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# Farm Business Planning

- **Building a Farm Business Plan**
- **Lenders Perspective**
- **Financing Options**



# How to Build a Farm Business Plan

- Business Description
- Financial Data
- Supporting Documentation

# Element 1 - Business Description

## 1. What are you going to do?

## 2. Real estate assets & facilities

- Size
- Type
- Adequacy
- Environmental compliance
- Land use and land base
- Productivity
- Planned improvements, descriptions
- Description of lease terms or purchase arrangements

# Element 1 - Business Description

## 3. Personal Property

- Size
- Type
- Production level
- Adequacy
- Planned purchases
- Description of custom agreements

## 4. Marketing

- Marketing plan
- Price protections
- Special marketing for unique enterprises

# Element 1 - Business Description

## 5. Operating Procedures

- Business organization
- What position does what
- Insurance protection planned
- Recordkeeping requirements



- 6. Key personnel

- Who will do what
- Who reports to whom
- Education
  - Current education
  - Future needs and training
- Experience



# Element 1 - Business Description

## 7. Goals

- Performance goals
  - Increase production 5% per year
  - Hold expenses to 55% of gross revenue
- Personal goals
  - Purchase farm from parents in 5 years





## Element 2 - Financial Data

1. Loan application
2. Equipment, supply, and livestock list
3. Current Balance Sheet
4. Pro-forma cash flow projection of all inflows and outflows

## Element 2 - Financial Data

### 5. Assumptions:

- Production and yields
  - Based upon your own history?
  - Based upon land or herd productivity?
- Income and expenses
  - Based upon your own history
  - UW Extension budgets
  - Current farm operator
- Owner Withdrawals
  - Living, credit cards, auto, health, etc.
- Capital outlays
- Financing assumptions

## Element 3 - Supporting Documents

1. Tax returns of all principals and entity – 3 years
2. Personal balance sheets – 3 years
3. Copies of:
  - proposed leases, purchase agreements
  - site plans, building estimates
  - licenses, organizing documents, and other legal documents
  - current debt balances and repayment schedules for all creditors
  - current income verification
  - current production levels, APH, etc.

