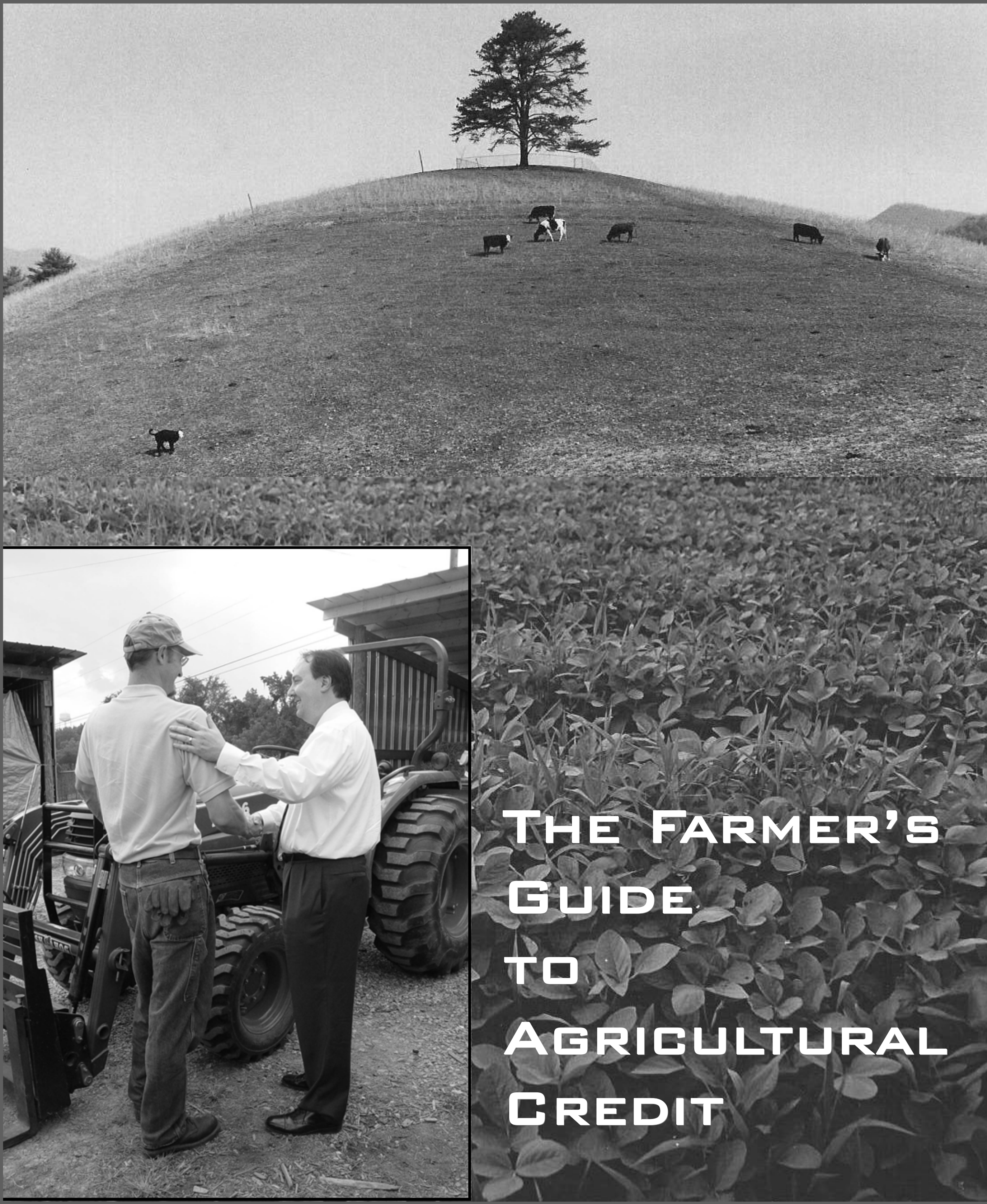

The Farmer's Guide to Agricultural Credit

RAFI-USA

Rural Advancement Foundation International-USA

The Farmer's Guide to Agricultural Credit

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The Farmer's Guide to Agricultural Credit

Rural Advancement Foundation International – USA (RAFI-USA)

September 2006

FOREWORD

RAFI-USA started the Tobacco Communities Reinvestment Fund in 1997 to assist farmers and rural communities to find new ways to replace lost tobacco income. The reinvestment fund provides a limited number of $10,000 cost-share awards and technical assistance to farmers in tobacco-dependent North Carolina counties for pilot tests of innovative agricultural enterprises. RAFI-USA started the program hoping that farmers whose new pilot projects succeeded would find additional capital to grow their new business. That is, we hoped farmers could take their experiences of the reinvestment fund to the bank—literally. This happened in some cases: Some project growers did secure financing to expand successful enterprises. However, in too many cases, very successful farmers went to their lenders and were denied financing. What went wrong? Why were these farmers turned down?

The reasons have to do with both farmers and lenders. On the one hand, many farmers have years of success getting annual operating loans to grow raw commodities. Yet when these same farmers apply for loans for new production ideas, they can be turned down. The same thing applies from the lender's side: Many lenders are skilled in assessing the risk/rewards of a traditional operating loan. But when presented with plans for new agricultural enterprises, lenders can find themselves lacking the means to do an accurate evaluation.

In many cases, farmers who are accustomed to annual operating loans for production of raw, commodity crops — corn, soybeans, tobacco — are not ready for the burden of research and documentation that a lender expects for a non-traditional farm product. It is also true that lenders who are familiar with the production and profitability of farm commodities do not have the expertise necessary to accurately evaluate the risk of an agricultural enterprise that he or she has never seen before.

Overcoming these financing barriers is the aim of a new partnership between the Self-Help Credit Union, Durham, and the Rural Advancement Foundation International-USA (RAFI-USA), Pittsboro. The project builds on work done for *Funding the Harvest*. That 2004 study by the Self-Help Credit Union described and analyzed financing barriers small-scale and organic farmers face in North Carolina. The two partners are building on *Funding the Harvest* in the new Farmer and Lender Project, which receives support from the North Carolina Tobacco Trust Fund Commission.

The new project is bringing together farmers, farm lenders, and other business and agricultural leadership, to develop solutions to the financial challenges farmers find when making a transition to new farm and farm-related enterprises.

This Guide is a product of the Farmer and Lender project's work to date. The Guide is aimed at helping farmers get ready to ask a lender for the financing needed in new and innovative ventures. Used as part of an overall strategy, the Guide can help lenders and farmers get mutually helpful results when they sit down to do business.

Note: Many of the financing issues this Guide discusses apply to innovators in other kinds of businesses. The same is true of recommendations — many apply to non-farm enterprises. However, the farmer is the chief intended user of this Guide. For one thing, farm financing has some wrinkles peculiar to it alone. Just as important, resources for farm entrepreneurs are lacking, and this Guide is intended to address this deficit.

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EXECUTIVE SUMMARY

Accessing capital is one of the many challenges facing farmers. Agricultural financing is crucial for maintaining production, expanding operations, or trying different enterprises. To maximize profits, more and more farmers and farm entrepreneurs are turning away from simple commodity crops in favor of more complicated or diversified enterprises. This can create a problem. New business models may be unfamiliar to agricultural lenders. So the farmer may need to take some extra steps in preparing and presenting his or her business plans. This Guide is a tool to help transitioning farmers and farm entrepreneurs to take those useful steps.

In the **Introduction**, a few stories are given as examples of financing barriers that farmers often face when transitioning to something new.

How Lenders Evaluate Loan Applications goes into detail on how lenders make decisions on farmers' loan applications. The idea is to let the farmer see the lending process through the lender's eyes. This section is organized around "The Five Cs," a tool lenders often use to evaluate an application. This section helps the farmer understand the lender's reasoning and know what information the farmer will be expected to provide on cash flow, capital, collateral, conditions, and character. Tips are given on developing a farm loan application that is honest and accurate and complete and which highlights the farmer-applicant's strengths.

Communicating Your Idea to a Lender is the second major section. Once the farmer has a well-thought-out idea, the job is to convince a lender that the idea is solid enough to justify a loan. Communicating the idea becomes the key. This is communication of a different kind. Before the farmer meets with the lender, the idea must be put into forms that the lender can work with. This section fully describes the contents of a farmer's checklist: balance sheet, income statement, production record, cash flow projections, and a business plan. Samples of key documents are included.

In the **Conclusion**, the authors comment on credit and finance as a central concern of modern, complex agriculture — especially farm operations that are highly diversified and/or featuring new crops — and on the usefulness of this Guide and other resources to prepare farmers and farm entrepreneurs to succeed in obtaining the capital they need.

The five appendices contain information that is vital to use along with the Guide.

Appendix 1 is a glossary of lending and finance words farmers need to be familiar with.

Appendix 2 is a guide to seven different types of farm lenders active in North Carolina; the farmer can read and decide which lenders best suit his or her situation.

Appendix 3 adds depth to "The Five Cs" by discussing "The Sweet 16" measurements that lenders use.

Appendix 4 is "Where to Go for Help," which lists a directory of resources for farmers seeking help with financing or business planning, and urges farmers to be persistent in using it.

Appendix 5 cites major sources used in producing the guide.

> The bulk of the concepts and tools we describe are familiar in small business. The authors have combined them and written them in this new Guide for farmers. Our hope is that by doing so, we are giving farmers a leg-up in their efforts to get capital needed for their maximum success in farming.

Ronald Bennett guides a tour group through the construction of a new retreat facility on his farm in Vance County.

INTRODUCTION

Joe farmed soybeans, corn, wheat, and cotton, and he had been borrowing from the same bank for the past 12 years. The process was simple and it worked: Joe always made his payments on time and his lender didn't ask a lot of questions. Every year he went to his lender for the money he needed to get through the season. Every year he received the loan based on a short conversation and a few short forms. It felt like a real personal relationship. One year Joe decided he wanted to expand his landscape-nursery, a little sideline wholesale business he had been working for a few years. Profits on his row crops were heading south, and he felt he'd have more control over his income by focusing on the nursery. Learning of this for the first time, his lender was skeptical. The lender asked Joe all kinds of questions, doubted he could sell that many shrubs, and said he would need to see a five-year cash flow projection and proof that Joe could actually sell the plants. After such a long lending relationship, Joe was surprised at his lender's response.

> **A NOTE ON SUCCESS:**
>
> All good lenders want to see you succeed and build equity; their profession is to invest in your success. But your challenge in seeking financing is to find the right lender for you. This Guide can help you seek experienced agricultural lenders to help you solve problems--and avoid them in the first place! Also, you want to find a lender who is knowledgeable *and* open to learning about new, profitable crops, innovations in farm production, and new ways to market farm goods.

A tobacco farmer named Lemuel raised broilers under contract in the 1990s. He hadn't made as much money with broilers as he had hoped. Instead of building new poultry houses as the company had asked, he quit raising contract broilers as soon as his houses were paid off. When in 2005 he took the buyout and quit tobacco, he really didn't want to give up farming, nor did he want to sell the land. He was interested in trying to grow birds on his own, to sell to fancy restaurants like the one his daughter worked for in Durham. He knew of a processing plant where he could have his birds killed, cleaned, and packed. But he would have a lot to learn about marketing, packaging, delivery, and billing. Also, he knew there would be risk in growing birds without antibiotics and hormones, as the customers preferred. Who could help him think through all the details? Could he live on credit cards until he worked out his plan? What kind of insurance was available? He knew in his gut that it would be profitable, but he barely knew what questions to ask, let alone who to ask.

R.B. and his wife had run a 400-cow dairy for many years. His son Junior wanted to come back to the farm with his wife and children and take over the business. R.B. was grateful he could begin to retire, because the dairy business was getting tougher and tougher. Junior knew the old ways of dairying wouldn't pay the bills, so he wanted to convert the operation to grass-fed organic production. He did a lot of research, visited with experienced grass-fed dairymen, found a buyer for the milk, and wrote a business plan. None of the other dairymen in the county had ever considered grass-fed dairying, and the one lender he spoke to was not familiar with grass-fed dairy production. R.B. knew his son could manage the operation, but they both worried about financing the three-year organic transition period. Should they harvest the timber? Should they sell the back acreage? And could they finance this major change and still ensure money for R.B.'s retirement?

These are fictional stories. But they are examples of the many challenges out there facing farmers. As a farmer you probably can tell similar stories of bigger and smaller challenges farmers find when looking for credit or financing.

The challenges facing you as you strive to improve your farm's profitability are special challenges. The information you need to make good decisions about new enterprises can be hard to locate. It can be difficult to obtain the financing needed to continue or expand operations, or to change to a different kind of production or marketing.
This Guide was written to

- Improve your understanding of agricultural finance;
- Help you get ready to apply for financing for your agricultural or farm-related venture;
- Give you planning tools to increase your opportunities for accessing capital;
- Connect you with other resources where you can learn more.

This Guide will help you understand how lenders look at all kinds of financing requests. The Guide will also help you see where the different opportunities for financing may be found, and help you prepare to succeed.

UNDERSTANDING AGRICULTURAL LENDING

Farmers want to farm, and agricultural financing is just another tool in the farmer's toolkit. But if you aren't having an easy time obtaining the financing you need, it might be helpful to look at things differently. For the next few pages, let's look at how lenders look at financial proposals.

Understanding agricultural lending allows you to use your time wisely and communicate clearly with your lender, while minimizing false starts, disappointments and frustration. It's up to you to make the case that your loan is a good investment for the lender. Lenders avoid taking risks: They have to be certain that the money they "rent" to you will be repaid. They need to know your plan is sound and that you will do what you say you will do. They need to see a clear path to repayment of the loan. This means the lender will ask you questions. Any good lender will ask you a lot of questions. Be wary of lenders who do *not* ask questions.

Lenders gain confidence in your capabilities by looking at

- your prior production history,
- your personal and business credit history,
- your financial records (including balance sheets, inventories, income statements or tax returns),
- your farm plan or business and marketing plan.

