

Will an Agricultural Loan Help You Meet Your Goals?

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Did you ever think about getting a loan for your farm business? Maybe you want to buy a tractor? Maybe you have your eye on a new plot of land? Or maybe you are just temporarily short on cash while you are waiting for your crops to start yielding. How do you know if a loan is right for you? What do you have to do to get one? What are some things to watch out for?

What Are Your Options?

Small farmers in California have options for obtaining loans when banks turn you down. A couple outstanding examples are California Farmlink and Feed the Hunger Fund. These are organizations dedicated to the success of small farmers rather than the pursuit of profit. For a quicker and easier application process you could turn to a bank that specializes in agricultural loans such as Ag West. Then there's the Federal government's Farm Service Agency, which serves as the lender of last resort. If you have the farming skills and the business practices that demonstrate your ability to pay back the loan, these institutions will lend you an appropriate amount at a reasonable interest rate.

What is Needed to Apply?

The first thing to keep in mind about trustworthy lenders is that they need to know the risk involved in lending to you. They will want to look at your records, your practices, and your history. They will be able to tell if you are likely to have problems making the payments on a loan. This means that if the debt will be a burden for you, they will keep you from entering into one.

What will you need to show to the lender to prove your creditworthiness? Here are some likely items:

Three years of tax returns – the IRS may not require you to file tax returns if your sales are low enough, but here is a good reason to file anyway;

- Three years of production history – this is your crop list, yield data, and prices (your farmers market load lists or your year-end statements of sales to processors or to restaurants will have this information);
- Balance sheet – this is a listing of assets, both financial and physical, and debts held at the time of application;
- Income statement – this will show your sales for the year so far, your costs, and your net income (sales minus costs);
- Cash flow projections – this is a monthly accounting of money that you expect will be moving into and out of your farm business during the next year (it will take some research based on your records to make good estimates, but nonprofits that assist small businesses like California Farmlink or Kitchen Table Advisors can help you by providing a template to fill in);

- Land title or lease agreement;
- Credit report and credit score;
- Proof of business insurance;
- Most recent bank statements;

... and possibly additional documentation. If a lender doesn't show an in-depth interest in the workings of your business, you should be suspicious.

What to Expect for Loan Terms

Interest rates charged by mission-driven non-profits range from 5% to around 8.5% for business development, equipment purchase, and operating expenses. Rates vary based on the length of time for repayment, and there will be a one-time fee of up to 2%. Compare that with a credit card charge, which could burden you with an interest rate of 25% or more. California Farmlink will lower the interest rate by an extra percentage point if you take their class on healthy business practices known as The Resiliator, and Feed the Hunger Fund provides coaching on business development. Don't expect to get such perks from a credit card. For land acquisition, the non-profits' interest rate is competitive, and repayment is done over 30 years (the land must have a source of water, and you may not use off-farm income to repay it). Interest rates charged by Ag West may be higher, but they are lower than what you'd pay at a regular bank, and Ag West understands the particular needs of farmers better. The Federal FSA is known for the lowest interest rates and a favorable payback timeline, but as a government agency they require extra steps, including registration and proof of citizenship or legal residence. Also, they take more time, often due to understaffing, and you must have been denied loans from other lenders for them to consider you.

What if you don't have all the documentation? Reach out to a non-profit lender anyway, if for no other reason than to get feedback for getting on track. They can even provide the templates that will help you manage key information such as your net income, production yields, and historical sales. If you start keeping good records now, it will put you in a better position for receiving a loan or other financial assistance in the future, and it can even improve the health of your farm business – which is the underlying reason that you're considering a loan in the first place.

It's not easy to cover your up-front costs in farming. If you foresee an upcoming expense, try to come up with a plan for avoiding the use of your credit card, even if it's a small amount. Consider whether a loan will help you advance toward your goals in the longer term.