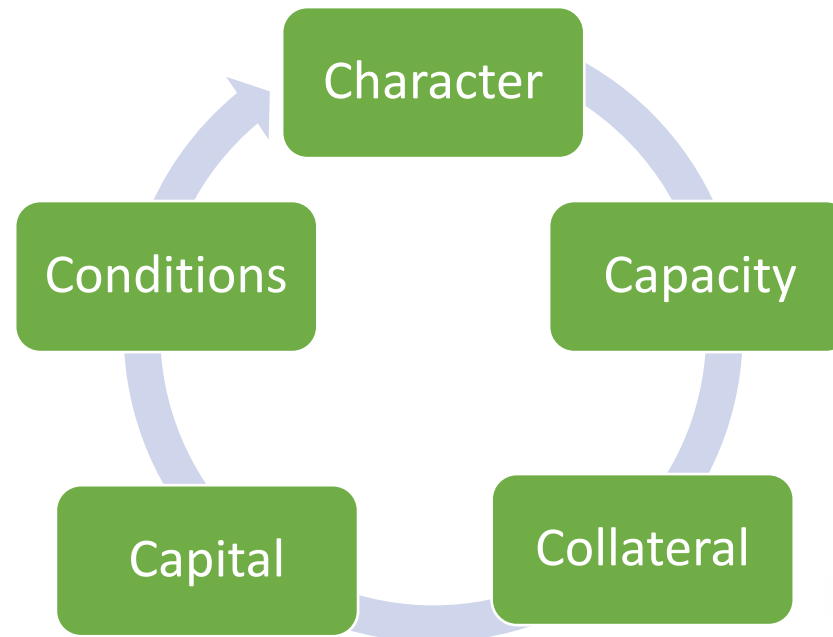
Simply Fresh Farm Budget Cash Flow Spreadsheet for Year 2016														
														
