farm CREDIT
MID-AMERICA

# Structuring Credit for High Growth Farms

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# 5 C's of Credit

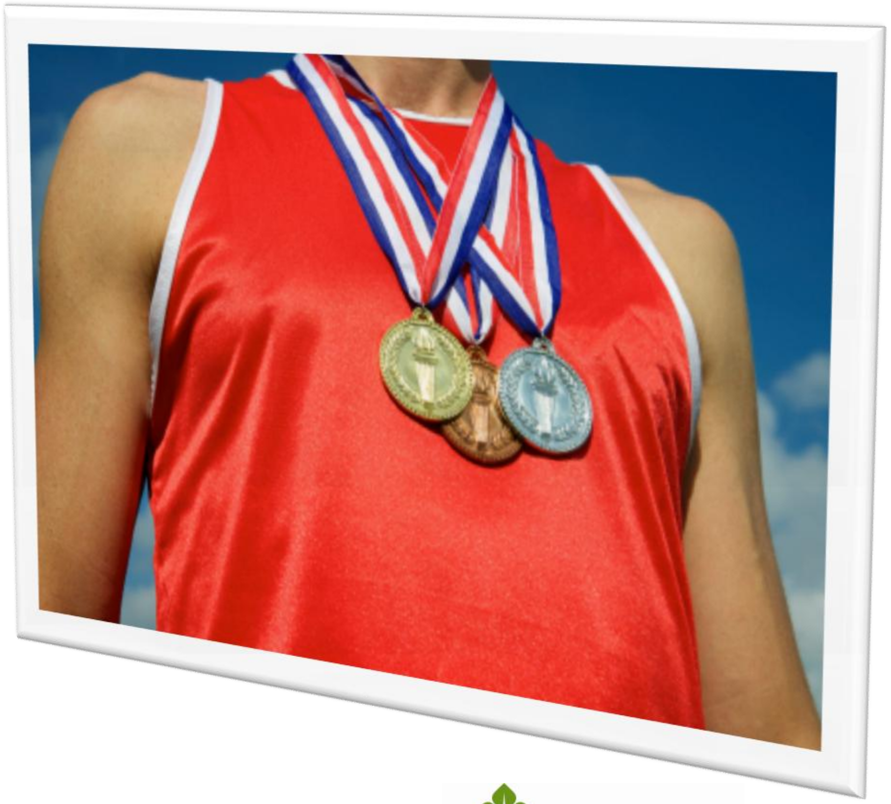
The 5 C's of credit are the building blocks to identify the producer's financial health and credit worthiness.

- ✓Character
- ✓Capital
- ✓Capacity
- ✓Collateral
- ✓Conditions

# CHARACTER

Character = The person and their management

Person= Reputation, relationship with Lender and their goals.



# CHARACTER

Management:

- ✓How has the producer reacted to price volatility or other significant events in the past
- ✓Know their cost of production
- ✓Risk management
- ✓Do they have contingency plans
- ✓Are they learning from past actions

# CAPITAL

A balance sheet is like a picture. It’s your financial position at a point in time.

Looking at several balance sheets over a number of years is like looking at a family photo album. It tells a story of how things have changed, evolved and grown.

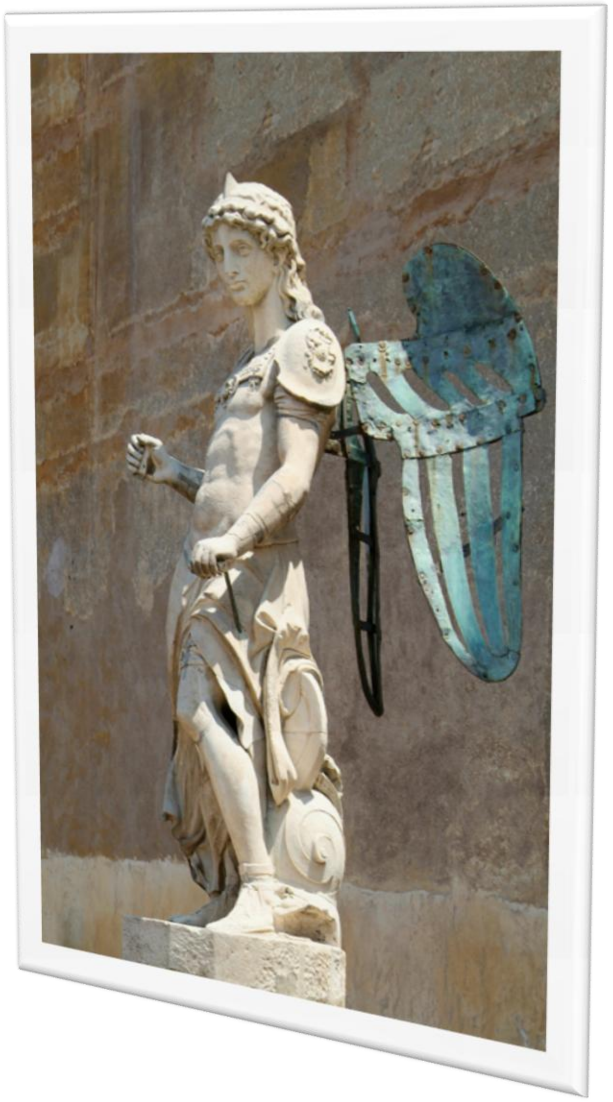
# CAPITAL

From the Balance Sheet we focus on two areas for capital analysis.

- ✓Liquidity
- ✓Solvency

# CAPITAL

Liquidity is the first line of defense against negative earnings. It also allows you to take advantage of opportunities.



# CAPITAL

Solvency allows producers to handle multiple years of operating losses or one severe loss. It also supports future business growth.

# CAPITAL

## Liquidity considerations

- ✓Working Capital
- ✓Current Ratio
- ✓Liquidity Ratio (working Capital/GFI)
- ✓Liquidity "Burn Rate"

# CAPITAL

## Solvency considerations

- ✓Type of assets and debts
- ✓How stable are assets values

# CAPACITY

Earnings are what make lenders happy. The only thing lenders like more than making loans is seeing them paid back through earnings.

Analyzing earnings:

- ✓Accrual earnings
- ✓Cash flow
- ✓Repayment capacity

# COLLATERAL

- ✓Chattel Collateral
- ✓Real Estate
- ✓Farm Credit Mid-America lending caps

# CONDITIONS

Conditions are expectations for loan approval or to be completed after loan closing, that have been agreed on by the borrower and lender.

Examples:

- ✓Loan Term or maturity
- ✓Borrowing base and reporting
- ✓Risk management practices
- ✓Financial reporting

# CONCLUSION

What does this all mean to high growth farmers?

*If you are looking for the financial ratios needed for a loan, they aren't' here.*

# CONCLUSION

What's important to lenders

✓Future earnings supported by history.

✓Appropriate risk management practices to add stability to earnings.

✓Adequate liquidity for the industry and for future objectives.

# CONCLUSION

What’s important to lenders

✓ Solvency that provides stability for the customer and will support future growth.

✓Above all open communications about the present, future plans and on going updates along the way.