Rural Advancement Foundation International - USA

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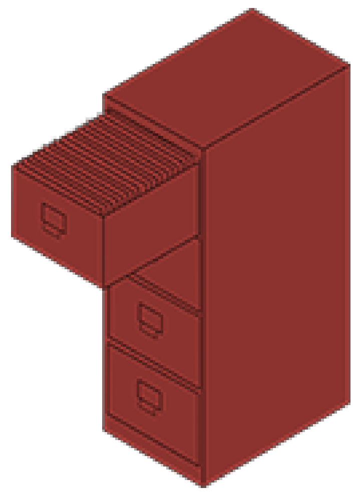
FACT SHEET: COMMUNICATING YOUR APPLICATION TO A LENDER

Checklist of what you need before approaching a lender:



- ✓ **Balance Sheet**
- ✓ **Income Statement**
- ✓ **Production Records**
- ✓ **Cash Flow Projections**
- ✓ **A Business Plan**

- **Balance Sheet:** A balance sheet lists all business assets and liabilities, showing what is owned and what is owed. A completed balance sheet will help you and your lender to determine your net worth and equity. A balance sheet is only a snapshot of your financial situation at a specific date and time. It does not indicate whether you or your business are making or losing money.
- **Income Statement:** While a balance sheet is a snapshot of your business at a given instant in time, an income statement tells how much money you have earned over a period of time—usually a year, sometimes longer or shorter. Often, lenders will want to use tax records as a record of income. (For many farmers this is Schedule F.)
- **Production Records:** Production history is a critical component of how a lender evaluates a lending proposal. Preferably, lenders will want to see documented evidence of your success for the enterprise for which you are seeking capital. If the enterprise is new to you, you may not have production records. In that case, a lender will want to see documentation of success with other enterprises and crops.

The key point is that keeping records is important. You must keep the records in the first place in order to use them as part of a loan application package.

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- **Cash Flow Projections:** Cash flow projections allow you to analyze the future viability of an enterprise by determining the timing of expenses and income and whether you will have enough cash on hand when it is needed.

> **As a farm-business manager, you can use cash flow analysis to ensure that you will have enough cash to pay expenses, loans, and to get a sense of your future profits.**

Cash flow projections look at sources and uses of cash or incoming cash and outgoing cash. When you create yours, you will take into consideration your current cash position, receivables or sales, other cash sources, and you will compare them against all uses of cash, such as the cost of seed and other inputs, operating expenses, income taxes, and other cash uses.

A cash flow projection ends with "net change in cash position," a figure derived by subtracting the estimated cash uses from the estimated cash sources. By adding the net change figure to the starting cash figure, you learn how much cash you will have for the next month, quarter or year.

- **Business Plan:** While business plans take many different forms, all good plans should contain the following elements.

1) Executive Summary
2) Product or Service
3) Marketing
4) Operations
5) Financials

*For a description of each of the elements see **Fact Sheet: Business Planning.**

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