Lenders need to see your path to repayment of the loan, shown in

- your production or management plan,
- your marketing plan,
- your projected cash flows,
- your collateral, equity, or other off-farm income streams (for the worst case scenario).

By learning how lenders look at loan applications, you can avoid wasting time during the application process. The more questions you anticipate, the more time you can save.

Farmers attending a RAFI-USA enterprise workshop

UNDERSTANDING AGRICULTURAL LENDING

Farmers want to farm, and agricultural financing is just another tool in the farmer's toolkit. But if you aren't having an easy time obtaining the financing you need, it might be helpful to look at things differently. For the next few pages, let's look at how lenders look at financial proposals.

How Lenders Evaluate Loan Applications

> While this section is about common concerns of lenders, every loan officer is different, and different lending institutions make different loan approval or denial decisions. This Guide is *not* a blueprint for getting a loan. But knowing these ideas and themes will help improve your chances of getting a loan. Appendix 2 goes into more detail about different lenders in North Carolina.

All lenders share certain expectations. In our conversations with lenders, there were common themes that all our lenders agreed were important in dealing with loan applicants. The "Five C's" are one way of looking at these common themes.

The Five C's are:

1. Cash Flow (Capacity to Repay the Loan.)
2. Capital (Equity Investment in the Enterprise.)
3. Collateral (Security for the Loan.)
4. Conditions (Considering the Big Picture.)
5. Character (Capacity to Execute the Enterprise Successfully.)

Cash Flow

(Capacity to Repay the Loan)

Cash Flow tells you how much of the cash you generate remains after expenses and repayment of debt. A Cash Flow Projection shows your income and expenses looking forward into the future. Cash Flow is looked at as a measure of your capacity to repay a loan. While you can look at cash flow for a period as short as a month, a quarter, or a year, most lenders want to see cash flows projected three to five years into the future.

Cash flow is used to determine whether a business is able to meet monthly loan payments. Lenders use your cash-flow statement to derive a ratio often called a minimum-debt-service-coverage (DSC) ratio requirement. A lender will want to see that you have more cash coming in each month from income than you have going out from expenses and loan repayment. Lenders use different ways of figuring DSC ratios, but a good rule of thumb is to shoot for a DSC ratio of 1.2 to 1.25. That means that for every $1,000 of debt repayment you have to make each month, you should have $1,200 to $1,250 of cash after expenses. By having more income than you need to pay expenses, you create a buffer that protects you (and your lender) from the unexpected, such as rising costs or falling prices.

> Cash flow is sometimes measured by earnings before interest, depreciation and amortization (EBIDA). Some businesses call it a pro forma projection.

Capital

(Equity Investment in the Enterprise)

Caswell County farmer Ricky Smith gets more out of his harvest through on-farm processing.

Capital is the money you have personally invested in the business and is an indication of how much you have at risk should the business fail. Lenders and investors will need to know what you have put "on the line" before asking them to commit any funding. They will expect you to have undertaken personal financial risk to establish the business. You could say that capital is the measure of your equity investment in the project.

What percent of the total cost of your project will be covered by your own equity? Some community lenders may agree to some amount of "sweat equity" investment in the business. However, most lenders want to see some capital investment as well. Lenders typically look for a significant investment by the individual applying for the loan, seeing this as a measure of your commitment to your business plan.

Capital can go beyond the question of the money *you* plan to invest:
What other equity sources are invested? Are you getting friends and family (or others) to invest in shares of the business? Consumer Supported Agriculture (CSA) is an alternative way of raising short-term capital by selling shares of your production, in advance of harvest, directly to your customers. (Learn more about these alternative sources of financing at the end of Appendix 2.)

Collateral

(Security for the Loan)
Lenders have to consider all possibilities, and must plan for the worst-case scenario. In the case of a loan, what can the lender turn to in the event the business fails? If the borrower is unable to repay the loan, how does the lender get back his money? Collateral is land, equipment, houses, cars, and other things of value that a lender can hold as security for a loan, and repossess if the loan is not repaid.

The value of the property being held as security is an important factor: Lenders will likely require their own appraisal of the property or other assets. Often, assets are not valued according to market-value, but at what a lender can get for the item if they have to foreclose or liquidate. That often means the lowest-commodity price for crops and livestock and a severe discount on equipment. Remember lenders are not in the business of operating the farm business and/or buying and selling farm products, so the lender may not get the best price on live animals, crops in the field, perishable, or repossessed goods.

Also, most lenders have policies regarding loan to value ratios. For example, lenders might only loan 80% of the value of a parcel of property, or 25% to 50% of the value of a particular piece of equipment. Other lenders require 150% collateral because of the costs and losses incurred in a liquidation of the collateral.

Why Is Collateral Discounted?

Why is it that lenders discount collateral so deeply? While a lender is investing in the potential for your success, he or she must prepare for your failure. This is how financial institutions are successfully run. If you run into trouble with your loan, and the lender is unable to help you get back on track with loan payments, the lender must recover the money through your collateral. In these cases, lenders often cannot sell the property, equipment, etc. at market for the same value it might bring under different circumstances. Sometimes the collateral must be sold for pennies on the dollar. This is why so many lenders require 150% or more collateral to loan value.

The kind of collateral is important, too: Lenders may ask that you secure the loan with your house. While some say this is based on the theory that you will be less likely to default if your home is at risk, there is another reason. In comparison to land or equipment, houses make good collateral because their value is relatively constant. Land values go up and down based on weather, crops, Federal programs, and development; equipment values are determined by the relatively small number of potential buyers; but the potential market for a house is broader, so the values are more constant.

Conditions

(Considering the Big Picture)
Conditions: This is where the lender looks at your loan proposal in the big picture. What are the current economic conditions, and where does your farm fit in? The lender looks at the intended purpose of the loan: Will the money be used for seasonal production costs, livestock, or equipment? The lender also thinks about the impact of the local and national economy on your plans. He may look at larger trends in your business, and in related industries, and considers how this big picture could impact your own plans.

Kenny Wilson uses a hydroponic gutter system to grow lettuce on his farm in Yancey County.

Character

(Capacity to Start & Finish the Project Successfully)
Character is about your personal, professional capacity to execute your plan successfully. Different people, including lenders, evaluate character differently. For some, a firm handshake is a sign of strong character. Others will want to see a steady employment history and a good credit record. Your credit history is a record of your past borrowing performance. Lenders look at past performance carefully and evaluate the borrower on his or her potential for future bankruptcy. Depending on your business plan and the loan you request, the lender may look at the credit history of the business, the individual borrower, and any co-signors, guarantors, or investors.

YOUR CREDIT RECORD:

The three credit bureaus offer one free copy of your credit report, once a year. Each of the three bureaus keep separate records. Call 1-877-322-8228 or use this simple website to request all three reports at once: www.annualcreditreport.com/ This is also the place where you learn how to dispute errors on your credit record.

There are three major credit rating institutions in the United States — Equifax, Experian, and TransUnion. All lenders use one or more of these institutions when examining your credit history. It is important that you know what is on your credit record prior to applying for a loan. A bad mark on your credit record does not necessarily keep you from getting a loan. However, it is important that you have taken steps to address any negative marks on your credit record and that you can explain to your lender why you received those marks in the first place.

Before you apply for a loan, get a copy of your credit reports from each of the three credit rating institutions. The credit rating institutions normally charge a fee for a copy of your credit report. However, by law you are entitled to one free copy of your credit reports from each of the institutions once a year. Take advantage of this to keep up with your credit record.

Management Experience:

Your personal agricultural management experience is very important to agricultural lenders. If you are venturing into something brand new to you, you are not likely to get financing to start new enterprise. Instead, consider a business plan that allows you at least three years of self-financed operations, to build experience and prove your capabilities.

Your lender looks at your vision for the business and whether or not you have the leadership capacity or experience to execute your plan. Your production history, or your success or failure with past enterprises is key. With a new venture, the lender will need to see any experience you or your partners have to indicate chances of success with this new venture. With more complex business proposals, such as value-added enterprises, lenders typically analyze the experience and leadership of any consultants hired to help with the development process (for example, architects, contractors, lawyers, marketing agents). If you have such partners, you may need to write these people into your business plan.

A quality business plan will build your lender's confidence in your character.

In some ways, communicating your character to your lender is like applying for a job. Your proposal to your lender should list all of your relevant educational and work experience. When you meet your lender face-to-face, you should be prepared to explain the details of your business plan so that the lender gains confidence in your knowledge of the proposal.

WORKING WITH YOUR LENDER:[1]

- Arrange credit in advance. Do not make major financial decisions without informing your lender. Letting them know after the fact will damage your credibility and your lender's trust in you.
- Give your lender plenty of time to review your plans. By explaining your goals and plans, you build trust and confidence, and you strengthen your relationship with your lender. It also allows your lender the time to offer sound advice to you. Because they are in the business of evaluating business ideas, your lender's suggestions or comments could be very valuable. They may help you avoid mistakes others have made.
- Let your lender know about problems and changes. Many businesses encounter financial problems, and by letting your lender know, adjustments can be made and solutions can be found. Communication is key, not just with the first loan request, but throughout the whole credit process.
- Maintain a high level of integrity. You expect your lender to be honest and straightforward with you, and your lender is entitled to the same. That means letting your lender know if and when problems occur, so that you can work together to come up with a solution.

[1]Adapted from *Weighing the Variables: A Guide to Ag Credit Management*, by David Kohl and Vern Pierce, American Bankers Association, 2002.

In thinking about the Five C's of lending it is important to note that if everything is not perfect, it does not mean that a lender will automatically turn down the application. It does, however, mean that if you are weak in one area other categories need to be strong enough to outweigh the weaknesses. For example, if the loan applicant had weak credit in the past, but has been able to rebuild his credit in recent years and has good collateral, sufficient capital investment, strong positive cash flow (or well-researched projected cash flow), and a clear and detailed plan for the project, then a lender may be likely to consider the application.

The "Five C's" are important, but they don't cover all cases. Farmers with more complicated business plans might find the "Sweet Sixteen" to be more helpful. The "Sweet Sixteen" are calculations and descriptions used by bankers and lenders to measure business performance. These 16 ratios and calculations define Liquidity, Solvency, Profitability, Repayment Capacity, and Efficiency. Appendix 3 describes the "Sweet Sixteen" in detail.

COMMUNICATING YOUR IDEA TO A LENDER

Suppose you know what you are going to grow, what equipment to use, and so on. You know what you need to do to make your new idea succeed. The next step is to communicate your idea to someone whose job is to loan money and manage risk—your lender. Presenting your idea in a format that a lender can understand is the key to successfully convincing a lender to loan you money.

It is also helpful to bear in mind what you are asking for when you ask for a loan. Lending is a complex deal where the lender takes on a lot of risk. When you receive a loan, the lender fulfills its end of the deal the moment the loan is advanced. You fulfill your end of the deal with every payment you make. Your lender is relying upon you to keep up that end of the bargain—in some cases far into the future. This is why lenders need to see a well-thought-out plan, financial strength, and a strong sense of commitment in order to develop confidence in your idea.

"Checklist" of what you need before approaching a lender:

- *Balance Sheet*
- *Income Statement*
- *Production Records*
- *Cash Flow Projections (AKA Pro Forma Projections)*
- *A Plan*

Putting together this checklist is part of a good business planning process. This section explains the items as part of good business planning and communicating your idea to a lender.

Balance Sheet

A balance sheet lists all business assets and liabilities, showing what is owned and what is owed.[2] A completed balance sheet will help you and your lender to determine your net worth and equity. A balance sheet is only a snapshot of your financial situation at a specific date and time. It does not indicate whether you or your business are making or losing money.

Marc Cox surveys his winter strawberry production in his greenhouse in Columbus County.

There are different ways to construct a balance sheet, and your financial institution may have a preference as to the method they want you to use. The simplest way to construct a balance sheet is to list all your farm and non-farm assets and their values in one column and all your farm and non-farm liabilities in another column. Total the columns. Then subtract liabilities from assets. This result (positive or negative) will give you your net worth and is an indication of how much equity and capital you might have available to put towards your project.

[2] *Building A Sustainable Business: A Guide to Developing A Business Plan for Farms and Rural Businesses, Minnesota Institute for Sustainable Agriculture and The Sustainable Agriculture Network, 2003.*

Income Statement

While a balance sheet is a snapshot of your business at a given instant in time, an income statement tells how much money you have earned over a period of time—usually a year, sometimes longer or shorter. Often, lenders will want to use tax records as a record of income. (For many farmers this is Schedule F.) We have enclosed a sample income statement below. But you should note that there are different types of Income Statements. Make sure to get help in creating your own. Turn to an accountant, a good software program, or someone with experience in providing assistance to farmers in financial planning and recordkeeping. Refer to Appendix 4 for a list of providers of technical assistance and business planning.

Sample Income Statement — Joe's Farm, INC

For the period beginning: 1/1/2005
And ending: 12/31/2005

Gross farm income				$322,145
Total cash operating expenses			-	265,715
Inventory changes				
Crops and feed (ending-beginning)	+/-	23,980		
Market livestock (ending-beginning)	+/-	9,321		
Accounts receivable (ending-beginning)	+/-	1,185		
Prepaid expenses and supplies (ending-beginning)	+/-	-4,325		
Accounts payable (beginning-ending)	+/-	-113		
Accrued interest (beginning-ending)	+/-	--		
Total inventory change			+/-	30,048
Depreciation			-	17,280
Total			=	$69,198

*This "accrual" income statement format was adapted from *Building A Sustainable Business: A Guide to Developing A Business Plan for Farms and Rural Businesses*, Minnesota Institute for Sustainable Agriculture and The Sustainable Agriculture Network, 2003.

