What you need to know about financing

MidAtlantic at a Glance

- One of the largest ag lenders on the east cost – lending money to agriculture in the area for almost 100 years
- MidAtlantic is part of the national Farm Credit System (www.farmcredit.com)
- Cooperative Structure – you're a member and owner, not just a customer
- Patronage Refunds – as a cooperative, we can put our profits back in your pockets

MidAtlantic Farm Credit — *Lending support to rural America™*

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Why Farm Credit?

- **Tremendous experience**: Farm Credit has long been the area's premier lender in rural financing
- **Constant commitment**: Farm Credit is a stable, reliable lender and is committed to providing flexible financing in good times and bad
- **Expert Advice**: we offer nearly 100 years of rural financing experience and a deep, personal knowledge of local agriculture and business practices

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Why Farm Credit (continued)

- **Close Partnerships**: We work closely with many government and farm organizations to assist farmers in getting and staying in business
- **Patronage Refunds**: Farm Credit is a cooperative. This means we can return a portion of our profits back to our customers, significantly reducing your cost to borrow

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Products

- Farm loans
- Equipment loans
- Livestock purchases
- Operating loans
- Crop Insurance
- Refinancing
- Building & fencing loans
- Lot loans
- Home loans
- Leases
- StartRight

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CCEDC at a Glance

- Nonprofit economic development organization that has been around for 50+ years
- The Council's portfolio of business growth services includes: low-interest financing, workforce training, energy consulting, customized international business assistance, land and building site selection, brownfields consultation, urban redevelopment, and agricultural economic development. The Council also offers economic development services designed for local municipalitiesand state-of-the art conference facilities at its facility in Eagleview.

Economic Development Agencies

- Certified by the State Department of Economic Development to serve as local agent for state loan programs.
- Organizations often serve a particular county or multi-county area.
- Agencies might hold other certifications as well (SBA).

Role of Economic Development Lending

- Partner with others to enable businesses to grow.
- Our financing helps to move a project forward that might not otherwise do so.
- Loans provide:
  - Fixed interest rate (risk management)
  - Reduced interest rate
  - Subordinated lending position

Credit Factors: the 5 C's

- **Capacity** for Repayment – will earnings and cash flow be sufficient to repay the loan on a timely schedule acceptable to the lender?
- **Capital** Position – what liquidity and equity is available in the event of adversity?
- **Character** – are you a credible credit risk? What is your track record in repaying credit?
- **Collateral** – if the business fails, what will be the secondary repayment source?
- **Conditions** – address loan purpose, structure, etc.

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Cash Flow Budget/Projections

- Cash flow budget plan on monthly, annual basis
- Annual profit/loss statement – first 3 years. Where do you want to be in 5 years?
- Assumptions used in projections
- How will earnings, losses, cash flow deficits be funded until operation is profitable?

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Repayment Capacity

- Ability to repay debt
- Income or cash flow available to service debt after business expenses, living costs and taxes are paid

Example

- How will residual cash flow be used?
- Build working capital for next season
- Capital improvements/purchases
- Bonus to management
- Buffer for adversity or disruption in projected net income

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Balance Sheet

- Assets = Liabilities + Net Worth (Owners Equity)
- Match asset life to loan life
- Short-term assets are purchased with short-term loans
- Long-term assets are purchased with long-term loans

Risk Management Plan

- Planning for adversity – production risk (plant/livestock disease, weather, etc.), sickness of management/labor, market risk, divorce
- Capital reserves/liquidity and how will you use those reserves
- Environmental
- Regulatory

Credit Scoring

What is a Credit Score?

- More and more loan approvals or loan pricing decisions are based on the interpretation of a "credit score." The higher the score, the lower the risk ranking relative to other borrowers

Types of characteristics included:

- Current level of indebtedness:
  - Average balances on revolving lines
  - Ratio of debt to total revolving limits

Credit Scoring

Top Five Tips

1. Avoid having too many accounts with balances owed on all of them
2. Don't close out old accounts when you open a new one to replace them. You lose "history value" of the account. You get more points the longer your credit history is
3. Maintain an active account for a reasonable period of time (2-3 years.)

Credit Scoring: Top Five Tips continued

4. Keep balances owed below 50% of the credit limit on revolving accounts
5. **Don't go delinquent! Most especially, don't go delinquent on multiple accounts at the same time and never, never go 60 days delinquent on any account!**

Find your Credit Score

- Trans Union: www.transunion.com or call 800.888.4213
- Experian: www.experian.com or call 888.397.3742
- Equifax: www.equifax.com or call 800.685.1111

Sources of Financing

Farm Service Agency (FSA) as a guarantor

- Maximum lending of $782,000
- Market interest rates, but priced as an acceptable risk loan
- Can accept higher leverage ratio, less equity and less down payment
- Farm Credit and a select few commercial banks have "Preferred Lender" status

What is StartRight

- **Credit Program** designed to help young, beginning, small and minority (YBSM) borrowers access credit and build the foundation for a successful operation
- **Research Resources**: introduces individuals to other people and agencies who can act as resources for their business development
- **Educational Program**: helps YBSM borrowers and prospects develop their skills, whether or not they are currently managing an operation

StartRight Eligibility

Must have less than $2 million in annual gross sales of agricultural products and meet at least one other of the follow criteria:

- Young: 35 years of age or younger on the date of loan closing
- Beginning: 10 years or less of experience
- Minority
  - American Indian or Alaskan Native, Asian, Black or African American, Native Hawaiian or other Pacific Islander, a person whose ethnicity is Hispanic or Latino, regardless of race and women
  - Must own at least 51% of the operation