	Budget Jan	Budget Feb	Budget Mar	Budget Apr	Budget May	Budget Jun	Budget Jul	Budget Aug	Budget Sep	Budget Oct	Budget Nov	Budget Dec	Budget Annually	% of Sales
<b>FARM INCOME</b>														
CSA	10,200	10,200	10,200	5,100	5,100	1,500	-	-	-	6,300	6,300	6,300	61,200	
Farmers Market	-	-	-	-	-	14,400	14,400	14,400	14,400	7,200	-	-	64,800	
Fruit sales	-	-	-	-	-	2,400	2,400	-	2,400	1,200	-	-	8,400	
Government Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Income(TI) or Total Sales</b>	<b>10,200</b>	<b>10,200</b>	<b>10,200</b>	<b>5,100</b>	<b>5,100</b>	<b>18,300</b>	<b>16,800</b>	<b>14,400</b>	<b>16,800</b>	<b>14,700</b>	<b>6,300</b>	<b>6,300</b>	<b>114,400</b>	<b>100%</b>
<b>Cost of Goods Sold (COGS) or Variable Costs</b>														
Production FTE's required	-	-	-	3	3	3	3	3	3	3	-	-	1.75	
Labor- Production	-	-	-	4,800	4,800	4,800	4,800	4,800	4,800	4,800	-	-	33,600	
Labor- Farmers Markets	-	-	-	-	-	1,920	1,920	1,920	1,920	960	-	-	8,640	
Payroll taxes	-	-	-	1,920	1,920	2,688	2,688	2,688	2,688	2,304	-	-	16,896	
Owner's Health Insurance	-	-	-	-	-	-	-	-	-	-	3,200	-	3,200	
Employee Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Labor</b>	-	-	-	6,720	6,720	9,408	9,408	9,408	9,408	8,064	3,200	-	62,336	
Purchases For Resale	-	-	-	500	-	-	-	-	-	-	3,240	-	3,740	
Seed	-	-	3,600	3,600	-	-	-	-	-	-	350	-	7,550	
Fuel	-	-	438	438	438	438	438	438	438	438	-	-	3,500	
<b>Total Crop</b>	-	-	4,038	4,538	438	438	438	438	438	438	3,590	-	14,790	
Transportation	-	-	-	-	-	660	660	660	660	330	-	-	2,970	
<b>Total Farmers Market</b>	-	-	-	-	-	660	660	660	660	330	-	-	2,970	
<b>COGS or Total Variable Costs (VC)</b>	<b>-</b>	<b>-</b>	<b>4,038</b>	<b>11,258</b>	<b>7,158</b>	<b>10,506</b>	<b>10,506</b>	<b>10,506</b>	<b>10,506</b>	<b>8,832</b>	<b>6,790</b>	<b>-</b>	<b>80,096</b>	<b>60%</b>
<b>GROSS MARGIN (TMVC)</b>	<b>10,200</b>	<b>10,200</b>	<b>6,163</b>	<b>(6,158)</b>	<b>(2,058)</b>	<b>7,795</b>	<b>6,295</b>	<b>3,895</b>	<b>6,295</b>	<b>5,869</b>	<b>(490)</b>	<b>6,300</b>	<b>54,304</b>	
<b>GROSS MARGIN %</b>	<b>100%</b>	<b>100%</b>	<b>60%</b>	<b>-121%</b>	<b>-40%</b>	<b>43%</b>	<b>37%</b>	<b>27%</b>	<b>37%</b>	<b>40%</b>	<b>-8%</b>	<b>100%</b>	<b>40%</b>	<b>40%</b>
<b>Overhead - Fixed Expenses</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>TOTAL</b>	
Vendor Fees	-	-	2,775	-	-	-	-	-	-	-	-	-	2,775	
Insurance	-	1,800	-	-	-	-	-	-	-	180	-	-	1,800	
Interest	-	-	-	-	-	-	-	-	-	-	-	-	180	
Real Estate Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	
Land Rent	960	-	-	-	-	-	-	-	-	-	-	-	960	
Machinery Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	
Repairs	-	-	2,000	-	-	-	2,080	-	-	-	-	-	4,080	
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	
Marketing	200	-	-	-	-	70	70	70	70	70	-	-	550	
<b>Total Fixed Costs (FC) or Overhead</b>	<b>1,160</b>	<b>1,800</b>	<b>4,775</b>	<b>-</b>	<b>-</b>	<b>70</b>	<b>2,150</b>	<b>70</b>	<b>70</b>	<b>250</b>	<b>-</b>	<b>-</b>	<b>10,345</b>	<b>8%</b>
Owner draw (salary)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000	<b>22%</b>
<b>Total Fixed Costs plus Owner Draw</b>	<b>3,660</b>	<b>4,300</b>	<b>7,275</b>	<b>2,500</b>	<b>2,500</b>	<b>2,570</b>	<b>4,650</b>	<b>2,570</b>	<b>2,570</b>	<b>2,750</b>	<b>2,500</b>	<b>2,500</b>	<b>40,345</b>	<b>30%</b>
<b>NET MARGIN</b>	<b>6,540</b>	<b>5,900</b>	<b>(1,113)</b>	<b>(8,658)</b>	<b>(4,558)</b>	<b>5,225</b>	<b>1,645</b>	<b>1,325</b>	<b>3,725</b>	<b>3,119</b>	<b>(2,990)</b>	<b>3,800</b>	<b>13,959</b>	
<b>NET MARGIN %</b>	<b>64.1%</b>	<b>57.8%</b>	<b>-10.9%</b>	<b>-169.8%</b>	<b>-89.4%</b>	<b>28.5%</b>	<b>9.8%</b>	<b>9.2%</b>	<b>22.2%</b>	<b>21.2%</b>	<b>-47.5%</b>	<b>60.3%</b>	<b>10.4%</b>	<b>10%</b>
<b>Other Sources/Uses of Cash</b>														
Equipment purchases	(5,000)	-	-	-	-	-	-	-	-	-	-	-	(5,000)	
Equipment sales	500	-	-	-	-	-	-	-	-	-	-	-	500	
Funds borrowed (loans taken out)	4,500	-	-	-	-	-	-	-	-	-	-	-	4,500	
Funds repaid (loan payments)	-	-	-	-	-	-	-	-	-	(4,500)	-	-	(4,500)	
<b>Net Cash from Other Sources/Uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,500)</b>	<b>-</b>	<b>-</b>	<b>(4,500)</b>	
<b>Monthly Cash Flow</b>	<b>6,540</b>	<b>5,900</b>	<b>(1,113)</b>	<b>(8,658)</b>	<b>(4,558)</b>	<b>5,225</b>	<b>1,645</b>	<b>1,325</b>	<b>3,725</b>	<b>(1,382)</b>	<b>(2,990)</b>	<b>3,800</b>		
Beginning Cash/Checking Balance	5,000	11,540	17,440	16,328	7,670	3,113	8,337	9,982	11,306	15,031	13,649	10,659		
Ending Cash/Checking Balance	11,540	17,440	16,328	7,670	3,113	8,337	9,982	11,306	15,031	13,649	10,659	14,459		

download more info at: [www.farmbiztrainer.com/resources/groups/one-page-planning-suite/](http://www.farmbiztrainer.com/resources/groups/one-page-planning-suite/)

