



Submitting an Agricultural Loan to Pactola : Key Questions for the Borrower

- 1. How much is the loan request and what is the anticipated LTV?** How is the proposed LTV figured? Is there a recent appraisal? Borrower value? Estimate from the lender?
- 2. How will the funds be used?** Purchase, refinance, improvements, debt restructure, permanent plantings, cash out, or some combination thereof? If you seek a Farmer Mac loan, and the cash out portion is more than 25% of the proceeds, the LTV will usually be limited to 60% or less with an amortization of 15 years or less. Cash out is defined as advancing funds for anything other than retiring debts secured with the land, improvements to be made immediately or that have been made in the past two years, or permanent plantings. If the cash out requirements, we can consider another financing option outside of Farmer Mac. Is there need for an operating line?
- 3. What loan product is the customer requesting and what is the expected rate?** If you seek a Farmer Mac loan, what type does the borrower want? If another agriculture financing option, what are the rates and terms desired by the borrower. When do they want payments due?
- 4. Who is the applicant and what is the ownership structure?** The applicant should be the property owner and the operating entity that produces sufficient cash flow to service the debt. These can be individuals, LLCs, partnerships, S Corps, trusts, C Corps or a combination of several entities. Is there any non-farm income? Do the applicants have any other business ownership of 10% or more of another business entity outside of the borrowing entities? If so, financials may be required on said business.
- 5. What is the security for this loan and who are the titleholders?** This defines the eligibility of the property for its highest and best use. Titleholders will sign the note and mortgage/deed of trust. Financial information must be gathered on any person, corporation, LLC, trust, etc., holding 10% or more interest in the borrowing entity.
- 6. Who is the applicant's current operating lender and what is the relationship?** What are the maximum dollars available on the line or credit? What is the average annual balance on the credit line? What is the seasonal pattern of borrowing on the line? Consider if the AgEquity LOC is appropriate for them or if not would this be a relationship appropriate for you to have with the borrower.
- 7. What is the applicant's credit and payment history?** Are there any judgments, collections or other legal actions? Obtain a credit release authorization. One is contained within the Pactola Agricultural Application.

8. **What agricultural assets have the applicants owned, rented, bought and sold over the past four years?** If any real estate has been bought or sold, obtain the purchase or sale price and acres. Understand the acres and/or livestock under management, type of production, and permanent improvements attached to the real estate that have been made over the past two years.
9. **What other changes have occurred in the farm operation or non-farm income/expenses over the past four years?** Understand changes in contacts held, wages, outside businesses, inheritance, and gifts. Can any of these explain past/future performance?
10. **Are there any other questions after a review of the tax returns and past balance sheets?** How is the operation affected by outside wages, pensions, social security, alimony, college tuition, etc. Review Schedules C,D,E,F and the other returns for changes in the operation.

What Information Do I Need to Gather?

<input type="checkbox"/>	3-4 years full Federal Tax Returns on all borrowing entities. (Consider 4 years for operations where commodities grown are alternate bearing plantings or if the additional year will help explain marginal credit issues.)
<input type="checkbox"/>	Current Market Value Balance Sheet (within past 90 days)
<input type="checkbox"/>	Balance Sheets from up to 3 prior years if available
<input type="checkbox"/>	Copies of signed contracts, agreements
<input type="checkbox"/>	Verification of assets (bank and brokerage statements, billing statements, 401ks etc.)
<input type="checkbox"/>	Signed loan application, environmental disclosure, and credit release authorization
<input type="checkbox"/>	Provide background information on customer to Pactola (5 C's of Credit)

What Background Information Does Pactola Need?

Use your answers to the questions above and information gathered to prepare a short narrative about your member/borrower. This narrative will help Pactola better understand the request. The sample below shows a sample of information that is useful to get your request to a closed loan. Note, this is not exhaustive and the sample below along with the above questions are information provided to Pactola to help us understand the transaction.

1. Background: Our borrowers are Joe and Mary Farmer, their farm trucking company, Bingo, LLC and their grain operation, High Yield Partnership. Borrowers are experienced farmers who own 340 acres of farm ground with 280 acres are tillable. This property is

typically used for beans and corn and the un-tilled portion houses a cattle herd of 40-60 head. High Yield also rents another 500 acres, which is typically used for beans or corn. In 2001, borrowers formed Bingo (named after the farmer's dog) and are the sole owners of it. Bingo runs a fleet of 20 grain trucks, delivering product and seed within a 100-mile area. High Yield Partnership is owned 90% by Joe and Mary and 5% each by their children, Bob and Sally.

The Borrowers marketing approach consist of utilizing forward contract for some of their crops as well as carrying over crops in storage to maximize marketing potential. Cattle are typically taken to market in October and March, if prices are favorable.

The note will be signed by Joe and Mary personally and also be executed by their High Yield and Bingo.

2. Character: Both borrowers are U.S. citizens. They have a term loan of \$100,000 and an operating line of credit for \$200,000 at my credit union. All accounts are paid as agreed. The operating line typically advances up throughout planting season and is zeroed out in the fall. They have been my customers for 5 years.

3. Capacity: The farm operation is stable. Earnings have been consistent from the grains over the past three years. The trucking company began two years ago and has reached a stabilized income level in the past year. Most hauling is on a contract basis with 25 different farmers and two grain elevators. The cow-calf income fluctuates with changes in market prices and need of cash. If market prices are favorable and more cash is needed in operations, Joe will take cows to market; otherwise, they will hold them longer.

Pro-forma total debt coverage projections are in line with historical performance and is 1.71x. Net income from the grain and farm trucking is sufficient to service debt if borrower decides to hold back a cattle sale. In addition to the farm, Mary is a nurse at the local hospital where she has worked for 7 years. Her gross income last year was \$50,000.

4. Capital: The personal and farm financial statements are internally prepared. Bingo's financials are prepared quarterly by an outside accountant. All financial statements are based on current market values. Three years of returns for the Farmers and High Yield are provided. Two years are the only ones available for Bingo. Asset values appear to be accurate and the farm machinery is in good repair. Working capital and liquidity appear to be adequate with a pro-forma current ratio of 2.1. Net worth has increased over the past three years primarily due to a profitable operation and increases in real estate values. Current assets are verified with bank and brokerage statements.

5. Collateral: The 340 acre farmland and improvements will be the collateral. The subject consists of 280 acres of tillable land, a 5 acre home-site complete with machine shop and pond, and 55 acres of pasture. Two barns and a grain storage facility sit close to the home-site. The tillable land is irrigated; therefore, the irrigation equipment, pump, motor and pivots will be included in the collateral. The anticipated value of the property is \$1,000,000, which makes an anticipated LTV of 40%. All will be verified by the appraisal.

The collateral is owned jointly by the Farmers.

6. Residence on the Collateral: Yes a 4 bedroom, 2,200 sf. residence of the Farmers sits on the site.

7. Use of Loan Funds/Type of Loan Requested: The following is the proposed uses of loan funds:

Payoff Big Bank for Land Loan:	\$250,000
Payoff my institution loan:	\$100,000
Refinance Pivot loan	\$ 25,000
Operating Capital/Closing Costs	\$ 25,000
Total Loan	\$400,000

Borrowers are requesting a fixed rate mortgage with a 15 year amortization and 15 year term.

Borrowers want semi-annual payments in January and July.