



# Farmer/Producer Accessing Capital Tool

## Traditional Financing

Many farmers and small business owners will try and go it alone and fund their operations solely with personal savings and loans from friends and family. While those are certainly important start-up revenue sources, to build up your operation to be sustainable in the long-run and to purchase land, loans are often required. Do not fear this process. While any loan requires a lot of paperwork and many traditional city banks do not speak your language, it is not impossible. Lenders generally look at your credit worthiness and the financial information associated with the loan. Below are definitions of lender terms and a checklist to help you prepare for loan applications.

## Standard Loan Application Check list:

1. Business Plan – A basic plan is fine. It should include standard content including why you are doing this, a farm description, product description, a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis, etc.
2. 2-years personal and business tax returns (if existing business)
3. Projected 2-3 year monthly Profit & Loss statement
4. Past 1-2 years Actual Profit and Loss Statements
5. Current Balance Sheet and Profit and Loss Statements
6. Sources & Uses Statement (Sources of funds including borrower cash and how the funds will be used e.g., equipment, land, inventory, etc.)
7. Legal entity documentation e.g., copy of LLC Operating Agreement, Corporation doc's, registration documentation, etc.

**See attached Lender Terms Definition Sheet**



## Local Micro Lenders

### [People's Food Co-op](#)

0% interest micro-loans for operation or new projects for local farmers. People's Food Co-op primarily lends to local farmers who they already work with, but have made loans to Mercy Corp Farmers as well as Portland Association of CSA Farmers.

Please email [kris@peoples.coop](mailto:kris@peoples.coop) or [johanna@peoples.coop](mailto:johanna@peoples.coop).

### [MercyCorps NW](#)

Provides micro-loans to small businesses (including small farmers) in Oregon and Washington that cannot access traditional loans. Microloan Terms

- Loan amounts: From \$500 up to \$20,000 for new businesses
- Up to \$50,000 for businesses in operation for more than one year
- Repayment terms: Two months to Five years
- No penalty for early repayment
- Loan Fees: 1-5%
- Interest: 8-12% Fixed Rate
- Credit-building potential: Loans payments are reported to the three credit reporting agencies

## Local Lenders

### [Albina Opportunities Corporation](#)

430 NW 10th Ave

Portland, OR 97209

Phone: 503-227-3950

[www.albnaopportunities.org](http://www.albnaopportunities.org)

### **Description**

AOC provides small business loans ranging from \$10,000 to \$200,000, business advisory services, and access to a peer group support network coupled with additional outside business networking resources that enable its borrowers to expand their self-employment business ventures. Interest rates between prime +3-8%.

### [NW Farm Credit Services](#)

2345 NW Amberbrook Drive Suite 100

Beaverton, OR 97006

Phone 503-844-7920 or 800-213-8555 (Oregon only)

Fax 503-844-7924



## Description

Farm Credit Services is a cooperative lending institution established by the U.S. Congress in 1916 to make credit more available to the country's farmers and ranchers. Borrowers are required to invest in capital stock as a requirement for the loan. All types of loans are offered to full-time farming and ranching operations (other lending programs are available to part-time farms and rural residents).

### [Young and Beginning Producer Program: AgVision](#)

Special loan programs for young and beginning farmers

You must meet one of the following characteristics:

1. 35 Years of age or younger
2. 10 years or less of agricultural experience
3. Recognized minority: African American, Native American, Alaskan Native, Hispanic, Asian, and Pacific Islanders
4. Producer with annual gross farm production of less than \$250,000.

Financing includes:

1. Real Estate Purchases
2. Operating Expenses
3. Livestocks and Equipment purchases
4. Refinancing of Existing Debt

### [Craft 3](#) Formerly Enterprise Cascadia

1000 SW Broadway, Suite 1000

Portland, OR 97205

Phone: 503-688-1700

Web: [www.craft3.org/borrow](http://www.craft3.org/borrow)

## Description

Microloans from \$5,000 to \$50,000, for a variety of purposes including business start-up. Enterprise Cascadia lends throughout Oregon and Washington with focal points around our current offices in Astoria, Ilwaco, Port Angeles, Portland, Seattle, and Shelton. We specialize in transactions that traditional banks could not accomplish alone and look for opportunities to invest our resources in businesses and activities that will promote family, environmental and/or economic resilience.

### [Farm Service Agency](#)

7620 SW Mohawk Street

Tualatin, OR 97062-8121

Phone 503-692-6830, Ext. 256

Web <http://www.fsa.usda.gov/or> Email [lynn.voigt@or.usda.gov](mailto:lynn.voigt@or.usda.gov)



### **Description**

USDA Loan program for existing and beginning farmers. They provide loans for purchase of land and operating expenses with specific loans for beginning farmers (3-10 years farming experience). No minimums on loans, maximum \$800,000, rates vary for products 3.875-5.5% currently.

### **[Harvest Capital Company](#)**

PO Box 579 675 NW 2nd Ave., Suite 7

Canby, OR 97013

Phone 503-263-6616

Web <http://harvcap.com>

Email [admin@harvcap.com](mailto:admin@harvcap.com)

### **Description**

Harvest Capital Company functions as originators and direct correspondent lenders for many types of agricultural and agribusiness real estate and facility loans. As an accredited Originator and Servicer in the Farmer Mac Loan Program and as direct correspondents for life insurance companies, we have the ability to service any size long-term agricultural mortgage loan request that meets the above criteria. Our lending expertise extends not only to ag long-term debt and working capital lines of credit, but also to private placement of complicated agribusiness term-loans. For additional information, please contact Harvest Capital Company.

