

An aerial photograph of a rural landscape. A dark blue river winds through the scene, curving around a large green field. Surrounding fields are in various stages of harvest, showing shades of brown and tan. In the upper right, there is a farmstead with several white buildings and a red barn. A road is visible in the lower left corner. The overall scene is bright and clear, suggesting a sunny day.

Coaching Farmers Applying for Credit

Gary Matteson, Farm Credit Council

A top-down view of a dark grey or black tray filled with numerous tomatoes. Most are bright red and ripe, with some showing slight yellowing or green at the stem. One tomato in the lower-left quadrant is unripe and green. The tomatoes are packed closely together, filling the entire frame. The text is overlaid in the center in a large, bold, black font with a white drop shadow.

**Are your clients
willing to be
exceptional?**



Defining success

Potential borrowers should be able to say:

- What they want their business to look like
- What they want their LIFE to look like
- That success is about more than financial gain.

- ...BUT, know that profitability is a *pre-requisite* to achieving other, non-financial goals.



All Success Stories Share One Thing:

- Regardless of overall goals, all sustainable businesses **must** have enough net profit to **cover costs**, including owner draw and capital investment.



**prepare clients for their future by
understanding other businesses**



A vibrant green field of tall grass with a winding path leading into the distance. The path is a narrow, dark green line that curves through the field, suggesting a journey or a path of resilience. The grass is lush and appears to be blowing in the wind, creating a sense of movement and vitality. The overall scene is bright and optimistic, symbolizing growth and the future.

**Teach the future as being
an exercise in resilience**

Beginning Farmer Humility Lesson

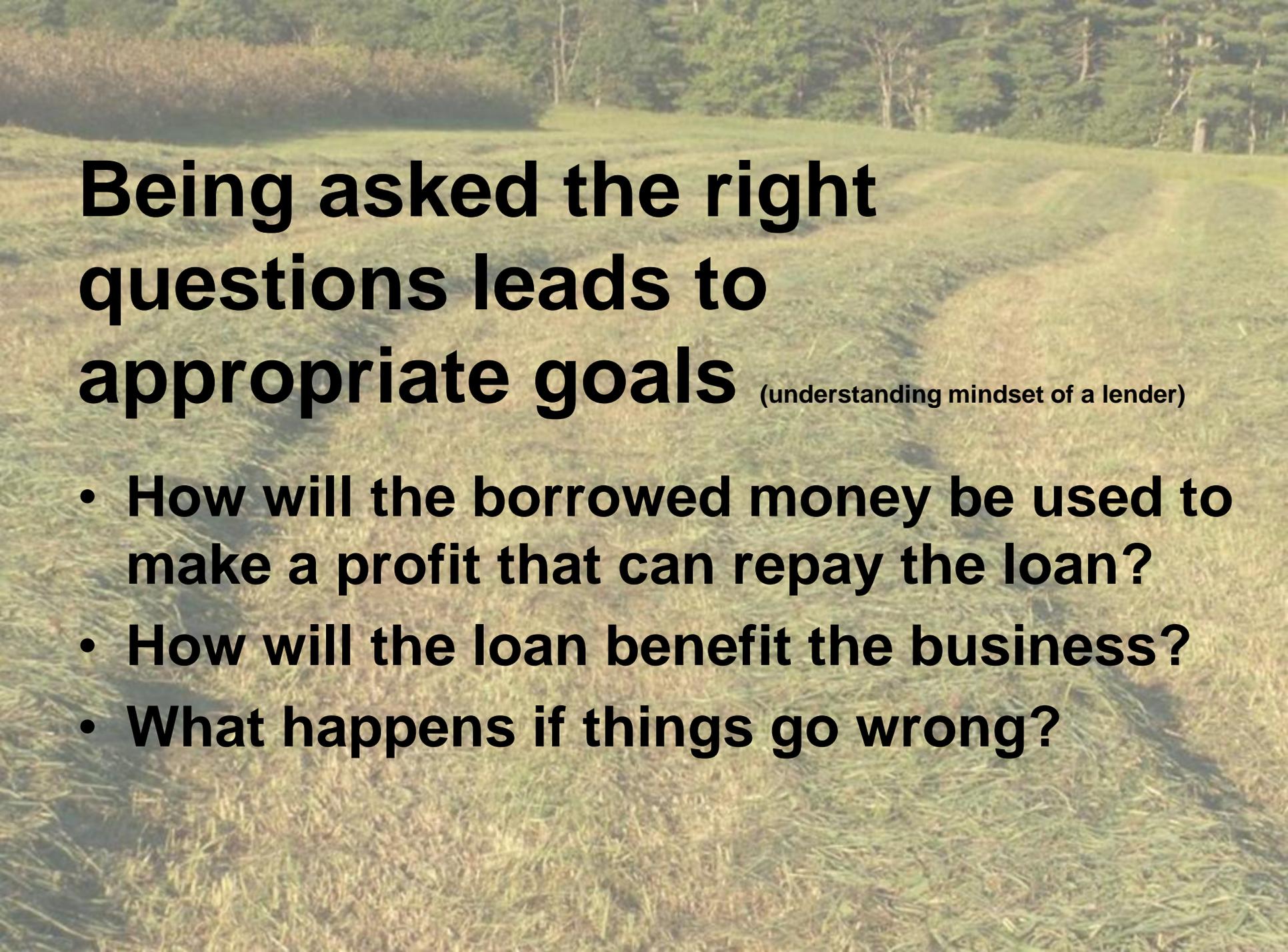
- **Nobody owes you anything. You have to prove you are worthy of trust.**
- **What, how, or why you farm does not mean you deserve any more assistance, resources, or opportunities than any other farmer.**

Scott Marlow, R479

Planning to succeed

A dramatic sky with dark, heavy clouds and a bright light source on the horizon, possibly a storm or sunset, over a green field.

Your help is needed by many farmers...

