Ready, Set, Start!

If you're taking your first steps in the cattle business, here's advice on securing that first ag loan.

by Kindra Gordon, field editor

Someone once said, "The hardest thing about getting started, is getting started." They very well may have been talking about the cattle business since it takes a good measure of land, facilities, cattle, hard work and financing to make the endeavor come to fruition.

With regard to the financing piece of this process, Wesley Tucker, a field specialist in agricultural business with the University of Missouri Extension, and Heather Gessner, a livestock business management field specialist with South Dakota State University (SDSU) Extension, offer these tips and advice in securing a new ag loan.

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Q: For someone new to purchasing a few head of cattle, what types of loans are available to help them get started?

Tucker: The USDA Farm Service Agency (FSA), which has offices in every county in the country, has beginning farmer loan programs that new producers should check out. There are direct loans, as well as loan guarantee programs where FSA provides a 95% guarantee backing the loan so commercial banks will loan to beginning producers.

Additionally, some states offer loan programs through their Department of Agriculture that are options for beginning farmers. And, commercial banks are often willing to work with beginning producers to help them get started if they have off-farm income or collateral to work with.

Q: What documents might a prospective borrower need to share with a lender to make the process more effective and efficient?

Tucker: Borrowers will need to be able to show their ability to repay the loan. They should have a good plan in place and be able to demonstrate how the asset they are purchasing will cover its expenses, as well as pay for itself. Take the time to pencil out a budget with realistic numbers to ensure that current market conditions warrant the purchase. Previous tax returns will help provide the loan officer a picture of your current income and repayment capacity from sources such as an existing farm operation or off-farm income.

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Gessner: The key will be to arrive with a written plan, which should include enterprise budgets created with real rations, a health management plan and marketing plan; cash flow projections that provide an insight into when cash will be coming into and out of the operation and from what sources. In today's economic situation lenders will be looking at the character of the borrower, so arrive prepared.

Q: Discuss guidelines a new cattle producer might consider with regard to loan amount, interest rates, repayment factors, etc.

Tucker: Be realistic when making your budget and projections. It is better to be conservative and things turn out better than you expected than scrambling each year trying to figure out how you are going to cover the loan payment.

Don't forget to recognize not every cow will wean a calf, and death and sickness happens among livestock. Additionally, drought causes higher than expected expenses, and machinery breaks down and must be replaced. Develop plans for unforeseen circumstances when deciding how much to borrow and when planning how to repay it.

Gessner: Before submitting a loan package, talk to a lender. Ask questions about the expected interest rate and the repayment options available. Open a line of communication early and keep it open. This will help you develop your cash flow projections and evaluate the ability to repay the note.

Q: What challenges have you seen new producers face, and how do you suggest they address them?

Tucker: It's often easier to obtain loans to buy animals and machinery, than it is to secure operating loans to keep it going. That said, often those starting out find that in the beginning they have to bankroll their operation from off-farm sources. In these scenarios, it becomes difficult to keep personal and farm finances separate; but I encourage producers to try to keep them as separate as they can. Have separate checking accounts. Make separate budgets. Even if you have to transfer money from the personal account to the farm to cover expenses in the beginning, keeping them at arm's length from one another helps you track what is necessary to maintain the home and farm separately. Plus if you are ever audited by the IRS, that is one thing they look at to see if the farm is legitimately a business or a hobby.

Gessner: Loans, land and machinery are all expensive. Beginning farmers need to figure out how to accomplish their goals with low initial investment. Examples might include purchasing crossbred cows and breeding them to purebred bulls to develop a purebred operation or purchasing used equipment instead of new. If the beginning farmer can work into an operation, either with relatives or non-relatives, the land expense may be kept lower. It is also important for the business to be run as a business. Keep good records of income and expenses, including family living. AJ

For more information

An interactive tool on *farmers.gov* (under the Fund tab) can help farmers find information on USDA farm loans within minutes.

Many university extension websites offer tools for budgeting and developing a business plan. A "beef cattle budget" tool available from South Dakota State University can be found at: *https://extension.sdstate.edu/beef-cattle-budgets*.

Step-by-step business development guidance is also available at *https://newfarmers.usda.gov/make-farm-business-plan*.