

Preparing for loan renewals and applications in 2025

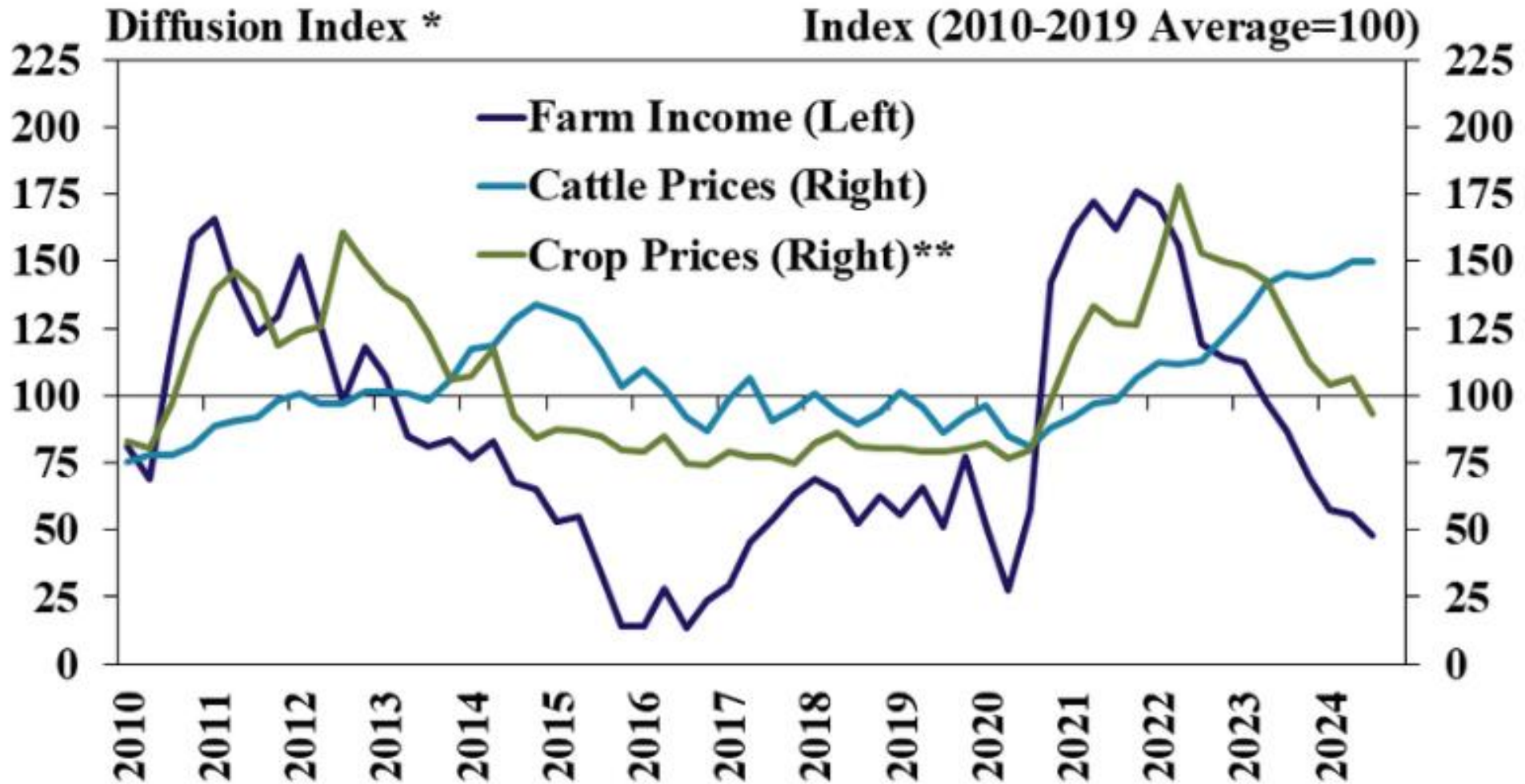
February 2025

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