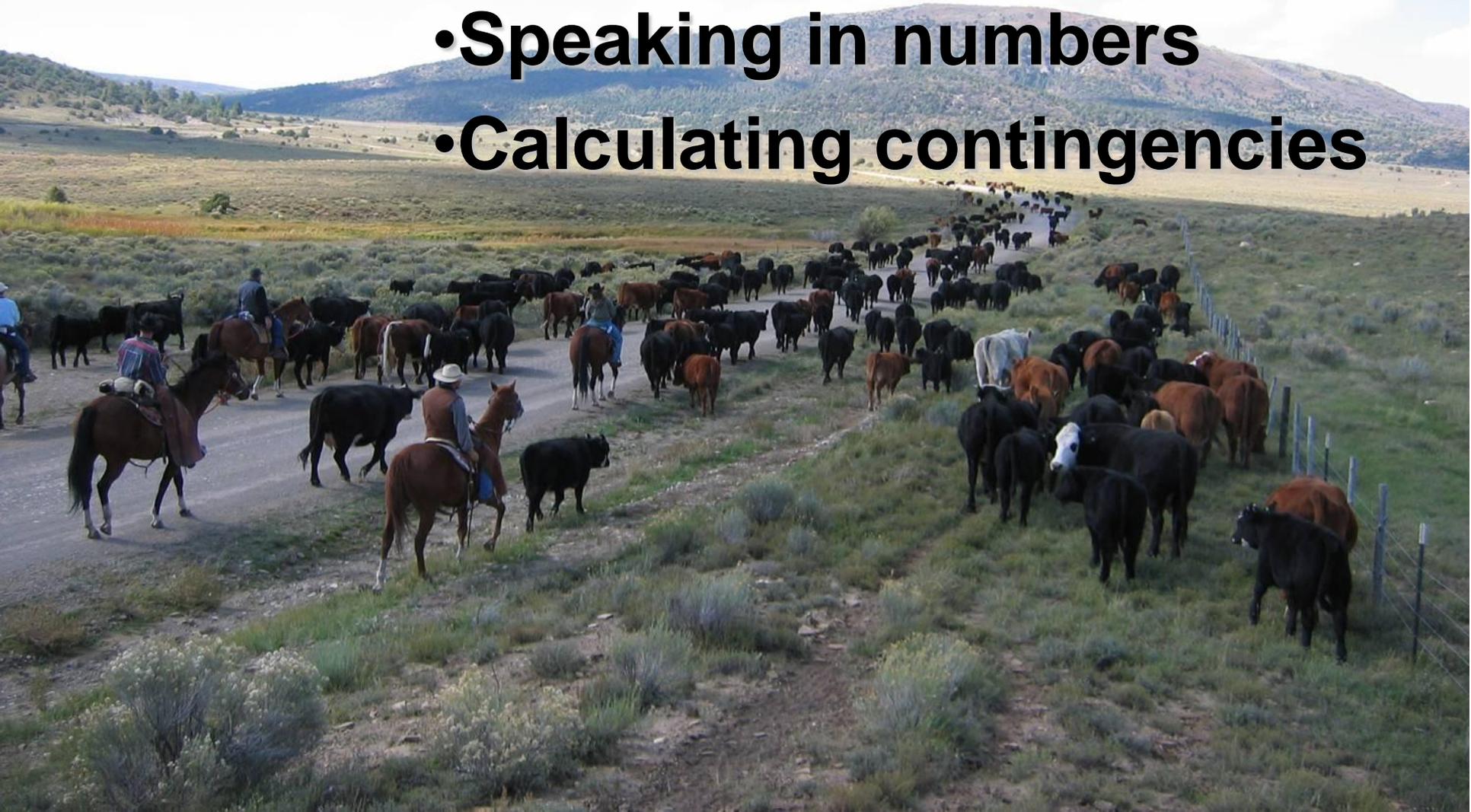


Being asked the right questions leads to appropriate goals (understanding mindset of a lender)

- **How will the borrowed money be used to make a profit that can repay the loan?**
- **How will the loan benefit the business?**
- **What happens if things go wrong?**

The advisor as translator:

- **The language of lenders**
- **Speaking in numbers**
- **Calculating contingencies**