# Financing and Credit



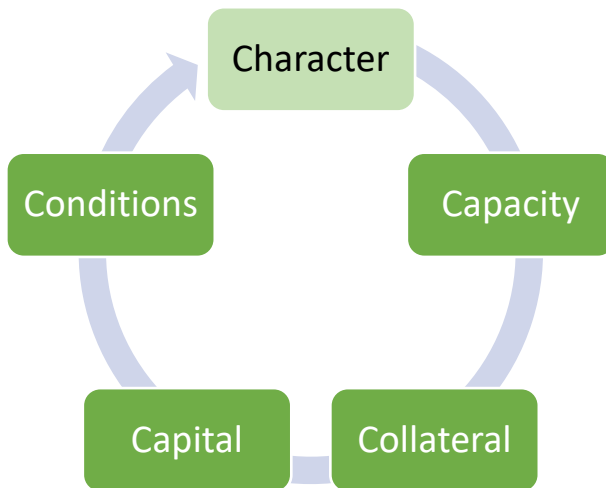
## What a Farm Lender Looks For: The 5 “C’s” of Credit



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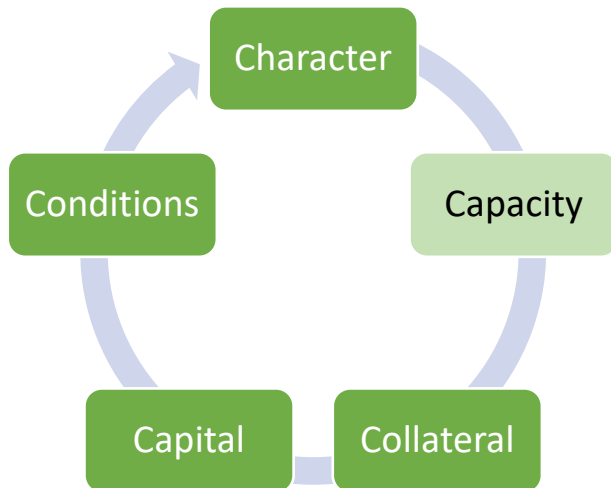


# Character



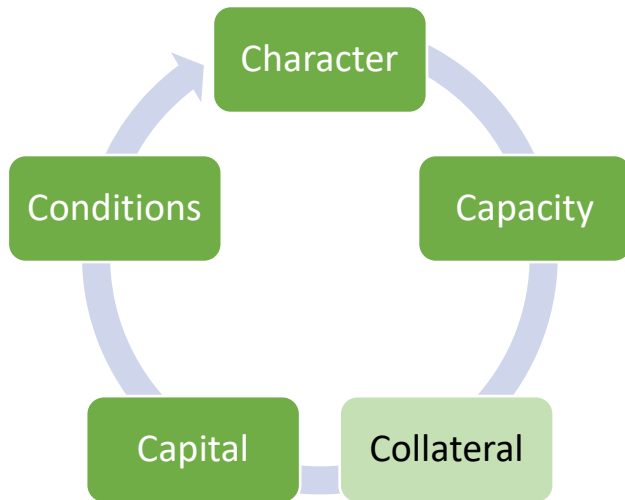
- How you've handled debt in the past
- Performance on current loans
- Existing debt
- Know what is on your credit report
- Share and explain any problems that exist
- [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com)
- [www.CreditKarma.com](http://www.CreditKarma.com)

# Capacity to Repay



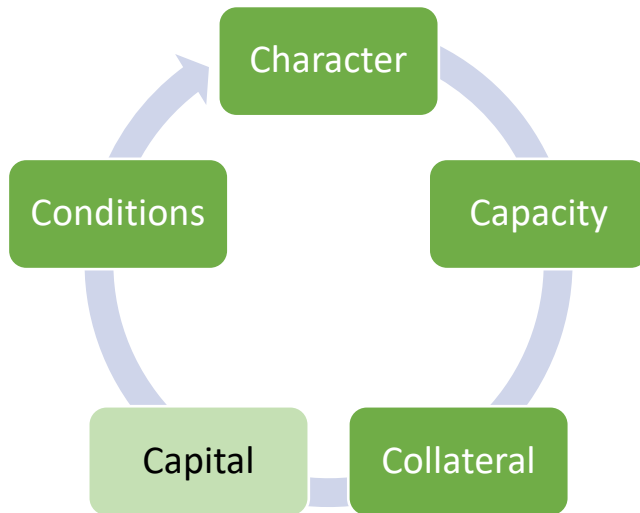
- How will you repay the loan?
- What are your earnings today?
- What will they be after the investment?
- History is important:
  - Income statements
  - Cash flow statements
  - Tax returns
- Projections & Budgets
- What if things don't go as planned?
- Off-farm income may be important

# Collateral



- The Lender's Fall-Back Position
- Real estate is best
  - Livestock
  - Machinery/Equipment
  - Inventory
- What is it *really* worth?
  - Fair market value (FMV)
  - Net recovery value (NRV)
  - What will it get at auction?