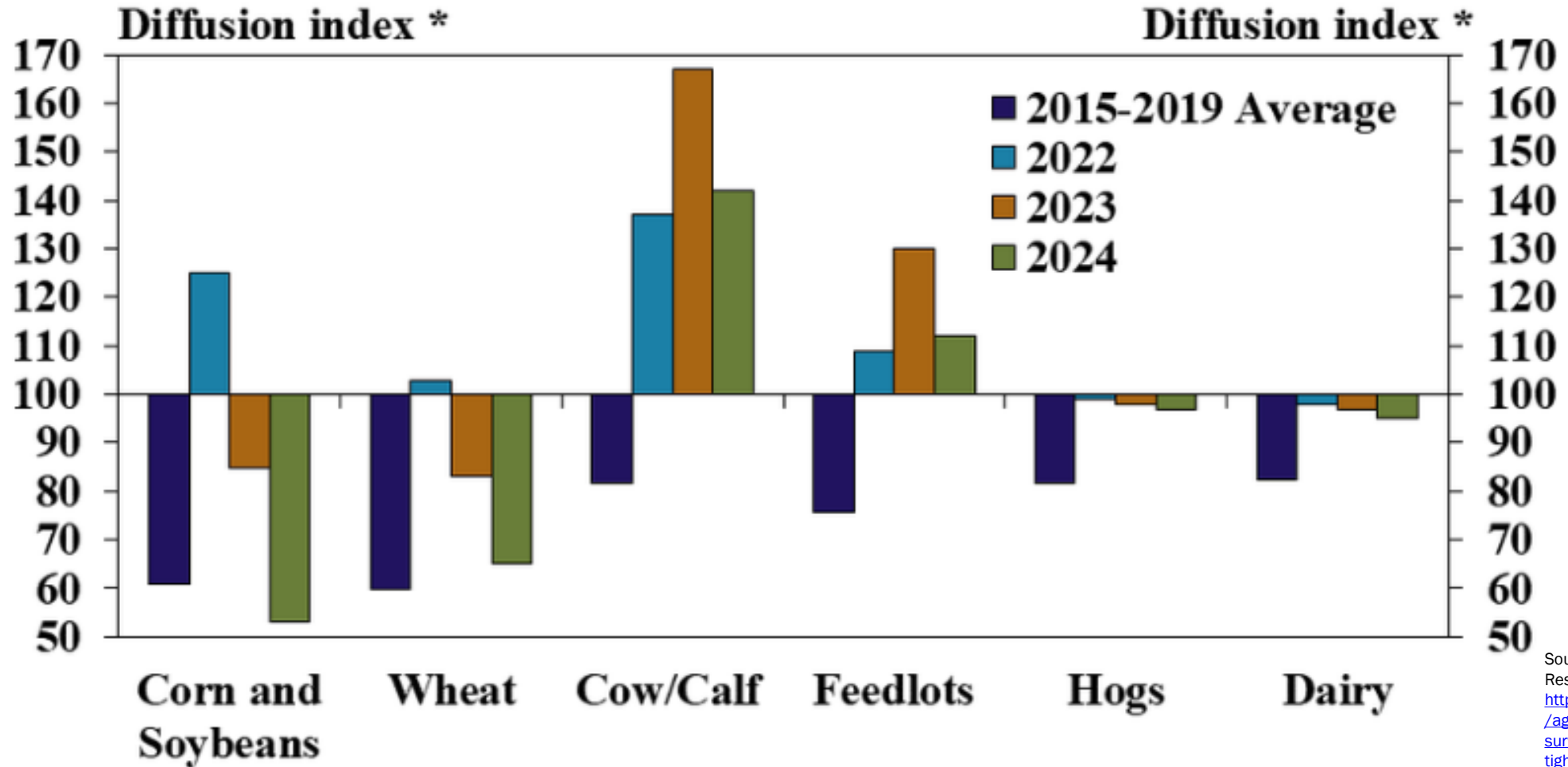
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Farm Income and Commodity Prices- Kansas City Federal Reserve Bank