Production Records

Production history is a critical component of how a lender evaluates a lending proposal. Past performance is an indicator of future success. Preferably, lenders will want to see documented evidence of your success for the enterprise for which you are seeking capital. If the enterprise is new to you, you may not have production records. In that case, a lender will want to see documentation of success with other enterprises and crops. The key point is that keeping records is important. You must keep the records in the first place in order to use them as part of a loan application package.

Cash-Flow Projections

A major part of planning a new enterprise is looking to the future, and testing how your ideas will fair in realistic scenarios. Cash flow projections allow you to analyze the future viability of an enterprise by determining the timing of expenses and income and whether you will have enough cash on hand when it is needed. Cash flow management is a critical component of operating a successful business. Many profitable businesses have failed because they did not cash flow.

While cash flow projections should be included as part of a written business plan (which we will describe in greater detail later), cash flow is important enough to discuss separately here.

> **It is worth noting the difference between a cash flow projection and an income statement:**
>
> The cash flow projection measures the actual cash coming in and going out of the enterprise. Whereas an income statement does not always account for timing of revenues or expenses, such as accounts receivable or accounts payable.

There are almost as many different forms and methods for evaluating cash flow as there are entrepreneurs. What is most important in constructing a cash flow projection is that you develop a method that makes sense to you. In order for a cash flow projection to be useful, the information in it must be as realistic as possible. Do not cut corners when constructing a cash flow document. Even a small error early on can make a big difference when projected out over a period of years.

> **As a farm-business manager, you can use cash flow analysis to ensure that you will have enough cash to pay expenses, loans, and to get a sense of your future profits.**

Cash flow projections look at sources and uses of cash or incoming cash and outgoing cash. When you create yours, you will take into consideration your current cash position, receivables or sales, other cash sources, and you will compare them against all uses of cash, such as the cost of seed and other inputs, operating expenses, income taxes, and other cash uses. Finally, a cash flow projection ends with "net change in cash position," a figure derived by subtracting the estimated cash uses from the estimated cash sources. By adding the net change figure to the starting cash figure, you learn how much cash you will have for the next month, quarter or year.

Larry Harris and Patrick Robinette have figured out how to earn more money by raising cattle on grass.

> While a good plan is necessary to prove to your lenders or investors that your enterprise is viable, a good plan will also help increase your own confidence, and give you a map to refer back to during times of uncertainty. Nationally, 60% of new ventures fail. However, when entrepreneurs take the time to do a business planning process the odds are reversed. Three-out-of-five new businesses that complete a business planning process succeed.

The example below is a simple cash flow projection for a typical Direct-Market Vegetable operation. This is a monthly cash flow analysis for one year (or one season) of production. Cash on hand is indicated by "Total Beginning Cash." In this example the cash on hand is always a positive number, meaning that if these projections reflect reality, then the business will have enough money to cover all expenses throughout the year.

Sample Cash Flow Projection for a Typical North Carolina Market Vegetable Operation

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOT
TOTAL BEGINNING CASH:	**29765**	**31665**	**39480**	**32705**	**30530**	**31875**	**33995**	**36855**	**39465**	**42085**	**46405**	**36655**	
CASH-IN:													
Farmers Market					3520	4320	4560	4560	4320	3520			24800
Restaurant				3000	3000	3000	3500	3500	3500	3000			22500
Grocery				1600	1600	1600	1600	1600	1600	1600			11200
Subscription	11875	11875											23750
TOTAL CASH-IN:	**11875**	**11875**	**0**	**4600**	**8120**	**8920**	**9660**	**9660**	**9420**	**8120**	**0**	**0**	**82250**
CASH-OUT:													
Irrigation Expansion	500												500
Farmer's Draw	1700	1700	1700	1700	1700	1700	1700	1700	1700	1700	1700	1700	20400
Hired Labor ($10/hour)			3000	3000	3000	3000	3000	3000	3000				21000
Seed, Fertilizer, Potting Soil, Etc	2800							250			3600	2800	9450
Mulch, Landscape Fabric	500										2000		2500
Utilities	200	200	200	200	200	200	200	200	200	200	200	200	2400
Layers/Feed	175	75	75	75	75	100	100	100	100	100	100	100	1175
Equipment maintenance	700	100	100	100	100	100	100	100	100	100	100	100	1800
Marketing/Internet/Certification	130	315	30	30	30	30	30	30	30	30	30	845	1560
Insurance, farm & vehicle	1000												1000
Vehicle ($.20/mile)	250	250	250	250	250	250	250	250	250	250	250	250	3000
Conferences, Workshops, etc.	500										350		850
Taxes/ Preparer	300											800	1100
Miscellaneous	100	100	100	100	100	100	100	100	100	100	100	100	1200
Interest and Principal on Bank Debt	900	900	900	900	900	900	900	900	900	900	900	900	10800
Stock Buyback/ Dividend Payments	420	420	420	420	420	420	420	420	420	420	420	3420	8040
TOTAL CASH-OUT:	**9975**	**4060**	**6775**	**6775**	**6775**	**6800**	**6800**	**7050**	**6800**	**3800**	**9750**	**11215**	**86575**
TOTAL END CASH:	**31665**	**39480**	**32705**	**30530**	**31875**	**33995**	**36855**	**39465**	**42085**	**46405**	**36655**	**25440**	

You can use cash flow projections to test your plan under the worst-case scenarios simply by changing some of the numbers around. Use them to see how your business will weather hard times. Always clearly state your assumptions, then project how these assumptions effect your cash flow in the future. This exercise will help you determine in advance what actions you may need to take to avoid problems. Many farmers have a gut-level understanding of this, but a cash flow projection helps your lender quickly understand this aspect of your business.

Good Business Planning

Why should you spend time planning? The more unusual your farm-business is, the harder you have to work to bring your lender up to speed. You may have spent years considering your new venture and talked with lots of folks before deciding to move forward, but your lender is playing catch-up. Financial and business planning are keys to communicating clearly with a lender, and will open the door to success.

TWO SCENARIOS:

How do interest rates and terms affect my <u>bottom line</u>?

There are a lot of different products available for financing a new venture: credit cards, home mortgages, commercial loans, etc. When you make decisions about how to raise capital for your business, it is important to consider the total costs of the money.

Equipment purchase: credit card or bank loan?

	Credit Card	**Equipment Loan**
Amount Borrowed:	$10,000.00	$10,000.00
Interest:	18%	8%
Loan Term:	32 months	32 months
Payment Frequency:	Monthly	Monthly
Payment Amount:	$395.77	$348.05
Total interest paid over the life of the loan:	$2,664.64	$1,137.60
TOTAL COST OF LOAN:	**$12,664.64**	**$11,137.60**

What does it cost to defer a loan?

	Immediate Repayment	**18 Month Interest Only Deferral**
Amount Borrowed:	$100,000.00	$100,000.00
Interest:	8.25%	8.25%
Loan Term:	15 years	15 years
Number of Payments:	180, monthly	162, monthly, after 18 interest payments
Payment Amount:	$970.40	$987.00
Total interest paid over the life of the loan:	$74,670.81	$84,142.86
TOTAL COST OF LOAN:	**$174,670.81**	**$184,142.86**

Amortization is the division of a debt into periodic payments over a certain period of time. Amortization calculators can help you to calculate the effects of changing interest rates, terms, principal, balloon payments, and other factors on the total cost of a loan. A good amortization calculator is located online at **http://bretwhissel.net/amortization/**.

BUSINESS PLAN OUTLINE

North Carolina REAL Enterprises has put together a business plan outline that is useful in organizing a written business plan. A modified version of the REAL outline is below. While business plans take many different forms, all good plans should contain the following elements:

Executive Summary

- A one page summary of the plan: purpose, who prepared it, brief description of the business, its products and owners, form of organization. If you are seeking a loan, include the amount requested, over what period you wish to repay it, the use of the loan proceeds, collateral you are prepared to offer, and your equity investment.

Product or Service

- Detailed description of the product or service (include an example or photo if possible).

Marketing

- Target market/ customer profile:
  - Specify age, gender, income, preferences, location, etc.
- Industry analysis
  - What are the trends in your industry.
- Market analysis
  - Total market size and the share you will capture, seasonality, unique aspects.
- Describe the "Five P's of Marketing" for your business:
  - Product: How will you design and package your product? Where does your product fit in the marketplace?
  - Price: How will you price your product/ service?
  - Placement: Where will customers learn about your product? In the grocery store, by mail-order, or through a broker?
  - Promotion: What media and marketing methods will you use to generate awareness and interest about your product/service? Include examples of your promotional materials.
  - People: Who will be responsible for marketing your product/service?
  - Competition: List your competitors by name, location, and their strengths and weaknesses; explain how you will succeed against them; how will they react to your entry into the market?

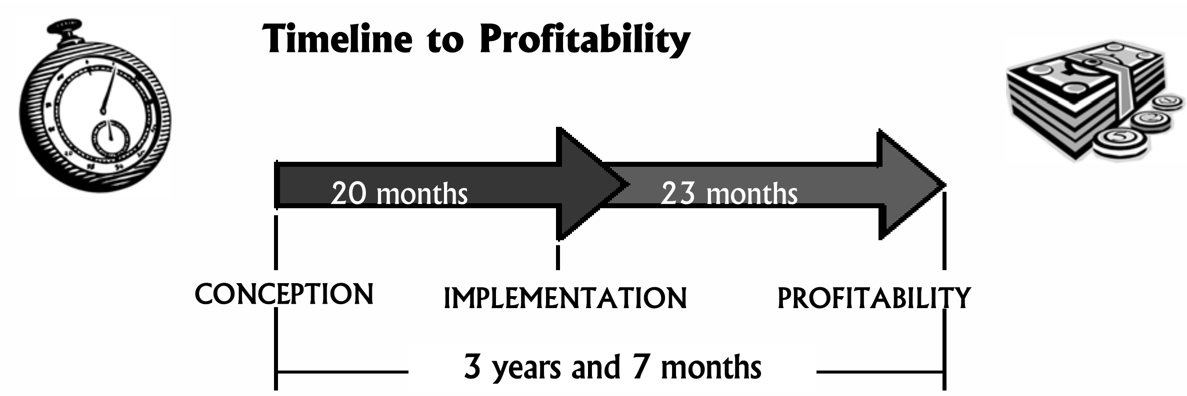
Operations

- Legal structure and why you chose it; include legal/governing documents (articles of incorporation, by-laws, etc.).
- Management and personnel: Who the key managers/owners/employees/consultants are and what relevant experience and background they bring to the business.
- Customer Service: Procedures and policies regarding your work.
- Location and operations:
  - Describe your production practices: Production schedule, major suppliers, production methods, equipment, etc.
  - Operations Plan: How will you deliver your product/service to the customer, from start to finish (Who does what? How long does it take?)

Financials

- Cash flow projections for three to five years
  - Loan amortization schedule.
  - Detailed description of the assumptions you made in constructing the cash flow.
- Breakeven analysis
- Risk management: Identify the major risks and how you plan to overcome them.

As you may imagine from looking over the business plan outline, it will take some time to collect all the information necessary to complete a good business plan. You should allow at least a few months to complete the process. Many entrepreneurs spend years collecting information and refining their plans before moving forward.



In a survey of tobacco farmers who had tried new enterprises to replace lost tobacco income, farmers told us that they planned for an average of 20 months prior to implementing their new enterprises.

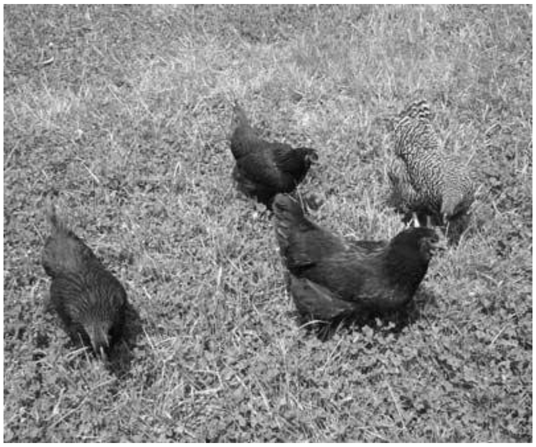
Additionally as you look over the business plan outline, you may see places where you will need some assistance to find information or understand how to put together certain pieces of information. Good business planning requires that you take advantage of others' expertise. It is highly unlikely that any one person could successfully put all of this information together on his or her own. There are a number of places you can go to for help, but none of these possible sources of assistance have the resources or expertise to do a business plan for you. Your success in the business planning process is completely dependent on your own initiative. Appendix 4 lists technical service providers and other resources that may be helpful to you with your business planning process.

Marketing Planning

How are you going to sell your produce? If your enterprise involves anything other than conventional commodity markets, you will need to spend time writing a marketing plan. You are not alone if you find you have a lot to learn about marketing. Organizations listed in Appendix 4 can help.

Individual initiative is the key to success.

A great example is Rainbow Meadow Farms' plan to expand into direct-marketing of pasture-raised poultry. After years of success with lamb production and conventional contract broiler production, Genell Pridgen began raising broilers on pasture. After some success, and seeing great demand from her customers for this premium product, she developed a plan to expand her production and her market. After some research, she recruited the assistance of business school students at East Carolina University. Under the guidance of their professor, they developed a detailed marketing plan for the business. The professor tapped the knowledge and expertise of a volunteer from SCORE, the Service Corps of Retired Executives. Genell had to do lots of research herself, but by doing her homework, and finding the right people to help her, she and her support team produced an excellent plan.



Many lenders have limits as to the loan amounts they can underwrite. Some lenders who specialize in agricultural or commercial lending try not to make loans under $250,000. Others generally agreed that loans under $50,000 are hard to justify because of the costs of approving, underwriting, and managing the loan. Government sponsored lenders will have more flexibility, although they may be constrained by the availability of funds. Appendix 2 has more information on North Carolina's agricultural lenders and their specific constraints.

Putting It All Together

In this section we worked through the "checklist" of materials that you will need to put together prior to approaching a lender for funding. Once you have all the materials from the checklist complete, it is time to start shopping your proposal around to lenders. Approach multiple lending institutions with your proposal. Finding the right lending partner for your project is important and may not happen on the first try. Information in Appendix 2 might help you to identify a lender that can meet your needs.

