

HOW TO FUND YOUR FARMING FUTURE

A FARM FINANCE
WORKSHOP

Carter Jonas



OUR SPEAKERS

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WE WILL COVER

What is a business loan?

What can be used as security?

Base rates and bank rates

Fixed and variable rates

Annuity and interest only loans

What information are banks looking for?

Some case study examples

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WHAT IS A BUSINESS LOAN?

YES

- Purchasing farmland
- Constructing a new agricultural shed
- Building an agriculturally tied dwelling
- Purchasing fixed equipment/machinery
- Diversification project
- Buying out a partner

NO

- Holiday
- School fees
- Wedding

GREY AREA

- Buying a property
- Divorce settlement
- Inheritance tax bill





THE MAIN CRITERIA

SERVICEABILITY

Can you afford the loan

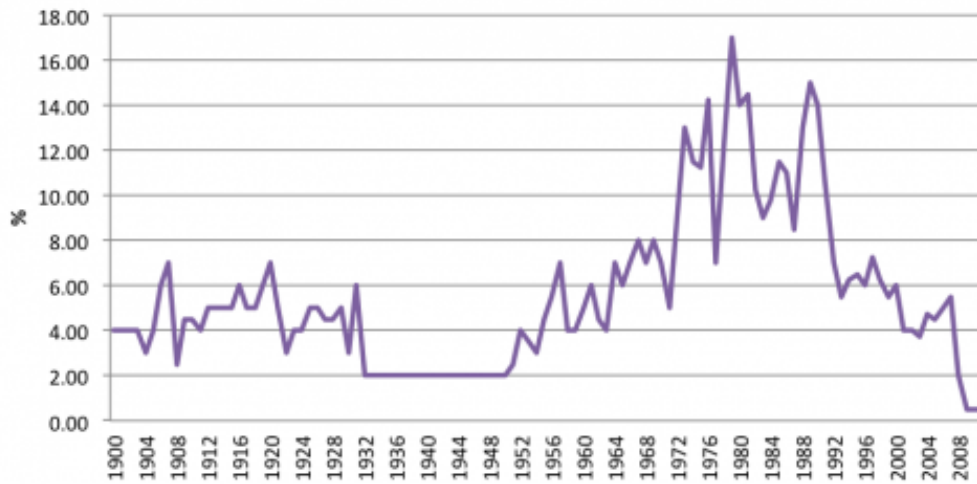
SECURITY

Maximum loan to value of 50% - 70%

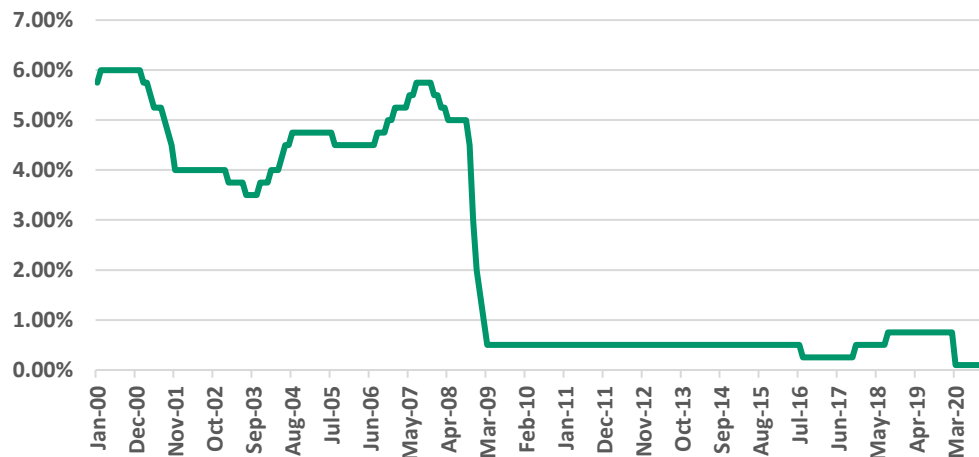
At least 60% used for a business purpose