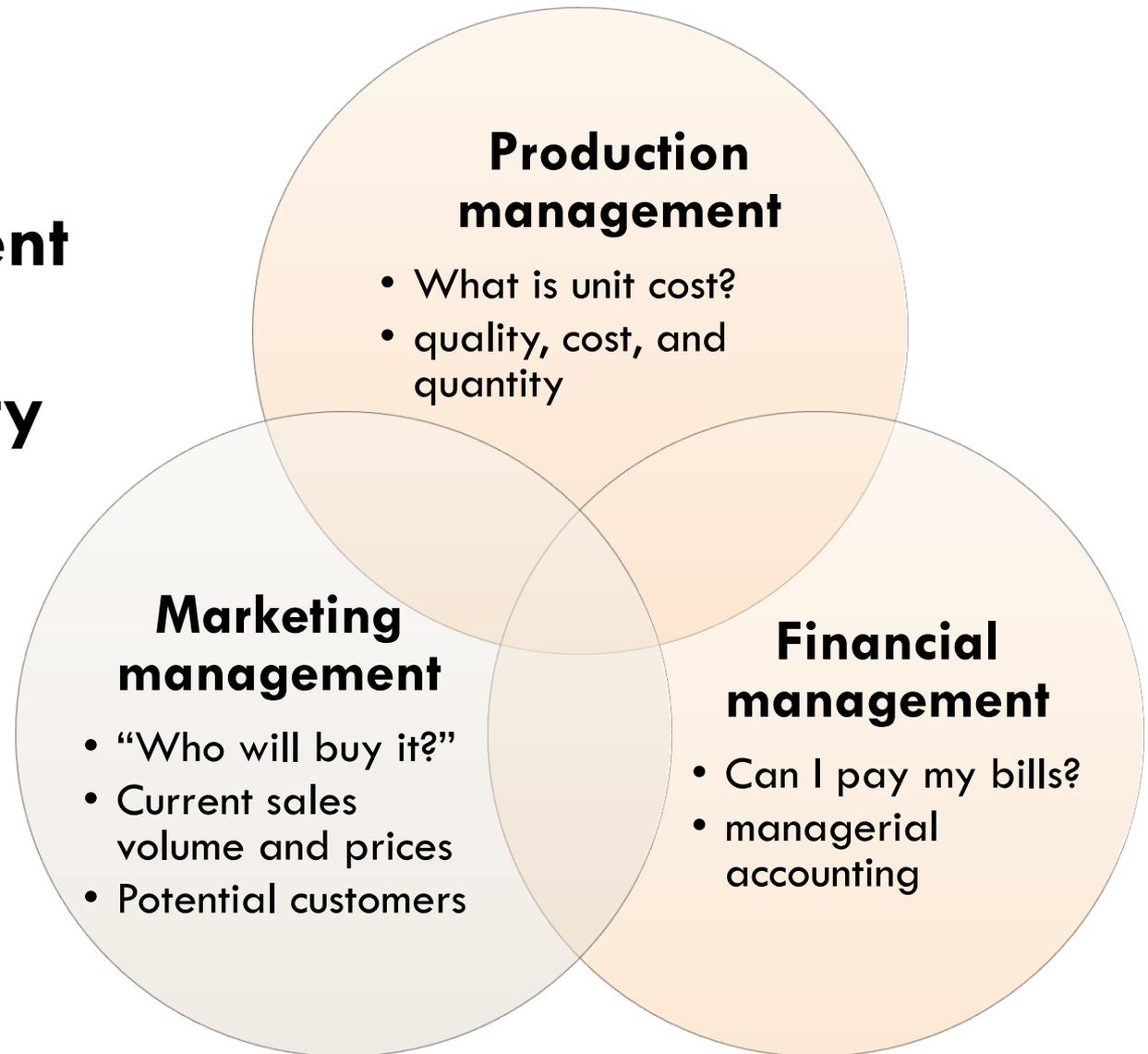
The advisor as coach:

Three basic business skills:

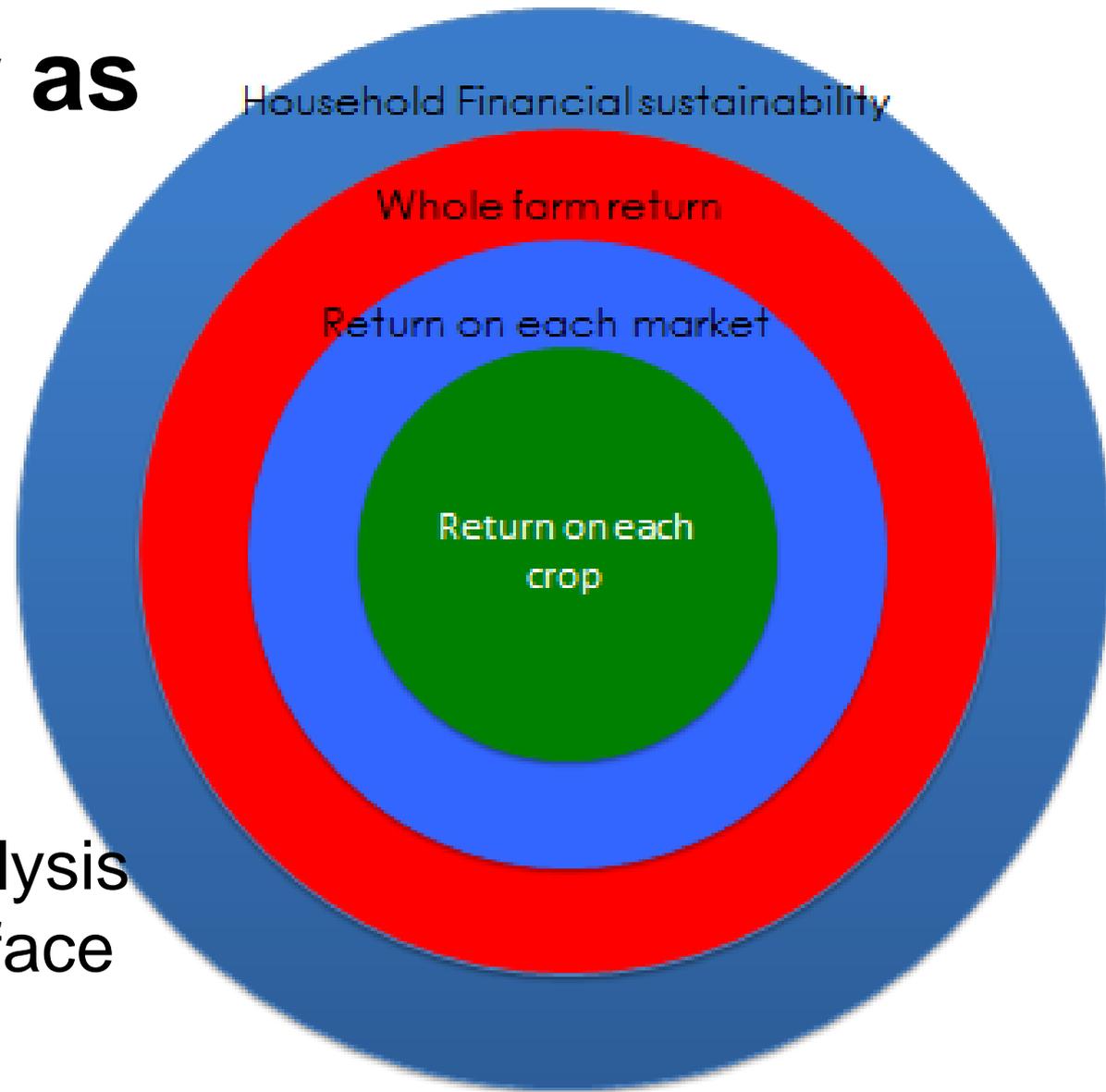
- 1. Financial**
- 2. Production**
- 3. Marketing**