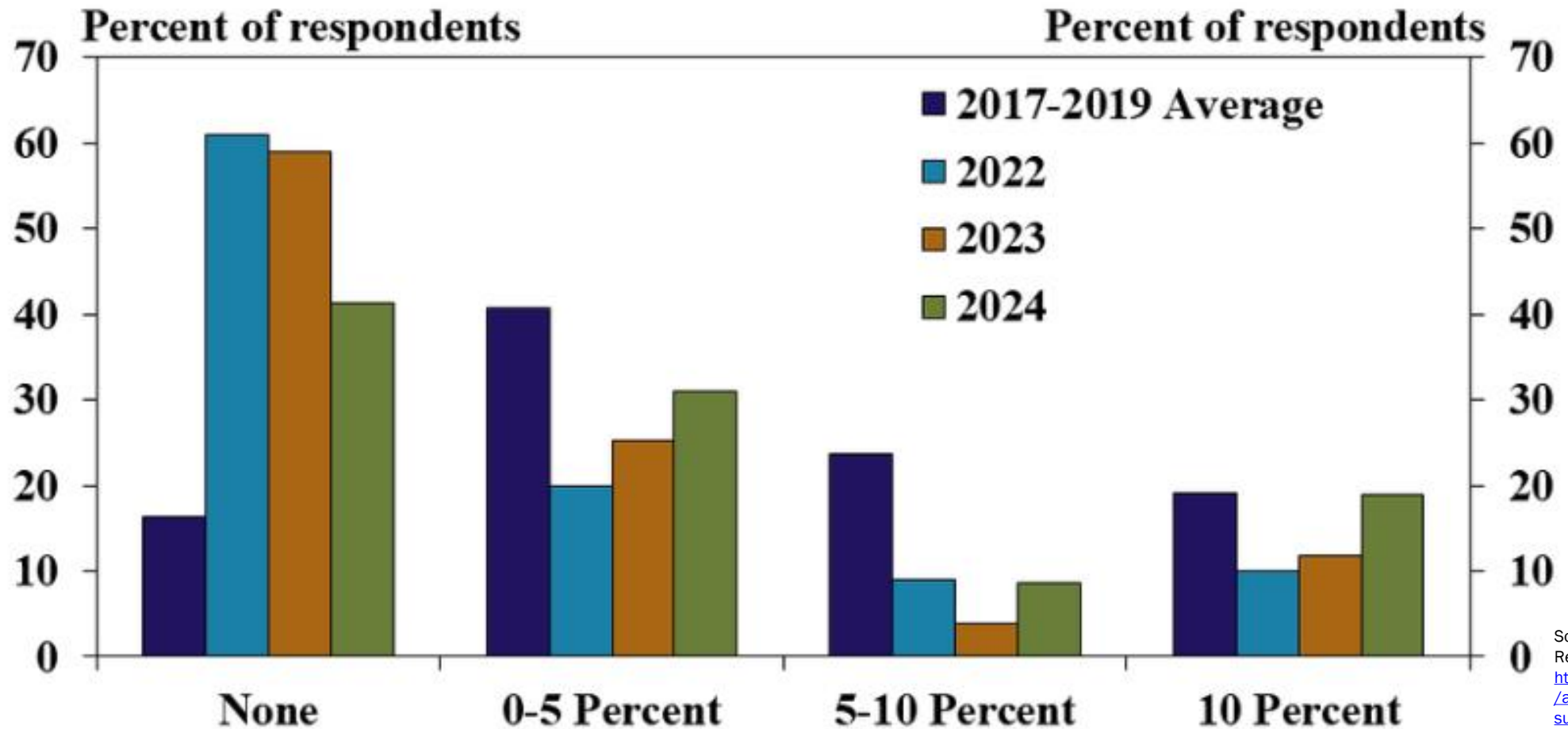
Source: Kansas City Federal Reserve Bank - <https://www.kansascityfed.org/agriculture/ag-credit-survey/credit-conditions-tighten-gradually/>