SERVICEABILITY

BANK OF ENGLAND BASE RATE 1900-2008



BANK OF ENGLAND BASE RATE 2000-2020



DATE	BASE RATE
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19 Mar 2020	0.10%
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11 Mar 2020	0.25%
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2 Aug 2018	0.75%
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2 Nov 2017	0.50%
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4 Aug 2016	0.25%
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5 Mar 2009	0.50%
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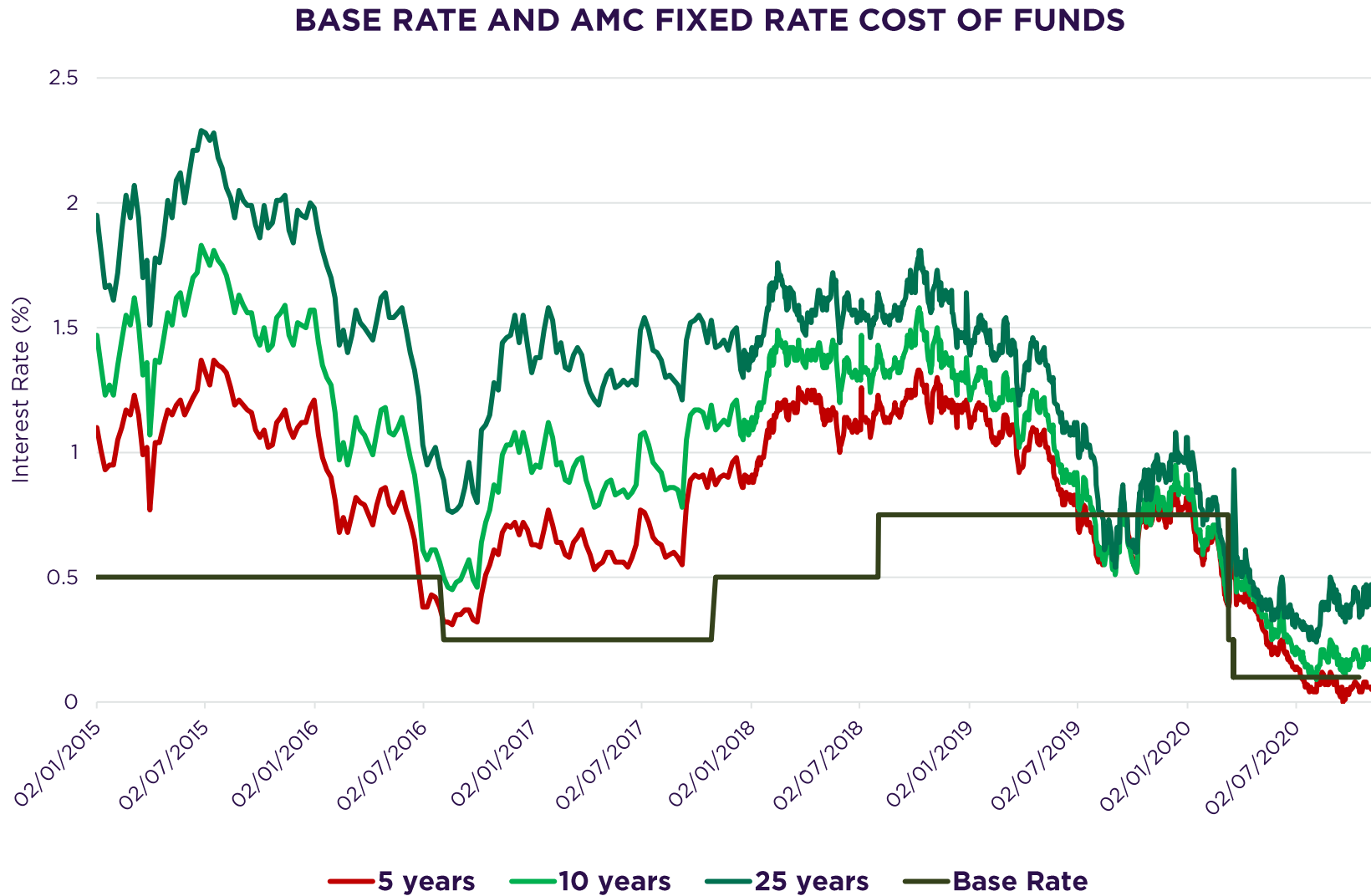
5 Feb 2009	1.00%
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8 Jan 2009	1.50%
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1979	17%
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The Bank of England base rate is the official interest rate set by the Bank of England's Monetary Policy Committee.

BASE RATE & AMC FIXED RATE COST OF FUNDS



VARIABLE RATES

ADVANTAGES

- Greater flexibility
- Can repay lump sums without penalty
- Can repay early

DISADVANTAGES

- It changes with the Bank of England base rate

vs FIXED RATES

ADVANTAGES

- Similar rate to variable
- Rate does not change
- Consistent payment each month

DISADVANTAGES

- Cannot make any changes to the loan during the fixed rate period



ANNUITY/ REPAYMENT LOAN

Over the term of the loan you will repay the money you borrowed plus the interest owed

INTEREST ONLY LOAN

Over the term of the loan, you only pay the interest. No capital is repaid

HOW IS THE LOAN INTEREST RATE CALCULATED?

