



**Preparing for your Lender**  
**“Cultivating Success: Agricultural Entrepreneurship”**  
**November 14, 2018**

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**Relationship Manager-AgVision**

Here to Help You Grow



# Contact Information

[www.northwestfcs.com](http://www.northwestfcs.com)

Northwest Farm Credit Services

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# Serving Northwest AGRICULTURE

16,675 customer-members

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44 Branch locations

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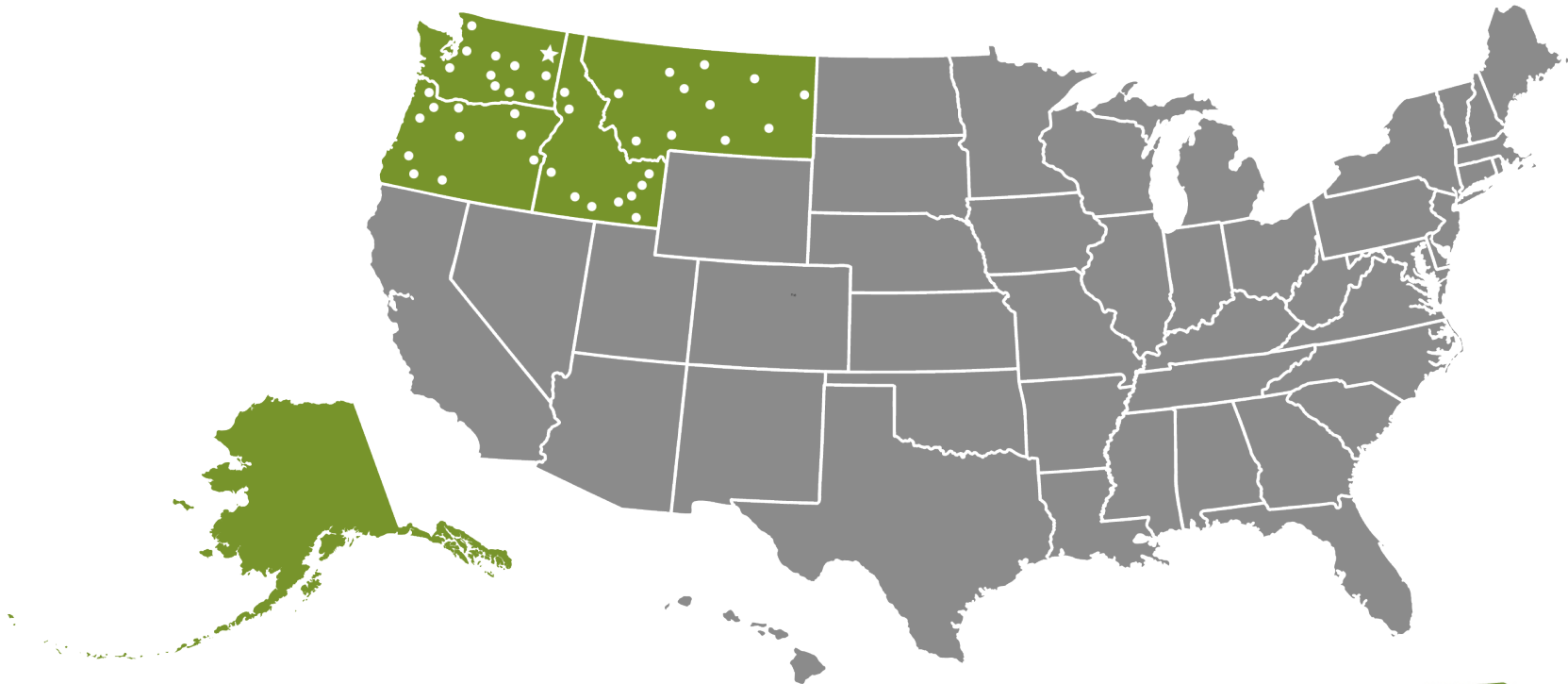
713 Employees

