

What Lenders Want Borrowers to Know

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Introduction

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What is a Lender?

A lender is an individual, financial institution, or organization that assesses risk and provides money (credit) to a borrower with the expectation that it will be repaid, typically with interest.



Why do lenders need information?

- Assess risk
 - Determine repayment ability
 - Understand farm operation stability



Key Financial Documents

- 3 years of tax returns
 - Historical Trend
 - *Profit & Loss
 - *Income Statement
- Balance sheet (Personal Financial Statement)
- Cash-flow projections



What Is A Balance Sheet?

- $\text{Assets} = \text{Liabilities} + \text{Equity}$
- “Snapshot” of a customer’s financial position
- Outlines - Net Worth, Equity, & Liquidity



Areas Of The Balance Sheet

Assets

- Current / Liquid
- Non-Current / Long Term

Liabilities

- Current
- Non-Current

Liquidity – how quickly and easily an asset can be converted into cash without significantly affecting its value.



Balance Sheet Example

Jacob Issa Farmer

- ‘Jake’ is 35 years old, working part-time on his neighbor’s produce farm and working off-farm as well. Jake has contacted his local lender to inquire about financing for the purchase of a 25-acre farm property. The property is listed for \$350,000. For the loan application, the lender needs a balance sheet showing Jake’s assets and liabilities.
- Jake prepares the following information for the meeting with his lender.

Balance Sheet Example

Assets

Cash on Hand:	\$20,000
A/R:	\$10,000
Vehicles:	\$12,000
Truck:	\$25,000
Trailers:	\$20,000
Equipment:	\$15,000
ATV:	\$5,000

Liabilities

Credit Card:	\$500
Truck Loan:	\$8,000
Equipment Loan:	\$5,000

Jacob I. Farmer Balance Sheet

Assets		Liabilities	
Cash	\$20,000	Credit Card	\$500
A/R	\$10,000	CPTD	\$8,820
Current Assets	\$30,000	Current Liabilities	\$9,320
Vehicles	\$12,000	Truck Loan	\$8,000
Truck	\$25,000	Equipment Loan	\$5,000
Trailers	\$20,000		
Equipment	\$15,000		
ATV	\$5,000	Less CPTD	(\$8,820)
Non-Current Assets	\$77,000	Non-Current Liabilities	\$4,180
Total Assets	\$107,000	Total Liabilities	\$13,500
Equity Ratio = 87.4%		NET WORTH	\$93,500

Jacob I. Farmer Proforma Balance Sheet

Assets		Liabilities	
Cash	\$20,000	Credit Card	\$500
A/R	\$10,000	CPTD	\$31,848
Current Assets	\$30,000	Current Liabilities	\$32,348
Vehicles	\$12,000	Truck Loan	\$8,000
Truck	\$5,000	Equipment Loan	\$5,000
Trailers	\$20,000	Mortgage – 80% Financing	\$280,000
Equipment	\$15,000	FSA Financing	\$70,000
ATV	\$5,000		
25 Acre Farm	\$350,000	Less CPTD	(\$31,848)
Non-Current Assets	\$407,000	Non-Current Liabilities	\$354,034
Total Assets	\$437,000	Total Liabilities	\$363,500
Equity Ratio = 21.4%		NET WORTH	\$93,500

Cash Flow Statement

- Identifies gaps in income and allows the producer to plan accordingly
- Shows Cash Inflows and Cash Outflows



How To Prepare For A Meeting With Your Lender?

Gather documents:

Business Plan	Copy of your Driver's License
3 years tax returns Pay stubs or YTD profit and loss statement	Signed Sales contract (Don't have one yet? That's okay. We can help you get there!)
Balance sheet	Farm Specific Info <ul style="list-style-type: none">- Production Records- Acreage and Yield- Crop/Livestock Plans- Input Costs- Equipment Lists
Asset verifications like bank statements, stocks, mutual funds, retirement account, etc.	

What To Know Before You Meet With A Lender

- Clear communication and being prepared is important
- Choose a lender with:
 - Skills & Qualities
 - Capacity
 - Products & Services
 - People & Lending Philosophy
 - Long-term presence in agriculture



5 C's Of Credit

5 C's of Credit	Description
Capital	<ul style="list-style-type: none">• Balance Sheet: Net Worth, Equity, Working Capital• Financial Structure: Current vs. Fixed Assets, Quality
Capacity	<ul style="list-style-type: none">• Repayment Capacity/Profitability/Cash Flow• Net income, Debt Coverage Ratio
Collateral	<ul style="list-style-type: none">• Security, Secondary Source of Repayment
Conditions	<ul style="list-style-type: none">• Help Manage Post Close Risk• Loan Terms, Insurance, AutoDraft, Financial Covenants
Character	<ul style="list-style-type: none">• Eligibility, integrity, history of paying others (Credit Score), management assessment, ownership structure of business

