

## LOAN WORKSHEET #6 – AGRICULTURAL LENDING

While the borrowing needs of the agricultural community are diverse, the basic principles of evaluating the portfolio are similar to the review of other commercial enterprises. In simple terms, the farmer/rancher is a manufacturer with a significant investment in depreciable fixed assets used in the manufacturing of a product. In addition, the price of the product is subject to supply and demand factors. However, the farmer/rancher faces the added risks of inclement weather, disease, active government (EPA) oversight, and the unknown future of government subsidies. Due to the cyclical nature of agricultural lending, analysis often focuses on a farmer's collateral and historic performance. Consequently, the examiner is highly dependent upon management's knowledge and understanding of each farmer's operation. Banks engaged in substantial amounts of agricultural lending that do not follow prudent underwriting, servicing and collection policies could be subjecting themselves to undue risk of loss.

Evaluate	Comments
<p>_____ <b>1.</b> Does written policy contain the following criteria pertinent to agriculture lending?</p> <p style="margin-left: 40px;"><b>A.</b> Periodic inspection and valuation of collateral?</p> <p style="margin-left: 40px;"><b>B.</b> Repayment terms?</p> <p style="margin-left: 40px;"><b>C.</b> Prudent collateral margins?</p> <p style="margin-left: 40px;"><b>D.</b> Periodic lien searches?</p> <p style="margin-left: 40px;"><b>E.</b> Encouragement of crop insurance and/or some type of hedging and forward contracting, to lessen risks associated with weather and price?</p> <p style="margin-left: 40px;"><b>F.</b> Limitations upon the use of leased land?</p> <p style="margin-left: 40px;"><b>G.</b> Requirement of landlord subordinations?</p>	

## LOAN WORKSHEET #6 – AGRICULTURAL LENDING (continued)

Evaluate	Comments
<p style="margin-left: 40px;"><b>H.</b> Exit/collection (close-out) strategies?</p> <p>_____ <b>2.</b> Evaluate underwriting and servicing.</p> <p style="margin-left: 40px;"><b>A.</b> Obtain and review loan committee packages for loans being reviewed. Consider the following points:</p> <ul style="list-style-type: none"> <li>• Are packages of sufficient detail for an informed credit decision?</li> <li>• Are borrower summaries of sufficient detail to analyze existing debt, performance, and collateral?</li> <li>• Is the use of proceeds clearly defined?</li> <li>• Are repayment terms consistent with use of proceeds?</li> <li>• Are exceptions to policy justified and approved by the appropriate authority?</li> </ul> <p style="margin-left: 40px;"><b>B.</b> Are inspections performed by someone other than the lending officer?</p> <p style="margin-left: 40px;"><b>C.</b> Are crops inspected during the growing stage?</p>	

## LOAN WORKSHEET #6 – AGRICULTURAL LENDING (continued)

Evaluate	Comments
<p><b>D.</b> Are inspections well documented, dated and supported by photographs?</p> <p><b>E.</b> Do livestock inspections contain sufficient detail to document the collateral value (# of head, sex, weight, price)?</p> <p><b>F.</b> Are prior year crop losses (carry-over) tracked or segregated from current year operating expenses?</p> <p><b>G.</b> Are loans to integrated producers segregated by crop or expected source of repayment?</p> <p><b>H.</b> Are purchase money equipment and land loans segregated and amortized?</p> <p><b>I.</b> Are collateral margins overly reliant upon ill-liquid real estate?</p> <p><b>J.</b> Are officer memos of sufficient detail to demonstrate management's knowledge of borrower operations?</p> <p><b>K.</b> Are collateral proceeds controlled or monitored?</p>	

## LOAN WORKSHEET #6 – AGRICULTURAL LENDING (continued)

Evaluate	Comments
<p>_____ <b>3.</b> Evaluate financial information. Farmer/rancher financial information, like many small businesses, is usually self-prepared with varying degrees of accuracy and detail. While in some cases the information may not be easily used to predict future debt service capacity, it can be useful for tracking borrowing from other financial institutions or vendors, determining management’s reliance upon borrower estimates of value, and evaluating the borrower’s ability to plan and budget.</p> <p style="margin-left: 40px;"><b>A.</b> Evaluate the reasonableness of current crop year projections compared to prior year performance.</p> <ul style="list-style-type: none"> <li>• Are yield assumptions realistic?</li> <li>• Are price assumptions realistic?</li> </ul> <p style="margin-left: 40px;"><b>B.</b> Evaluate historic debt levels to determine consistency with profitable operations.</p>	