Even the very best planning does not guarantee that you will find financing for your project right away. Rejections happen. Do not let a rejection discourage you. Listen to the concerns of the financial institution. Understand what led to the initial rejection, make necessary adjustments to your plan, and try again. If you have confidence in your ability to succeed with your enterprise, then persistence is important in your efforts to obtain funding.

Borrowers Have Rights

Lenders are prohibited from discriminating based on race, ethnicity, sex, disability, and religious affiliation. If you are rejected for a loan, you have the right to request written documentation of the reasons why you were rejected. Most institutions also have an appeal process that you can use to ask for reconsideration of a decision that you feel was unwarranted. You may make adjustments to your proposal and reapply for a loan.

Bladen County farmers are earning more from their animals through on-farm finishing.

CONCLUSION

No one ever said farming is easy. Farming in the 21st century is possibly more complex than ever before. Those agricultural businesses that are diversified, or involve anything more complicated than commodities, may have a harder time finding financing. Yet credit and finance remain essential tools to farm-based businesses.

We hope this Guide helps all farmers in this regard: We've shown you how lenders look at applications. We've highlighted some lenders' concerns. We've introduced some concepts of agricultural finance, described some tools for effective business planning, and shown you some examples of financial recordkeeping that will make it easier to apply for financing. We have also provided you with rich information and resources in the Appendices.

If any of this is new to you, don't let it put you off. You need to know certain things, and know how to find out the rest, but business planning is not rocket science. It may be new to you, but farmers are in the habit of learning new things and adjusting over time. If you ever find yourself stumped, get help from folks listed in Appendix 4.

With a deeper understanding of agricultural lending, knowing how to communicate your plans to lenders, and knowing when and how to ask for help, you are more likely to succeed in getting the financing your business needs to grow and prosper.

The North Carolina Meat Goat Producers Cooperative built this collection facility for meat goats in Robeson County.

Columbus County farmer James Worley shows off his newly refurbished 1880's grits sorter.

Harold and Ann Wright raise hogs on pasture on their Bladen County farm.

APPENDIX 1

Glossary of Agricultural Lending

The following glossary is derived from several sources, including the Minnesota Business Planning Guide, "Building a Sustainable Business;" the University of Illinois at Urbana-Champaign's Center for Farm and Rural Business Finance's "Glossary of Agricultural Credit Terms;" and the Comptroller of the Currency's Handbook on Agricultural Lending. Definitions for the glossary terms were drawn from a number of sources including: "Business Plan: A State of the Art Guide," FINPACK Manual, OCIA International's 2001 International Certification Standards, Marketing Dictionary, A Guide to Starting a Business in Minnesota, and USDA 2000 Fact Book.

Additional useful information may be found at: agglossary.uaex.edu/viewFGlossary1.asp#2298
www.farmdoc.uiuc.edu/finance/FarmersGuidetoCreditGlossary.htm

Abstract: A written, chronological summary of all deeds, mortgages, foreclosures and other transactions affecting the title to a tract of land. Also called abstract of title.

Acceleration clause: A common provision of a mortgage or note providing the lender with the right to demand that the entire outstanding balance be immediately due and payable in the event of default.

Account receivable: A current asset representing money due for services performed or merchandise sold on credit.

Accrual accounting: Revenue and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. This is the accounting basis that is generally required to be used to conform with generally accepted accounting principles (GAAP) in preparing financial statements for external users.

Accrual income: See net income.

Adjustable-rate loan: An adjustable rate loan has provisions to change the interest rate at pre-specified points in time based on changes in a market index, a lender's cost of funds or other factors as determined by the lender.

Administrative costs: A lender's operating and fixed costs charged for completing and servicing a loan.

Annual percentage rate (APR): The term used to represent the total financing cost of credit expressed as a percent per year. The annual percentage rate (APR) is calculated similarly across different institutions.

Appraisal: The written summary by a qualified individual setting forth an estimated value of a specific asset or group of assets, usually used in reference to real estate.

Appreciation: The increase in value of an asset over time.

Asset: Anything owned by an individual or a business, that has commercial or exchange value. Assets may consist of specific property or claims against others, in contrast to obligations due others. All assets are reported on a balance sheet at market or cost value less accumulated depreciation.

Assignment: The transfer of title, property, rights or other interests from one person or entity to another.

Average cost of funds: A method of determining the cost of funds at a lending institution. This method uses an average cost of existing funds. In contrast, the marginal cost of funds uses cost of new funds only.

Balance sheet: An itemized list of assets and liabilities for the business to portray its net worth at a given moment in time—usually at the beginning of each year.

Balloon payment: A lump-sum final payment of a loan. It reflects the entire remaining balance of a shorter term loan (e.g., 5 years) which is amortized over a longer term (e.g., 10 to 20 years).

Bankruptcy: The federal court proceeding by which a debtor (individual or corporation) may obtain protection from creditors. The two general types of bankruptcy are voluntary and involuntary. A voluntary bankruptcy is initiated when the debtor voluntarily files a petition. In an involuntary bankruptcy, the creditor forces the debtor into bankruptcy. Debtors qualifying as "farmers" may not be involuntarily forced into bankruptcy. Bankruptcy proceedings involving farmers are declared under one of the several chapters of the federal bankruptcy code: Chapter 7 - liquidation; Chapters 11 and 12 - reorganizations; Chapter 13 - adjustment and workouts of debt.

Base rate: An interest rate used as a basis to price loans. A margin reflecting the riskiness of the individual or operation is added to or subtracted from the base rate to determine the loan rate. The bank's funding, operating cost and required return are reflected in the base rate.

Basis point: Usually used in describing interest rate movements or interest costs. One basis point is 1/100th of 1%. For example, 50 basis points is 0.5%.

Blanket mortgage: A lien on more than one parcel of real estate.

Blanket security agreement: A security interest in favor of the lender covering all chattels.

Break-even point: The volume point at which revenues and costs are equal; a combination of sales and costs that will yield a no profit/no loss operation.

Bridge loan: A temporary, single-payment loan used by creditors to "bridge" the time period between the retirement of one loan and the issuance of another. An example is a loan used for the down payment on a new real estate purchase.

Budget: An itemized list of all estimated revenue that a given business anticipates receiving along with a list of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period of time. A budget is typically for one business cycle, such as a year, or for several cycles.

Cap: Used with variable- or adjustable-rate loans. Refers to the maximum allowable adjustment in interest rate.

Capital debt repayment capacity (CDRC): Capital debt repayment capacity is a borrower's projected amount of funds available to repay principal and interest on intermediate- and long-term loans. Capital debt repayment capacity adjusts for non-cash depreciation and accounts for net income, commitments for capital items and withdrawals.

Capital: The total amount of money or other resources owned or used to acquire future income or benefits.

Carryover: Any amount of short-term operating debt left unpaid due to inability of borrower's operation to generate sufficient income. This amount is "carried over" and restructured into longer term debt.

Cash accounting: An accounting basis in which revenue and expenses are recorded in the period they are actually received or expended in cash. Use of the cash basis generally is not considered to be in conformity with generally accepted accounting principles (GAAP) and is therefore used only in selected situations, such as for very small businesses and (when permitted) for income tax reporting.

Cash flow budget: A financial statement Items on the statement are usually categorized as business or non-business with subdivisions for funds from business operations and funds from financing.

Cash flow projection: A written statement measuring the business' ability to meet its obligations with internally generated cash. Cash flow projections reflect the current and future sources and uses of cash, or income and expenses. See also EBIDA and Pro Forma.

Chattel: Tangible personal property (e.g., tractors, grain, livestock, vehicles).

Closing: Process by which all fees and documents required by a lender prior to disbursing loan proceeds are executed and filed. Usually used in reference to the completion of a real estate transaction that transfers rights of ownership in exchange for monetary considerations.

Closing costs: The costs incurred by borrowers and sellers in completing a loan transaction. Included are origination fees, inspections, title insurance, appraisals, attorney's and realtor's fees, and other costs of closing a loan.

Collateral: Property pledged to assure repayment of debt.

Commitment: A formal agreement between a lender and borrower to lend up to a specified amount of money at a specified future date subject to specific performance criteria and repayment terms.

Commitment fee: The fee associated with the establishment of a loan commitment. The fee is usually expressed as a percentage of the loan commitment.

Compound interest: Compound interest means that each time interest is paid, it is added to or compounded into the principal and thereafter also earns interest. For example, a new deposit balance is estimated each day for daily compounding. Common compounding periods are daily, monthly, quarterly, annually and continuously. The more frequent the compounding, the higher the effective rate of interest.

Co-signer: An individual in addition to the borrower who signs a note and thus assumes responsibility and liability for repayment.
Cost of funds: Refers to the interest and non-interest cost of obtaining equity and debt funds.

Covenant: A legal promise in a note, loan agreement, security agreement or mortgage to do or not to do specific acts; or a promise that certain conditions do or do not exist. A breach of a covenant can lead to the "injured party" pursuing legal remedies and can be a basis for foreclosure.

Credit: A means of borrowing money from a person or company and returning it at a later date, usually with accrued interest charged on top of the initial sum borrowed.

Credit Limit: The maximum amount of credit that is available on a credit card, loan account, or other line of credit account.

Credit Report: A report outlining the credit history of an individual which includes current and previous debts, payment amounts, late payments and past due amounts and other related information on every credit source the individual has used. Used by lenders to help determine creditworthiness.

Credit scoring: A quantitative approach used to measure and evaluate the creditworthiness of a loan applicant. A measure of profitability, solvency, management ability and liquidity are commonly included in a credit scoring model.

Credit verification: The process involved in confirming the creditworthiness of a borrower.

Creditor: A person, business, or institution from whom you borrow, or to whom you owe money.

Creditworthiness: The ability, willingness and financial capability of a borrower to repay debt.

Current assets: The cash and other assets that will be received, converted to cash, or consumed in production during the next 12 months. This generally includes cash and checking balances, crops held for sale or feed, livestock held for sale, prepaid expenses and supplies, the value of growing crops, accounts receivable, hedging account balances, and any other assets that can quickly be turned into cash.

Current liabilities: Debts due and payable within one year from the date of the balance sheet. In addition to short term operating loans, this usually includes accounts payable, accrued interest and other accrued expenses, and government crop loans. By definition, the amount of principal due within 12 months on intermediate and long-term debts is also considered a current liability.

Current ratio: A liquidity ratio calculated as current assets divided by current liabilities.

Debt-to-asset ratio: A solvency ratio calculated as total liabilities divided by total assets.

Deed of trust: A written instrument that conveys or transfers property to a trustee. Property is transferred by the borrower to a trustee, who holds it as security for the payment of debt, and upon full payment of the debt is re-conveyed to the borrower. In some states, a deed of trust is used in place of a mortgage.

Default: The failure of a borrower to meet the financial obligations of a loan or a breach of any of the other terms or covenants of a loan.

Delinquency: The status of principal and/or interest payments on a loan that are overdue.

Demand loan: A loan with no specific maturity date. The lender may demand payment on the loan at any time.

Depreciation: A decrease in value of real property caused by age, use, obsolescence and physical deterioration. A non-cash accounting expense that reflects the allowable deduction in book value of assets such as machinery, buildings or breeding livestock. Depreciation charges, in effect, reflect the funds that need to be set aside in order to replace the depreciating asset.

Disclosure Statement: A statement issued to the borrower by the lender that provides information about the actual cost of the loan, including the interest rate, origination, insurance, loan fees and any finance charges.

Down payment: The equity amount invested in an asset purchase. The down payment plus the amount borrowed generally equals the total value of the asset purchased.

Draft: An order for the payment of money drawn by one person or bank on another. Often used in the dispersal of an operating loan to a borrower for payment of bills.

Earned net worth change: Represents income that either contributed to or depleted the farm's net worth. The earned net worth change is calculated by adding nonfarm income to net farm income and then subtracting family living expenses, partner withdrawals, and taxes.

Earnest money: Upon negotiation of the terms of sale, the portion of a down payment given to the seller (or escrow agent) as evidence of good faith in following through with the transaction.

EBIDA: An abbreviation for earnings before interest, depreciation, and amortization. Mainly used as a measure of larger businesses' profitability in comparison to other companies of the same size in the same industry who may have different levels of debt. See also Cash Flow and Pro Forma.

Effective interest rate: The calculated interest rate that may take account of stock, fees and compounding, in contrast to a quoted rate of interest.

Encumbrance: A claim or interest that limits the right of property. Examples include liens, mortgages, leases, dower rights of easements.

Equity: Equity equals farm assets minus farm debts, assuming assets exceed debts. Represents ownership or percentage of ownership in a business or items of value.

Equity capital: See net worth.

Escrow: The process of an agent providing safe keeping of cash, securities and documents and handling the paperwork and transfer of funds for the borrower and seller.

Fees: A fixed charge or payment for services associated with a loan transaction.

Filing: Giving public disclosure of a lender's security interest or assignment in collateral. In many cases this includes notice to certain government agencies.

Financial feasibility: The ability of a business plan or investment to satisfy the financing terms and performance criteria agreed to by a borrower and a lender.

Financial risk: The risk associated with the use of borrowing and leasing; uncertainties about the ability to meet financial obligations.

Financial statement: A written report of the financial condition of a firm. Financial statements include balance sheet, income statement, statement of changes in net worth and statement of cash flow.

First mortgage: A real estate mortgage that has priority over all other mortgages on a specified piece of real estate.

Fiscal year: An accounting period of 12 months.

Fixed costs: Operating expenses that generally do not vary with business volume. Examples include rent, property taxes, and interest expense.

Fixed-rate loan: A loan that bears the same interest rate until loan maturity.

Floating-rate loan: See variable-rate loan.

Foreclosure: The legal process by which a lien against property is enforced through the taking and selling of the property.

