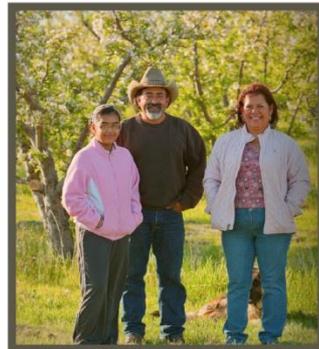


Oregon Small Farms Conference February 22, 2014 Andrea Krahmer





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Objectives for Today

- ❑ Who is Northwest FCS?
- ❑ How do you select a lender?
- ❑ How are loan decisions made?
- ❑ What Northwest FCS loan programs are available?

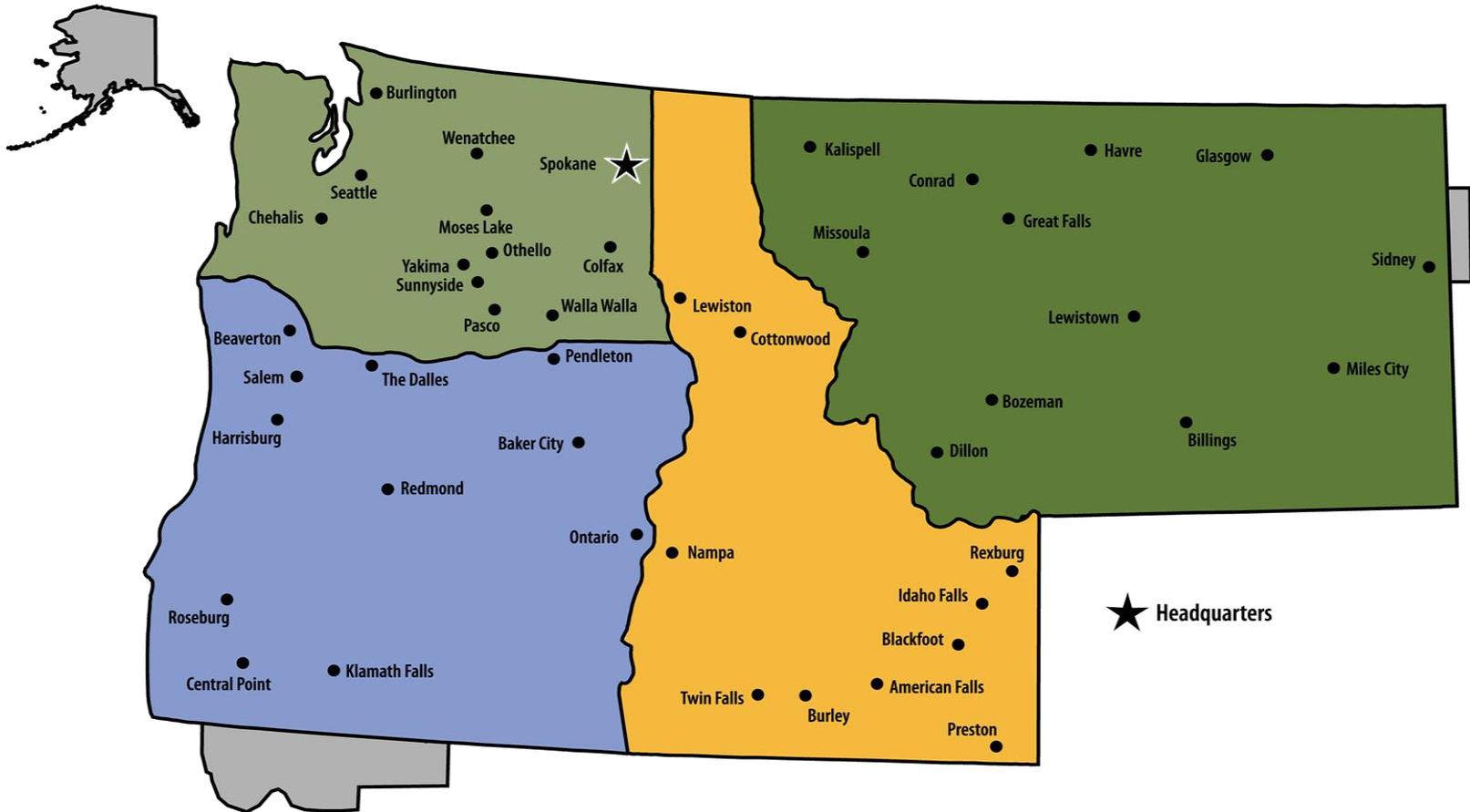


Who is Northwest FCS?

