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Planning to Match Credit to Purpose

If you plan to use credit in your business be sure you can clearly identify why you need the credit—the specific things the credit will cover, and the period of time for which the credit is needed. The term of a loan should match the time frame of the purpose of the loan.

Agricultural lenders typically offer:

- **Operating Loans** designed to cover the gap between planting and sale in an annual operation
- **Equipment Loans** designed to spread the cost of a piece of equipment over 3-7 years
- **Development Loans** designed to spread the cost of significant land development (wells, fences, trees, vines) over 3-15 years
- **Workforce Housing Loans** designed to spread the cost of developing worker housing over 15-30 years
- **Land Loans** designed to spread the cost of a land purchase over a significant period of time, 10-30 years

One of the ways successful growing operations get in trouble is when they use short-term operating credit for longer-term purposes, such as equipment purchases or planting permanent crops.

Owner's Draws

Another way operations get in trouble with credit is when a portion of the funds are used to fund the owner's living expenses if the operation is not sufficiently profitable.

Owners may take draws from the business as they please, subject to available cash. Owner's draws are not business expenses. Ideally owners take draws when the business has sufficient cash, and forgo draws during times when the business is short on cash. But, sometimes this is not possible. If the owners do not have other sources of income, ag lenders may treat owner's draws as if they were necessary salaries or wages included in operating loans. While it is a common practice, borrowing for owner's draws is borrowing to cover personal living expenses or future profits. Be sure you understand if you are including owner's draws in a request for operating credit.

Before applying for credit be sure you have a cash flow plan that shows your net cash from operations, your net cash available to re-pay credit, and distinguishes between cash needed for operations, equipment and long term needs, and owner's draws.