

Accessing Farm Finance

A Guide to Success



Asking the bank for money can seem like a daunting process and we often fear rejection.

In this guide, we cover everything you need to know about accessing farm finance to set you up for success, and better enable you to absorb seasonality and prepare for unfortunate events such as drought.

Why is this so important? The majority of farms will need some sort of bank finance to grow and achieve their goals. Agricultural finance is a unique skill, so make sure you are dealing with a banker that understands agribusiness finance and be prepared to take the time to meet with multiple lenders.

When seeking finance, it's important to be aware that banks assess finance based on the 5 C's of credit.

THE 5 C'S OF CREDIT

Character - relates to the credit history of the borrower, including the financial conduct and history of the business.

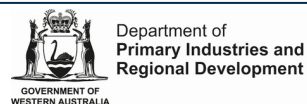
Capacity - refers to your borrowing power and considers all aspects of farm business financials.

Capital - includes the value and condition of physical assets, non-lender financial liabilities (e.g. accounts payable), current finance (including business and credit card balances), and funds in reserve or saved.

Collateral - includes the farming property and other assets the bank could call on should your business not meet its lending obligations. Banks will obtain current, conservative valuations of all collateral.

Conditions - includes all other factors influencing your business, its performance, and future success. Factors such as market conditions, seasonal fluctuations, labour market conditions, style, and competence of the management team are all taken into account.

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The Essentials



BUSINESS PLAN

"If you fail to plan, you are planning to fail."

Benjamin Franklin

Providing the bank with your business plan gives an understanding of who you are but, more importantly, where you are now, where you are going, and how you are going to get there.

Elements of a good plan

- Unique to your farm;
- Identifies the key people in the business, including roles and responsibilities;
- Has SMART (specific, measurable, achievable, realistic, timebound) goals for the short term and long term;
- Identifies risks and mitigations;
- Is reviewed at least annually.

RELATIONSHIPS



Critical to any successful business is the team of people behind the business.

You can't be an expert at everything. Focus on your strengths (running a profitable farming enterprise) and leverage key stakeholders for everything else. For best practice, hold an annual farm business review meeting with all key stakeholders involved. Review last season, this season, and your future goals.

Key stakeholders often include, but are not limited to:

Accountant – Engage in corporate structure advice, tax planning, succession planning, and achieving your financial goals.

Farm Consultant – Engage in scenario planning, and how you will fund your growth strategy or succession plan.

Agribroker – Outsource to a specialised agribroker to do the negotiating for you, and ensure you are getting the best finance deal for your situation.

Bookkeeper – Ensure invoices are issued in a timely manner and bills are paid on time.

Agribanker – Help them understand your business, your challenges, and your growth plans.

Agronomist – Assist with improving the productivity of your farm.

Lawyer/Solicitor – Engage in overseeing change of ownership, asset protection, and drafting key contracts when required.

The Nuts and Bolts



CASH FLOW/BUDGET

Provide a summary of the past 3–5 years of farm performance, in addition to your accountant's prepared financials which are on a financial year basis. Also called a YIYO, this is a season-by-season summary that includes yields, prices, costs for each season of farming as well as your long-term averages. Don't forget to include things like annual rainfall, weather events, etc. that may have affected yields that season.

PAST BUSINESS PERFORMANCE (Year In, Year Out)

Your cash flow forecast or budget can be as simple as an excel spreadsheet or you can use agricultural-specific software programs such as Figured or Agrimaster. Banks want to know how you will repay your debt. Your cash flow forecast/budget is a critical piece of information to gain finance approval and should include assumptions such as commodity prices, yields, and how this compares to your 5 or 10-year averages.

Include a buffer and be conservative. If you can only afford your debt at the peak of commodity prices/yields or at the current farm expenses level, then there is no room to adapt to falling commodity prices/yields or an increase in costs, so budget on your long-term averages to be safe. Your cash flow/budget should show how you will repay your debt in addition to all other commitments such as term debt, asset finance and drawings.

WHAT HAPPENS WHEN THINGS GO WRONG?

Seasonality is all part of farming. There will be good years, average years, and below-average years. Bank support is critical in supporting your farm business through tough times such as drought. Banks don't want to sell up property to repay debt, so help them to help you get through the financial implications of poor seasons.

Key Take Aways

PRIOR TO APPROACHING A BANK FOR FINANCE

- Get your team in order.
- Make sure you are dealing with a banker that understands agribusiness finance.
- Consider the 5 C's of finance.
- Develop your business plan and cash flow in conjunction with key stakeholders.
- Take the time to teach your agribanker about your business, your region and how you manage your business.
- Develop a relationship with your banker.
- Provide seasonal updates and a 'heads up' if you need a temporary or permanent increase to your finance.

Do

- Be proactive.
- Engage with your accountant, bookkeeper and agribanker early, before you run out of money.
- Update your business plan.
- Update your cash flow.

Don't

- Ignore the bank.
- Pretend it's not happening.
- Stop paying your bills.

Hints

- If you don't understand your financials, invest in yourself and your future by completing a finance course with Value Creators.
- Go to www.valuecreators.com.au
- Consider when you will need to replace machinery or farming infrastructure and build it into your plan.

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