AgBiz Masters

- Interactive educational learning series
- Combine on-demand eLearning modules and face-to-face regional meetings
- Two-year series (only enroll one year at a time)
- Developed by Dr. David Kohl, Professor Emeritus at Virginia Tech
- Complete business plan for all graduating students

AgBiz Masters

- Modules are interactive and take about one hour to complete
- On-line discussion forums
- On-line exams
- Individual assignments
- Two face-to-face learning sessions held regionally and broadcast via webcasts

AgBiz Masters

Includes modules in the following areas

- Megatrends facing the industry
- Strategic business planning
- Preparing for your lender
- Constructing a balance sheet
- Constructing an income statement and cash flow projection

AgBiz Masters

- Registration fee is $225. When a participant successfully completes the course, they will be reimbursed $100
- Covers single operators or couples/business partners
- High speed internet is necessary
- Registration for next class – October 2012

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Steps to Build Credible Experience

- Intern – Look for opportunities that provide business and farm management experience along with production experience
- Step up – to a position where you can get documentable farm management experience
- Getting started – filing "Schedule F" or other business schedule
  - Minimizing taxes may skew snapshot of your business profitability – explain!

Myth of the independent small business

- You can't do it all (well)!
- Build a network of professional advisors and mentors
  - Volunteers, customers
  - Accountant
  - Attorney
  - Associations

Business Plan Resources

- Penn State Extension
- Kutztown University Small Business Development Center
  - www.kutztownsbdc.org
- SCORE
  - www.scorechesco.org
- Your Network
- Beginning Farmers

http://www.beginningfarmers.org/farm-business-planning/

- ATTRA

https://attra.ncat.org/attra-pub/summaries/summary.php?pub=276

Steps to Building Equity

- Leasing land can be an opportunity to build equity in livestock, cash
- Transition into farming full-time by keeping off-farm work while starting up – start small

Starter Financing Options

- Investors
  - Friends, relatives, Kickstarter
- Philly urban farms – The Merchants Fund
  - www.merchantsfund.org
- Community First Fund
  - http://www.commfirstfund.org/

State Ag Lending Program History

- March 1998 – Next Generation Farmer Loan Program
  - Since that time over 100 loans exceeding $35 million in private funds have been made to first-time farmers in PA
  - PA one of 17 states in US with program and only one in NE
- 2005 – First Industries Fund - $100 million bond issuance for agriculture
  - Small Business First
    - Approx. 480 loans and $80 million
  - Machinery & Equipment Loan Fund
    - Approx. 115 loans and $36 million

First Industries Fund (PA)

- Loans best for financing fixed assets
- Work in partnership with other lender or other source of capital/equity
- Finance up to 50% of project or $200,000 whichever less
- Fixed Interest Rate – 3.25%
- Term is 15 years for land and buildings; up to 10 years for equipment; 7 years for dairy cattle

Next Generation Farmer Loan Program (PA)

- Tax –exempt loan from commercial lender or private individual to eligible first-time farm buyer
- Tax-exempt status provides a lower interest rate throughout the life of the loan to the new farmer
- Allows the farmer to reinvest in the farm, manage risk.

Next Generation Farmer Loan

- Maximum loan amount - $488,000 (indexed annually)
- Eligibility criteria
  - PA resident, age 18 or above
  - Borrower has to be the sole user of the farm
  - Borrower must not have had any prior direct or indirect ownership in a substantial amount of land.
  - Net Worth less than $500,000

USDA Farm Service Agency

Direct Farm Ownership Loans

- Maximum loan amount: $300,000
- Term: Up to 40 years
- Interest rate: currently a fixed rate of 3.375%. Limited Resource (LR) and participation rates of 5%, if eligible
- Use of Proceeds: Purchase farm, construct buildings, soil and water conservation, pay closing costs

Beginning Farmer Downpayment Program

- Maximum loan Amount: The lesser of 45% of the purchase price or the appraised value not to exceed $225,000.00
- Term : 20 years
- FSA takes a subordinate lien position
- Interest rate: Direct FO rate less 4% with a floor rate of 1.5%
- Use of Proceeds: Purchase farm
- Applicant must be a Beginning Farmer or SDA

Beginning Farmer Definition

- Must not have operated a farm for more than 10 years
- For Farm ownership purposes, must not own real farm property, for which the aggregate acreage exceeds 30 percent of the median acreage of the farms in the county where the property is located
- Note women are considered socially disadvantaged

Direct Operating Loans

- Maximum Loan Amount : $300,000
- Term: 1 to 7 years
- Interest Rate: Currently a fixed rate of 1.375%. Limited Resource (LR) of 5%, if eligible
- Use of Proceeds: Reorganizing a farm, purchase livestock, poultry, equipment, annual operating expenses, soil and water conservation, refinancing farm related debt, minor real estate repairs or improvements

Land Contract Guarantee Program

- Provides guarantee to the seller of land via a land sales agreement
- Handout available
- Standard Guarantee -90 percent guarantee of outstanding principal on the Land Contract
- Prompt Payment Guarantee - guarantee of up to three years' amortized annual installments plus the amount of real estate taxes and hazard insurance or premiums for same time period

Summary

- Build Credible Experience including farm management
- Build Equity and Positive Credit History
- Avail yourself of Business Planning Resources
- Develop Road-Tested Business Plan
- Investigate Financing Options
- **Start Farming!**

Thank you!

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