



Funding Considerations for a New Farmer

2019 San Diego Farm & Nursery



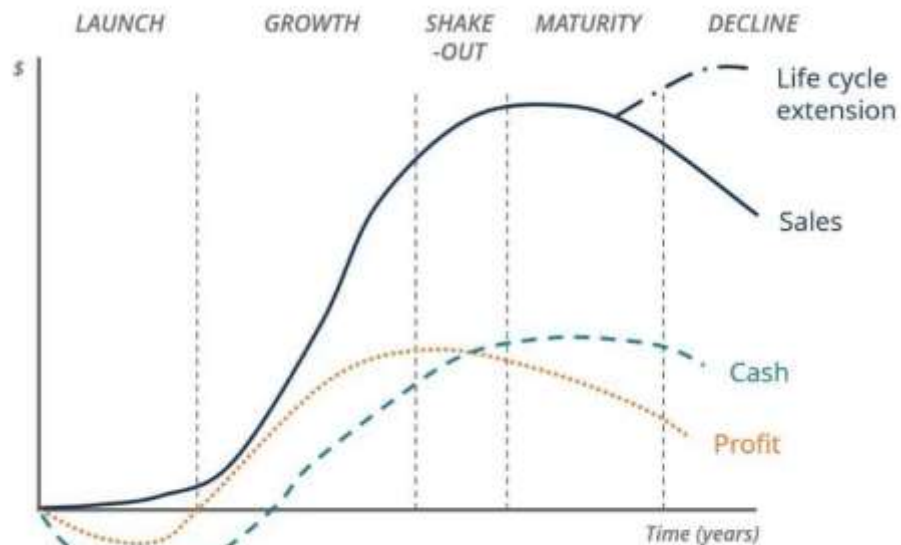
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Topics for for Today

- Typical stages of a business life cycle and funding sources
- Examples of Funding Sources
- Steps of a typical application process
- Effectively presenting your business to a lender

Most commonly divided into 5 stages:

- **Launch**
 - Low revenue
 - High start-up costs
- **Growth**
 - Increased sales
 - Cash flow can still be negative
- **Shake-out**
 - Peak sales
 - New competitors
- **Maturity**
 - Slowly decreasing sales
 - Businesses begin process of reinvention
- **Decline**



Capital trends

- **Launch**
 - Highest risk – uncertain ability to perform to a repayment schedule
 - Typically partners/private investors
- **Growth**
 - Increased ability to raise debt financing
 - Specialized financing – Farm-focused, Community Development Financial Institutions (CDFIs), Mezzanine Lenders
 - Typically higher cost of credit, or requirements for Credit Enhancements
- **Shake-out**
 - Declining Business Risk
 - Increased Ability to find debt financing
- **Maturity**
 - Easiest access to Debt Capital
- **Decline**
 - Increased Business Risk
 - Decreased access to Debt Capital

Can You Give Me An Example?

Partners-Private Investors

- Partners-Private Investors
 - Business Partner
 - Private Investor, Angel Investor, Silent Partner
 - Crowd Funding
 - Donation-based
 - GoFundMe
 - Equity-based
 - Kiva
 - Reward-based
 - Kickstarter

Specialized Lending

- American AgCredit (Farm Credit), California Farmlink
- CDFIs – Accion San Diego
- Mezzanine Lenders – typically focused on higher dollar amounts

Consumer Loan

- Funds are used to support you personally or support your household
 - Car Loan
 - Home Loan (Primary Residence)
- Borrower is generally a person or group of people

Commercial Loan

- Funds are used to support a business purpose
 - Farm equipment loan
 - Mortgage loan to buy investment property
 - Short-term operating loan
- Borrower can be a person, but also a business entity (Corporation, LLC, LP, etc.)

I think I'm ready to apply for a loan....what information do you need from me??