- ❑ Part of the Farm Credit System
- ❑ A farmer-owned lending cooperative
- ❑ Serving Washington, Oregon, Idaho, Montana & Alaska
- ❑ With 654 employees & 45 offices
- ❑ Providing over \$9 billion in credit to 18,380 farmers, ranchers, agribusinesses, aquatic harvesters, timber producers, & rural home owners



Northwest FCS Locations





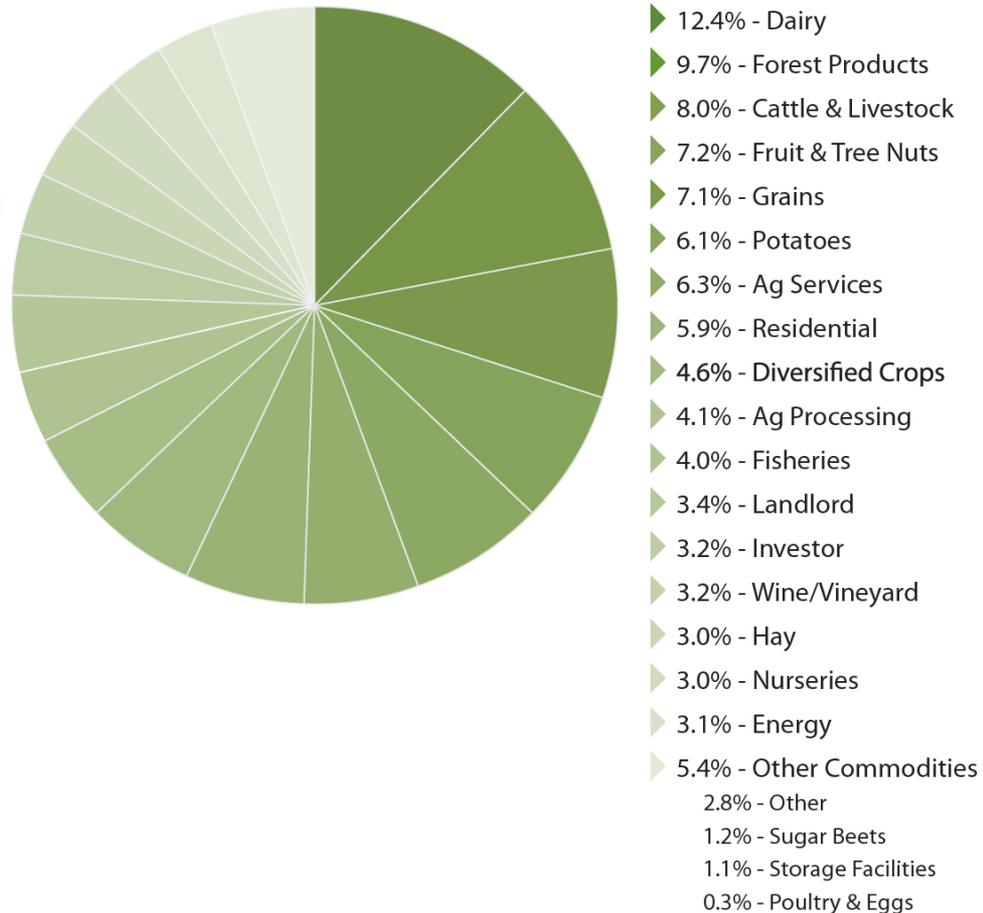
Diverse Portfolio – Association Wide

\$9.1 billion owned & serviced loan volume with 18,380 customers

Leading crop insurance provider in the Northwest, covering a total liability of \$2.1 billion.

