

KRC Beginning Farmer & Rancher Conference Call

Access to capital & credit: What lenders need, preparing yourself and your farm

Wednesday, August 28, 2013

Call Moderator:

Rosanna Bauman
Bauman's Cedar Valley Farms
Farm Operations Manager
785-448-2239

Resources:

Kansas Development Finance Authority---

Rebecca Floyd
Kansas Development Finance Authority
Executive Vice President / General Counsel
(785) 357-4445 ext. 303
<http://www.kdfa.org>

- Tax-exempt bond program authorized by the federal tax code
- Assists farmers who have not previously had or who do not currently have substantial ownership interest in farmland in financing their agricultural businesses to start or keep them in farming
- Loans available at below-market interest rates through private lenders
- Can be used by beginning farmers for purchasing agricultural land, farm buildings, farm equipment, and breeding livestock
- Up to \$501,000 under the program limits may be borrowed (subject to lender approval); no minimum
- No re-financing once loan attained; interest rate reduction can be negotiated
- Cannot partner with other businesses or individuals and retain the loan, must renegotiate the loan with different terms

Website: (Click the links below to be directed to each document)

<http://www.kdfa.org/BeginningFarmer>

- [Beginning Farmer Program Brochure](#)
- [Beginning Farmer Program Summary](#)
- [2007 KS Median Farm Table](#)
- [Beginning Farmer Loan Application](#)

USDA FSA---

Shelly Wolf
USDA FSA--Manhattan Office
785-564-4765

<http://www.fsa.usda.gov/FSA/stateoffapp?mystate=ks&area=home&subject=landing&topic=landing>

- See the document, "***FSA BF Loans Overview.pdf***" for a summary, list and comparison of loan options.
- Micro Loans also available: up to \$35,000, this can be used for all approved operating expenses. Click the document, "***Microloans FSA.pdf***" for more detail.
- FSA loans differ from banks:
 - Loans approved on cash flow capability
 - If a loan cannot be secured with a bank, FSA may be a good fit; lower interest
 - Can be used as an interim lender before attaining commercial loans
 - Must approach a bank before a loan from FSA can be requested
- Click the document "***faqs FSA.pdf***" for frequently asked questions and answers
- Can make LLC, Corp. loans—all records must match to be eligible

K-State University Farm Analyst Program--

Duane Hund
KSU Farm Analyst Program
(785) 636-5462

<http://www.agmanager.info/programs/analyst.asp>

- The Farm Analyst Program responds to farm families encountering a variety of challenges utilizing one-on-one consultation from one of three experienced farmers trained as K-State Research and Extension analysts
- FinPack, a computer software program is used. It is a comprehensive financial planning and analysis system designed to help farmers and ranchers understand their financial situation and make informed decisions.
- Help people determine feasibility before applying for loans; Help understand pros and cons and full knowledge of challenges faced by a decision
- Assists families working together are all on the same page for commitment and making it all work. Give them some measures to help test cash flow analysis.
- Fees for this service are based upon ability to pay

Preparing for a Loan:

Follow the five “C’s” of Credit: readily defines how loans are assigned. All equal and important in establishing a viable loan and good relationship with lender. Will enhance ability to get loans in the future.

Character: a borrower’s reputation. Responsibility, history of fulfilling obligations, relationships with other people may all be considered.

Collateral: assets such as property help secure loans. Value of collateral will be evaluated. Existing debt secured by that collateral will be subtracted from value.

Capacity: measures the borrower’s ability to repay the loan. Debt to Income ration, past income and employment history may be used.

Capital: represents savings, investments and other assets that could potentially repay the loan.

Conditions: what is the loans purpose? How will the money be used? Environmental and economic conditions may be evaluated.

Tips:

Creative ways to attain capital:

- Convert IRA to land investment IRA to invest in property
- Contract for deed--seller finances the sale of their property and holds the deed until contract if paid
- USDA contract for deed--not much attention yet, contact USDA FSA Office to inquire
- Sell property for hunting use ---retain property at a reasonable lease rate. Manage to maintain wildlife habitat.

Attaining experience:

- Experienced farmers have assets that could be used by beginning farmers in exchange for labor, etc.
- Opportunity for younger folks to work with older, experienced farmers. There is low risk.
- Could open opportunity for long term lease with option to purchase in the future.
- How do we connect these two parties together???

GET TO KNOW YOUR BANKER!!

What is the best way for a beginning farmer to start beginning the relationship with a banker?

- Start working on a business plan. Have a reasonable mission statement and vision. Lenders want to know that you are committed.
- If you are not part of a multi-generation involved in the family farm or operation and do not already have established connections to a banker, figure out what the banker’s interests are and participate in those activities to begin establishing those relationships. Example: rotary club or other community activities.

What if you have NO credit?

- Credit cards: applying for one or two credit cards okay to build some credit. Be cautious; don't buy more than what you have the capacity to pay off. Credit cards have a place to build credit history if used correctly.
- FSA likes to see a little credit history. However, good character and a solid plan good credit can be attained with FSA. Have made loans to those without any credit.
- KDFA--same is true for beginning farmer loans: minimum age to qualify for loans is 18. Lender will look at non depreciating assets. However the relationship aspect is key here--demonstrate there is the ability to run and operate a successful operation.

What steps should be taken if turned down for a loan?

- Go back to the beginning and research ---were projections realistic? What is the background and history? Does the borrower fully understand the business? Where is the borrower going to find the knowledge?
- Conditions of the markets at the time applications are submitted can be a factor.

What if you are turned down but need immediate funds or items?

- Lease purchase options
- FSA has a waiting list-- operating loans have money through summer months and new allocation in October
 - Talk to political representatives about FSA's importance. Target representatives that influence decisions made in D.C. This can impact the increase in money allocated for FSA programs.
- Bank bridge loans

At what point would you consider an interest rate not worth accepting a loan?

- Cost of interest one component in production cost--judged in context of total cost of production

Economic development—a resource to be utilized?

- FSA: guaranteed loans with nontraditional lenders called Community Development Finance Institutions.
- Regional planning commissions made up of 11-13 counties can have programs such as revolving loan funds for ag enterprises. Look to your local Small Business Administration.
- There has been success in getting dairies financed through SBA.

What about niche farms that handle goods that don't have a commodity value?

Collateral not as defined for operating loans-- how is this handled?

- FSA: micro loan--fits this situation most.
- Established a history to grow. Start on a comfortable basis and then try to grow. Lenders will then be more accepting, because of the greater experience.