Graduated payment mortgage: A type of delayed payment mortgage where the payments increase over time.

Grantor: A person or entity conveying an interest in real property.

Guarantor: A person or entity that takes the financial responsibility of another person's debt or other obligations in the case of default.

Home Loan: A loan secured by equity value in the borrower's home.

Identity preserved product: A product that meets production, packaging, storage, and transportation requirements designed to preserve the genetic or physical identity of the product.

Income statement: Summary of the revenue (receipts or income) and expenses (costs) of a business over a period of time to determine its profit position. The income statement is also referred to as a profit and loss statement, earnings statement or an operating statement.

Interest Rate: An interest rate is the "rental" price of money. When a resource or asset is borrowed, the borrower pays interest to the lender for the use of it. The interest rate is the price paid for the use of money for a period of time.

Intermediate assets: Assets with a useful life of ten years or less, such as breeding livestock, machinery and equipment.

Intermediate liabilities: Debt obligations for loans on equipment, machinery, and breeding livestock with an expected term of five to seven years.

Intermediate-term loan: A loan to be repaid (or amortized) over a period of 18 months to 10 years, with 3 to 5 years being most common. Intermediate-term loans typically are used to finance machinery, equipment, automobiles, trucks, breeding livestock, improvements, and other durable, yet depreciable, assets.

Legal lending limit: A legal limit on the total amount of loans and commitments a financial institution can have outstanding to any one borrower. The limit usually is determined as a specified percentage of the financial institution's own net worth or equity capital. Its purpose is to avoid excessive exposure to credit risk of an individual borrower.

Liability: A loan, expense or any other form of claim on the assets of a business that must be paid or otherwise honored by the business.

Lien: A claim by a creditor on property or assets of a debtor in which the property may be held as security or sold in satisfaction (full or partial) of a debt. Liens may arise through borrowing transactions where the lender is granted a lien on the borrower's property. Other examples of liens include tax liens against real estate with delinquent taxes, a mechanic's lien against property on which work has been performed, and a landlord's lien against crops grown by a tenant.

Line-of-credit: An arrangement by a lender to make an amount of credit available to a borrower for use over a specified period of time. It is generally characterized by a master note, cash flow budgets, and periodic and partial disbursements and repayments of loan funds. A formal agreement of similar characteristics is a credit commitment.

Liquidation: The sale of assets to generate cash needed to meet financial obligations, transactions or investment opportunities.

Liquidity: The ability of a business to generate cash, with little risk of loss of principal value, to meet financial obligations, transactions or investment opportunities.

Loan agreement: Typically refers to a written agreement between a lender and borrower stipulating terms and conditions associated with a financing transaction and in addition to those included to accompanying note, security agreement and other loan documents. The agreement may indicate the obligations of each party, reporting requirements, possible sanctions for lack of borrower performance, and any restrictions placed on a borrower.

Loan commitment: A formal agreement to lend up to a specified dollar amount during a specified period.

Loan committee: A committee of loan officers, executive personnel and/or directors of a financial institution who establish lending policies and/or approve loan requests that exceed the lending authority of individual loan officers.

Loan conversion provision: An option provided by a lender to a borrower to change loan terms at a future date. For example, at loan origination a lender may provide a borrower with an option to convert from a variable- to a fixed-rate loan. Usually, the lender charges the borrower a fee for this option.

Loan guarantee: An agreement by an individual, a unit of government, insurance firm, or other party to repay all of part of a loan made by a lender in the event that the borrower is unable to repay. An example is the loan guarantee program available to agricultural lenders from the Farm Service Agency in which up to 90% of a qualified loan may be covered by the guarantee.

Loan participation: A loan in which two or more lenders share in providing loan funds to a borrower. An example is a loan participation between a local bank and a correspondent bank in which the loan request exceeds the local bank's legal lending limit. Generally, one of the participating lenders originates, services, and documents the loan.

Loan-to-asset value: The ratio of loan balance to the value of assets pledged as collateral to secure a loan.

Long-term assets: Assets with a useful life of more than ten years, such as farm land and buildings.

Long-term liabilities: Debt obligations for buildings and equipment with a term of eight years or more.

Long-term loan: A loan to be repaid (or amortized) over a period of time exceeding 10 years, with 20- to 30-year loans being common when financing real estate.

Marginal cost of funds: A loan pricing policy by a financial institution in which interest rates on new loans are based on the cost of new funds acquired in financial markets to fund the loans. This pricing policy contrasts with loan pricing based on the average cost of funds already acquired by the lending institution.

Master note: A note (promise to repay) often used in combination with line-of-credit financing to cover present and future borrowing needs through periodic disbursements and repayments of loan funds.

Maturity: Amount of time until the loan is fully due and payable. For example, a 5-year intermediate-term loan has a maturity of 5 years.

Mediation: Resolution of problem loans, disagreements, or conflicts between borrowers and lenders by means of a third party serving as a mediator.

Mortgage: A legal instrument that conveys a security interest in real estate property to the mortgagee (i.e., a lender) as an assurance that a loan secured by the real estate mortgage will be repaid.

Net farm income: Represents the returns to labor, management and equity capital invested in the business; what the farm will contribute to net worth growth over time.

Net income: A measurement of the net return to unpaid labor, management and equity capital. Also called accrual net income. The primary difference between cash and accrual net income is that accrual income includes adjustments for changes in inventory and changes in accrual items like prepaid expenses, accounts payable and accounts receivable. Accrual net income more accurately reflects the profitability of a business over an accounting period.

Net worth: the financial claim by owners on the total assets of a business, calculated as total assets minus total liabilities. Also called equity capital and owner's equity.

Non-revolving line-of-credit: A line-of-credit in which the maximum amount of a loan is the total of loan disbursements. Repayments do not make loan funds available again as in a revolving line-of-credit.

Note: A written document in which a borrower promises to repay a loan to a lender at a stipulated interest rate within a specified time period or upon demand. Also called a promissory note.

Operating expenses: The outlays incurred or paid by a business for all inputs purchased or hired that are used up in production during the accounting period.

Operating loan: A short-term loan (less than one year) to finance crop production, livestock production, inventories, accounts receivable, and other operating or short-term liquidity needs of a business.

Origination fee: A fee charged by a lender to a borrower at the time a loan is originated to cover the costs of administering the loan, evaluating credit, checking legal records, verifying collateral and other administrative activities.

Overline loan: A loan in excess of a financial institution's legal lending limit to any one borrower in which the institution has enlisted the services of another lender to participate in the loan.

Ownership equity: See net worth.

Partial release: Release of a portion of collateral to the borrower.

Participation loan: See loan participation.

Payday Loan: A payday loan or cash advance is a small, short-term loan (typically up to $500) without a credit check that is intended to bridge the borrower's cash-flow gap between pay days.

Personal property: Any tangible or intangible property that is not designated by law as real property. Personal property is not fixed or immovable.

Points: A form of loan fee generally charged by long-term lenders at loan origination to cover a portion of the lender's administrative and funding costs. Points typically are expressed as a percentage of the total loan. For example, 3 points equals 3% of the loan amount.

Prepayment penalty: An amount charged by a lender on a loan paid prior to its maturity.

Prime rate: A nationally quoted rate believed to represent the interest rate charged by U.S. money-center banks to their most creditworthy corporate borrowers. Prime rate may also refer to an individual lender's interest rate charged to its most creditworthy borrowers, although the term base rate is more commonly used.

Principal: The dollar amount of a loan outstanding at a point in time, or the portion of a payment that represents a reduction in loan balance. Principal is distinguished from interest due on a loan or the interest portion of a loan payment.

Pro Forma: The presentation of financial information such as forecasted cash flows where the amounts are hypothetical. These are typically presentations of future expected results based on assumptions and actions to be taken. See also Cash Flow Projection, EBIDA.

Profit and loss statement (P&L): See income statement.

Profitability: The relative profit performance of a business, enterprise or other operating unit. Profitability comparisons often occur over time, across peer groups, relative to projections, and relative to norms or standards.

Rate adjustment: A change in interest rate on an existing loan. Rate adjustments may occur on variable- or adjustable-rate loans.

Rate of return on assets (ROA): A profitability measure representing the rate of return on business assets during an accounting period. ROA is calculated by dividing the dollar return to assets during the accounting period by the value of assets at the beginning of the period or the average value of assets over the period.

Rate of return on equity (ROE): A profitability measure representing the rate of return on the equity capital which owners have invested in a business. ROE is calculated by dividing the dollar return to equity capital during an accounting period by the value of equity capital at the beginning of the period or the average value of equity capital over the period.

Real property: Land, buildings, minerals and other kinds of property that are legally classified as real.

Refinancing: A change in an existing loan designed to extend and/or restructure the repayment obligation or to achieve more favorable loan terms by transferring the financing arrangement to another lender or loan type.

Renewal: A form of extending an unpaid loan in which the borrower's remaining unpaid loan balance is carried over (renewed) into a new loan at the beginning of the next financing period.

Repayment ability: The anticipated ability of a borrower to generate sufficient cash to repay a loan plus interest according to the terms established in the loan contract.

Retained earnings: The portion of net income that is retained within a business and added to net worth.

Revolving line-of-credit: A line-of-credit made available to a borrower in which the borrower can usually borrow, repay and re-borrow funds at any time and in any amounts up to the credit limit, but not above, during a specified period of time.

Right of recision: A provision of the Truth in Lending Act which gives a borrower the right to rescind a borrowing transaction (that is, change his or her mind) within three business days on any transaction in which the principal residence is used to secure the loan.

Risk assessment: The procedures a lender follows in evaluating a borrower's creditworthiness, repayment ability, and collateral position relative to the borrower's intended use of the loan proceeds. Risk assessment is similar to credit scoring and risk rating.

Risk premium: The adjustment of a lender's base interest rate in response to the anticipated level of a borrower's credit risk in a loan transaction. Higher risk loans may carry higher interest rates, with the rate differential representing the risk premium.

Risk rating: The relative amount of credit risk associated with a loan transaction. The lender may use credit scoring or risk assessment procedures to evaluate loan requests and group borrowers into various risk classes for purposes of loan acceptance or rejection, loan pricing, loan control, degree of monitoring and level of loan documentation.

Risk tolerance: The degree of safety an investor wished to have. Also called risk aversion or risk attitude.

Risk: the possibility of adversity or loss; refers to uncertainty that matters.

Schedule F: The Internal Revenue Service form used to report farm income and expenses as a part of filing federal income tax returns.

Second mortgage: The use of two lenders in a real estate mortgage in which one lender holds a first mortgage on the real estate and another lender holds a second mortgage. The first mortgage holder has first claim on the borrower's mortgaged property and assets in the event of loan default and foreclosure or bankruptcy.

Secondary market: An organized market in which existing financial assets are bought and sold. Examples are the New York Stock Exchange, bond markets, over-the-counter markets, residential mortgage loans, governmental guaranteed loans, and the more recently formed secondary market for buying and selling farm mortgage loans (called Farmer Mac).

Secured loans: Loans in which specific assets have been pledged by the borrower as collateral to secure the loan. Security agreements and mortgages serve as evidence of security in secured loans.

Security agreement: A legal instrument signed by a debtor granting a security interest to a lender in specified personal property pledged as collateral to secure a loan.

Seller financing: A loan provided by the seller of property to its buyer.

Set-Aside: Taking a portion of farmland out of production under a government program.

Shared appreciation mortgage: A financing arrangement for real estate in which the lender reduces the interest rate on the loan in return for a stipulated share of the appreciated value of the land being financed at a designated time in the future. The risk of land value appreciation is shared between lender and borrower, and the lender's compensation from value appreciation generally occurs through refinancing in which the loan balance is increased by the amount of the shared appreciation.

Simple interest: A method of calculating interest obligations in which no compounding of interest occurs. Interest charges are the product of the loan principal times the annual rate of interest, times the number of years or proportion of a year the principal has been outstanding.

Solvency: the business condition of financial viability in which net worth is positive; value of assets exceeds debts.

Split line-of-credit: A financing situation in which a borrower obtains operating credit from two or more lenders.

Surety: Person or entity that has been requested by another (principal) and agrees to be responsible for the performance of some act if the principal fails to perform as promised.

Sweet Sixteen: The Farm Financial Standards Council "Sweet Sixteen" are calculations and descriptions used by bankers and lenders to measure business performance. These 16 ratios and calculations define Liquidity, Solvency, Profitability, Repayment Capacity, and Efficiency.

Tiered loans: Loans grouped according to the risk characteristics of borrowers. Higher risk classes generally are charged higher interest rates to compensate the lender for carrying the credit risk.

Title insurance: Insurance which protects a purchaser or mortgage lender against losses arising from a defect in title to real estate, other than defects that have been specifically excluded. A clear title is free of any claims, mortgages, liens and other encumbrances and has no ownership interest other than that of the owner of record.

Title search: The process of tracing all events and transactions affecting the title to a tract of real estate. Title search is essential to the preparation of an abstract.

Truth in Lending: The federal Truth in Lending Act is intended to assure a meaningful disclosure of credit terms to borrowers, especially on consumer loans. Lenders are required to inform borrowers precisely and explicitly of the total amount of the finance charge which they must pay and the annual percentage interest rate to the nearest .01%. Excluded transactions include loans for commercial or business purposes, including agricultural loans; loans to partnerships, corporation, cooperatives and organization; and loans greater than $25,000 except for owner-occupied, residential real estate mortgages where compliance is required regardless of amount.

Unsecured loans: Loans for which there are no guarantors or cosignors and no specific assets have been pledged by the borrower as collateral to secure the loan.

Usury laws: Laws which establish legal ceilings on the interest rates charged for various types of loans. In states where usury laws exist, most usury limits are above market interest rates and often are indexed to change with changes in market interest rates or other leading rate indicators.