\$288 million outstanding to 1,038 young, beginning and small producers through the AgVision program

\$825,000 was donated to youth, community and industry related groups and activities in 2012





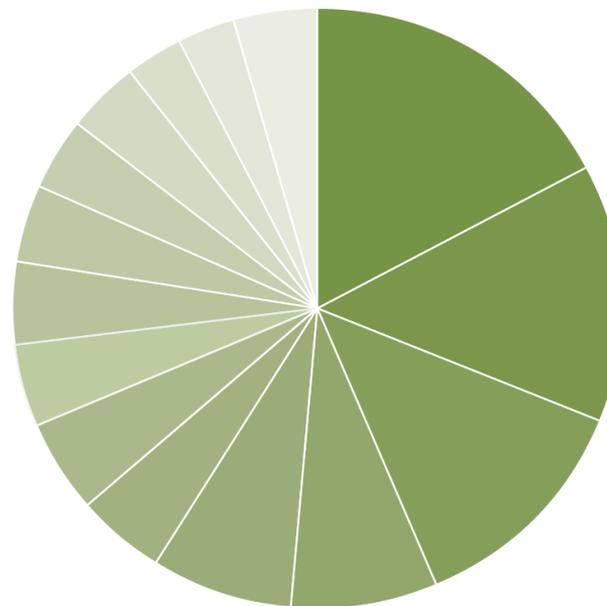
Diverse Portfolio – Oregon Facts

\$1.9 billion owned & serviced loan volume with 4,000 customers

Crop insurance covering a total liability of \$863 million.

\$80.9 million outstanding to 261 young, beginning and small producers through the AgVision program

Nearly \$148,000 donated to Oregon Ag and rural community-related organizations in 2012



- ▶ 17.0% Forest Products
- ▶ 13.8% Residential
- ▶ 12.2% Diversified Crops
- ▶ 7.6% Cattle & Livestock
- ▶ 7.4% Nurseries
- ▶ 4.8% Landlord
- ▶ 4.8% Fruit & Tree Nuts
- ▶ 4.4% Grains
- ▶ 4.3% Wine/Vineyard
- ▶ 4.1% Dairy
- ▶ 3.9% Hay
- ▶ 3.7% Ag Services
- ▶ 3.1% Ag Processing
- ▶ 3.1% Potatoes
- ▶ 4.1% Other -
 - 1.8% Fisheries
 - 1.5% Investor
 - 0.6% Other
 - 0.1% Poultry and Eggs
 - 0.1% Sugar Beets



How do you select a lender?

The Borrower-lender Relationship - A Two Way Street

Look for.....

- ❖ Look for...a lender that has an understanding of your industry and its people
- ❖ Look for...a lender with the capacity to meet your borrowing needs
- ❖ Look for...a lender with competitive loan products and services



The Borrower-lender Relationship - A Two Way Street

Choose....

- ❖ Choose...a lender with a long-term presence in your industry and community
- ❖ Choose...a lender that treats you like more than just a transaction
- ❖ Choose...to do business with a lender that values trust, confidentiality and ethics
- ❖ Choose...a lender that communicates rates, terms, and conditions in a manner you can understand.



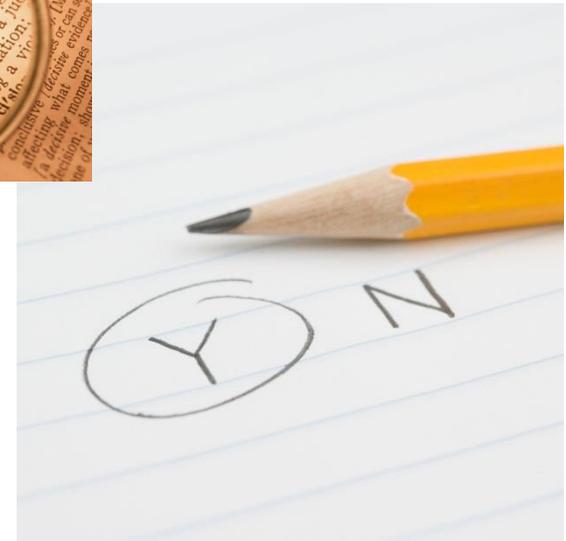
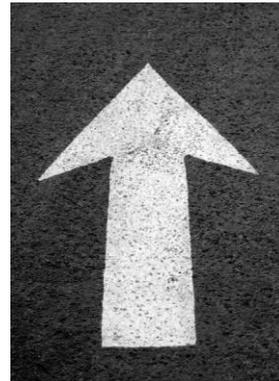
The Borrower-lender Relationship - A Two Way Street

