

The 5 C's For Farm Finance Approval

What the banks want to know

Part 1 of 3 eBook series



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Disclaimer

The following information is provided as an information service only and therefore does not constitute accounting and taxation advice and should not be relied upon as such.

Get Your Farm Finance Approved

Securing finance is an ongoing process for many farmers. The Royal Commission has highlighted inefficient processes between the Banking, Superannuation and Financial Services Industry, the responsibility is now very much on the farmer to provide all the data required to get finance approved.

This change protects all parties involved. The downside to this is that the farmer needs to supply a lot more data in order to apply for finance - which can be daunting and time-consuming.

This is a 3 part series that will help you prepare a successful farm finance application.

1. The 5 C's For Farm Finance Approval

What the banks want to know - **This eBook**

2. Finance Approval Overview & Checklist

A list of everything you need to prepare -
Download Now

3. Data Required For Your Farm Finance

How you get this information -
Download Now

Introduction

This eBook is the first in the series of 3. It will help you understand the banks' requirements by explaining the 5 C's of farm finance approval - What the banks want to know.

Securing finance is an ongoing process for many farmers either to renew existing funding arrangements or to finance a large capital acquisition, i.e. additional land or equipment purchase.

The Royal Commission has recommended that APRA (The Australian Prudential Regulation Authority - the financial safety regulator for banks) set some new lending rules. The new rules state to obtain funding; farmers need to provide a greater level of information for renewing or new finance applications.

Our industry partners made up of accountants, farm consultants and banks have advised that customers are finding it difficult to get finance approved due to the new requirements.

To help our new and existing customers, we are in constant conversation with our industry partners to help make the funding process seamless for both the customer seeking funding and the bank processing the finance.



1. Character

Banks want to know that all borrowers and guarantors are honest and have integrity. They need the applicant to be confident and have a reputable background, education, industry knowledge, experience and ownership in the business they operate to be successful. They may also ask about your licensing and whether or not you have a criminal record.

As history is the best predictor of the future, a bank will examine the personal credit of all borrowers and guarantors involved. Sound business and individual credits are a must.

Your finance application needs to answer the following questions:

- Have you always repaid your debts on time? e.g. loan history.
- Do you have a good history of savings?
- Do you have a stable income/cashflow?
- Do you have stability? e.g. years of experience in farming successfully
- Do you have a history of defaults, writs, judgements or bankruptcy?

You will learn how to prepare this information in Agrimaster and what to ask your accountant in the following two eBooks.



2. Collateral

Banks will consider the value of your business' assets and personal assets of the guarantors as a secondary source of repayment. Collateral is an important consideration, but its significance varies depending on the type of finance you are applying for.

Your finance application needs to answer these questions:

- What type of security do you have available?
E.g. property, land, machinery/equipment.
- What's the market value of the security?
- Do you have sufficient 'security' for the loan?
- Is the security for the finance acceptable to the bank?

Helpful resources to consider for Collateral are:

- Detailed security register providing purchase date.
- Current valuation, photos (if relevant).
- Any other information to allow for an informative outcome.
E.g. new, independent land valuation or market appraisal.

You will learn how to prepare this information in Agrimaster, what to ask your accountant and what you need to source from your own records in the following two eBooks.



3. Capacity

Banks want to ensure your business can repay the finance. The business needs to have sufficient cashflow to pay expenses and debts comfortably as well as providing principals, e.g. salaries, overheads etc. An indicator of the borrower's reliability to service the loan is found in the payment history of current loans.

Your loan application needs to answer these questions:

- How much do you earn?
Is this amount sufficient to meet your repayments?
Debt obligations, living expenses, dependents.
- How stable are your earnings?
Will you continue to be able to 'service' your debt/s?
- What is your 12-24 month projected cashflow?
- What are your plans should this change?

Helpful resources you should consider for Capacity are:

- Budgeted Profit and Loss Statement.
- Past financial performance.
- Cashflow forecast.
- Risk management strategies.
- Marketing strategies.

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4. Capital

Banks will ask what personal investments you have planned for the business. Not only does injecting capital decrease the chance of default, but contributing personal assets also indicates that you are willing to take a personal risk for the sake of your business; it shows that you have 'skin' in the game.

