CHECKLIST FOR AGRICULTURAL CREDIT

Before you evaluate the specific terms of loans, consider goals for your family and farm. Choose a loan package with which you are comfortable and that meets your business objectives.

The previous section introduced you to the language of credit. Use that knowledge when you negotiate a loan. Since lenders have developed different loan term products to meet the needs of their customers, you, too, should consider those loan terms that satisfy your objectives and match your level of risk tolerance.

**Ask and answer the following questions to help you evaluate different loans.**

1. What are my obligations and responsibilities associated with a loan transaction?
2. What is 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. What constitutes a loan default and what can accelerate the bank’s demand for payment?

If a demand was made, how would this affect my operation?

1. What is 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. Consider available options if the loan is not renewed.)

1. What is the estimated payment schedule for the loan?

Do I have the ability to meet the loan payments?

What months of the year would be preferable for loan payments?

Consider different loan maturities to develop a payment amount that is consistent with repayment ability. Does the loan have flexible terms?

Can I defer principal payments due to different risk demands?

1. Is the interest rate fixed, variable or adjustable?

What are the payments at higher interest rates?

How much interest rate risk can I assume?

1. If the loan carries a variable or adjustable interest rate, is the index the Chartered Banks’ prime rate, margin, adjustment period and caps?

Considering the historical patterns and levels of the Banks’ prime rate, do I have the ability to meet debt payments should interest rates go up?

1. Are pre-payment penalties the higher of three months interest or interest differential?

How does this affect the cost to refinance?

1. Is there prepayment privilege?

Can additional principal payments be made during the year?

Does the loan term contain an annual prepayment privilege?

What percentage of the original balance can be pre-paid?

1. What are reporting requirements?

What loan conversion options are available?

Is the loan term open or closed?

1. What are the consequences of late payments?

What are foreclosure procedures, collateral obligations and all borrower rights?

Are there any loan management fees triggered by late payments?

1. 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.