"REFINANCE" IS NOT A DIRTY WORD

Why you shouldn’t panic when you lender says it’s time to refinance.

ARCHER COOPERATIVE CREDIT UNION

The “roots” of Archer Credit Union date back to 1906 when the Citizens State Bank was chartered at Archer, Nebraska. In 1934, the bank became an Agriculture Cooperative Credit Association. Then in 1984, it was rechartered to gain Federal deposit insurance and became a credit union. We’ve offered financial services to residents and farm businesses for over 100 years.

What is the credit union difference?

A non-profit financial institution who is owned by its members (customers). Our board of directors are volunteers. We are federally regulated and insured by the NCUA (National Credit Union Association).
REFINANCE BASICS

What is a refinance?
A refinance is replacing existing debt with new debt under more favorable terms for the operation at that time.

OR:
Taking debt and moving it around on the financial statement to improve the financial condition of the operation.

Why is it needed?
Conditions in the operation that may trigger a refinance:
* Operation has had a loss (commodity income is less than operation expenses)
* Large amount of machinery & equipment debt
* Combination of the above

LENDING 101

Balance Sheet
A snapshot showing financial position at a specific point in time.
Asset = Liabilities + Owner’s Equity
Divided into three sections:
* Current
* Intermediate
* Long-term
LENDING 101

Cashflow
The amount of cash inflows and outflows from the operation over a given period of time.

Predicting the future of the cash needs of the operation.

LENDING 101

Income / Expense Trends
Analyzing tax information to see how the operation has performed in years prior.
# Farm Ratios and Guidelines

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Definition</th>
<th>Formula</th>
<th>Ideal Range for an Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital</td>
<td>Measures liquidity by determining how much short term capital the operation has.</td>
<td>Current Assets – Current Liabilities</td>
<td>Positive #</td>
</tr>
<tr>
<td>Debt to Asset Ratio</td>
<td>Tells how leveraged an operation is. This is how much of your operation does the financial institution own.</td>
<td>Total Liabilities / Total Assets</td>
<td>Green &lt; 30%; Yellow 30% - 60%; Red &gt; 60%</td>
</tr>
<tr>
<td>Net Farm Income</td>
<td>This is the return on the work you have invested into your operation. This is before family living and taxes.</td>
<td>Gross Farm Income – Gross Farm Expenses (+-) Inventory changes – Depreciation</td>
<td>Positive #</td>
</tr>
<tr>
<td>Debt Service Margin</td>
<td>Tells how well the operation can support the term debt payments.</td>
<td>Funds available (Net Farm Income + Non-Farm Income – Taxes – Family Living + Depreciation + Interest) / Total Farm Principal and Interest</td>
<td>Green &gt; 1.25; Yellow 1.25 – 1.00; Red &lt; 1.00</td>
</tr>
</tbody>
</table>

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**YOU’RE HIRED!!!!!**

![Celebrating National Sunglasses Day](image)
REFINANCE #1

REFINANCE #2
**I’VE REFINANCED, NOW WHAT?**

* Have conversations with the lender to identify what led to the refinance.
* Make changes to ensure the same situation isn’t repeated.
* Use the cash flow throughout the year to see if the operation is on track for projected income and expenses.