How To Establish A Good Credit Score

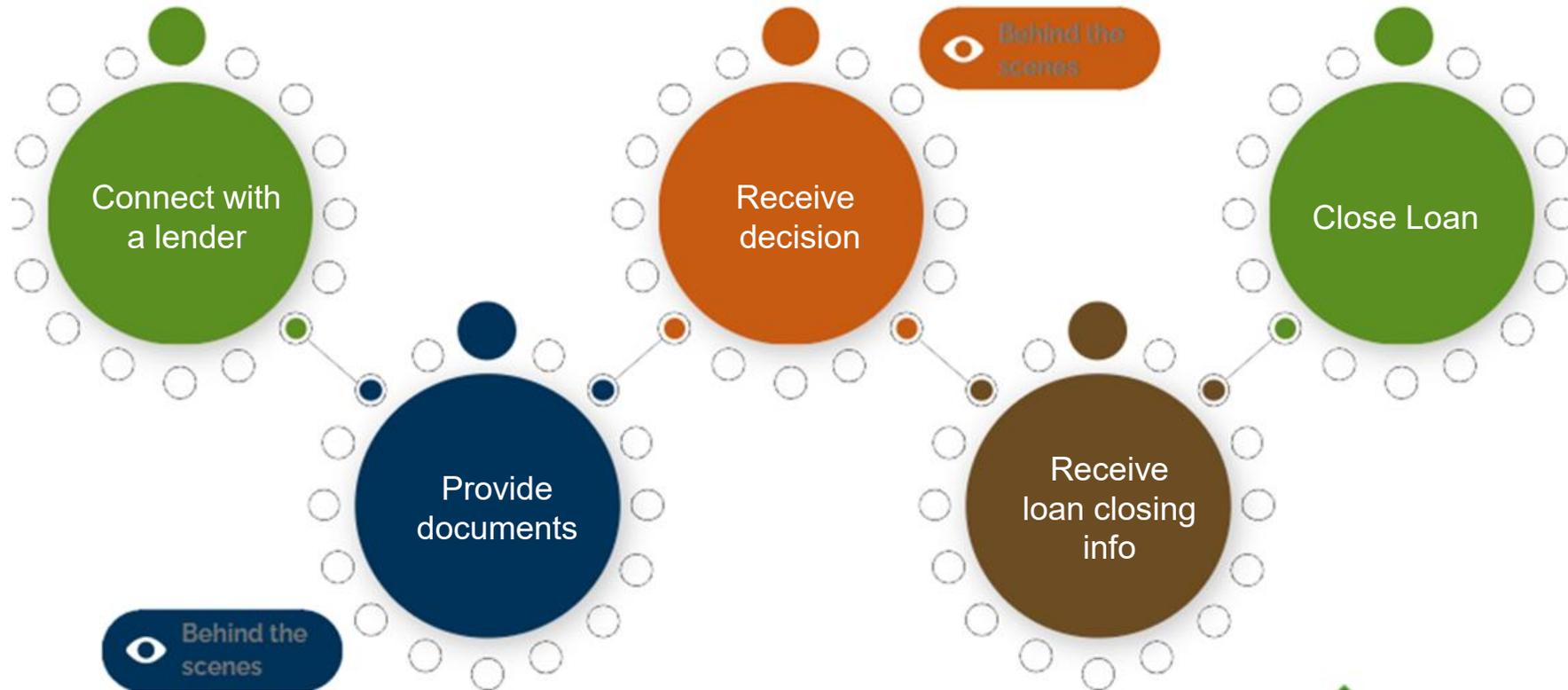
- Make on-time payments
- Cash is not necessarily king
- Small collection amounts: pay now, fight later
- Credit card balances: two cards can be better than one
- No quick fix: once your score is damaged, only time can fix it
- Avoid multiple inquiries or new loans
- Do business with a lender that reports!



How To Get A Loan With Farm Credit

WHAT CAN YOU EXPECT DURING THE LOAN PROCESS?

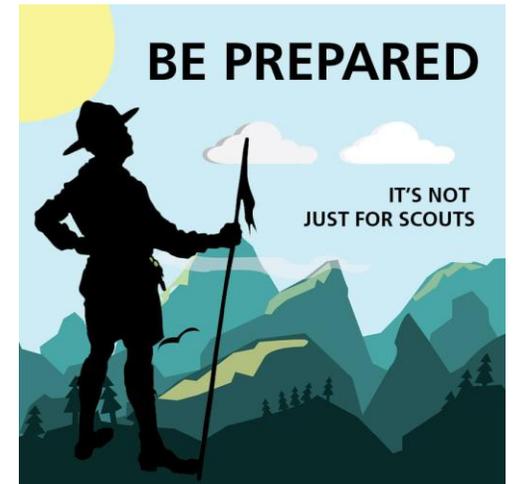
Step-by-step guide



Things To Remember...



- Your Lender's Role:
 - Provide information about loan products available, and structuring that will best serve your future operation
- Your Role:
 - Take ownership of your plan, and provide expertise in your area
 - Stay organized
 - Be honest and accurate
 - Keep records updated
 - Know your numbers
 - Be prepared to ask questions
 - Be prepared to answer questions



Other Important Resources

(These resources are available outside of Horizon Farm Credit)

- Farm Service Agency
- USDA (Department of Agriculture)
- PA Industrial Development Authority / Economic Development Corporations
 - Statewide funds available at the county-level



**United States
Department of
Agriculture**

Questions?



Contact Information

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Thank You!