Variable-rate loan: A loan transaction in which the interest rate may be changed within the period of the loan contract. Generally, rate changes occur in response to changes in the lender's cost of funds of a specified index. The frequency and level of rate adjustments may or may not be established in the loan contract.

Working capital: The differences between current assets and current liabilities. Often used as a measurement of liquidity of a business.

APPENDIX 2

Types of Ag Lenders and Their Unique Perspectives

There are a number of different types of agricultural lenders active in North Carolina. This Appendix describes them, their loan products, who they serve, their lending eligibility requirements, and their unique perspectives. It should be helpful to know all your options before seeking financing.

They are grouped as follows:

1. Farm Credit Institutions, including Cape Fear Farm Credit, Carolina Farm Credit, and East Carolina Farm Credit.
2. Commercial Banks, which refers to more than 100 community, regional and national banking institutions lending in North Carolina.
3. Farm Service Agency (FSA).
4. Credit Unions & Community Development Financial Institutions (CDFIs).
5. Federal & state subsidized or government authorized lending, including USDA Rural Development (RD), Small Business Administration (SBA), North Carolina Agricultural Finance Authority (NCAFA), North Carolina Rural Economic Development Center, and Dogwood Equity.
6. Miscellaneous sources of agricultural finance, such as Insurance Companies, Merchants, Feed & Seed Dealers, & Equipment Dealers or Manufacturers.

1. Farm Credit Institutions:

Farm Credit Institutions can lend to any agriculture related venture. They offer a variety of loans including financing for land and improvements, production or processing facilities, vehicles and equipment, and operating and living expenses. Loans are also made to finance producer-owned supply, marketing, and processing cooperatives. Short, intermediate, and long term loans can be extended. Farm Credit Institutions are limited by the purpose of the loan being requested, as in the following five categories:

1) Agricultural Loans: Loans are made for any agricultural or agriculture related purpose, and tailored to the cash flow of the operation.
2) Equipment Loans: Flexible terms and interest rates are avail able for any type of vehicle or equipment loan.
3) Operating Loans: Multi year revolving and annual lines of credit are available with flexible payment schedules tailored to cash flow.
4) YBS loans: Loans to Young, Beginning, and Small farmers with terms that recognize the special circumstances of Y, B, & S farmers.
5) Country Mortgages: Residential mortgage lending, primarily in rural areas.

Typical Clients & Eligibility:

Individual full-time and part-time farmers or ranchers, agribusinesses, and agricultural cooperatives may be eligible for financing from Farm Credit Institutions. Eligibility restrictions are as follows:

YBS: For Farm Credit's purposes, a young borrower is defined as being age 35 or younger; a beginning borrower has 3 to 10 years of experience; and a small borrower normally generates less than $250,000 in annual gross sales of agricultural products.

For Country Homeowners: Farm Credit can lend money for the purchase, construction, improvement or refinancing of single family dwellings located in the country. You may also borrow for the purchase or refinancing of unimproved residential lots, including construction of the home.

For Full-Time Farmers: For individuals whose primary business (over 50% of assets and income) is the production of agricultural products, Farm Credit can lend for all agricultural and family needs as well as non-agricultural needs. This could include, but is not limited to, automobiles and trucks, educational expenses, home improvements, vacation expenses, and much more.

For Part-Time Farmers: For individuals who own agricultural land or produce agricultural products and whose income from agricultural products is less than 50% of their total income, Farm Credit can lend for all agricultural and family needs. Non-agricultural needs are limited relative to the agricultural income.

For Businesses: Farm Credit can lend money to businesses which process and/or market agricultural products provided that more than 50% of the business is owned by farmers who provide at least some of the "throughput." Farm Credit can also lend money to businesses that provide services to farmers, such as crop spraying, seed cleaning, cotton ginning, and more. The extent to which financing can be provided is based on the amount of the business's total income from farm-related services.

Particular Concerns: As a Government Sponsored Enterprise (GSE), Farm Credit Institutions have a unique charge to finance the rural sector. This provides farmers with a lender who is committed and dedicated to financing agriculture, farm housing, and related businesses in the rural sector.

Carolina Farm Credit
(Serving piedmont and western North Carolina.)
Administrative Office
P.O. Box 1827
Statesville, NC 28687
800-521-9952
www.carolinafarmcredit.com
Branch locator:
www.carolinafarmcredit.com/credit-branch.asp

East Carolina Farm Credit (Serving eastern North Carolina.)
Administrative and Agribusiness Division
4000 Poole Road
PO Box 14789
Raleigh, NC 27620-4789
919-250-9500 or 1-800-951-3271
www.farmcredit.org
Branch locator: www.farmcredit.org/index1.asp?p=branch_locations.html

Cape Fear Farm Credit
(Serving southeast North Carolina.)
333 East Russell Street
Fayetteville, NC 28302
910-323-9188
www.capefearfarmcredit.com
Branch locator: www.capefearfarmcredit.com/locations.htm

2. Commercial Banks

Community, Regional and National Banks offer a complete range of products and services for individuals and businesses. Typically, Banks engaged in agricultural lending are full service providers with many of the following products and services: loans; checking and savings accounts; investment services; insurance services (life and property & casualty coverage); estate and retirement planning.

Additionally, Banks often offer helpful combinations of loan products and services. Busy farmers may appreciate tools such as automated money-management, overdraft protection, "sweep" lines of credit, declining revolving loans, and capital leases, etc.

Typical Loan Types:

Most banks involved in lending to the agricultural community understand the uniqueness of agricultural business and seasonality of cash flow. Flexible terms are typically available with loan payments generally scheduled to coincide with crop sales.

- Annual and revolving lines of credit for seasonal working capital needs.
- Term loans – short, intermediate and long-term loans to assist with capital purchases including vehicles, equipment and facilities.
- Mortgages – including farm improvement loans, conventional mortgages and equity loans.
- Leasing – flexible financing for most kinds of equipment (including pickup trucks).

Clients and Eligibility:

Usually Banks are not limited by an individual's or business's activities in agricultural business. Banks can provide loans and other services for entities engaged in any segment of agriculture at any level. These may include, but are not limited to: Full-time, part-time, "life style" and tenant farmers, landlords, processing and storage facilities and transporting enterprises.

Particular Concerns:

Most bankers generally attempt to apply sound lending judgment when considering loan requests, as described in the "Five C's". In addition to determining the viability, or likelihood of success for the farm business (or the proposed enterprise), each bank usually has a set of general financial ratios that are evaluated. For more on these ratios, refer to Appendix 3, The "Sweet Sixteen" Ratios & Calculations.

3. Farm Service Agency (FSA):

Loan Types : A helpful overview of FSA loan types can be found in one table at: http://www.fsa.usda.gov/pas/publications/facts/html/farmloaninfo05.htm

1) Loan Guarantees: FSA provides conventional agricultural lenders with up to a 95% guarantee of the principal loan amount. The lender is responsible for servicing a borrower's account for the life of the loan. All loans must meet certain qualifying criteria to be eligible for guarantees, and FSA has the right and responsibility to monitor the lender's servicing activities. Farmers apply for loans through commercial lenders and lenders request guarantees on loans that are outside their normal lending parameters.

2) Direct Loans: FSA offers direct loans, serviced by FSA officials, to farmers who meet specific eligibility requirements. Direct supervision and credit counseling is offered to Direct Loan Program borrowers. Funding for this program is limited, so a farmer may be re quired to wait for funds to become available. FSA also has funds targeted toward certain groups so im mediate funding may be available for certain groups and not others. For more detailed information on the types of direct loans, refer to http://www.fsa.usda.gov/dafl/directloans.htm

   a) Farm Ownership (FO) loans are available for the purchase of farmland, construction or repair of buildings and facilities, and for the implementation of soil and water conservation practices. The loan terms may be as long as 40 years, depending on the life of the security with a maximum loan amount of $200,000, at interest rates that are slightly lower than commercial rates, depending on the cost of money to the government. A Joint Financing Plan is also available, allowing FSA to lend 50% of the total amount financed with the remaining amount being obtained from a second credit source.

   b) Operating Loans (OL): FSA can also help finance operating capital for the purchase of livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance, minor improvements to buildings, land and water development, family subsistence, and - under certain conditions - for refinancing. The terms for operating loans are 1 to 7 years depending on the life of the security and loan purpose, with a maximum loan amount of $200,000, and interest rates based on FSA's borrowing costs.

   c) Emergency and Disaster Loans: In cases when an Emergency has been officially declared by the President, the Secretary of Agriculture, or the FSA administrator, FSA emergency loans are made available to farmers in the affected area. If the suffering farmer meets eligibility requirements, funds can be used to restore or replace property, pay production costs associated with the disaster, pay family living expenses, reorganize the farming operation, or refinance debts. Terms vary from 1 to 7 years for production losses and up to 40 years for physical losses depending on loan purpose and life of security. Loan amounts are capped at $500,000.

d) Beginning Farmer Loans: Both FO and OL loans are available for beginning farmers who are unable to obtain financing from commercial credit sources. In addition to FSA's general eligibility requirements, applicants must meet other constraints regarding management experience, number years farming, f farm size, and eligibility of partners.

e) FSA offers Down Payment Farm Ownership (FO) Loans to help beginning farmers get established. The program requires 10% down, and is limited to 30% of the purchase price or appraised value, whichever is less (not to exceed $250,000). The term of the loan is for 10 years at a fixed interest rate of 4 percent. Youth Loans are also available to rural young people starting income-producing ventures associated with 4-H, FFA, and similar organizations. Youth loans are limited to $5000 and must have the guidance and support of the organization advisor.

f) Loans to Socially Disadvantaged Farmers. FSA has special programs for farmers who have been subjected to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities. More information can be found here or by contacting your local FSA office: http://www.fsa.usda.gov/pas/publications/facts/html/sdaloan05.htm

3) Price Support Loan Services:
   a) Commodity Loans: Designed to offer subsidized interest rate loans as price supports to certain design nated commodity crops.
   b) Farm Storage Facility Loans: Provides low-interest financing for producers to build or upgrade farm grain and silage storage and handling facilities. http://www.fsa.usda.gov/pas/publications/facts/fsfl05.pdf

Clients & Eligibility:
FSA helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations. FSA financing may also be available to farmers who have been unable to get financing from other sources. Beginning farmers must have a minimum of 3 years experience to qualify for FSA assistance, with a maximum of five years experience for Direct Loans, and 10 years maximum for loan guarantees. Before FSA can consider your application, loan applicants must have received two rejections from commercial lenders. Because of limited funds within the agency, and federal regulations or rules, other restrictions will likely apply. These restrictions include, but are not limited to, borrower eligibility as well as loan purposes.

Particular concerns:
FSA's approval process has two major steps, eligibility and feasibility. Eligibility is determined by various government regulations and guidelines; feasibility is determined by standard lending practices regarding cash flow, security, etc. Being eligible does not mean you get financing. Having a business plan that cash flows does not mean you are eligible. Both steps are required for FSA approvals.
Generally speaking FSA acts as "the lender of last resort," meaning that the Agency strives to serve farmers who have tried and failed to acquire financing from conventional sources. However, FSA has also been referred to as "the lender of first opportunity," highlighting the fact that many farmers would not otherwise be given the chance to farm or improve their farm operation. In fulfilling this mission, FSA must also work within legal and financial constraints: There are unique challenges posed by limited availability of funds, the need to leverage existing funds, and the management of risks posed by the pooling of so many below-market loans and loan-guarantees. As a result, while FSA may view your particular loan application more sympathetically than other lenders, their ability to help may be constrained by larger forces. Nevertheless, if you have sought financing from other sources and been turned down, you should certainly contact your local FSA office. We have heard of some rare occasions where farmers with good business plans have been turned down by FSA, perhaps because the enterprise was unfamiliar to the loan officer: If you do not feel you've been given reasonable consideration, then ask the loan officer to reconsider your application. Afterward, if you still believe your request hasn't received careful consideration, then go to the farm loan chief, or the state director's office. Your ability to "educate" the loan officer on realistic expectations, pitfalls, and marketing strategies will help to insure that the application is given thorough consideration, but it does not insure approval.

4) Credit Unions & Community Development Financial Institutions:

These institutions are too numerous to list. However, it is worth noting that both Credit Unions and Community Development Financial Institutions (CDFIs) are typically chartered to serve goals and purposes beyond profitability for their owners or investors.

If someone in your family is a member of a credit union, you may be able to obtain helpful advice or financing there.

CDFIs work mainly in urban areas, but some are beginning to explore rural lending. Self Help Credit Union and Mountain Micro-Enterprise Fund are examples of CDFIs. Self Help Credit Union is not currently lending to agricultural ventures, but has financed some value-added enterprises. Mountain Micro-Enterprise Fund offers financing linked with technical assistance and small business training, and targets the Appalachian mountain region.

Self Help Credit Union
P.O. Box 3619,
Durham, NC 27702
(919) 956-4400, (800) 476-7428
http://www.self-help.org/commerciallending/sbx5.asp

Mountain Micro-Enterprise Fund
29 1/2 Page Avenue,
Asheville, NC 28801
828-253-2834 x17, 888-389-3089 (toll free)
http://www.mtnmicro.org/

5. Federal & State Subsidized or Government Authorized Lenders:

The category of federal & state subsidized or government authorized lenders includes USDA Rural Development (RD), the Small Business Administration (SBA), the North Carolina Agricultural Finance Authority (NCAFA), and the North Carolina Rural Economic Development Center. (While FSA is a federally charted government lender, it is described separately due to its importance and its larger share of the agricultural lending market.)

A) USDA Rural Development (RD). This lender sup ports rural communities by targeting assistance to com munities in need. Of most interest to farmers is the Busi ness and Cooperative Services. The way to approach these folks is through the Farm Services Agency. FSA referrals account for most loans that the Business and Cooperative Services (BCS) makes. So go first to your FSA office. But be aware of this important fact: BCS does not make loans for commodity production; it leaves commodity production loans to the FSA. However, the BCS can and does make loans for processing commode ties and using value-added production practices.