How to be a valuable partner in the lending relationship:

- ❖ Maintain an honest relationship with your lender
- ❖ Strive for open and regular communication with your lender
- ❖ Provide your lender with accurate financial information
- ❖ Prepare a complete and thorough business plan
- ❖ Perform a personal credit bureau check on a yearly basis



How are Loan Decisions Made?





What could be included in an application package?

Each lender and each application package is different – be sure to obtain the list of needed material from the lender you are working with for your loan.

Application Package Example:

- Application
- Business Plan
- Current Balance Sheet (include personal & business assets & debts)
- Previous Balance Sheets if they are available
- Current year income and expense records (if not yet in tax form)
- Past three year's tax returns
- Historical production records & narrative explaining the operation to date
- Complete monthly cash flow budget for the next operating year
- Projected income and expenses for 3-5 years



The 5 C's of Credit

- ❑ **Character** – Management skills & credit history
- ❑ **Capital** – What do you own and owe?
- ❑ **Capacity** – Can you repay the loan?
- ❑ **Collateral** – Security that backs up the loan
- ❑ **Conditions** – Terms of the loan

Most lenders use this method or a similar method to analyze loan applications



Character

- ❖ **Educational background & prior experience**
- ❖ **Community & industry involvement**
- ❖ **Related skills (mechanical, legal, technological)**
- ❖ **History of the operation**
 - Positive production history....
 - Financial benchmarks met or exceeded....
 - Successful marketing plans....



Character

Do you have a good Business Plan in place?

General

- ❑ Name, Date, Production year

Financial

- ❑ Current year **income and expense records**
- ❑ Previous, Current and Projected **balance sheets**
- ❑ Past **three year's tax returns**
- ❑ Complete monthly **cash flow budget (consider multiple years of projections)**

Farm Plan

- ❑ Land-base -- list each tract, total acres, location, owned or leased (include terms).
- ❑ Number of acres and crops to be grown on each tract, yield, estimated price per unit
- ❑ Livestock -- list total number by classification (cows, bulls, etc.) List number of head to be produced, pounds per head for sale, and estimated price per pound.
- ❑ Conservation practices
- ❑ Marketing plan including when and how products will be marketed



Character

Do you have a good Business Plan in place?

Risk Philosophy

- Insurance – do you have Life or Health insurance.
- Insurance - Crop - crop hail, multi-peril, amount of coverage, cost, agent and company.

Expansion Plans

- Plans to purchase real estate.
- Plans to rent additional real estate.
- Proposed source of capital.
- Proposed repayment plans.
- Equipment purchases -- date, item, cost, and type of financing.

Personal

- Experience
- Goals -- list short-term and long-term



Character

Do you have a good 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 650
- ❑ No late payments
- ❑ Minimal credit card balances
- ❑ No outstanding collections or liens
- ❑ Review your credit report at least once a year

www.annualcreditreport.com



Capital

Current Financial Position...

What do you own and what do you owe?

Financial Statement: **Balance Sheet**

Financial ratio: **Working Capital** (liquidity)

- ❑ How much working capital does a business need? Depends on the business, the more working capital, the greater the flexibility

Financial ratio: **Debt to Asset Ratio** (leverage)

- ❑ Want to see this ratio below 65%

This shows the producer has a stake in the game and will ensure good financial and management decisions.



Capacity

Historical, Current and Projected
Financial Position...

Can you repay the loan?

It's one of the most important factors for any operation!

Financial Statement: Income Statement & Cash Flow Budget

Revenue less Expenses = Net Income

- ❑ We want to see a net income margin of 10% as compared to your gross income.



Collateral

Collateral is the security that backs up the loan.

Examples: Farm Ground, Farm Equipment, Crop Inventories, Livestock, etc.

