


**Credit Tips for Young Producers**

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## Key Objectives

- Briefly discuss current economic environmental factors
- Understand the fundamentals of what lenders use in making credit decisions
- Building Relationships with your lenders
- Tips for successful credit extension while achieving growth objectives for your operation

# Environmental and Economic Factors

## Economic and Environmental Factors

- 'Robust' Ag Economy
- Increased commodity prices
  - Increased input costs
  - Increased land values / land rents
- Continued consolidation of farming operations
- Changing Tax Laws
- Pending Farm Bill for 2012

# Credit Fundamentals

## Understanding Your Credit Decision

- It is crucial that you understand the components of the lending decision regarding your operation.
- 5 C's of Credit
  - Character
  - Capacity
  - Collateral
  - Capital
  - Conditions
- Loan officer may not have final decision authority
- Ways that lenders will look to reduce risk

## 5 "C's" of Credit

- Character
- Capacity
- Collateral
- Capital
- Conditions

## Character

- How well have you repaid prior loans?
- Credit Bureau Reports are more and more important
- Follow through on previous plans
- Proactive communications important

## Capacity

- How will you repay the loan?
- Net Income is important
- Cash flow is critical
- Diversified sources are good
  - Off farm income
  - Investments, etc.

## Collateral

- Viewed as a secondary source for repayment
- Helps support your capacity

## Capital

- Viewed as yet a 3rd source for repayment
- Good measure of your ability to weather tough times
- Liquidity is crucial
  - "Cash is King!"
  - "Cash Flow is King!"

## Conditions

- Terms of your loan (rate, amount, term)
- Commodity prices and trends
- Your specific results and plans
- Farm Bill

# Building Relationships with you lender(s)

## Building Relationships with your Lender(s)

- A good working relationship is crucial to your success!
- You loan officer may not have decision authority, but can impact.
  - Loan Review Committee
  - Board of Directors
  - Internal Review Team
  - Governmental Regulators
- Proactive communication with your lender
  - How is the year going?
  - Be up-front around performance

## Succession Planning?

- Is there a succession plan for your operation?
- Potential paths to assist with that plan?
  - Start early with a gradual transition
  - Begin to put obligations in your name with a co-sign agreement
  - Gradually remove the co-sign once history established with lender
- Gradual succession transition will more easily facilitate lender comfort with your operation

# Tips for Successful Credit Extension

## Credit Tips – Foundational items

- Have a strong, PROVEN foundation
  - Equity building goals
  - Strong Credit Bureau Score with clean history / on-time payments
    - Majors, Minors, and Tax Liens are detrimental to your credit bureau score
    - Too much revolving debt (ratio of debt to available credit)
- Life Insurance
  - Have coverage for your operations' loans
- Umbrella Liability Insurance
  - Have a rider umbrella policy in place
  - Coverage represents responsibility within your operation

## Professionalism

- Have a plan for the future
  - Chart a 1, 3, and 5 year plan for your operation
  - How will that plan be accomplished, risks, opportunities, etc
  - Share that plan with your lenders
- Professional Financials
  - Income Statement with detail
  - Realistic Balance Sheet – be descriptive regarding inventory / growing crops.
- Net Worth Statement
  - Helps you track success regardless of your immediate need for a loan
  - Share with your lenders
- Listen to your lenders
  - Ask for their insight and thoughts regarding the Ag Environment

## Risk Mitigation Tools

- Multi-year Rental Contracts
- Crop Insurance Coverage
- Crop Input Purchase Windows
- Crop Marketing to mitigate cost / Input risks

## Communication

- Communicate with your lenders
- Share production information
- Share plans for the future
- Be realistic regarding growth aspirations – HAVE A PLAN
  - Understand the risks and opportunities with your growth
  - Discuss openly with your lender
- Be Proactive, not reactive

## Lender Diversification

- Operating Loan
- Land Loans
- Equipment Loans
- Look for opportunities to diversify some debt to ensure open line for Operating needs
  - Equipment Loans – Captive lender?
  - Inputs – Available through major manufacturers – 3<sup>rd</sup> party finance company?
  - Identify ways to ensure that you have room within your Operating Line
- Be careful to avoid too many lenders
  - All lenders that you do business with have a vested interest in your success!

## Government Sponsored Programs

- Fully explore government sponsored programs designed to assist Young Farmers.
  - Operating Loans
  - Real Estate Loans
  - Low interest rate offers (usually a % of the total package)
- Utilize government programs to assist with risk mitigation

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## Thank You!

- Questions



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