



K · C O E I S O M

Loan Package Outline

Purpose of request

- Clear loan request
 - What will the funds be used for
 - “\$5million operating line of credit to fund operations and growing crop for 2019.”
 - “\$12million term note to refinance 3,000 acres of irrigated farm ground.”

Management analysis

- History of the farm
 - Key events
 - Founded, growth periods, major changes, etc.
 - Consider a decade-by-decade overview
 - Community involvement
 - Awards
 - Your competitive advantage
- Ownership structure
 - Entity chart
 - Entity types, year-ends, ownership, etc.
 - Purpose of entities
 - Brief narrative of each entity
 - “ABC Farm Land is an LLC that owns 800 acres of irrigated ground that is rented to ABC Farms. It has a calendar year-end and is owned 50/50 by John and Joan Smith.
 - Inter-company transactions
 - Rent terms, management fees, lease agreements, etc.

- Management overview
 - Organizational chart
 - Key team members
 - Resumes or qualifications
 - Succession discussion

Financial analysis

- Historical financial analysis
- Use accrual basis financials, not tax returns
- Quality of earnings
- Debt service coverage ratio
 - Benchmark your performance
 - Farm Financial Standards Council
 - Universities
 - Accounting firms
 - Explain the outliers
 - Why are certain costs higher than your peers?
 - Tell the story behind the numbers
 - Don't just provide an "elevator" analysis
 - Focus on large income and expense categories
- Analyze working capital
 - Look for "self-liquidating debt" to ensure stagnant debt is not impacting working capital
 - Calculate current ratio, working capital to revenue and working capital burn rate
- Projected financial performance
 - Budget
 - Does the budget support the requested debt service?
 - Turn your budget into a cash flow
 - Spend time explaining large shifts from historical performance
 - Sensitize your projected performance
 - Best, worst, most likely cases:
 - Commodity prices
 - Production
 - Feed costs
 - Death loss
 - Yield
 - Input Costs
 - What is your plan for full repayment if there is a deviation

- Explain your risk management and marketing programs
 - Ideally you should include a written marketing plan
- Collateral analysis
 - Create a market value balance sheet
 - Real estate
 - Equipment
 - Other sizable assets
 - Compare this to loan balances
 - Aim for:
 - 60%> for real estate & buildings
 - 80%> for equipment
 - Look for loan terms that match the life of the collateral
 - Don't borrow money for 20 years against an asset that will only last 2 years
 - Depreciation is *real*, not just a tax play

Guarantor analysis

- Should be a global analysis
 - Include a market value personal financial statement
 - Create a personal income statement that reflects both on and off-farm income against personal liabilities and living expenses.
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