



Building credit and savings to grow your farm operation

There's no question about it: Farming takes a lot of money. Fortunately, strong credit and adequate savings can help you borrow the money you need to nurture your operation. Better yet, they help you borrow at a lower interest rate – sometimes as much as by several percentage points.

“Whether a farmer needs a long-term land loan or a line of credit at the feed store, good credit and savings are a springboard to the capital they need to run and grow their farm,” says Lisa Porter, Loan Operations Manager at Farm Credit of Northwest Florida. “The good news is that farmers can take steps to strengthen their credit and build their savings so they can access the money they need at better interest rates.”

Improving your credit

Your credit history helps a lender assess the likelihood that you'll pay back a loan based on your previous payment habits. Do you make your payments? In full? On time? Every payment you make or miss is reflected in your credit history, including utilities, credit cards and loans. Lenders also consider any outstanding credit balances you have and the credit limits available to you. Combined with a host of other data points, your credit history fuels a calculation that determines your credit score.

Building strong credit is a long-term process. If you're not sure where to start, you should first get a copy of your credit report and clean up any inaccuracies. Close unused store credit cards





and challenge missed payments if you can. Then, start borrowing small amounts of money. Open a low-limit credit card or finance a used car or some furniture. Over time, pay back these small loans according to the payment schedule. Keep in mind that for credit building purposes, it's actually better to make the monthly payments rather than pay off an entire debt. This demonstrates discipline and reliability in repaying debts, which is appealing to a future lender.

Another way to build your credit history is to have someone with great credit co-sign a loan with you. By co-signing, they agree to repay the full debt if you can't, making the loan much more attractive to the lender. Then, as you make the regular loan payments, you demonstrate your ability and willingness to repay the debt, which strengthens your credit history. Having a co-signer can also help you access a lower interest rate because the lender will base the loan terms on your co-signer's strong credit.

For young farmers just starting out, it can take a year or two to build a favorable, independent credit history. For those who have experienced some credit issues, such as a bankruptcy, it can take around seven years of focused effort to recover and rebuild strong credit.

Increasing your savings

We've all heard that "it takes money to make money," but it's also often true that it takes money to borrow money. Particularly for large purchases, lenders want borrowers to have some skin in the game by having their own money invested in the form of a down payment. For example, many home mortgage lenders requires a 20% down payment (or for the borrower to take out

mortgage insurance until the borrower reaches 20% equity in the home). For new large farm equipment, the lender may require as little as 10% for a down payment.

Before agreeing to lend you the money you need for a particular purchase, your lender will want to know that you have your share available, which means having adequate savings. There are many ways to increase your savings, from cutting back on special treats like expensive coffee shop visits to establishing automatic savings contributions from your paycheck.

"Even a money jar in the kitchen can work, if it's the right tool for you," says Porter. "What matters is that you start saving consistently so that your nest egg grows."



Growing your operation

The point of credit and savings isn't about the money itself. It's really about what you can do once you have it. With financial flexibility you can take advantage of opportunities quickly when they arise, creating the right conditions for long-term success.

Source: Lisa Porter, Loan Operations Manager, Farm Credit of Northwest Florida