

Borrowing in a Risky Environment

Overview

- Given the size and capital intensity of today's commercial farms and ranches, it is virtually impossible to operate the business or to grow without using credit.
- But the changing structure of the agricultural lending industry, along with the greater importance of risk management, is making the process of acquiring credit increasingly rigorous for agricultural producers.
- This will be an even more critical issue for producers nearing the end of their eligibility for Farm Service Agency loan guarantees.
- The result is that an agricultural firm will be treated more like any other commercial business.
- Lenders will take a more performance-based approach to lending and producers will need to be better prepared.

Questions That Can Help You Develop the Documentation You Need in a Loan Package

- How much money will you need?
- What will the money be used for?
- How will the loan affect your financial position?
- How will the loan be secured?
- How will the loan be repaid?
- When will the money be needed and when will it be repaid?
- Are your projections reasonable and supported by documented historical information?
- How will alternative possible outcomes affect your repayment ability?
- How will you repay the loan if the first repayment plan fails?
- How much can you afford to lose and still maintain a viable operation?
- What risk management measures have been or are to be implemented?
- What have been the trends in the business's key financial position and performance indicators?

For more information on the previous slide of questions, refer to the risk management publication entitled “Borrowing in a Risky Environment”