

What to Know Before Expanding Your Operation

By Kathy Daily, First Financial Bank

The current commodity environment has presented some challenges for all agricultural producers. More than likely you have seen an increase in land sales in your area. The further entrenched we get into the current price cycle, the more likely it will be that land sales will continue to increase. For producers that took advantage of the highs a few years ago and socked away cash or reduced their debt load, you may have an opportunity to increase your operation through additional land purchases. Whether you find out about these properties through personal communications with the seller or through auction notices, you will need to be ready to act fairly quickly when opportunities arise.

Think about farms that would complement your operation:

- Do you know what yields are being generated on the farm?
- Do you know of any needed repairs to buildings?
- What about environmental concerns?
- Does it lack adequate drainage?
- Is there a reliable water source?
- What kind of investment would it take to bring the operation up to your standards?

Do your research before it becomes available.

If you don't have adequate cash to purchase the land outright or if you want to hold onto your cash to preserve working capital, you will need to seek pre-approval from your lender to ensure you have access to money when it is needed. All lenders are different, but it is safe to say that they will probably need the following items:

- Three years of federal tax returns on all entities
- Current Balance Sheet on all entities
- Application
- Credit Authorization
- Operation Description
(if you are going to work with a new lender)
- The amount of down payment you will be able to contribute to the purchase or equivalent collateral you are willing to offer as security

- *Yield history on the operation, if applicable
- *Historical farm income and expenses from the seller
- *Details of what you are willing to pay for the property
(This will help you decide what the top side of the price would look like in the form of payments.)
- *Projections for the first full year that you will own the property
(This will help the lender see the efficiencies gained from the expanded operation. Be sure to explain any swings in income or expenses.)

*indicates property specific information

Even if you plan to pay for the purchase from cash on hand, it is still good to share the information with your operating lender in the case that you need to increase your operating line. When it comes to lending relationships, maintaining a "no surprises" rapport with your lender is a good practice for both sides.

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