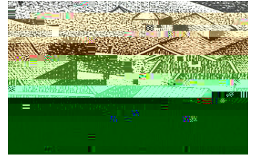

In most cases, app

A lender will likely use the following "Five C's" when reviewing your loan application.*

- ***C p c y*** *to repay the loan. The lender will look at the financial ability that you and your farm has to pay back the loan based on the history of the farm, on-going cash flow, and assets you hold.*
- ***C p*** *or the money you have already invested in your business. Do you have sufficient capital to support ongoing operation of the farm as well servicing debt? Better still, do you have enough capital to operate the farm during tough times?*
- ***C r c er*** *or the general impression you make on the lender. This is a subjective judgement on the part of the lender as to whether you and your business idea will succeed. They will look at your qualifications, experience and management skills, as well as your personal credit. The better you are prepared before you meet with a lender, the better your chances of making a good impression on the lender with regard to character.*
- ***Co er*** *are the assets you own that the lender uses as a backup to recover funds if you happen to default on the loan. Think about the assets that you will put up as collateral. Is the liquidation value of these assets sufficient to pay back the lender in case of default?*
- ***Cond ons*** *surrounding the intended purpose of the loan. How risky is your farm enterprise? What are the current economic trends of the farm's commodity and/or markets? Do they make your future success more or less likely?*

able speak the language of finance. So it is important that your proposal or business plan include basic financial statements like a *Balance Sheet* (or Net Worth Statement), *Operating Statement* (or Profit and Loss), and *Cash Flow Statement*. Most lenders will also want to see income tax returns from previous years.

Loo o

Above all, lenders think about risk. Are you a good risk for their money? Should they invest in you? Most lenders have a goal of making a profit for their shareholders. All lenders have a primary goal of getting their money back, with interest. To ensure these goals are met, lenders will measure the amount of risk you pose. Higher risk may mean that you need to offer more collateral, pay a higher interest rate, or that you will not be able to receive the loan.

How is your credit history? Are you up-to-date on payments, loans, credit cards, and taxes? If not, you aren't a very good risk. If for some reason you don't have a good credit history, you may have to prove yourself for a few years, then return with another proposal.

All lenders expect to be paid back. They want to know that the business they lend to will generate enough cash to pay back the loan and make additional money (for paying their costs of operation and for profit). No lender will loan you all of the money you need for a project; they expect you to be risking some money as well.

Lenders will take the information that you give them, study it, and make a decision as to whether or not they want to take a chance on you. They will need to have their names on more collateral than just the asset that you buy with the borrowed money. This gives them some security that their money will be recovered if you default on the loan. As a rule of thumb, they need to have about $150 worth of collateral for each $100 that they loan. This is how