- What are the general steps taken during the loan application
 - Financial information and business plans
 - Credit Scores
 - Projections



Information helps lenders to identify and mitigate risks

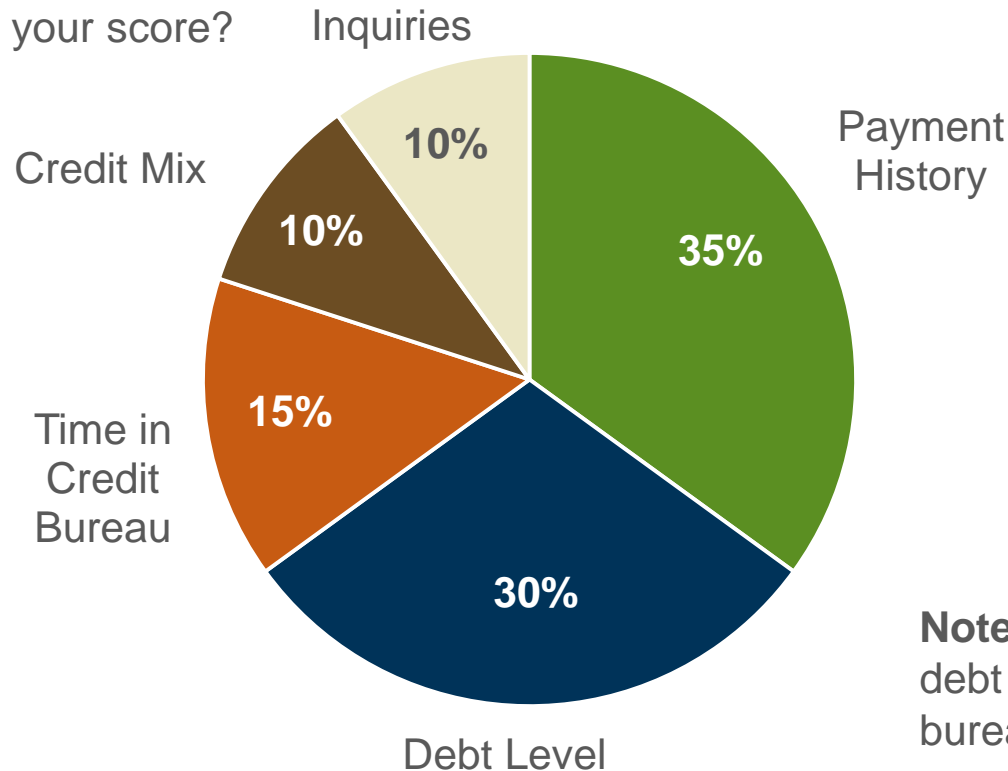


Credit Score | Credit Score Breakdown

How do Credit Scores fit into the process?

Ultimately, Credit Scores help lenders estimate future risk.

So, what goes into your score?



Note: Payment history, debt level and time in the bureau make up 80% of your credit score

What can negatively affect your score?

- Late payments
- Proportion of balance owing on revolving credit (i.e. credit cards)
- Lack of credit history
- Opening several new accounts in a short period of time
- Foreclosure / Bankruptcy
- Collections / Tax Liens / Charge offs
- High number of credit inquiries in a limited time

A few simple actions can help keep your score healthy and high:

- Avoid high credit balances on open accounts
- Make payments on time every month
- Avoid tax liens, collections and bankruptcies

What do I need to know to help present my business to a lender?

- Business Plans/Farm Plans
 - Historical results and/or projections
- Quality Financial Information
 - Balance Sheets/Personal Financial Statements
 - Income Information (Tax Returns)
 - Budgets & farming plans and projections

More on Business Plans....

- Doesn't have to be long, but the plan is a roadmap for your farm
- Components:
 - Mission Statement – What does success look like to you?
 - Marketing Strategy & Plan
 - Management Summary
 - Financial Analysis & Projections (understanding assumptions made to develop the projections)

More on Business Plans....

- Online Resources:
 - USDA – New Farms Web portal - <https://newfarmers.usda.gov/>
 - Cooperative Extension – eExtension - https://articles.extension.org/ag_law
 - Small Business Administration - <https://www.sba.gov/business-guide/>

Things to think about when applying for a loan:

- Why do I want to purchase the item?
- How do I think this will enhance my operation?
- Will this generate income to repay my obligation?
- When did I complete my last balance sheet?
- How will this impact my liquidity, net worth, overall leverage?
- Does this compromise my ability for future expansion, alternative purchases?

Things to think about when considering a loan offer:

- Do I understand the interest rates and fees?
- Are there any concerns about the repayment schedule?
- Are there any surprises with the loan structure?
- What are the reporting requirements?
- Are there other annual covenants?

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Thank you!!

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Questions?
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