

FARMER'S CHECKLIST FOR AGRICULTURAL CREDIT

Review the following items as you evaluate different loans. Before evaluating the specific terms of loans, consider goals for your family and farm and strive to choose a loan package that you are comfortable with, as well as one that meets your business objectives. You need to understand the terms and the risks of individual loan alternatives. Since lenders have developed different loan term products to meet the needs of their customers, you should consider those loan terms which satisfies your objectives and matches your level of risk tolerance.

1. First and foremost, understand your obligations and responsibilities before signing a note and other documents associated with a loan transaction.
2. Know the total cost of all fees due at loan origination and annually. Divide the total amount of fees by the loan amount to determine the number of points charged at origination.
3. Review what constitutes a loan default and what can accelerate the bank's demand for payment. If a demand was made, how this would affect your operation?
4. Determine the type of loan payment. Will the loan be fully paid at maturity? Balloon-payment loans must be paid off or renewed at maturity, perhaps at less favorable terms. The lender is not required to renew. You should consider available options if the loan is not renewed.
5. Obtain an estimated payment schedule for the loan, and project your ability to meet the loan payments. Determine the months of the year that would be preferable for loan payments. In addition, different loan maturities should be considered to develop a payment amount that is consistent with repayment ability. Does the loan have flexible terms? Can you defer principal payments due to different risk demands?
6. Is the interest rate fixed, variable or adjustable? What are the payments at higher interest rates? How much interest rate risk can you assume?
7. If the loan carries a variable or adjustable interest rate, ask about the index, is it the Bank's prime rate, margin, adjustment period and caps. Consider the historical patterns and levels of the Bank's prime rate and determine your ability to meet debt payments should interest rates go up.
8. Ask about prepayment penalties. Is the higher of three months interest or interest differential? How does this affect the cost to refinance?
9. Ask about prepayment privilege? Can additional principal payment be made during the year? Does the loan terms contain an annual prepayment privilege? What percentage of the original disbursed balance?
10. Ask about reporting requirements? What loan conversion options are available?. Is the loan term open or closed?
11. Understand the consequences of late payments. In addition, understand foreclosure procedures, collateral obligations and all borrower rights. Are there any loan management fees triggered by late payments.
12. Consider other factors, including your previous experience with the lender and lending institution, the lender's overall agricultural expertise, and the lender's knowledge of your operation.

A FARMER'S CHECKLIST FOR AGRICULTURAL CREDIT

Loan Alternative Overview

Loan Alternative overview	Loan #1	Loan #2
Loan Amount		
Interest rate		
Loan Term		
Loan Amortization		
Origination fees and service charges		
What is the payment?		
What is the prepayment privilege?		
Is the interest rate fixed to maturity		
When is maturity?		
What is the index? Bank prime.		
What is the Margin?		
What is the adjustment period?		
What is the interest cap on interest rate movements per period		
Are there prepayment penalties?		
Is there loan conversion options?		