## **National**

### **[Whole Foods Mirco Loan Program](#)**

For producers who currently qualify or sell to Whole Foods, loans between \$1,000-100,000 dollars

## **Alternative Financing:**

**[Kickstarter www.kickstarter.com](http://www.kickstarter.com)**

**[Slow Money NW www.slowmoneynw.org](http://www.slowmoneynw.org)**

Micro Loans, Equity deals, and larger Loans for food producers who share Slow Money principles.



## Lender Term Definitions Sheet

Courtesy of Oregon Dept. of Agriculture

### Credit-worthiness

An evaluation of credit-worthiness includes a review of your credit history, repayment record, experience and training, etc. Generally, lenders will obtain a credit report from a credit reporting agency to review your credit history. You may want to obtain such a report for your own use to verify the information. Errors are not uncommon and many people have found they cannot get loans because of an erroneous credit report. The following credit reporting companies can provide you a copy of your report. Usually a fee of about \$30.00 is required.

#### Experian

1-888-397-3742

[http://www.experian.com/experian\\_us.html](http://www.experian.com/experian_us.html)

#### First American CREDCO

1-800-887-3535

<http://www.facredo.com>

#### NACM-Oregon, Inc.

1-800-622-6985

<http://www.nacm-or.org>

### Financial information

Depending on the purpose of the loan (operating, farm purchase, capital improvement, expansion, etc.), lenders may require different financial statements about the operation.

The two most common financial statements required by lenders are the balance sheet and the income statement. Some lenders also require a cash flow statement, particularly if the loan is for operating purposes. These documents can be obtained from most any lender, and many variations exist. It is strongly suggested that the prospective borrower complete and evaluate financial forms before making a loan application.

Any USDA Farm Service Agency (FSA) office will have financial forms which might be used (the Farm and Home Plan form), whether or not you are a borrower of FSA. These forms are generally more detailed than those used by commercial lenders. However, they provide a good format to evaluate the operation and the loan request. Any Farm Credit Service office or local bank will also have their respective financial forms. Other sources of financial forms include County Extension Offices, Oregon



State University Department of Agricultural and Resource Economics, 541-737-2942, Chemeketa Community College Farm Business Management Program in Salem, 503-399-5089, and Blue Mountain Community College Farm Management Program in Pendleton, 541-276-1260.

### **The balance sheet**

A balance sheet lists the assets and liabilities of the farm and the owner/operator. It documents the net worth (difference between assets and liabilities), and provides information to calculate various ratios measuring the solvency (or long-term financial strength) of the operation, and the liquidity (or short-term financial status) of the operation.

### **Debt-to-asset ratio**

Once debts and assets have been totaled, the debt-to-asset ratio can be computed. This measures the amount of total debt compared to total assets. Lenders prefer this ratio to be less than .45, meaning the operation should have no more than 45 percent debt compared to total assets.

- Debt-to-asset ratio =  $\text{total debts} \div \text{total assets}$
- Preferred ratio = less than .45

Other ratios that lenders will evaluate include the liquidity ratio, the cash flow margin, and debt service coverage.

### **Liquidity ratio**

The liquidity ratio is calculated by dividing current assets by current debts. This measures the ability of the operation to meet debts which are payable in the near future. Lenders prefer this ratio to be no less than 1.25. In other words, at least a 25 percent margin should exist between short-term obligations (accounts payable, accrued interest and notes payable within 12 months, taxes, etc.) and the value of short-term assets, such as cash-on-hand, savings accounts, crops and feed or livestock held for sale.

- Liquidity ratio =  $\text{short-term assets} \div \text{short-term debts}$
- Preferred ratio = 1.25 or higher

### **Cash Flow Statement**

The next ratio requires the preparation of a cash flow statement. Lenders prefer that a monthly cash flow statement be prepared for at least one year. This statement shows the expected cash outflows and inflows throughout the coming year, detailing when additional moneys may be needed, and when surplus income will be available to repay debt.

Lenders are looking to see if the projected operation can support all necessary operating costs, living expenses (unless these are provided by an outside job or other source), and repay borrowed funds on a timely basis.



### Cash flow margin

The cash flow margin is computed by subtracting monthly (or annual) cash expenses from gross cash income, then dividing by monthly (or annual) expenses. Lenders prefer a 15 to 25 percent margin. In other words, monthly (or annual) cash income should exceed cash expenses, including interest payments on debt, by 15 to 25 percent.

- Cash flow margin =  $[\text{gross cash income} - \text{cash expenses (including interest)}] \div \text{total cash expenses}$

### Debt service coverage ratio

The debt service coverage ratio is computed after completing an income statement. This ratio shows the income generating ability of the operation toward servicing the total debt. The calculation uses net cash farm income (plus interest) divided by debt payments (principal and interest). Lenders prefer this ratio to be 1.15:1 to 1:25:1.

- Debt service coverage =  $[\text{net cash farm income} + \text{interest}] \div \text{interest and principal payments}$ .
- Net cash farm income = net farm income, plus depreciation and net off-farm income, less living expenses and income taxes.

This discussion of lender qualifications for agricultural loans has covered only a few of the items which lenders evaluate. Other considerations include the experience and management skills of the operator/borrower, the value of property to be purchased, market conditions, and other subjective factors.

However, by completing financial forms ahead of time, evaluating the strengths and weaknesses of the application, and keeping good records the prospective borrower will enhance the probability of obtaining a loan and better understand the decision process of the lender.

### Profit and Loss Statement

Is a company's financial statement that indicates how the revenue (money received from the sale of products and services before expenses are taken out, also known as the "top line") is transformed into the net income (the result after all revenues and expenses have been accounted for, also known as Net Profit or the "bottom line"). It displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including write-offs (e.g., depreciation and amortization of various assets) and taxes. The purpose of the income statement is to show managers and investors whether the company made or lost money during the period being reported. The important thing to remember about an income statement is that it represents a period of time.