Dairy Lending: a Lender's Perspective

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Who is Farm Credit of Florida, ACA?

The Farm Credit System is a nationwide network of member-owned cooperatives established to provide financing to agriculture and rural America. Farm Credit of Florida, ACA, is the result of a merger between Farm Credit of North Florida, Farm Credit of South Florida, and Farm Credit of Southwest Florida. Despite the name, there are two other ACA's remaining in Florida.

What is the Lending Environment?

In general, lending has been impacted over the past 3 years due to the recession. Regulation and over-sight has increased for all lenders, including Farm Credit. Agricultural, including dairy, appears to be doing better than most segments of the economy and the outlook is favorable. Agricultural lending is what we are chartered to do and we are looking for new business. We need to grow our business with quality assets and have a commitment to our member/borrowers to make safe and sound loans.

Pros and Cons of Dairy Lending

Pros:

1. Monthly cash flow
2. Well established markets
3. The ability to generate a significant amount of financial and performance information
4. Have a well established support industry

Cons:

1. Significant capital requirements
2. Market cycles that dramatically impact revenue
3. Concentrated risks – herd health, environmental, labor, etc.
4. Specialized assets

What Does a Lender Look For in a Loan Request?

Lenders base their decisions on an analysis of the information provided by the borrower. It is the borrower's responsibility to provide support and documentation of the loan request. Items that assist the lender in this analysis are as follows:

1. A written business plan - brief and factual

- Management and business history

- Define where you started, where you are, and where you want to be
- Purpose of term of the loan: Operating – 1 year, Cows & equipment – 3 to5 years, Land and improvements – 7 to 20 years

2. **Document and support for your current position with detailed information**
   - Current balance sheet with a 3 to 5 year historical trend
   - Historical income and expense information over 3 to 5 years
   - Production history
   - Herd health history (including cull rate)
   - Feed program
   - Heifer program
   - Compare to peers and industry standards
   - Address any significant changes or challenges to your operation

3. **Key financial measures - how do you compare to peers?**
   - Profitability – long-term survival
   - Cash Flow – ability to meet short-term obligations
   - Equity – How much of your operation do you own
   - Liquidity – How much short-term adversity can you withstand
   - Debt per Cow – If your debt per cow is higher than your peers, show how you can compensate given the same price for your product
   - Collateral – What is the condition and marketability of your collateral

4. **Provide clear business goals**
   - Projected herd numbers
   - Improvement plans, specifications, and costs
   - Management needs and/or changes
   - Personnel needs
   - Anticipated results
   - Provide support for assumptions used in your projections
   - Succession planning

5. **Discuss the transition period – how will you get there?**
   - Interim cash flow
   - Financing needs, including a draw schedule and repayment schedule
   - Time frame for converting assets to cash if this is part of your funding plan

6. **Monitor progress**
   - Need to have a budget and compare it to actual on at least a monthly basis

7. **Have a contingency plan**
   - How will you handle adversity, cost over-runs, etc.

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