Expected Change in Loan Repayment Rates by Operation Type, Q3



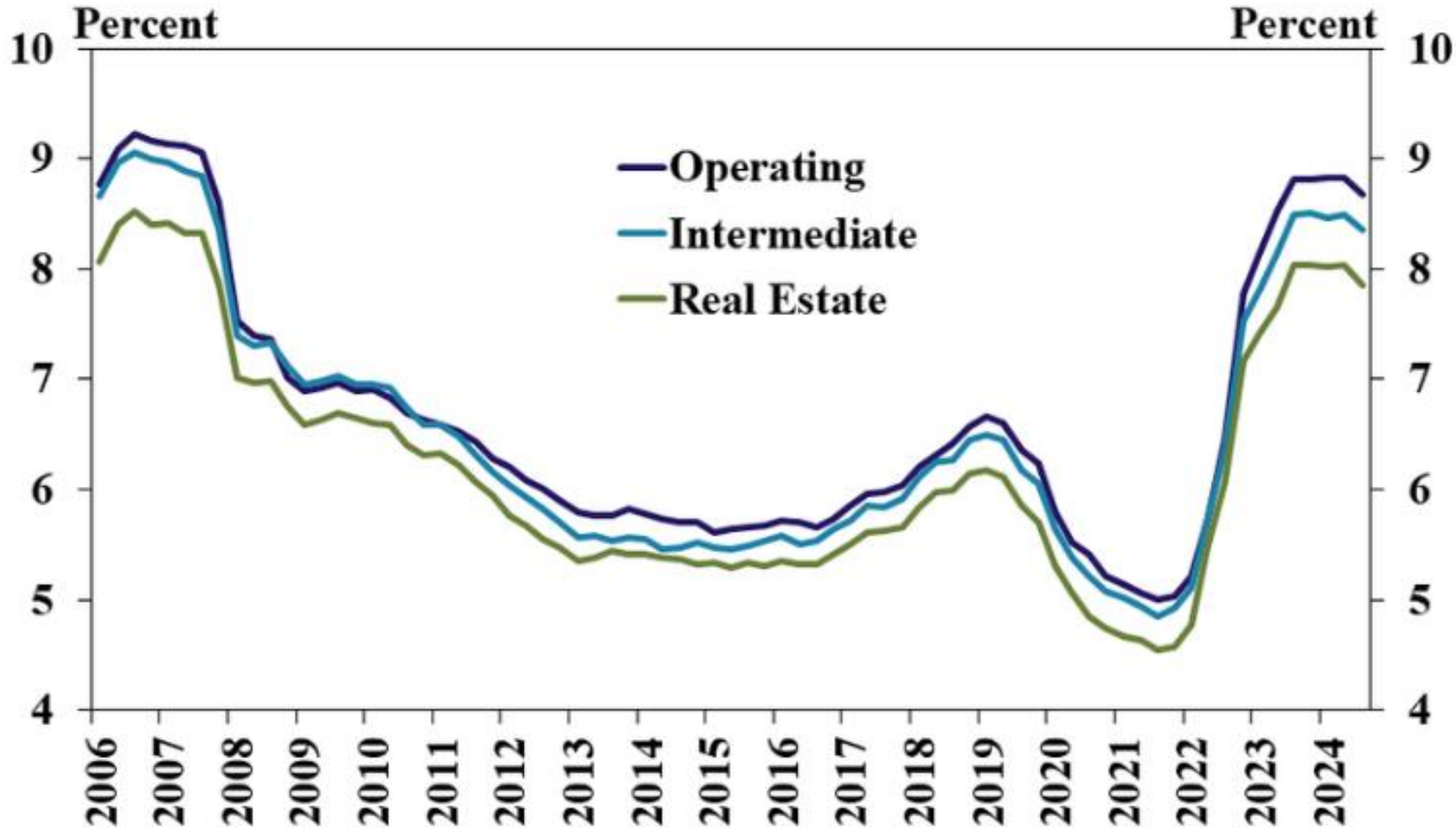
Source: Kansas City Federal Reserve Bank - <https://www.kansascityfed.org/agriculture/ag-credit-survey/credit-conditions-tighten-gradually/>