The flagship program for Rural Development (RD) is its Business & Industry Guaranteed Loan Program. Let's look at it before listing other grant and loan programs of the BCS.

The Business & Industry (B&I) loan program works by guaranteeing up to 80% of a commercial lender's loans. Guarantees typically range from $350,000 to $25 million for agri-business projects. Once again, though, there are important facts to keep in mind:

- The program's main purpose is to improve the economies of rural communities, including creating ad maintaining jobs. B&I does this by expanding the lending capability of private lenders in rural areas.
- Many agriculture-related businesses are eligible for B&I-guaranteed loans.
- Loans may be obtained for working capital, machinery and equipment, buildings and real estate, and certain types of debt re-financing.
- Typically, “pure” agricultural production loans are not available.
- The B&I program is open to virtually any legally organized entity. This includes cooperatives, corporations, partnerships, Indian tribes, local government, and others.
- B&I does not emphasize family and/or small farms. You don't have to have been denied credit to apply for this program.

For detailed information as to eligible and ineligible farm-related ventures, please refer to

http://www.rurdev.usda.gov/or/BIagbiz.pdf

USDA RD offers many more programs, too. The following programs may also be helpful to farmers, farm-entrepreneurs, farm-related ventures and coops: Value-Added Producer Grants (VAPG), Small Minority Producer Grants (SMPG), Rural Cooperative Development Grants (RCDG), Appropriate Technology Transfer for Rural Areas (ATTRA), Section 9006: Renewable Energy and Energy Efficiency Investments Program (Section 9006), and the Intermediary Re-Lending Program (IRP). For more information on these programs, please consult your local FSA officer, the Internet (http://www.rurdev.usda.gov/), or the North Carolina offices of USDA- Business and Cooperative Services:
(919) 873-2040.

B) Small Business Administration (SBA):
The SBA no longer provides any direct lending relating to farmers. They do offer financial services to small businesses, and farm-related businesses can apply through participating lending institutions. SBA Lenders cannot finance loans for crops, production, farming equipment, or anything else that might duplicate services offered by USDA, FSA, or other federal agencies. SBA services offered through participating lending institutions includes loan guarantees, microloans, and fixed asset financing.

Farm-related businesses are those enterprises which supply goods and services primarily used in connection with farming. Farm-related businesses are eligible to apply for SBA assistance through a participating lender, but agricultural enterprises must first apply to FSA. If the application to FSA is declined or found to be ineligible, the agricultural enterprise can apply to SBA providing a written explanation of the outcome of the contact with FSA. It is not clear whether or not value-added agricultural enterprises are eligible.

Eligible farms or farm-related businesses can apply for any of three types of financing assistance: a) loan guarantees b) microloans, or c) fixed asset financing (“504 Loans”).

Loan guarantees are made through any participating lender. Seasonal lines of credit are possible with SBA loan guarantees. Contact SBA to learn of participating lenders.

Microloans are currently made through Innovative Bank, BLX – Business Loan Express, and Superior Financial Group. Microloans are capped at $50,000. Application to these lenders must be made through the Internet, as they do not maintain offices in North Carolina.

Innovative Bank
https://www.innovativebank.com/

BLX – Business Loan Express
http://www.blxonline.com/

Superior Financial Group
http://www.superiorfg.com/main/

504 Loans are made through Certified Development Companies, for long term financing of fixed assets like fencing, diking, barns, and silos. Contact SBA to learn of participating community development lenders who have been certified as Development Companies.

C) North Carolina Agricultural Finance Authority (NCAFA): NCAFA operates a farm real estate loan program (Series I), a beginning farmer loan program (Series II), a joint beginning farmer loan program with Farm Credit Services (Series III or "Ag Start"), and a tax-exempt bond finance program for agricultural processing. Eligibility requirements vary with each of the different financial products offered by NCAFA.

NCAFA
P.O. Box 27908
Raleigh, NC 27611-7908
Phone (919) 733-0635 Fax (919) 733-1460
Contact: Dr. Frank Bordeaux
http://stateagfinance.com/northcarolina.html

D) North Carolina Rural Economic Development Center (Rural Center):
The Rural Center runs two programs that provide capital for rural business start-ups and expansions. The Microenterprise Loan Program serves the smallest rural businesses through a combination of loans, business planning, and technical assistance. The Capital Access Program serves small-to-medium sized businesses, through local lending institutions.

The Microenterprise Loan Program's eligibility requirements include anyone starting or expanding a small business in the 85 rural counties of North Carolina. Applicants must meet the following minimum criteria: 18 years of age; business has fewer than 10 full-time employees; is a U.S. citizen or permanent resident and a resident of North Carolina. Special emphasis is placed on serving rural, low-income, female and minority borrowers.

The Capital Access Program is designed for solid rural business ideas that are otherwise unable to obtain financing. The program offers participating banks a special loan loss reserve to facilitate loans that carry a higher level of risk than allowed by conventional bank guidelines. Funds for this program were provided by the Golden LEAF Foundation and the Appalachian Regional Commission. The average loan size is just over $50,000, and most loans have been made to ventures with fewer than ten employees.

North Carolina Rural Center
4021 Carya Drive
Raleigh, NC 27610
919-250-4314
www.ncruralcenter.org/loans/micro.htm
www.ncruralcenter.org/loans/capital.htm

6. Miscellaneous Sources of Agricultural Finance:

It should be noted that there are a number of other sources of financing for agriculture and farm-related businesses. Insurance companies (e.g., Metropolitan Life), merchants, feed & seed dealers, and equipment dealers or manufacturers have been offering loans for many years. In many cases the loans are very small, short-term, only for the purpose of paying for the supplies or machinery necessary for agricultural production. In a few cases, especially with the insurance companies, large loans ($250,000 and larger) are made for purchase of land or other rural business ventures.

7. Unconventional Sources of Financing:

Another alternative for an enterprising farmer is to seek financing from "unconventional" sources. Many small businesses get their start with personal loans, cooperative ownership, and venture capital. Personal loans from friends or family members can be organized formally or informally. Circle Lending is a company that offers Internet-based services to formalize, manage, and repay "person to person" loans between relatives, friends and other private parties.

Another form of personal lending is the Community Supported Agriculture (CSA) structure. Also called Customer Supported Agriculture, CSA's receive payments from their "members" in advance of harvest, for the promise of an equal share of the harvest. A CSA is like a collection of production loans directly from the customers, repaid on delivery of the harvest to the customers. A few innovative farmers are even organizing Restaurant Supported Agriculture (RSA). This tool is applicable only to producers who are direct-marketing their goods.

Cooperative ownership is the model of business organized by producers who share common goals or needs. These cooperating producers collectively pool their investments to market, process, store, or otherwise handle their products.

Venture capital is the method of unconventional financing in which investments are made in high-risk ventures by investors who seek a high rate of return on their investment. Few farming enterprises would qualify, but larger-scale, high-profit, value-added enterprises may be of interest to venture capital firms.

These are just a few ideas of how – with care, planning, and effort – your venture can be financed using alternative sources.

CircleLending
69 Hickory Drive
Waltham, MA 02451
781-419-7701
1-800-805-2472
www.circlelending.com

CSA
Contact your local Cooperative Extension Agent for help in organizing a CSA, or refer to
www.agmrc.org/agmrc/business/operatingbusiness/understandingcsa.htm

Cooperative Ownership
For help in organizing a coop, contact your local Cooperative Extension Agent, or Farm Credit Institution, or refer to
www.rurdev.usda.gov/rbs/pub/cir7/cir7rpt.htm

APPENDIX 3

The "Sweet Sixteen" Ratios & Calculations Business Performance Measures

The “Sweet Sixteen” are calculations and descriptions used by bankers and lenders to measure business performance. These 16 ratios and calculations define Liquidity, Solvency, Profitability, Repayment Capacity, and Financial Efficiency. These business performance measures were developed by the Farm Financial Standards Council (FFSC). For more information on FFSC, visit www.ffsc.org

Additionally, this Appendix is supplemented with a flowchart which explains how lenders evaluate small loan applications – using Balance Sheet, W-2 Wage Forms, Schedule F tax forms, and your Credit Report.

Liquidity

Current Ratio: Calculated as (total current farm assets) ÷ (total current farm liabilities).
This measure of liquidity reflects the extent to which current farm assets, if sold tomorrow, would pay off current farm liabilities.

Working Capital: Calculated as (total current farm assets) – (total current farm liabilities). This measure represents the short-term operating capital available from within the business.

Solvency

Debt-to-Asset Ratio: Calculated as (total farm liabilities) ÷ (total farm assets). This represents the bank’s share of your business. A higher ratio is an indicator of greater financial risk and lower borrowing capacity.

Equity-to-Asset Ratio: Calculated as (farm net worth) ÷ (total farm assets). This measure of solvency compares farm equity to total farm assets.

Debt-to-Equity Ratio: Calculated as (total farm liabilities) ÷ (farm net worth). This measure compares the bank’s ownership to your ownership of the business.

Profitability

Rate of Return on Assets: Calculated as [(net farm income) + (farm interest) – (value of operator labor and management)] ÷ (average value of farm assets). This measure represents the average “interest” rate being earned on all investments in the business (your investment and that of your creditors).

Rate of Return on Equity: Calculated as [(net farm income) – (value of operator labor and management)] ÷ (average farm net worth). This measure represents the “interest” rate being earned by your investment in the farm. This return can be compared to the return on your investments if equity were invested somewhere else, outside the business.

Operating Profit Margin: Calculated as (return on farm assets) ÷ (value of farm production), where return on farm assets equals (net farm income from operation) + (farm interest expense) – (opportunity return to labor and management). This measure of profitability shows the operating efficiency of the business. Low expenses relative to the value of farm production result in a healthy operating profit margin.

Net Farm Income: Calculated as (gross cash farm revenue) – (total cash farm expense) + (inventory changes) + (depreciation and other capital adjustments, including gains÷losses from the sale of capital assets). This measure represents profitability or the farm’s return to labor, management and equity.

Repayment Capacity

Term Debt Coverage Ratio: Calculated as [(net farm operating income) + (net nonfarm income) + (depreciation) + (scheduled interest on term debt and capital leases) – (family living and taxes paid)] ÷ (scheduled principal and interest payments on term debt and capital leases). This measure of repayment capacity tells whether the business produced enough cash to cover all intermediate and long-term debt payments. [NOTE: Some commercial lenders use a variation on this ratio called the "Funds Flow Coverage Ratio." Funds Flow Coverage Ratio is the sum of net profit, depreciation, amortization plus interest minus all dividends, withdrawals and non-cash income divided by the sum of all current maturities of long term debt, capital lease obligations and interest.]

Capital Replacement Margin: Calculated as the value of (net farm income) + (net nonfarm income) + depreciation – (family living expenses, taxes paid, scheduled payments on term debt). This measure describes the amount of money left over after all operating expenses, taxes, family living costs, and scheduled debt payments have been made.

Financial Efficiency

Asset Turnover Rate: Calculated as the (gross farm revenue) ÷ (average farm assets). This measures the efficiency of using capital. A high level of production in proportion to the level of capital investment yields a high (or efficient) asset turnover rate.

Operating Expense Ratio: Calculated as the value of [(total farm operating expenses)– (depreciation) – (farm interest)] ÷ (gross farm revenue). This measure reflects the proportion of farm revenues used to pay operating expenses, not including principal or interest.

Interest Expense Ratio: Calculated as (farm interest) ÷ (gross farm revenue). This measure of financial efficiency shows how much of gross farm revenue is used to pay for borrowed capital.

Depreciation Expense Ratio: Calculated as (depreciation and other capital adjustments) ÷ (gross farm revenue). This measure indicates what proportion of farm revenue is needed to maintain the capital used by your business.

Net Farm Income from Operations Ratio: Calculated as (net farm income from operations) ÷ (gross farm revenue). This measure of financial efficiency compares profit to

"How Agrilenders Analyze Smaller Loans," by David Kohl.

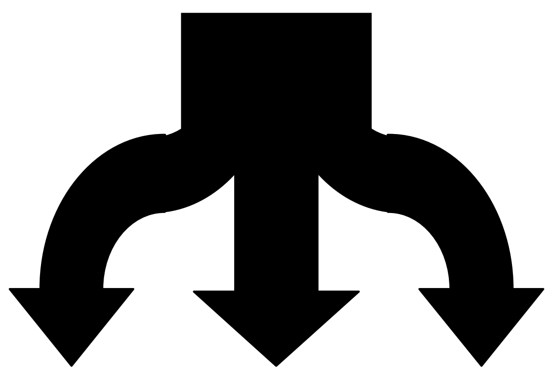
David Kohl, a professor emeritus at Virginia Tech, has taught and written for several decades on agricultural finance and small business management. In 1997 he published a helpful paper explaining how agricultural lenders analyze smaller loans. Here is a summary.

In the past 15 years, computer technology and increased competitive pressures have changed the ways lenders analyze smaller loans. Agricultural lenders have streamlined the process, particularly on smaller loans. (In this illustration, small loans are considered to be those loans made to farmers who rely on off-farm income, and whose farm-business revenues are less than $100,000 per year.)

In analyzing smaller loans, lenders tend to focus on three key areas. First, they analyze the farmer's ability to repay the debt on a timely basis. Second, they look at how the bank loan is to be collateralized (or secured in the case of loan default). Third, they examine the farmer's historical track record of repayment, by looking at his credit history and credit card use.