# Farm Business Planning

- **Think About Your Proposal From the Lender's Perspective**



# What Lenders Care About: 5 Cs

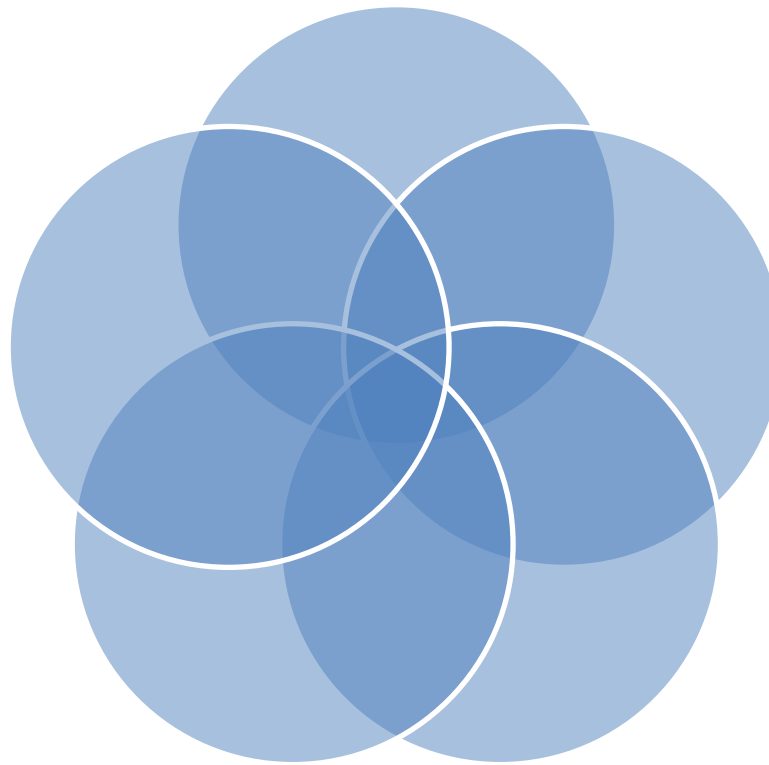
**Character**

**Capacity**

**Collateral**

**Capital**

**Conditions**

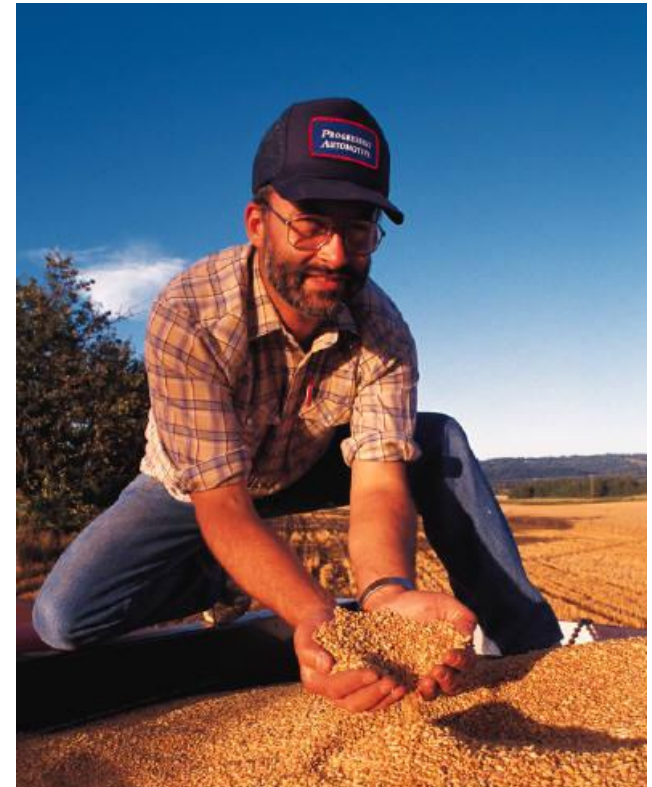


# Character

- Defines who they are, past history in dealings with lender and other lenders, and general reputation of responsibility and capability
  - Credit history
  - Credit reports
  - Management ability

FSA – look to eligibility, credit history, and past financial & production experience

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Others – Important!



# Capacity

•Capacity to repay  
is the most critical of  
the five factors

- Must know exactly how the customer intends to repay.
- Consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan.
- Consider contingent sources of repayment, if available.



Profitability =  
Capacity ?



# Planning Capacity - continued

- Assumptions (marketing, pricing, income, production, expenses, withdrawals, etc.) in preparing the business plan and the basis for your assumptions.
- Plans must be based upon the CUSTOMER'S actual history. Only use budgets of others if there is no history.
- CDRC or Term Debt Capital Lease Coverage Ratio
  - Longer look FSA – 100%
  - Ability of the business to run Others – 110 - 125% minimum



# Collateral

•Collateral or "guarantees" are additional forms of security the customer can provide the lender. Generally assets but maybe co signers.

- Loan-to-Value (LTV)
- Generally based on appraisals or customer's financial statement

FSA – 100% LTV

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Others –

Short -Term 40-75% LTV

Intermediate 70%

Long-Term 80%



# Capital



- Capital is the money the customer has personally invested in the business.
  - Expect contribution of own assets and to have undertaken personal financial risk. Capital also:
    - Cushion for repayment and ability and willingness to save and accumulate assets.
    - Manages his/her financial affairs adequately and within his/her income.
    - Lack of accumulated worth could be a danger signal unless the applicant is fairly young.
    - Come from other sources, such as family contributing assets or services

FSA – No “concrete” requirements

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Others – Minimum 25 – 50% equity

# Conditions

- Focus on the intended purpose of the loan and conditions of approval.
- Will the money be used for working capital, additional equipment, land, or refinancing?
- Also consider loan covenants and conditions that are placed upon approval.

FSA – Generally has more conditions due to risk level

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Others –

Life Insurance

Hazard Insurance

Minimum collateral requirements

Minimum financial requirements

Yearly documentation



# Farm Business Planning

- **How FSA Can Help Finance Your Proposal**



# How FSA Can Help Finance You

## •Direct Loans

- Target beginning farmers
- Loans directly from FSA; work with FSA loan officer
- Buy livestock, equipment, crop inputs, refinance debt
- Buy land, buildings (must have 3 years experience)
- \$300K limit, low interest rate, long terms

Character & Eligibility	Collateral	Capacity	Capital	Conditions
<b>Good credit history, experience, education</b>	<b>Up 100% financed</b>	<b>Must be &gt; 100%</b>	<b>Limited required, but the more the better</b>	<b>More</b>

# How FSA Can Help Finance You

## •Guaranteed Loans

- Loan from bank, credit union, or farm credit association
- Guaranteed by FSA like a cosigneur
- Bank rates & terms negotiated by you
- Buy personal property & real estate – \$ limit changes yearly
- Lines of credit are available
- More flexible

Character & Eligibility	Collateral	Capacity	Capital	Conditions
<b>Good credit history, reputation &amp; experience</b>	<b>Mostly &lt; 100% financed</b>	<b>Mostly &gt; 110%</b>	<b>Equity &amp; capital required</b>	<b>Less</b>



Contact your local FSA office for more information.

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