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14 Directors

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187 Local advisors



Here to Help You Grow





# Products and **SERVICES**

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Real estate financing

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Operating lines of credit

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Equipment financing

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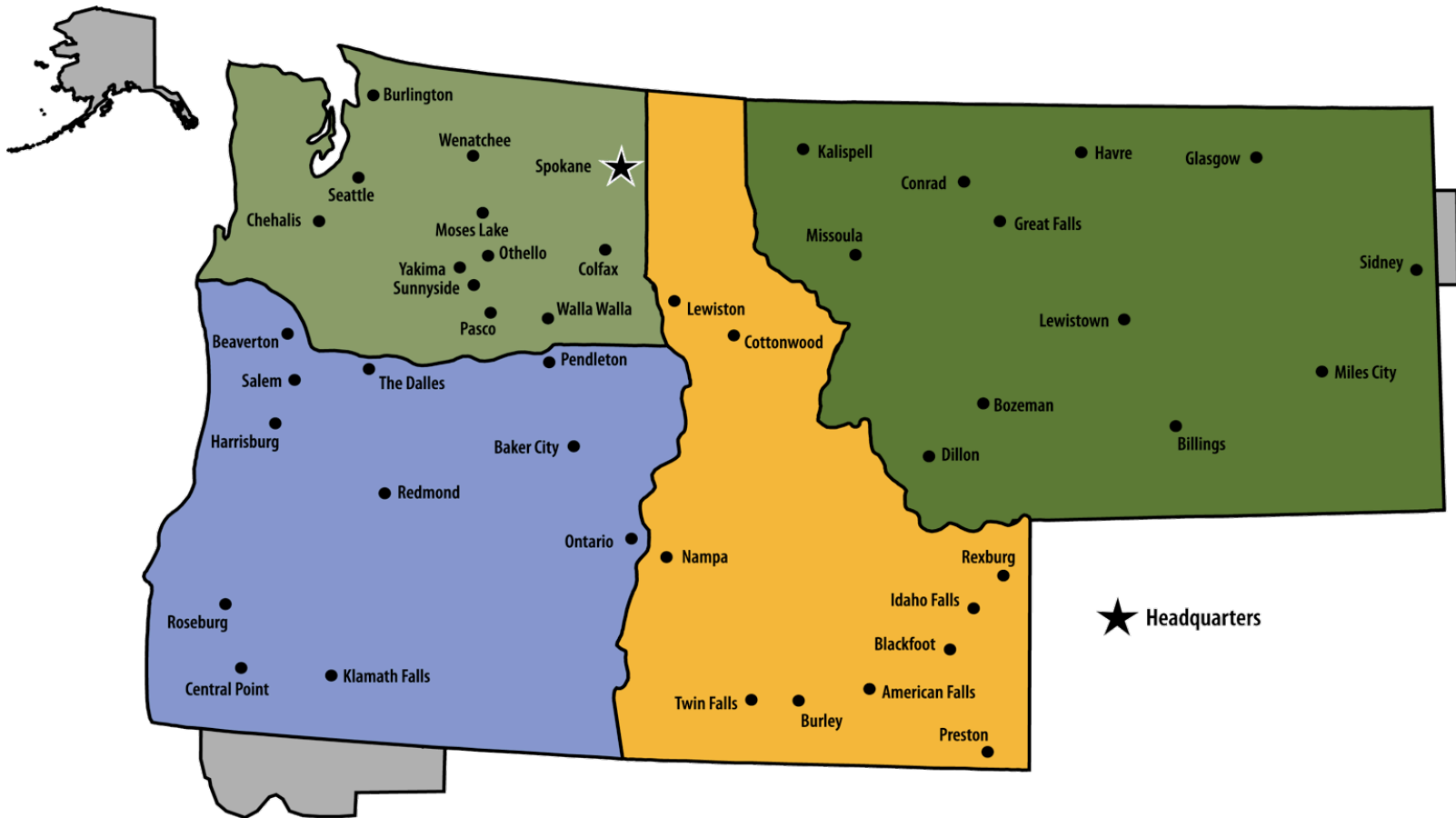
Crop insurance