Share of Borrowers Planning to Sell Mid-to Long-Term Assets, Q3



Source: Kansas City Federal Reserve Bank - <https://www.kansascityfed.org/agriculture/ag-credit-survey/credit-conditions-tighten-gradually/>

Average Interest Rates – Kansas City Federal Reserve



Source: Kansas City Federal Reserve Bank - <https://www.kansascityfed.org/agriculture/ag-credit-survey/credit-conditions-tighten-gradually/>

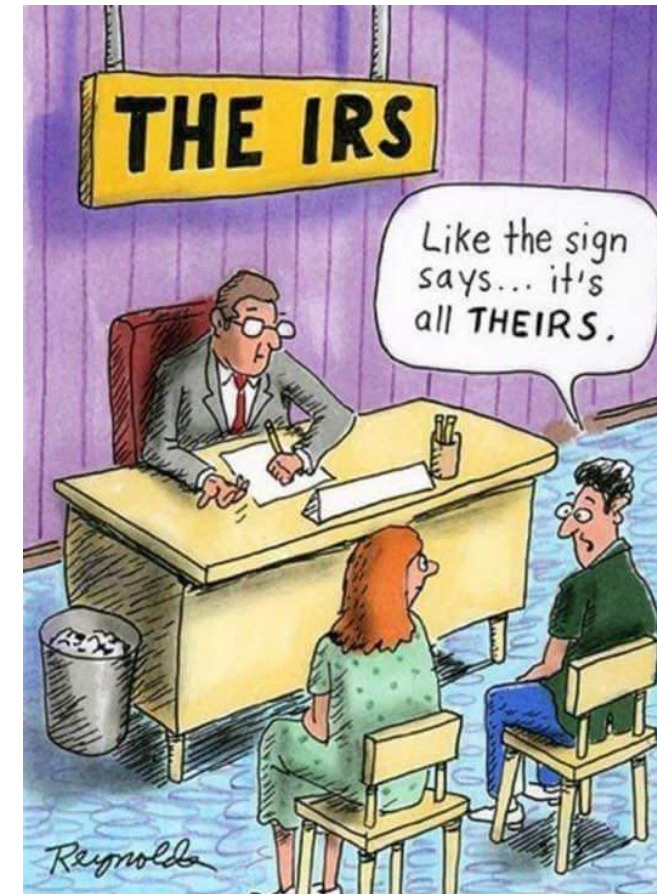
Obtaining or Renewing Credit

- Economy and commodity prices.
- Surround yourself with the right people.
- How much credit do I need?
- Record keeping, data, and analysis.
- Current financial position and formulating expectations for 2025.
- What do lenders consider when approving credit?
- Loan structure.
- Working with lenders.



Who's in Your Support Network?

- Lawyer
- Accountant
- Crop Insurance Agent
- **Agricultural Lender**
- Broker / Marketer
- Consultant / Agronomist / Vet
- Extension Agent / Specialist



How Much Credit do I Need?

- Operating expenses
 - Develop a budget and cash flow
 - Evaluate cash resources
 - Input purchase and sales timing
 - Limit should include a buffer
- Capital purchases
 - Keep a list of key equipment and machinery
 - Value, age, remaining useful life, salvage value, outstanding loan/payment?, tax liability/depreciated, replacement cost, and projected replacement date
 - Land purchases or operation expansion

Records



Collecting and Organizing

Production

- Yields, inputs (fertilizer, seed), pesticide application, irrigation, planting and harvest dates.
- Labor: paid and unpaid.
- Weather: precipitation, wind, storm events

Financial

- Income and expense receipts,
- Invoices, checks, bank statements.