*A beginning farmer is lucky to have two of these skills.
Coach them where to get the skill they don't have.*

Management is key to profitability



The Advisor as Zen Master:



- The big picture
- Dispassionate analysis
- Confidence in the face of challenge
- Willingness to learn

Chart courtesy of Scott Marlow, RAFI

The advisor as Mom:

“Keep good records, they’re good for you”

- Set measurable goals and evaluation standards
- Demonstrate management capacity
- Demonstrate planning capacity
- Establish eligibility for WFRP crop insurance

what a lender wants to hear...

**...explaining your farm business
idea in words and numbers**

Plan to Succeed

Mission: The mission for your business guides everything that you do. Keep it simple by finding the lowest common denominator.

Objectives:

Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

Objective 1:

PEOPLE

Objective 2:

FINANCIAL

Objective 3:

PRODUCTION

Objective 4:

MARKETING

SMART Goals: Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

SMART Goal a):

SMART Goal a):

SMART Goal a):

SMART Goal a):

Action Plan:

i.

Action Plan:

i.

Action Plan:

- i.
- ii.
- iii.

Action Plan:

- i.
- ii.

SMART Goal b):

SMART Goal b):

SMART Goal b):

SMART Goal b):

Action Plan:

- i.
- ii.
- iii.

Action Plan:

- i.
- ii.
- iii.

Action Plan:

- i.
- ii.

Action Plan:

- i.
- ii.

Action Plans: Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.

Plan to Succeed

The One Page Business Plan



FARM CREDIT

Mission: The mission for your business guides everything that you do. Keep it simple by finding the lowest common denominator.

The mission of Tyler's Tip-Top Tomatoes, LLC is to grow good food, make good money and be good people.

Objectives:

Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

Objective 1:

Achieve an appropriate balance of work and home life

Objective 2:

Make enough money to pay myself, the bank and reinvest in the farm

Objective 3:

Increase efficiency while offering customers wider selection

Objective 4:

Increase communication with customers

SMART Goals: Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

SMART Goal a):

Take Sundays off

Action Plan:

- i. Train Charlie for Sunday tasks, give him #'s to call
- ii. Measure his performance

SMART Goal a):

Make a net profit (including draw) of \$50,000 this operating cycle

Action Plan:

- i. Compare cash flow budget to P&L and bank accounts monthly, adjust as needed

SMART Goal a):

Decrease COGS/ lb of tomatoes

Action Plan:

- i. Measure production per worker and per variety
- ii. Set pest traps, scout

SMART Goal a):

Start and maintain a blog to show customers progress on farm

Action Plan:

- i. Research platforms
- ii. Block off 1 hour each week to write post/ edit pics

SMART Goal b):

Action Plan:

- i.
- ii.
- iii.

SMART Goal b):

Action Plan:

- i.
- ii.
- iii.

SMART Goal b):

Introduce at least one new variety of tomato for sale each year

Action Plan:

- i. Pick five varieties for trial, test on limited growing area
- ii. Measure yields to choose

SMART Goal b):

Invite customers to participate in tomato soup contest, %of proceeds to be donated to local soup kitchen

Action Plan:

- i. Pick date and venue
- ii. Send out e-mail blast with soup kitchen for contestants

Action Plans: Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.

Develop a budget to ensure you are valued.



- Use last year's records as a starting point for your five-line income statement. If you're starting a new operation, plenty of information is available!
For example:
 - <http://agalternatives.aers.psu.edu/>
 - <http://cdp.wisc.edu/Budgets,%20Spread%20&%20Programs.htm>
 - <http://www.ces.uga.edu/Agriculture/agecon/printedbudgets.htm>
 Make sure you take regional cost differences into account (land rent is a good example of this.)
- Calculate your five-line income statement.

COGS = any expense that helps produce one more unit of output.
Production labor and associated payroll expenses, including workman's compensation, unemployment taxes, FICA, Medicare, health insurance
Crop or livestock inputs – seed, fertilizer, soils, chemicals, feed

Overhead = any expense that you incur no matter how much production you actually have.
The main ones are the "DIRTY" Five:
Depreciation, Interest, Repairs, Taxes, Insurance
Don't forget to include Managers' and Bookkeepers' wages/salaries, marketing, and utilities.
- Calculate the percent of sales for each line.
(Divide the dollars for each line by the total sales.)
- Create your budget—from the bottom up. Start with your desired draw (the amount you and your family need to take from the operation to live on, plus income taxes). Add the principal portion of any loan payments you need to make in 2011 to get the total profit needed from the operation.
- Add your overhead expenses to the required profit to figure the gross margin the operation will need to yield. Your overhead expenses shouldn't change much from the previous year, unless you've undergone a significant expansion or other major change.
- Determine the breakeven sales needed in your operation to support the overhead obligations and profit required. Do this by dividing the gross margin (E) by the gross margin as a percent of sales (taken from your records, calculated in step 3).
- Step back and see if this budget makes sense. Is this sales volume reasonable for this year, especially if it's your first year in business? Is it possible for the acreage you raise and the market prices of your products? If it is, great! Develop a marketing plan (action plan) to achieve that level of sales. If not, that's okay. Rework until you have a plan that is sound. If this is a building year, how will you achieve your goal (and finance the operation in the meantime)? Address these questions early in the year to ensure you have a complete plan.

