



APPLYING FOR A FARM MORTGAGE TO REFINANCE AND RESTRUCTURE DEBT *HOW TO MAKE SURE YOU GET THE BEST DEAL*

The most valuable asset on a farmer's balance sheet is his or her real estate. No one likes to have real estate debt, but sometimes farm operators have to do what they need to do in order to properly structure their debt to survive and thrive in tough financial times.

Should you use your farm real estate to refinance or restructure your debt? For many farm operators (and their bankers) this is one of the hardest decisions that owners have to make. For most producers, farm real estate is the firm's savings account, and the operator's retirement plan. Before you commit your greatest asset to the survival of the business, think long and hard about it. If you do decide that debt restructuring is appropriate, and that long term real estate debt is what you need, please consider the following:

Know what and how much you need. Think about it this way: finance like with like. Your real estate is a long-term asset. If you use your farm or ranch to get additional credit, the proceeds from the loan should be used to finance like assets (purchase additional real estate, refinance existing real estate debt, make improvements to the land and buildings, or build a new dwelling). Using equity from your farm to purchase equipment or refinance short-term debt may not be the best solution. Long-term debt shouldn't be used to finance short-term assets such as new equipment because while the lower payments may be easier to budget, in the long run you will end up paying more. In addition, you should not use your farm or ranch to finance unpaid operating expenses, unless you are recovering from a non-reoccurring event like a drought or an economic downturn. Just like your cash savings account, you can drain your farm equity by refinancing debt that does not increase your capital asset base. Make sure your need to refinance debt using your real estate is important enough for you to take a "draw" from your real estate savings account.

Organize your finances before you go to the bank. You will need to provide information to the bank in order to have them consider your request. At a minimum, you will need:

- a. Pay stubs, if you have a secondary income source (at least three months prior)
- b. Tax returns (at least three years).
- c. Financial statements (one that is less than 60 days old).
- d. A legal description of the property. A copy of the deed would work, or a copy of a survey if you have one.
- e. If you plan to build a new building, some preliminary information about the cost of and possible financial benefits from the project would be helpful.
- f. A proposed repayment plan (typically done with your loan officer, but you should think about how you will repay the loan before you apply).
- g. Any additional information that you think will help your banker to positively evaluate your credit request.

You may not have all of your credit history on a credit report. Credit reports are reviews of your repayment history and are used to help determine loan risk and thus the interest rate you'll pay for the loan. It is possible that past ag loans from other lenders may not have been reported to the credit bureaus because ag loans are classified as commercial loans and do not have to be reported to the credit bureaus. Your banker may ask you to give him written permission to contact your other creditors if their credit experience with you is not on a credit bureau report. Understand that that positive past credit experience will help keep your interest rates lower, so work with your banker to help him discover what a good credit risk you are.

Weigh the costs of the loan and the benefits. If your farm hasn't been appraised in the last 6-12 months, you are likely to need an appraisal and possibly title insurance. Additionally, you will have closing costs, which include attorney's fees, title search fees and other charges. Some banks will charge a loan origination fee; this fee is usually called "points" in home mortgage transactions. Also, be aware that any delinquent real estate taxes will have to be paid at the closing. Be sure to ask what the fees will be and take them into account while making your decision.

Paper or Plastic? We hear this all of the time at the grocery store but stop and think that there are many more choices and opportunities for you to consider to customize your mortgage to fit your exact needs. Be open to the options that your banker will want to review with you. Is a fixed-rate loan the best option for you? What are your goals with this mortgage? How long do you need for a repayment term? Be cautious. Many farmers and ranchers want to pay off real estate loans as quickly as possible; don't pick a repayment program that is too aggressive and could result in your cash flow being squeezed. Banks can also tailor payments to fit your income stream. Ag bankers understand the cyclical pricing of commodities and its effect on your ability to repay. Bankers will work with you to set up payments that work with your income – whether it's annual, quarterly or monthly payments.

If it seems to be good to be true, then most likely it isn't. Tough times bring out scam artists and vultures. Don't get caught up in scams that end up costing you money! Be skeptical. Ask questions. Keep a firm grip on your wallet. You should be skeptical if:

- You are "guaranteed" a loan if you pay a fee up front.
- You are dealing with someone who is not local, or who is not known in the community (ask around).
- You are required to pay fees for membership or for ownership of something.
- You are not dealing with a banker.
- If you are feeling rushed to make a decision- it is your farm real estate, and you are the decider! Don't do anything that you are not comfortable with. Any legitimate banker will understand if you need additional time to think through things before you sign on the dotted line.

Questions? Please contact ABA's John Blanchfield at 202-663-5100, or e-mail him at jblanchf@aba.com