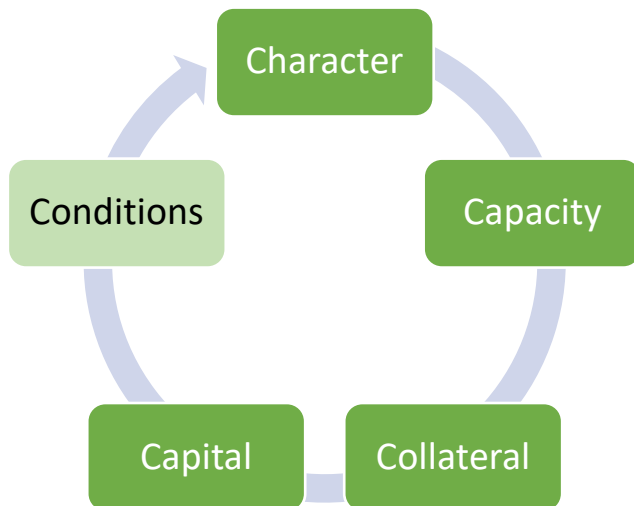
# Capital



- Do you have skin in the game?
- Net Worth – should be at least 60%
- How much do you own net of debt?
- Market value vs. Book value
- Balance Sheet
- Few lenders will finance 100%- FCE typically goes up to 80%

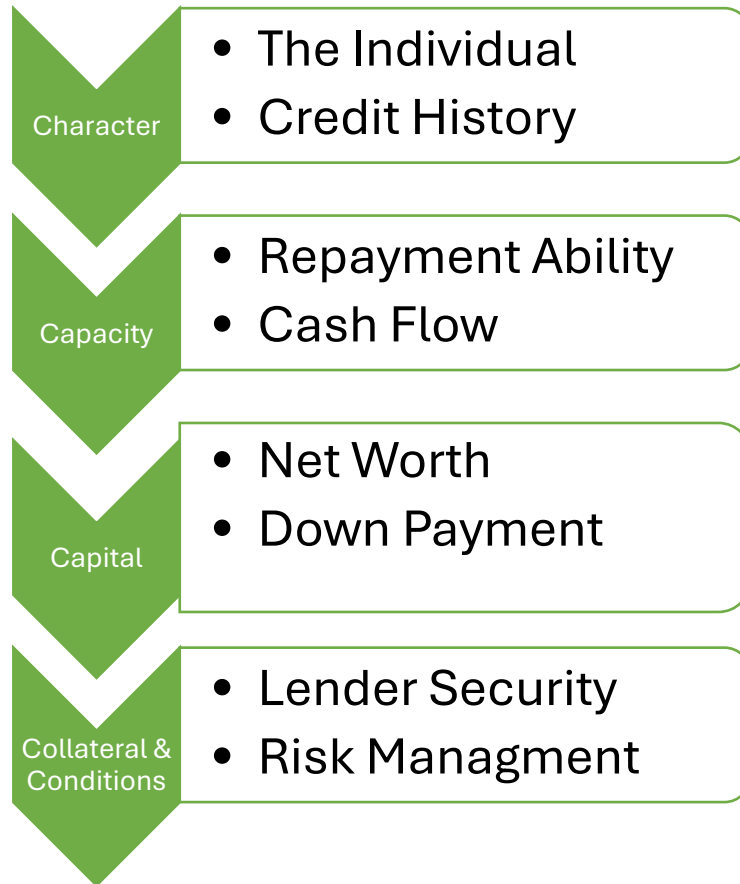


# Conditions – “The Deal”



- Terms of the loan:
  - Real Estate 10-30 years
  - Machinery/Equipment 3-7 years
  - Livestock 1-3 years
  - Inventory – less than 1 year
- Loan term should be equal to or shorter than the life of the asset financed

## How do lenders arrive at a decision?



## Don't Borrow Your Last Dollar



Cost overruns happen – don't get caught!



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## Capitalizing Operational Losses



What will *change* so you won't do it again next year?