Collateral type will match the type of loan being made:

- ❑ Operating loan – crops & livestock
- ❑ Equipment loan – machinery & equipment
- ❑ Real Estate loan – farm ground being purchased

NWFCS standards indicate:

Loan Amount/Collateral Value less than 80%



Conditions

Conditions are the terms of the loan.

Example: Length of loan, fixed vs. variable rates, FSA guarantee, crop insurance, life insurance requirement, liab parties etc.

Both the lender and the customer determine the conditions on loans.

If there is weakness in one of the other C's, we can add conditions to help mitigate the risk to Northwest FCS and the customer.



Key Financial Ratios

**What are some of the Key Ratios I can track over time?
How to calculate them?
What are they telling me?**

Gauging the business from a ratio perspective
based on The Traffic Light.....

- ✓ Green (Low Risk) – but does not always equal success
- ✓ Yellow (Moderate Risk)
- ✓ Red (High Risk) – but does not always equal failure



Key Financial Ratios

Key Financial Ratio	Calculation	Green	Yellow	Red
Current Ratio	Total Current Assets / Total Current Liabilities	>1.5:1	1.00:1 to 1.50:1	<1.00:1
Working Capital	Total Current Assets - Total Current Liabilities	Depends on the operation		
Working Capital Rule	Working Capital / Total Expenses	>50%	20% to 50%	<20%
Debt / Asset Ratio	Total Liabilities / Total Assets	<30%	30% to 55%	>55%
Operating Profit Margin Ratio	Net Farm Income / Gross Revenue	>25%	10% to 25%	<10%

Use ratios to determine weak areas in your business and evaluate what changes might be needed. Be sure to evaluate ratios over time.



What Northwest FCS loan programs are available?

Loan Programs

- Real Estate purchase
- Operating expenses
- Livestock and equipment purchases
- Refinancing existing debt

Other Products

- AgVision Program
- Appraisal Services
- Country Home (Rural housing) Loans
- Crop Insurance
- Life and Disability Insurance



Northwest FCS Programs

AgVision: Specialized lending program

A program designed to help young, beginning and small producers :

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

OR

- ❑ **Beginning** (10 years of farm management experience or less)

OR

- ❑ **Small** (Annual gross farm production less than \$250,000)

Outreach focus: Military Veterans, Minorities, Urban/local producers



AgVision Program Benefits

- Reduced Underwriting Criteria
- Fee waivers
 - Appraisal fees
 - Loan origination fees
- Competitive interest rates
- Educational / Technology benefits
 - \$500 reimbursement for technology purchases
 - \$500 travel reimbursement to educational commodity workshops/conferences
 - \$500 credit toward NWFCS workshops



AgVision Program Benefits

- ❑ Leadership opportunities through our Local Advisor Committee
- ❑ Education Opportunities
 - Annual AgVision Producer Conference
 - Workshops geared toward enhancing financial analyses
- ❑ Access to Northwest FCS Knowledge Center which provides market snapshots, industry perspectives, and peer financial benchmarks



AgVision Partners & Tools

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, FSA finances 45% and Northwest FCS finances 50%.
 - ❑ Northwest issues a 30 year Note



AgVision JumpStart™ Loan

- ❑ Start-up capital for new ventures or cooperatives
- ❑ Interest-only payments for 5 years
- ❑ Budgeted operating loan
- ❑ Maximum loan amount of \$100,000
- ❑ Funds working capital: down payments, capital purchases, annual operating expenses
- ❑ Customer expected to repay and meet AgVision lending standards within 5 years
- ❑ Specially designed for customers who cannot meet AgVision underwriting criteria



AgVision RateWise™ Program

- ❑ Rewards producers for continuing management education with interest rate reductions on new loans
- ❑ Credits earned for programs offered by our Business Management Center/Knowledge Center, universities, industry groups (this conference workshop) and FSA
- ❑ Participants can earn rate reductions of 0.25%, 0.50% and 0.75% for three years depending on credits earned
- ❑ Customers and non-customers can accumulate RateWise credits for up to six years
- ❑ Producers register at northwestfcs.com/RateWise