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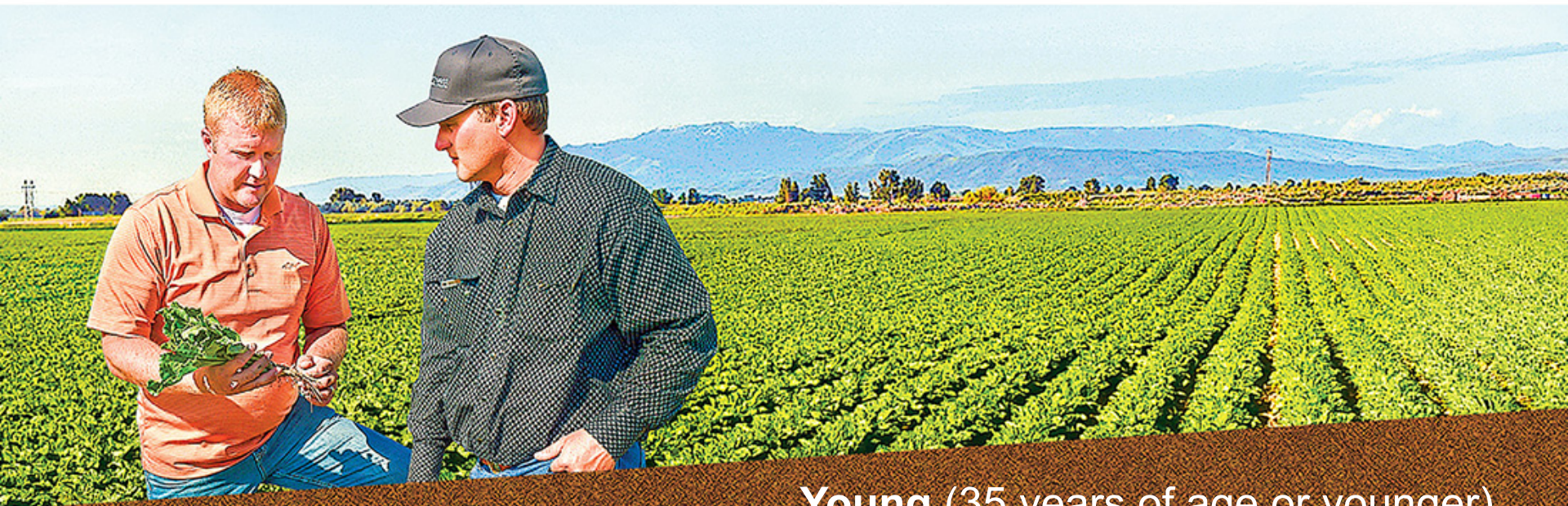
Country home loans



# Northwest FCS Locations







# AGVISION

Helping new ag producers grow.

**Young** (35 years of age or younger)

**Beginning** – 10 years of farm management experience or less

**Small** – annual gross farm income less than \$250,000

Outreach Focus: Military Veterans, urban/local producers



# AgVision Partners/Tools

- ❑ We work and partner with government agencies
- ❑ Farm Service Agency (FSA)
  - ❑ FSA Guarantee: 90%
    - ❑ This reduces risk when collateral position is weak, which is common with our AgVision customers
  - ❑ FSA Down Payment Program (5-45-50)
    - ❑ The borrower brings a 5% down payment, the FSA finances 45% and Northwest FCS finances 50%.
    - ❑ Northwest required to issue a 30 year note
- ❑ Washington State Beginning Farmer Bond Program
  - ❑ Borrow up to \$517,700 with below-market interest rate loans, if you have never owned and operated farm ground before
  - ❑ Payment Assistance Loan (PAL) Program is a loan program in partnership with the State that helps with down payment when using the Bond program.