VARIABLE

= your personal margin + base rate

$$= 3.0\% + 0.10\% = 3.10\%$$

FIXED

= your personal margin + market rate (20-year fixed rate annuity)

$$= 3.0\% + 0.35\% = 3.35\%$$

These rates are indicative only

A large, well-lit dairy barn with rows of black and white cows in stalls. The barn has a high ceiling with exposed wooden beams and a corrugated metal roof. Sunlight streams in from the left, creating long shadows on the floor. The cows are standing in their stalls, some looking towards the camera. The overall atmosphere is clean and organized.

WHAT INFORMATION DOES THE BANK REQUIRE TO MAKE A DECISION ON A LOAN APPLICATION?

APPLICATION FORM

Who are the applicants?

Loan proposal

Breakdown of assets owned and rented

List of farming assets including livestock, growing crops, produce in store, implements and machinery

Details of any loans, mortgages, hire purchase or lease agreements

What you are going to use as security?
(Including a plan)

WHAT INFORMATION DOES THE BANK REQUIRE TO MAKE A DECISION ON A LOAN APPLICATION?

ACCOUNTS/FINANCIAL

Copy of the last three years of accounts

- Trend in turnover and costs

- Unusual transactions

- Drawings and capital introduced

- If dairy, average milk price during the year of the accounts

Evidence of any off-farm income

Copy of bank statements or management information

Income and expenditure form (if applicable)

EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortization

WHAT INFORMATION DOES THE BANK REQUIRE TO MAKE A DECISION ON A LOAN APPLICATION?

BUDGET

2 or 3 year forward budget to show:

Changes

Expansion

Poor past

Milk price changes

Annotated to understand how figures have been arrived at:

Income

Outside income

Expenses

Servicing costs – Stress tested

Drawings

WHAT INFORMATION DOES THE BANK REQUIRE TO MAKE A DECISION ON A LOAN APPLICATION?

OTHER INFORMATION

Photo ID and address verification

Business Plan

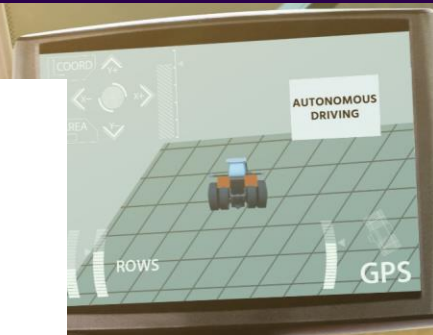
Planning permissions

Quotes/costings for the project

Milk receipts

Sustainability

Brexit – labour, subsidies, markets etc



CASE STUDY 1 – ROBOTIC MILKERS

Relocate dairy unit and install 4 no. robotic milkers, building extensions and alterations, silage and slurry stores

Aim to increase herd health and efficiency with advanced technology and welfare standards to future proof the business

£750,000 project cost

£250,000 RPA grant on eligible spend

Established family business with good future succession in place

15 year loan

Annuity (first year interest only)

Part fixed and part variable

LTV% = <30%

CASE STUDY 2 – BUY OUT PARTNER

Pay out retiring Partner's capital account

Purchase interest in the property and land they owned personally

Partnership Agreement proved essential

£1.25m loan

Established business with existing debt & high BPS receipts

Significant savings from outgoing Partner to help service loan

25 year loan

Annuity (first 5 years interest only)

Fixed for the term

LTV% = <60%

CASE STUDY 3 – OFFICE DIVERSIFICATION

A black wooden office building with a grey tiled roof and a brick-paved driveway. The building has several windows and a glass entrance. There are some flowers in a planter near the entrance. The sky is blue with some clouds.

3,000 sq ft office new-build

To expand an on-farm office facility,
to meet tenant's demand

Aim to increase revenues to make business
sustainable for future generations

200-acre family arable farm, parents and
two children

£300,000 loan

10 year loan, interest only, variable rate

CASE STUDY 4 – BARE LAND PURCHASE

22 acres adjacent grassland

Re-finance existing mortgage and great opportunity to buy

Existing holding used as security – 85 acres, house and barn

£310,000 mortgage

25 year term, annuity, 10 years fixed rate

Loan to value = OK

Affordability – off-farm income taken into consideration

HOW TO FUND YOUR FARMING FUTURE

Q&A SESSION

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