Tyler's Tip Top Tomatoes

Historical	Dollars	% of Sales
Sales (<i>total income</i>)	\$134,400	100%
- Cost of Goods Sold: (<i>variable costs</i>)	\$80,096	60%
= Gross Margin:	\$54,304	40%
- Overhead (<i>fixed costs</i>)	\$40,345	30%
= Profit (Net Margin)	\$13,959	10%

BUDGET	
Owner Draw Desired (include income taxes):	\$30,000 (A)
Bank principal payments required:	\$20,000 (B)
TOTAL PROFIT REQUIRED: (A+B)	\$50,000 (C)
Overhead expenses	\$40,345 (D)
GROSS MARGIN REQUIRED: (C+D)	\$90,345 (E)
Divide by Gross Margin percentage	$1 \div .60 = .67$ (40%) (F)
SALES VOLUME REQUIRED: (E/F as % of sales—from historical)]	\$225,862 (G)

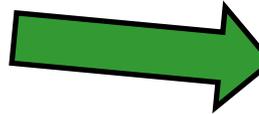
Showing Annual Business Results

The 5-Line Income Statement

Historical	Dollars	% of Sales
Sales:	\$ 134,400	100%
- Cost of Goods Sold:	\$ 80,096	60 %
= Gross Margin:	\$ 54,304	40 %
- Overhead	\$ 40,345	30 %
= Profit (Net Income)	\$ 13,959	10 %

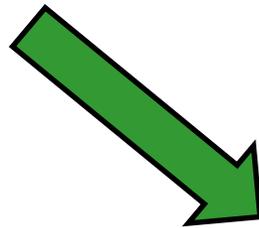
Showing Annual Business Results

This 5-Line
Income Statement



Historical	Dollars	% of Sales
Sales:	\$ 134,400	100%
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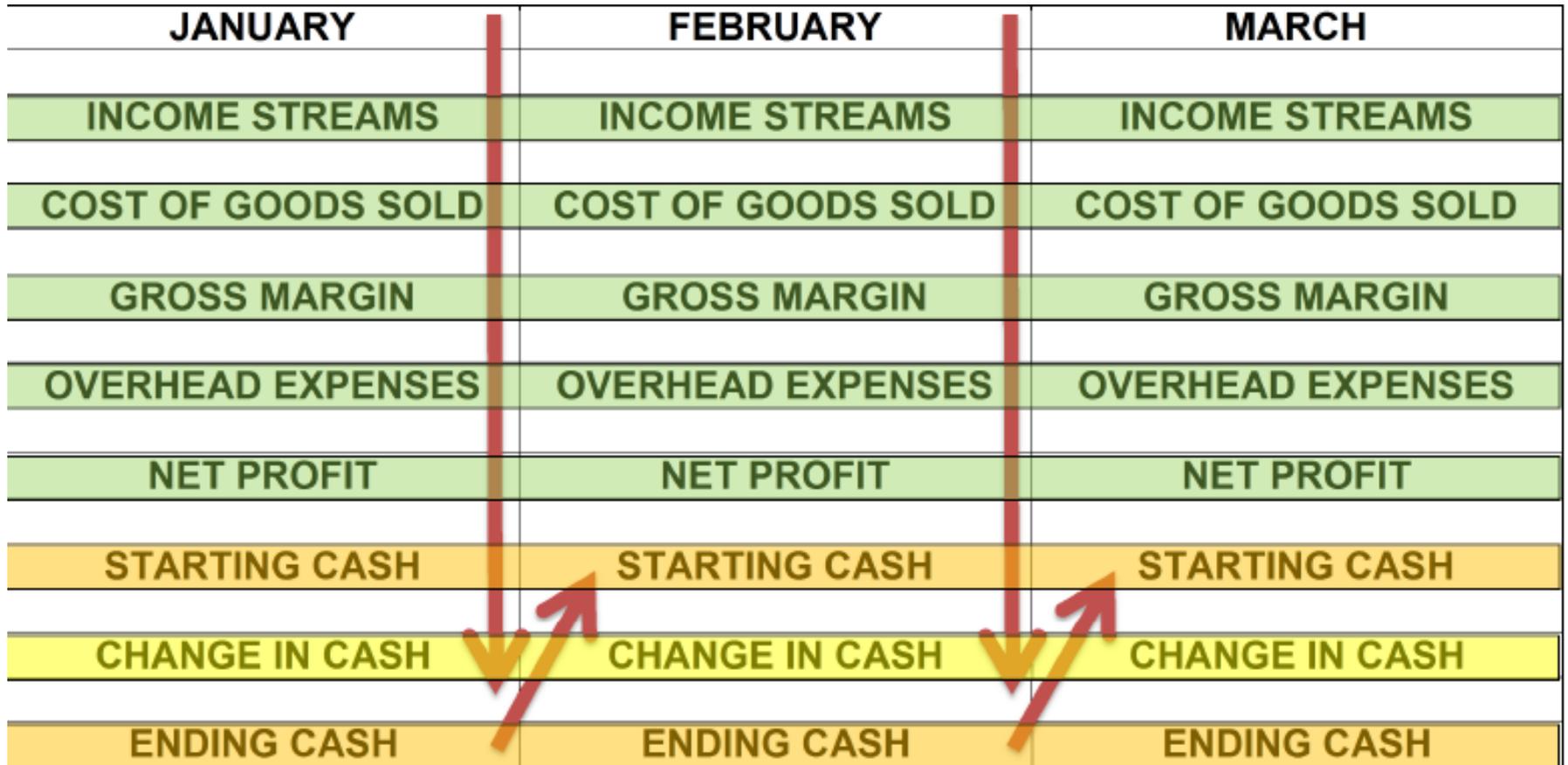
Becomes the basis
of this Cash Flow
Analysis
Spreadsheet



	Annually	% of Sales
Total Income(TI) or Total Sales	134,400	100%
COGS or Total Variable Costs (VC)	80,096	60%
GROSS MARGIN %	40%	40%
Total Fixed Costs plus Owner Draw	40,345	30%
NET MARGIN	13,959	
NET MARGIN %	10.4%	10%