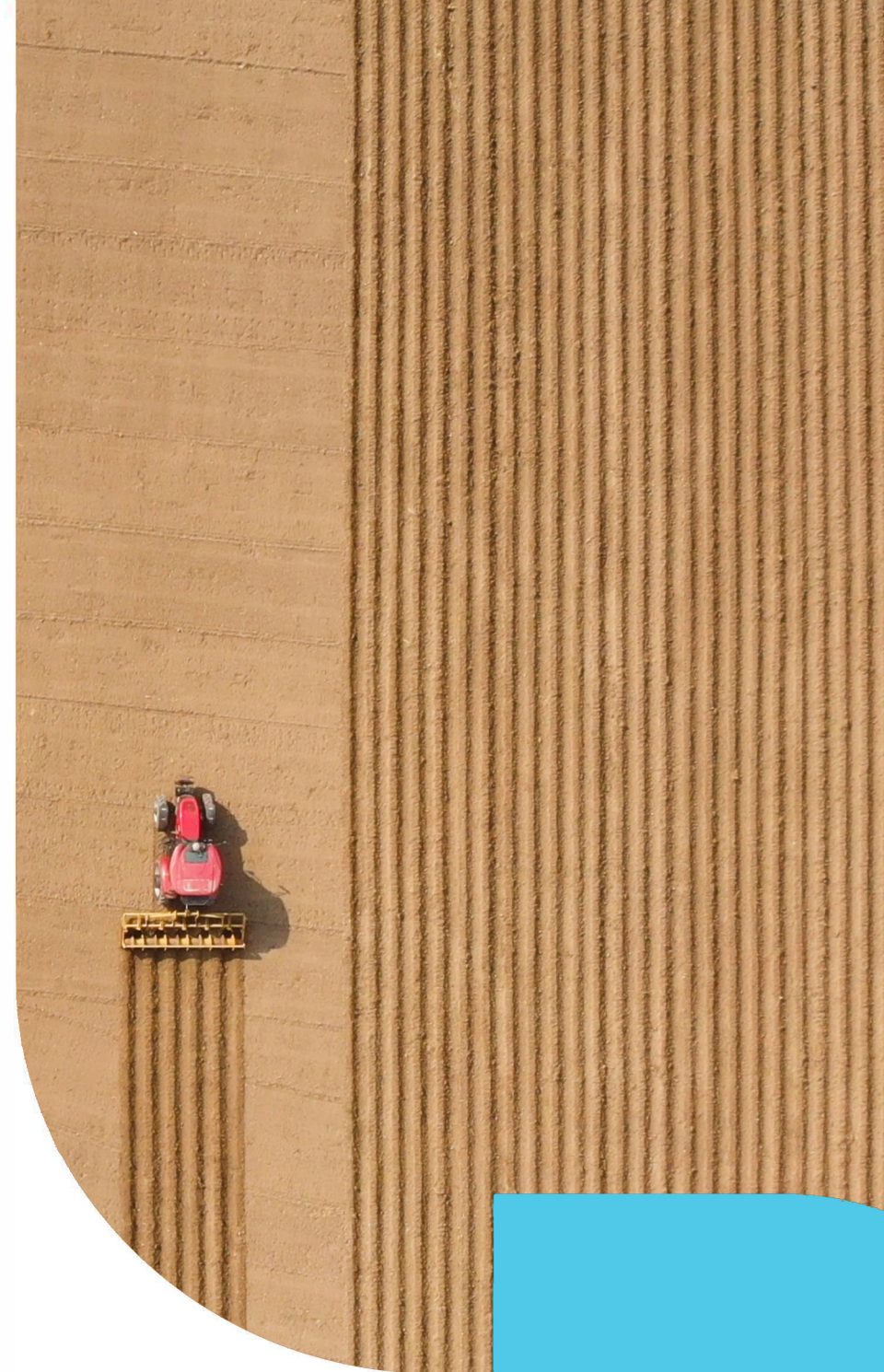
Your finance application needs to answer these questions:

- Are you in a strong financial position for the loan?
- Amount of assets and your liabilities.
- Could you sell (liquidate) your assets if you need to reduce debt?
- How long would this take?

Helpful resources you should consider for Capital are:

- A Statement of Position.
- Stock reconciliation information.
- Forecast performance of each Enterprise.
- Gross Margin and Inputs List Report for each Enterprise.

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5. Conditions

Banks want to understand the condition of the business, the industry, and the economy, which is why it's essential to work with a bank that understands the agricultural sector. They will also look at the current market conditions and want to know what you are going to use the finance for - working capital, additional equipment, or land purchase.

Your finance application needs to answer these questions:

- Do you understand what you need to provide your bank for the finance?
- Will you meet all of the 'conditions' of the loan?
Repayment schedule, interest rate, and fees.
- Do you know what happens if you 'breach' the terms of the loan?
Conditions of the loan, repayment schedule.

Helpful resources you should consider for Conditions are:

- Summary of loan terms and conditions in the finance application.
- Budgeted balance sheets for the next three years, e.g. Statement of Position.

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What's Next?

You have now completed part 1 of the 3 part eBook series to help you prepare a successful farm finance application. To make the next step in preparing your information, download part 2 and 3 of the eBook series.

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about Agrimaster**

PHONE: 08 6380 8800

EMAIL: sales@agrimaster.com.au

WEBSITE: agrimaster.com.au