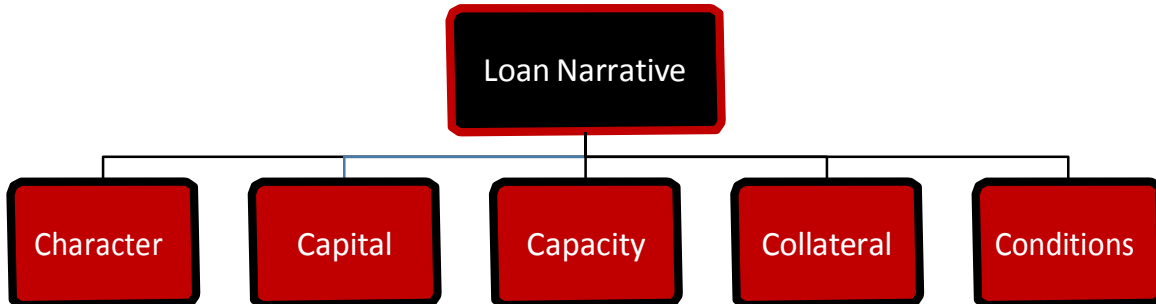


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## **Loan Narrative Expectations**



### **Character**

- Describe the loan request.
  - Detail the sources and uses of funds.
    - Explain what the applicants are wishing to achieve with this loan transaction.
    - Please be specific in the loan amount and loan proceeds.
      - If the loan proceeds are for cash out or improvements, explain what the applicants are doing with these funds.
    - If your institution or another institution is involved in any way in the transaction or a different transaction occurring at the same time, explain.
    - If the applicants currently have exposure through TS Ag Finance, give the loan number and approximate unpaid balance.
  - Explain who the applicants are on the request.
    - State if the applicants are U.S. Citizens. If not state how they meet the borrower eligibility test.
    - If there is an entity involved in the transaction, explain who owns the entity and at what percentages. Discuss the ownership structure.
    - If the applicants are involved in other entities that are not going to be a party to this loan request list the entities and the applicants' ownership.
    - Detail the size and scope of the applicants' operation.
      - The size and scope discussion should include, acres farmed, acres owned vs. rented, machinery owned, historical yields, inconsistent income trend, etc.



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- Detail the crops grown by the applicants.
  - If there are permanent plantings discuss estimated remaining economic life and replanting schedule at a high level. More detailed information for the collateral will be required in the collateral section of the narrative.
  - If there is a livestock operation discuss capacity, facilities, effluent management, etc. at a high level. More detailed information for the collateral will be required in the collateral section of the narrative.
  - If the applicants have irrigated property discuss at a high level the water source, equipment etc. More detailed information for the collateral will be required in the collateral section of the narrative.
- If the applicants have off-farm income, state where they work, for how long and their occupation. Their salary information should be included along with two most recent paystubs, if applicable.
  - List the requested loan product, terms, payment schedule and rate.
  - Write an overview of collateral and anticipated loan to value along with who the title holders of the collateral are/will be.
- Discuss the applicants' credit report and credit scores.
  - Include all debt on the credit report on the balance sheet in AgPower®.
  - If there are any late payments, judgments, derogatory items, etc., please explain.
- Explain your institutions history with the applicants. If they are new to your institution, state how your relationship began.
  - Please note the payment history with your institution.
  - If your institution is the operating lender please discuss operating history.
- Provide information on the applicant's management capabilities
  - If historical yield and prices is available, please detail.
  - Talk about the applicant's succession plans, if applicable.
- Detail the applicants marketing plan and risk strategies.
  - If they have crop insurance, explain their policy and how they use the insurance.
  - Write about industry economics and risk.
- Discuss the applicants' financial management and credit history.



## **Capital**

- Note the date and quality of balance sheets provided.
- State the borrower's liquidity and working capital position in addition to the debt to asset ratio before and after the transaction.
- Reconcile the proforma net worth and explain all changes made to the proforma balance sheet.
  - Match the verifications that were provided to the corresponding assets and liabilities.
- If the loan is a Full Underwrite or Ag Equity historical balance sheets should be spread on the Loan Summary tab. Please explain the historical trends and ratios and make the necessary adjustments to the earnings trend for real estate appreciation, etc. If no historical balance sheets are available provide a detailed explanation as to why the applicants do not have historical information and why the information submitted is sufficient.
  - Discuss the significant assets the applicants have owned, rented, bought or sold over the last four years.
- Talk about the applicants' operating funds including the source, amount and terms of repayment for operating debt, and what is the relationship, in addition to the terms and conditions of the note.
  - Who is their operating lender and how long have they been with this operating lender? Have there been any derogatory situations associated with the operating line? What are the maximum line of credit dollars available? What is the average annual balance?

## **Capacity**

- State the years of tax returns provided for each borrower.
- Discuss the historical average cash flow available and Total Debt Coverage Ratio (TDC) as well as the proforma cash flow available and TDC. (Proforma projections are not completed for Fast Track loans.)
- Detail items that were backed out as non-recurring.
- Discuss anything that appears to be abnormal or extraordinary when reviewing the tax returns.
- Explain if the operation is stable or changing.
- What changes have occurred in the farm operation, outside businesses or non-farm income and expenses over the past four years?
- Explain any variances in historical cash flow available.
- Explain large differences in the historical averages versus the proforma projections.



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- Detail the source of income that can be used for the payment of debt, such as non-farm income, outside entity income or core business earnings.
- Verify the sources and sustainability of any non-farm income.

## **Global Analysis**

- This section of the narrative needs to be completed if there are outside entities listed on the subsidiary analysis tab.
  - If borrower owns 10% or more of any entity, the most recent tax return and balance statement need to be uploaded and spread on the Subsidiary Analysis tab.
- Discuss each subsidiary entity in detail including the applicants' share of the entity, other owners not part of the loan request, the business purpose of the entity, any liabilities etc.
- Detail the change in the applicants' credit ratios when consolidated with the subsidiary entity.

## **Collateral**

- Please describe the collateral.
  - State the estimated market value and the loan to value for the loan.
  - Detail the acres of collateral and how many acres are tillable.
  - Talk about the location of the collateral including the legal and physical access to the property.
  - Discuss the marketability and desirability of the property.
  - Detail any building improvements on the property and their condition. Estimate the percentage value the building improvements will contribute to the overall property value. State whether or not the collateral serves as the applicants' primary residence.
    - If the collateral securing the loan is a facility provide detailed information on the operation including equipment being pledged (i.e.: milking equipment, wind machines etc.), manure handling capabilities if applicable, capacity, etc.
  - If the property is irrigated:
    - Know if the property is located within an irrigation district and if so, provide detailed information about the irrigation district, quantity,



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- quality and cost of the irrigation water. If it is not located within an irrigation district state the source and location of the irrigation water.
- Detail any irrigation equipment that will be pledged as part of the collateral.
  - If there are grazing permits, BLM permits, other privileges, permits or leases to be secured, detail them in this area.
    - Provide the term, restrictions, and upload the documentation
  - If the appraisal has been received prior to loan submission discuss the appraised value and any comments or findings regarding the appraisal.

## **Conditions**

- List the applicants' credit ratios as compared to the TS Ag Finance established credit ratios for the program the loan is being submitted through. If there are exceptions to standards mention the credit ratios that can offset the exception.
- Detail who will sign the note and who will sign the mortgage.
- If the loan is to be cross-collateralized or cross-defaulted with another loan mention that information here.
- Note any additional items to be pledged or secured as part of the collateral.
- Please provide your recommendation including strengths and weaknesses of the credit.