Cash Flow Budgeting

JANUARY	FEBRUARY	MARCH
INCOME STREAMS	INCOME STREAMS	INCOME STREAMS
COST OF GOODS SOLD	COST OF GOODS SOLD	COST OF GOODS SOLD
GROSS MARGIN	GROSS MARGIN	GROSS MARGIN
OVERHEAD EXPENSES	OVERHEAD EXPENSES	OVERHEAD EXPENSES
NET PROFIT	NET PROFIT	NET PROFIT
STARTING CASH	STARTING CASH	STARTING CASH
CHANGE IN CASH	CHANGE IN CASH	CHANGE IN CASH
ENDING CASH	ENDING CASH	ENDING CASH

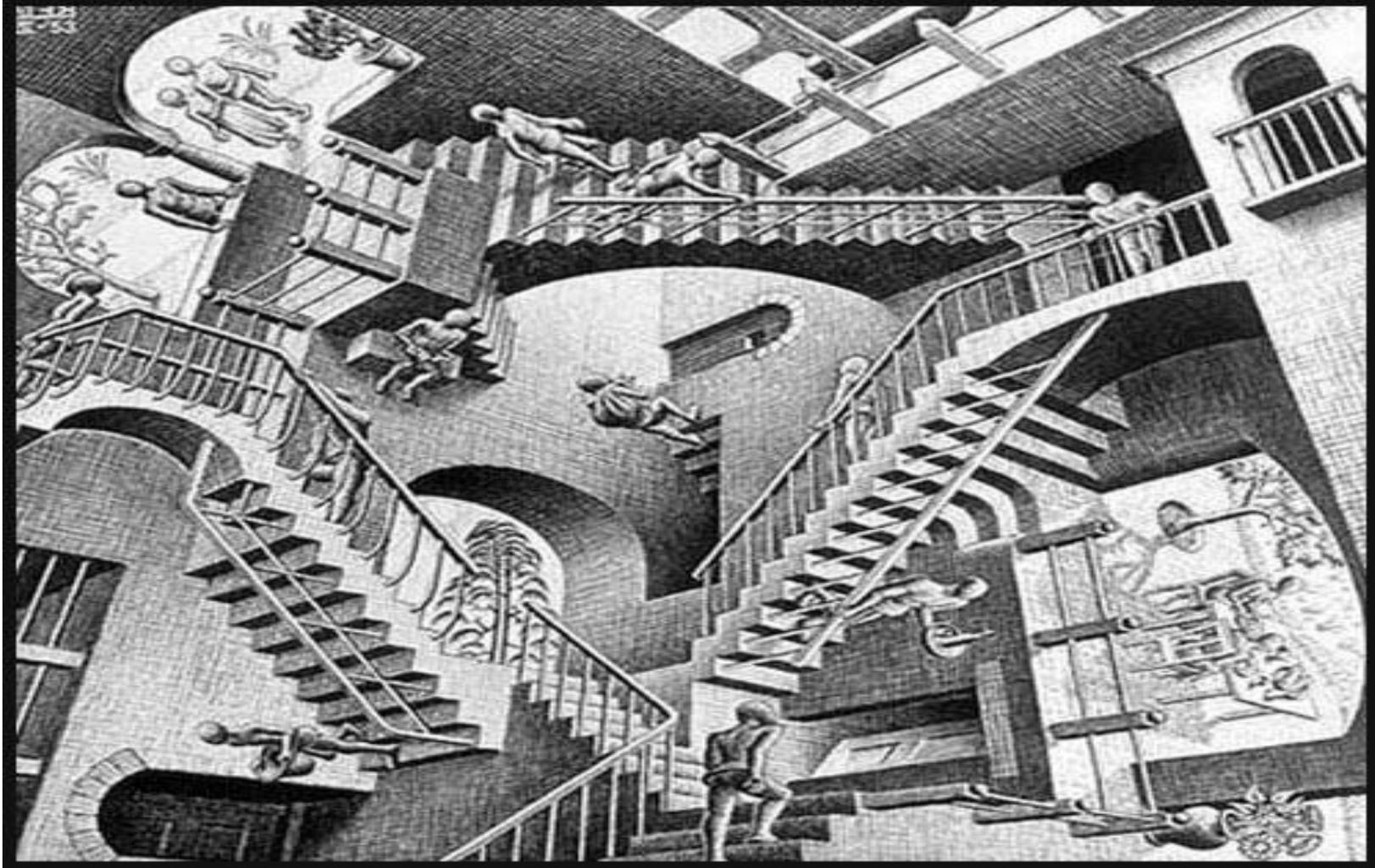




Simply Fresh Farm Budget Cash Flow Spreadsheet for Year 2016

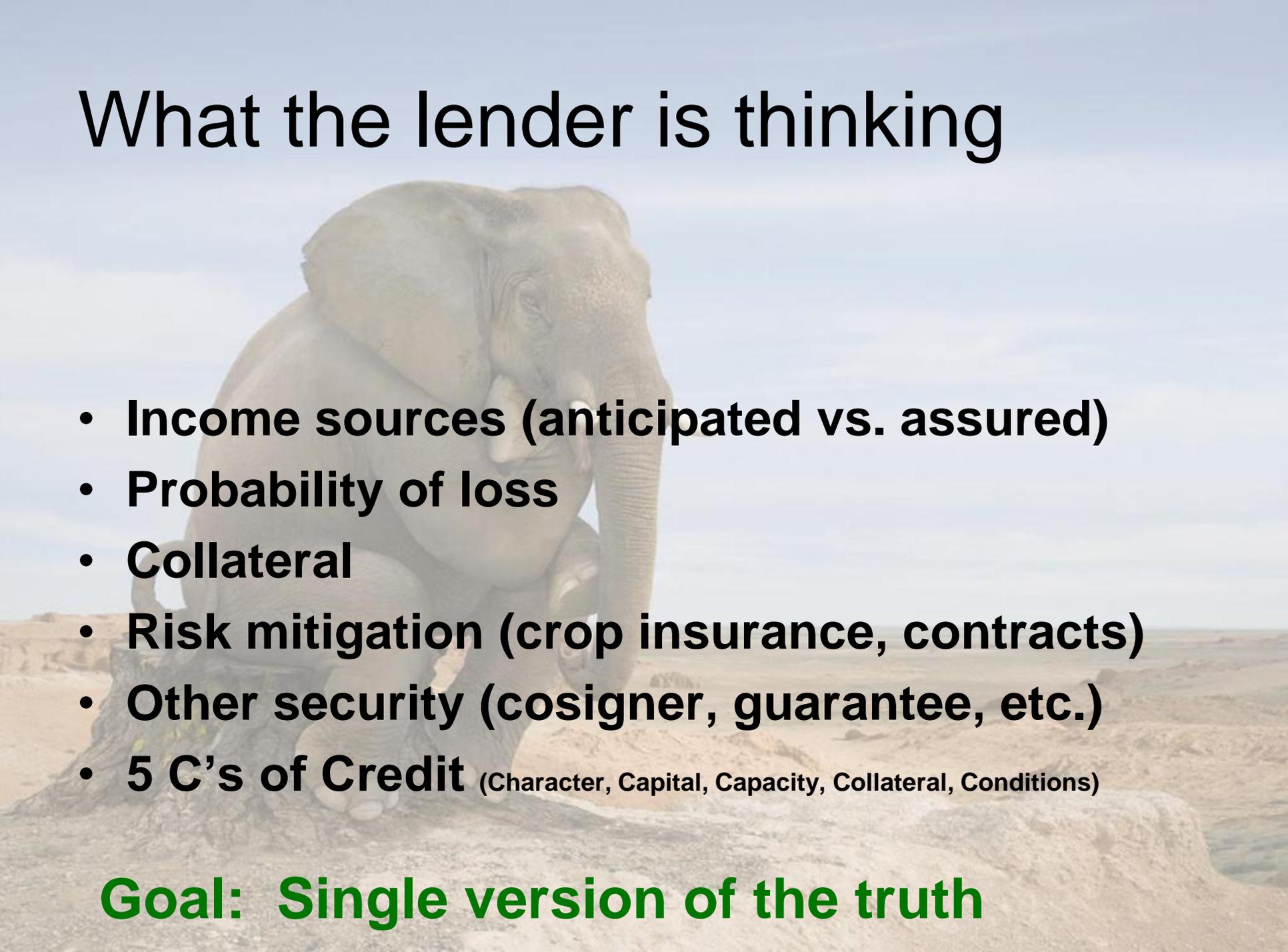
	Budget Jan	Budget Feb	Budget Mar	Budget Apr	Budget May	Budget Jun	Budget Jul	Budget Aug	Budget Sep	Budget Oct	Budget Nov	Budget Dec	Budget Annually	% of Sales
FARM INCOME														
CSA	10,200	10,200	10,200	5,100	5,100	1,500	-	-	-	6,300	6,300	6,300	61,200	
Farmers Market						14,400	14,400	14,400	14,400	7,200			64,800	
Fruit sales	-	-	-	-	-	2,400	2,400		2,400	1,200	-	-	8,400	
Government Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Income(TI) or Total Sales	10,200	10,200	10,200	5,100	5,100	18,300	16,800	14,400	16,800	14,700	6,300	6,300	134,400	100%
Cost of Goods Sold (COGS) or Variable Costs														
Production FTE's required	-	-	-	3	3	3	3	3	3	3	-	-	1.75	
Labor- Production	-	-	-	4,800	4,800	4,800	4,800	4,800	4,800	4,800	-	-	33,600	
Labor- Farmers Markets	-	-	-	-	-	1,920	1,920	1,920	1,920	960	-	-	8,640	
Payroll taxes	-	-	-	1,920	1,920	2,688	2,688	2,688	2,688	2,304	-	-	16,896	
Owner's Health Insurance	-	-	-	-	-	-	-	-	-	-	3,200	-	3,200	
Employee Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Labor	-	-	-	6,720	6,720	9,408	9,408	9,408	9,408	8,064	3,200	-	62,336	
Purchases For Resale				500							3,240		3,740	
Seed	-	-	3,600	3,600	-	-	-	-	-	-	350	-	7,550	
Fuel	-	-	438	438	438	438	438	438	438	438	-	-	3,500	
Total Crop	-	-	4,038	4,538	438	438	438	438	438	438	3,590	-	14,790	
