Rural Advancement Foundation International - USA

www.rafiusa.org

FACT SHEET: AG LENDING 101

Lenders gain confidence in your capabilities by looking at your:

- ✓ Prior production history
- ✓ Personal and business credit history
- ✓ Your financial records (including balance sheets, inventories, income statements or tax returns)
- ✓ Farm plan or business and marketing plan

Lenders need to see your path to repayment of the loan, shown in your:

- ✓ Production or management plan
- ✓ Marketing plan
- ✓ Projected cash flows
- ✓ Collateral, equity, or other off-farm income streams

There are common issues that lenders agree are important in dealing with loan applicants. The "Five C's" are one way of understanding these issues.

The Five C's:

1. **Cash Flow** (Capacity to repay the loan)
2. **Capital** (Equity investment in the enterprise)
3. **Collateral** (Security for the loan)
4. **Conditions** (Considering the 'big picture')
5. **Character** (Capacity to manage a successful enterprise)

PO Box 640 • Pittsboro, NC 27312 • Tel: 919-542-1396 • Fax: 919-542-0069 • www.rafiusa.org

Defining the Five C's

Cash Flow: Capacity to Repay the Loan

Cash Flow tells you how much of the cash you generate remains after expenses and repayment of debt. Cash Flow is looked at as a measure of your capacity to repay a loan. While you can look at cash flow for a period as short as a month, a quarter, or a year, most lenders want to see cash flows projected three to five years into the future.

Capital: Equity Investment in the Enterprise

Capital is the money you have personally invested in the business and is an indication of how much you have at risk should the business fail. Lenders and investors will need to know what you have put "on the line" before asking them to commit any funding.

Collateral: Security for the Loan

If the borrower is unable to repay the loan, how does the lender get back his money? Collateral is land, equipment, houses, cars, and other things of value that a lender can hold as security for a loan, and repossess if the loan is not repaid.

Conditions: Considering the Big Picture

What are the current economic conditions, and where do your farm and business plans fit in? The lender looks at the intended purpose of the loan, then thinks about the impact of the local and national economy on your plans.

Character: Capacity to Manage a Successful Enterprise

Character is about your personal, professional capacity to execute your plan successfully. Different people, including lenders, evaluate character differently. Most will want to see a steady employment history and a good credit record. Your credit history is a record of your past borrowing performance.

FOR MORE INFORMATION, SEE THE FARMER'S GUIDE TO AGRICULTURAL CREDIT
http://rafiusa.org/blog/the-farmers-guide-to-agricultural-credit/