Record keeping systems

Analyzing and Reporting

Ratio Analysis

Balance sheet

Income statement

Cash flow

Budgets

Decision Making

Operating credit requirements

Loan structure

Capital purchases



Key Factors for Lenders

REPAYMENT, LIQUIDITY, SOLVENCY, COLLATERAL, AND RELATIONSHIP

Repayment Capacity

Repayment Capacity	
Gross Income	\$4,500,000
Cash Expenses	\$4,750,000
Net Cash Income	-\$250,000
Total Debt Payments	\$350,000
Debt Service Coverage Ratio	
	-0.71
Weak	<1.00
Cautionary	1.00-1.24
Acceptable	1.25-1.49
Good	1.50-1.74
Excellent	>1.75

- Cash expenses versus economic cost
- Repayment Capacity Solutions
 - Debt restructure
 - Adjustments to commodities produced
 - Changes to production practices

Liquidity

Liquidity	
Total Current Assets	\$2,300,000
Total Current Liabilities	\$1,275,000
Working Capital	\$1,025,000
Liquidity Burn Rate (# of Years)	3.1
Current Ratio	1.80
Weak	<1.00
Cautionary	1.00-1.49
Acceptable	1.50-1.99
Good	2.00-2.49
Excellent	>2.50

- Often an early warning of financial challenges
- Easier to address than solvency/repayment capacity
- Liquidity Solutions
 - Shareholder/family member cash injection
 - Equity draw
 - Equipment or asset sale
 - Debt refinancing

Solvency

Solvency	
Total Assets	\$13,500,000
Total Liabilities	\$3,500,000
Net Worth	\$10,000,000
Equity Burn Rate (# of Years)	39.0
Debt-to-Equity Ratio	0.35
Weak	>2.00
Cautionary	1.51-2.00
Acceptable	1.01-1.50
Good	0.51-1.00
Excellent	<0.50

- Increased land values provides flexibility
- Solvency Solutions
 - Land or asset sale to paydown debt
 - Shareholder/family member cash injection

Collateral

Collateral	
Collateral Value	\$5,000,000
Collateral Land Value	\$5,000,000
Total Loan Amount	\$3,000,000
Loan to Land Collateral	0.60
Loan to Value	0.60
Weak	>1.00
Cautionary	0.76-1.00
Acceptable	0.66-0.75
Good	0.50-0.65
Excellent	<0.50

- Lenders prefer land, inventory and machinery are riskier assets
- Lenders do not want to take position of farm assets
- Collateral Solutions
- Adding additional assets in support to the loan
- Exchange moveable assets for land assets

Relationship

- Type of lender
- Length
- History / past performance
- Quality and timeliness of information



Loan Structure

- Consider,
 - Interest rate differences
 - Annual debt servicing requirements (amortization versus interest paid)
 - Payment timing
 - Term versus operating
 - Financial flexibility
- Example, impact of purchasing a \$50k truck though operating loan versus term debt:

	Starting			Operating Debt Finance			Term Debt Finance		
	Assets	Liabilities	Current or Debt-to-Equity Ratio	Assets	Liabilities	Current or Debt-to-Equity Ratio	Assets	Liabilities	Current or Debt-to-Equity Ratio
Current	75,000	25,000	3.00	75,000	75,000	1.00	75,000	30,000	2.50
Total	1,000,000	200,000	0.25	1,050,000	250,000	0.31	1,050,000	250,000	0.31

Tips for Working with Lenders

- Start the relationship early
- Create a narrative
- Provide data and records in a timely manner
- Make use of his / her expertise
- Talk to your lender if you're experiencing financial distress or unforeseen circumstances

Loan Renewal / Application Checklist

- Tax returns, income statement, balance sheet, cash flow projections and budgets.
- Last year's production / yield history or crop insurance record for each crop / animal enterprise on your farm.
- List of outstanding loans: all your liabilities with all terms and payments.
- List of crops/products carried over into the next fiscal year (other accrual adjustments).
- List of capital purchases.
- Projection and budget for the upcoming production year.
- Risk management and marketing plan.
- Succession plan.

Loan Renewal / Application Checklist

- Discuss any proposed changes to the business or management structure.
- Discuss any issues that affected or may affect the financial performance of the business.
- Discuss planned capital purchases or other key decisions.

Take Home Message

- Producers need to start the process early for 2025
- Evaluate all existing debt and capital requirements for 2025.
- Know your current financial position and negotiate accordingly.
- Structure loans appropriately.
 - Poor loan structure can lead to a lack of profitability and low scores for lending benchmarks.
- Build a relationship with your lender.

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THANK YOU