Transportation						660	660	660	660	330			2,970	
Total Farmers Market	-	-	-	-	-	660	660	660	660	330	-	-	2,970	
COGS or Total Variable Costs (VC)	-	-	4,038	11,258	7,158	10,506	10,506	10,506	10,506	8,832	6,790	-	80,096	60%
GROSS MARGIN (TI-VC)	10,200	10,200	6,163	(6,158)	(2,058)	7,795	6,295	3,895	6,295	5,869	(490)	6,300	54,304	
GROSS MARGIN %	100%	100%	60%	-121%	-40%	43%	37%	27%	37%	40%	-8%	100%	40%	40%
Overhead - Fixed Expenses														
Vendor Fees			2,775										2,775	
Insurance		1,800											1,800	
Interest										180			180	
Real Estate Taxes														
Land Rent	960												960	
Machinery Rent														
Repairs			2,000				2,080						4,080	
Utilities														
Marketing	200					70	70	70	70	70			550	
Total Fixed Costs (FC) or Overhead	1,160	1,800	4,775	-	-	70	2,150	70	70	250	-	-	10,345	8%
Owner Draw (salary)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000	22%
Total Fixed Costs plus Owner Draw	3,660	4,300	7,275	2,500	2,500	2,570	4,650	2,570	2,570	2,500	2,500	2,500	40,345	30%
NET MARGIN	6,540	5,900	(1,113)	(8,658)	(4,558)	5,225	1,645	1,325	3,725	3,119	(2,990)	3,800	13,959	
NET MARGIN %	64.1%	57.8%	-10.9%	-169.8%	-89.4%	28.5%	9.8%	9.2%	22.2%	21.2%	-47.5%	60.3%	10.4%	10%
Other Sources/Uses of Cash														
Equipment purchases	(5,000)												(5,000)	
Equipment sales		500											500	
Funds borrowed (loans taken out)	4,500												4,500	
Funds repaid (loan payments)										(4,500)			(4,500)	
Net Cash from Other Sources/Uses	-	500	-	-	-	-	-	-	-	(4,500)	-	-	(4,500)	
Monthly Cash Flow	6,540	5,900	(1,113)	(8,658)	(4,558)	5,225	1,645	1,325	3,725	(1,382)	(2,990)	3,800		
Beginning Cash/Checking Balance	5,000	11,540	17,440	16,328	7,670	3,113	8,337	9,982	11,306	15,031	13,649	10,659		
Ending Cash/Checking Balance	11,540	17,440	16,328	7,670	3,113	8,337	9,982	11,306	15,031	13,649	10,659	14,450		