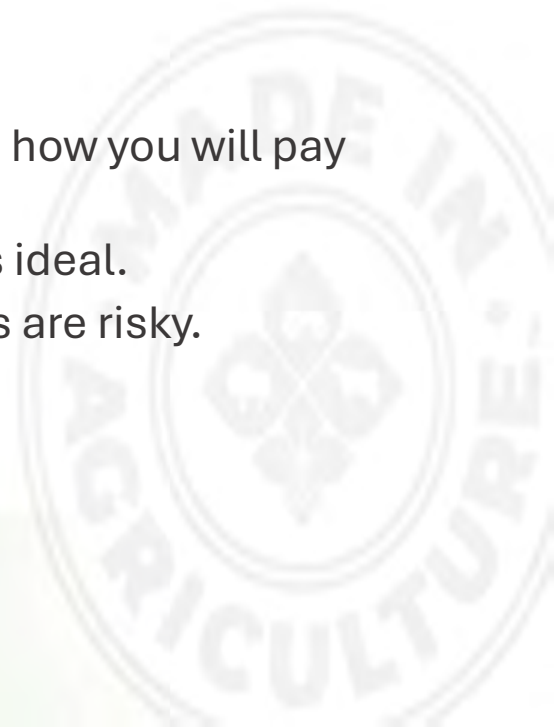
**“1 more year of payments and she’s all mine!”**



Don't finance beyond the useful life of an asset.

# What a Loan Officer Wants to See

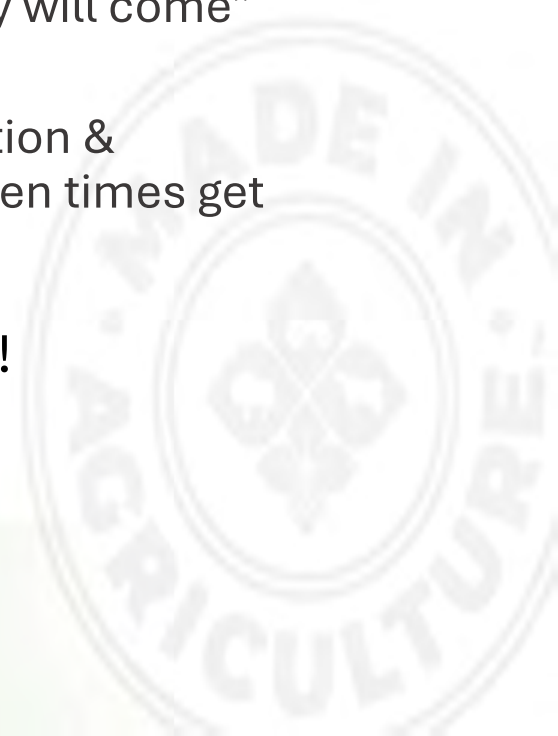
- Past 3 years of tax returns – personal and business (if applicable)
- Personal and business financial statements
- Review your credit report ahead of time – make sure its accurate
- A “Business Plan”
  - Doesn’t have to be long or complex
  - A basic description of the business, a rough budget, and how you will pay back the loan
  - Being able to pay back the loan with existing cash flow is ideal.
  - Payback plans based on projected increases in business are risky.



# What a Loan Officer Doesn't Want to See

- Poor records
- High existing debt
- Low credit scores
- Relying too much on collateral
  - not enough earnings
- Low personal investment
- Unrealistic expectations
- No “plan-B”, i.e. What if?...
- Prices fall
- The weather doesn't cooperate
- A buyer goes away
- “Build it and they will come” business plans
- Lack of cooperation & commitment when times get tough

We're committed! You need to be too!





# Farm Credit East Lending Philosophy

- “Safe and Sound” loans – Manage Risk – preserve owner’s equity – not every deal can/should work
- Focus on: Repayment ability; Borrower character & promise
- Avoid making unsound loans that put the borrower “underwater”
- Focus on continued relationships and consultative lending – we want to be a business partner
- Commitment to serving a diverse agricultural community, including young, beginning, and small farmers

# A few final suggestions as you plan to start your farm



# Suggestions

- Build and maintain credit score above 670
- Reduce or eliminate credit card debt
- Build working capital. You can never have too much working capital, but can easily have too little
- File a Schedule F as soon as possible to build history
- Don't be too quick to leave off-farm employment
- Everything will take longer than you think (and cost more!)
- Don't add a second or third enterprise before mastering the first





# Thank you!

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**Director of Knowledge Exchange**

**Farm Credit East**

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