Funding Considerations for a New Farmer

2019 San Diego Farm & Nursery

American AgCredit
Topics 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
What is the Business Life Cycle?

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
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
Decoding the Loan Application Process: Loan Classification

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
How do Credit Scores fit into the process?

Ultimately, Credit Scores help lenders estimate future risk.

So, what goes into your score?

- Payment History: 35%
- Debt Level: 30%
- Time in Credit Bureau: 15%
- Credit Mix: 10%
- Inquiries: 10%

**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:
  - Cooperative Extension – eExtension - https://articles.extension.org/ag_law
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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American AgCredit
American AgCredit
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@AmericanAg

Thank you!!
Questions?
Allison Paap
apaap@agloan.com