How Lenders Analyze Smaller Ag Loans

Balance Sheet
W-2 Wage Forms
Schedule F Tax Form
Credit Report



REPAYMENT ABILITY

Debt Payment Ratio
(Debt ÷ Income)
< 25% = Low Risk
25% - 50% = Mod. Risk
> 50% = High Risk

TRACK RECORD

Credit History
Credit Card Balances
Courthouse Files
Supplier References

LEVERAGE & COLLATERAL

Debt to Asset Ratio
< 50% = Low Risk
50% - 75% = Mod. Risk
> 75% = High Risk

Collateral Coverage Ratio
(Pledged Collateral ÷ Amount of Loan)
>2.00 = Low Risk
Close to 1.00 = High Risk

APPENDIX 4

Where To Go For Help

As governmental farm supports go away, farm-enterprises are starting to rely more and more on the same infrastructure that is out there to support other small businesses. However, the world of small business assistance and training is still adapting to the changing needs of farmers and small agri-business professionals. While there is no single place you can go to for all your assistance needs, there are many resources available to a determined farm-entrepreneur. Remember, persistence is the key to getting the resources you need to be successful.

For general assistance in enterprise development:

North Carolina Cooperative Extension—Early in your planning, check with your local Cooperative Extension office. Sometimes Cooperative Extension offers extraordinarily valuable training opportunities. Your local agents may also be familiar with other local resources that may be of use to you. Every county is served by a Cooperative Extension office. Listings can be found in your local phonebook or by searching the Internet.

North Carolina Department of Agriculture and Consumer Services (NCDA)—NCDA may be able to help you with new enterprise development in a number of ways. They may be able to provide information and consultation on agricultural production, processing (including regulatory requirements), and marketing. NCDA is a large organization with many different responsibilities. Finding the person who can answer your specific question requires persistence.
Contact: NC Department of Agriculture & Consumer Services, 1001 Mail Service Center, Raleigh, NC 27699-1001. (919) 733-7125
Information is available online at www.ncagr.com.

The Small Business Administration (SBA) is also a good source for information on business planning. There are interactive tools there, and free on-line courses to help you learn small business planning. SBA may also refer you to other service providers who can better assist you. Here in North Carolina SBA works with three groups (described below): SBTDC, SCORE, and the Small Business Center Network at the state's community colleges.
Contact: North Carolina District Office, 6302 Fairview Road, Suite 300, Charlotte, NC 28210-2227.
(704) 344-6563
Information is available online at www.sba.gov.

The North Carolina Small Business and Technology Development Center (SBTDC) is designed for small business owners and those interested in starting a small business. SBTDC's goal is to help entrepreneurs meet the challenges of the modern business environment, successfully manage fast-paced changes, and plan for the future of their business. SBTDC provides management counseling and educational services through 17 offices located at colleges or universities across NC. All services are confidential and most are free of charge.
Contact: Small Business and Technology Development Center, 5 West Hargett Street, Suite 600, Raleigh, NC 27601-1348. (919) 715-7272 or 800-258-0862 (*in North Carolina only*)
E-mail questions to: info@sbtdc.org
Information is available online at www.sbtdc.org.

The Service Corps of Retired Executives (SCORE) is a national nonprofit volunteer association of skilled and talented retirees. Volunteers share their wisdom and lessons learned in business. In this way they encourage the formation, growth, and success of small business. The national organizations website, www.score.org, has useful information and you can locate your local SCORE chapter through the following weblink: www.sba.gov/gopher/Local-Information/Service-Corps-Of-Retired-Executives/sconc.txt

NC Community Colleges' Small Business Center Network (SBCN) —The objective of the Small Business Center Network is to increase the success rate and the number of viable small businesses in North Carolina by providing high quality, readily accessible assistance to planned and existing small business owners and their employees. Each Small Business Center (SBC) is a community based provider of education and training, counseling, information and referral. There is a SBCN office located at all 58 of the state's community colleges. Services include business seminars and workshops, free confidential business counseling, and access to vital resources and information. They can put you in touch with business and community leaders, as well as local, state and federal agencies who share the goal of making your business a success. You can find more information at www.ncccs.cc.nc.us/Business_and_Industry/sbcnmainpage.htm

Creating Business Opportunities (CBO) is a partnership between North Carolina State University, the North Carolina Department of Agriculture and Consumer Services, the North Carolina Farm Bureau, and the Rural Center. The partnership is to support the development of an array of agricultural business opportunities in North Carolina. The project has developed a website with links to a variety of useful information sources on the topic of business development at www.ces.ncsu.edu/cbo.

Economic Development Commissions (EDC)—EDCs are state, regional, and local organizations that attempt to stimulate business growth and development through business recruitment and technical assistance. EDC staff members are generally knowledgeable about many aspects of business development including business plan development and financing. Many farmers have found their local EDC staff to be helpful in project development. The best place to look for your local EDC is in the phone book or through your chamber of commerce. Some of North Carolina's EDCs are listed on this website: www.ecodevdirectory.com/north_carolina.htm.

Farmers Adopting Computer Training (FACT) Project
This program was developed by the Cooperative Extension Program at N.C. A&T State University, and offers special training in computers, as well as a limited number of free computers. Free computers and training are limited by available funding. The classes have been offered to small and limited resource farmers at community colleges throughout the state, including Sampson (Clinton), Roanoke-Chowan (Ahoskie), James Sprunt (Kenansville), South Piedmont (on both Wadesboro and Monroe campuses) and Vance-Granville (on Louisburg, Warrenton, Creedmoor and Henderson campuses).
CONTACT: Marcie Joyner, Extension Associate and/or
Francis Walson, Extension Associate
Cooperative Extension Program,
North Carolina A&T State University,
P.O. Box 21928, Greensboro, NC 27420.
(336) 334-7956
joynerm@ncat.edu and/or walson@ncat.edu
www.ag.ncat.edu/extension/programs/fact.htm
cfcc.edu/sbc/fact

The North Carolina Rural Entrepreneurship through Action Learning (NC REAL) program offers training and other assistance to small businesses, including farmers. NC REAL hopes to soon offer business educational modules through their internet website, www.ncreal.org, or through participating community colleges. These self-guided audio-visual training modules require a small fee, and include; Managing a Home Based Business (tax implications), Financials: The Basics, Financials: Beyond the Basics.

For farmers needing the option of a distance learning course in entrepreneurship & small business planning, five community colleges offer eREAL online, which is a 12 week course developed by NC REAL. Participants can contact the Small Business Centers at the following community colleges who offer eREAL online in 2006-2007: Central Carolina Community College, Durham Technical Community College, Guilford Technical Community College, Haywood Community College, Rowan Cabarrus Community College, and Sampson Community College.

The North Carolina Farm Transition Network (NCFTN) provides information about farm asset and business transition from one operator to the next. NCFTN assists farmers with planning for the future that eases the hardship involved with changes in personnel.
North Carolina Farm Transition Network (NCFTN),
P.O. Box 27766, Raleigh, NC 27611.
(919) 782-1705
abranan@ncfb.net www.ncftn.org

The North Carolina Rural Economic Development Center (Rural Center) has a searchable online database that is useful in gathering demographic data for market analysis, which could be helpful in writing a loan application. Additionally, the Rural Center offers a micro-enterprise loan fund that is specifically intended to assist North Carolina entrepreneurs to overcome capital access barriers.
North Carolina Rural Economic Development Center,
4021 Carya Drive, Raleigh, NC 27610.
(919) 250-4314
info@ncruralcenter.org www.ncruralcenter.org

North Carolina Business Resources Directory: Business assistance available in North Carolina's 100 counties, produced by The Rural Center, October 2003.
www.ncruralcenter.org (232 pages, hard-copy, or searchable online at www.ncruralcenter.org/entrepreneurship/brd.asp)
Provides entrepreneurs with current information on resources for financial and technical assistance.

North Carolina Institute of Minority Economic Development is a statewide nonprofit organization representing the interest of underdeveloped and underutilized sectors of the state's economic base. The Institute's business development resources, to include its Education & Training Division, the NC Statewide Minority Business Enterprise Center™, and the Women's Business Resource Center of North Carolina, work to assist historically underutilized businesses in accessing affordable capital, expanded market opportunities, and stable internal management and control systems. Through direct one-on-one technical assistance and small group education and training, businesses are positioned for growth and expansion.
Andrea Harris, President
114 W. Parrish St., Durham, NC 27701. (919) 956-8889
info@ncimed.com www.ncimed.com

North Carolina Community Development Initiative, Inc. is a model public-private community economic development intermediary dedicated to increasing assets and creating wealth in low-resource communities. They provide grants and loans to Community Development Corporations (CDCs) and other non-profit organizations.
Abdul Rasheed, CEO
2209 Century Drive 2nd Floor, Raleigh, NC 27612.
(919) 828-5655
info@ncinitiative.org www.ncinitiative.org

Farm Service Agency (FSA)—While commonly known as the "lender of last resort," FSA is also a source of many opportunities. Because of its work in overseeing their loan programs, disaster assistance & conservation programs, price supports and commodities programs, the FSA can be a great help to you in shaping your farm enterprise. Every county has an FSA office, and they can be found through your local cooperative extension service.

Central Carolina Community College (CCCC) offers hands on training in small-scale, sustainable vegetable production and sustainable business development. Many community colleges around the state are adapting the CCCC curriculum to meet local needs. It is a good idea to contact your local community college to find out what is offered. To find out more about the CCCC programs you can contact
Robin Kohanowich
CCCC,Sustainable Agriculture Program
764 West Street, Pittsboro, NC 27312.
(919) 542-6495 ext. 229
Email questions to: rkohanowich@cccc.edu.

The North Carolina Department of Commerce offers consultations to new businesses, identifying all the licenses, permits, regulations, and/or other approvals required for the planned business activity. Farm enterprises which aspire to

do on-farm processing or other value-added activities may require such assistance. Meat processing, dairy, and agri-tourism activities are examples of businesses that may require such assistance.
Contact: NC Department of Commerce,
4301 Mail Service Center, Raleigh, NC 27699-4301.
(919) 715-2864
www.nccommerce.com/servicenter/blio

Additional resources we'd like to highlight:

The single best source we've found to guide you through writing a business plan for your farm is ***"Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses."*** This highly detailed guide takes you through all steps in the process, in workbook fashion. It is available in print-edition, or downloadable through the USDA's SARE website:
www.sare.org/publications/business.htm
To order the print-edition, call 301-374-9696, or write to the following:
Sustainable Agriculture Publications, PO Box 753, Waldorf, MD 20604-0753
Email: sanpubs@sare.org

BizPathways is a service provided by Minnesota Rural Partners. This site contains much free information helpful to new farm ventures. A modest annual fee allows access to customized information, business plan templates, and other services.
www.bizpathways.org/Bizpathways/Index.aspx

Center For Agricultural and Rural Banking at the American Bankers Association (ABA)
ABA offers helpful Tip Sheets for farmers and ranchers.

Tip Sheet for Young and Beginning Farmers:
How to Build Successful Financial Relationships
http://www.aba.com/NR/rdonlyres/E1577452-246C-11D5-AB7C-00508B95258D/31065/TipsheetforyoungandBeginningFarmers9996.pdf

Surviving Tough Financial Times on the Farm
http://www.aba.com/NR/rdonlyres/E1577452-246C-11D5-AB7C-00508B95258D/31077/TenTipsForToughTimes503tipsheet9993.pdf

Work With Your Banker to Manage Rising Interest Rates
http://www.aba.com/NR/rdonlyres/E1577452-246C-11D5-AB7C-00508B95258D/40029/TipSheetRisingInterestRates.pdf

FAST (Farm Analysis Solution Tools) University of Illinois offers free tools to help you make better decisions with user-friendly computer programs. **FAST** tools are very easy to use, and would be helpful to North Carolina farmers in financial statement preparation, cash flow budgeting, assessing the financial performance of a farm operation, understanding various loan decisions and products, and helping with decisions to manage risk exposure. Go to www.farmdoc.uiuc.edu and click on FAST Tools. There is also good information at the "Finance" link.

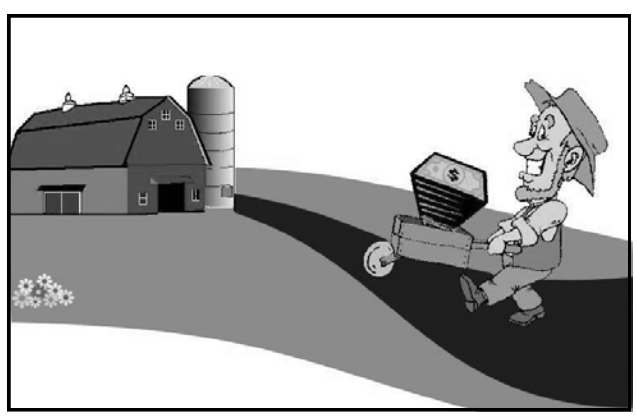
Greater Hickory Metro Business Development Network put together an informative website for small businesses. www.growyourownbiz.com.

How Agrilenders Analyze Smaller Loans—This is a paper written by Dave Kohl, Ph.D. It gives some general guidelines regarding repayment ability, solvency, collateral, & credit history. Available on the web at www.ext.vt.edu/news/periodicals/fmu/1997-04/loans.html.

Local Colleges and Universities
A few enterprising farmers have received valuable assistance with business planning, market research, brand development, etc., by contacting their local Schools of Business, Marketing, or other academic departments at colleges and universities in their area. Students often need hands-on experience in these areas, and faculty often have talents and expertise to share.

Rural Advancement Foundation International – USA (RAFI-USA)
RAFI-USA offers two programs of special interest to farmers seeking financing. Our Tobacco Communities Grants Program gives small grants to tobacco farmers who are transitioning away from tobacco towards innovative crops, production methods, or other business models. Also, our Farm Sustainability Program offers financial counseling services to farmers to increase the economic survival and sustainability of farm families in financial and disaster related crises. RAFI-USA does not provide financial relief to farmers, but provides expert knowledge in complex lending regulations and two decades of experience in fighting to keep farmers on the land.
RAFI-USA,
PO Box 640, Pittsboro, NC 27312. (919) 542-1396
www.rafiusa.org

Other Farmers!
Sometimes the best information and help comes from talking with other farmers.



APPENDIX 5

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(192 pages, hard-copy, $60 Members / $80 Non-Members)

RAFI-USA

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