# RateWise™ Program



- ❑ Rewards young, beginning and small producers for continuing management education with interest rate reductions on new loans
- ❑ Participants can earn interest rate reductions of 0.25%, 0.50% and 0.75% for three years
- ❑ Credits earned for Northwest FCS workshops, university conferences, industry specific workshops, Farm and Food Expo, etc.
- ❑ Register at **northwestfcs.com/RateWise**



# How Lending Decisions are Made

## 5 C's of Credit

- ❑ Character
- ❑ Capital
- ❑ Capacity
- ❑ Collateral
- ❑ Conditions

# Character

- ❑ Management experience
- ❑ Your experience in the industry
- ❑ Business plan
  - ❑ Three-legged stool
    - ❑ Production
    - ❑ Processing
    - ❑ Marketing
- ❑ Credit history
  - ❑ Have a good credit score



# Credit Report

- ❑ What is a credit score and why is it important
  - ❑ Predicts financial risk over time
  - ❑ Credit scoring is used by lenders, insurers, and others to evaluate your credit behavior
  - ❑ Credit Score above 660
  - ❑ Have no late payments (payment history 35% of FICO)
  - ❑ Have low credit card balances (amounts owed 30%)
  - ❑ Have no outstanding collections, bankruptcy, foreclosure
  - ❑ Credit history (length 15% of FICO score)
  - ❑ Other (Credit mix in use & new credit – 20%)
  - ❑ Review your credit report at least once a year  
[www.annualcreditreport.com](http://www.annualcreditreport.com)

# How Do I Rate?

- ❑ Different models have different ranges
- ❑ Credit Scores typically range between 300 to 850

Excellent Credit:	750+
Good Credit:	700-749
Fair Credit:	650-699
Poor Credit:	601-649
Bad Credit:	Below 600



# Credit Bureau Reports

- ❑ Why do lenders look at these scores?

History shows:

- ❑ Above 800 – less than 1% delinquency rate
- ❑ Above 700 – less than 5% delinquency rate
- ❑ Under 600 – 51% delinquency rate
- ❑ Under 550 – 71% delinquency rate

# Capital

- ❑ What you own versus what you owe
- ❑ “Snapshot” in time of your financial position
- ❑ Financial Statement: Balance Sheet
- ❑ Financial ratios
  - ❑ Debt/Asset ratio =  $\text{Total Liabilities} \div \text{Total Assets}$ 
    - ❑ Want to see this ratio below 65%
  - ❑ Working Capital =  $\text{Current Assets} - \text{Current Liabilities}$ 
    - ❑ Must be positive
    - ❑ Funds for down payment and expansion



# Capacity

- ❑ Income and expenses of the operation
- ❑ Your ability to repay the loan
- ❑ Financial Statements:
  - ❑ Income Statement
    - ❑ Net income = Revenue less Expenses
      - ❑ Net income margin of 10% of your gross income.
  - ❑ Cash Flow Budget
    - ❑ Monthly projection of Revenue and Expenses
    - ❑ Financial roadmap for new enterprises
    - ❑ Identifies need for operating financing to cover cash flow deficits

# Collateral

- ❑ The security that backs up the loan
  - ❑ Typically the asset being purchased
  - ❑ Examples: crops, equipment, real estate
- ❑ Match collateral with type of loan
  - ❑ Operating loan – crops, products, equipment
  - ❑ Real Estate loan – ground being purchased
- ❑ Advance Rate =  $\text{Loan Amount} / \text{Collateral Value}$ 
  - ❑ Example: Equipment = 75% maximum advance rate



# Conditions

- ❑ Structure of the loan
- ❑ Term = length of loan
- ❑ Rate = fixed, variable, or combination interest rates
- ❑ Repayment schedule = monthly or annual
- ❑ Liable Parties = borrowers, co-signers, or guarantors
- ❑ Covenants = life insurance, collateral monitoring reports, capital purchase restrictions, etc.
- ❑ If there is weakness in the other C's, conditions can be used to mitigate the risk

# Questions?