Outsider's perception of a lending operation



Goal: Show me how to get what I want

What the lender is thinking

A large elephant is the central focus of the image, standing in a savanna landscape. The elephant is facing right, with its trunk slightly curved. The background shows a vast, open plain under a clear sky. The overall tone is professional and educational.

- **Income sources (anticipated vs. assured)**
- **Probability of loss**
- **Collateral**
- **Risk mitigation (crop insurance, contracts)**
- **Other security (cosigner, guarantee, etc.)**
- **5 C's of Credit** (Character, Capital, Capacity, Collateral, Conditions)

Goal: Single version of the truth



What a lender wants to see



- **Balance sheet**

Snapshot of business financial health

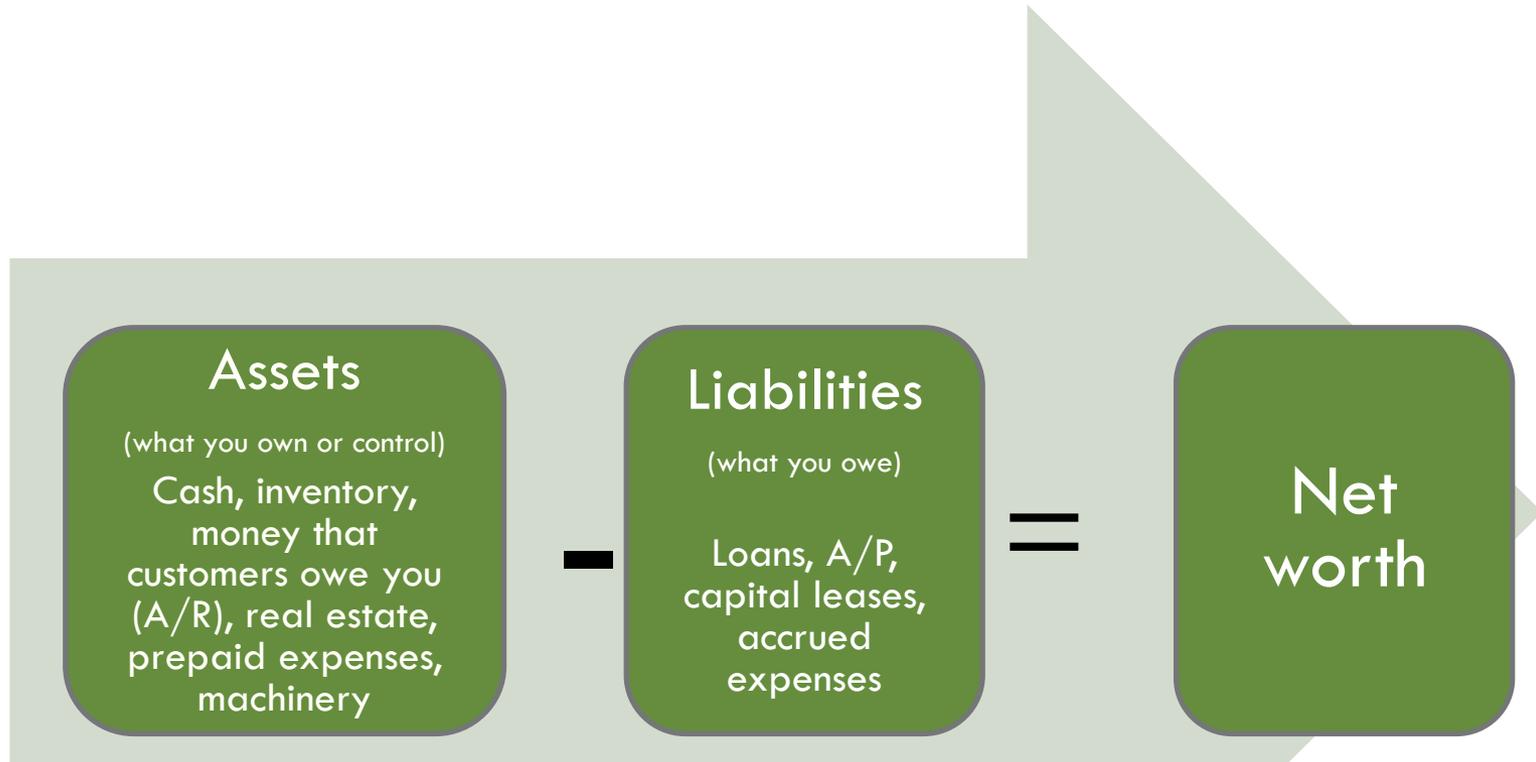
- **Income statement**

Business income & expenses over time

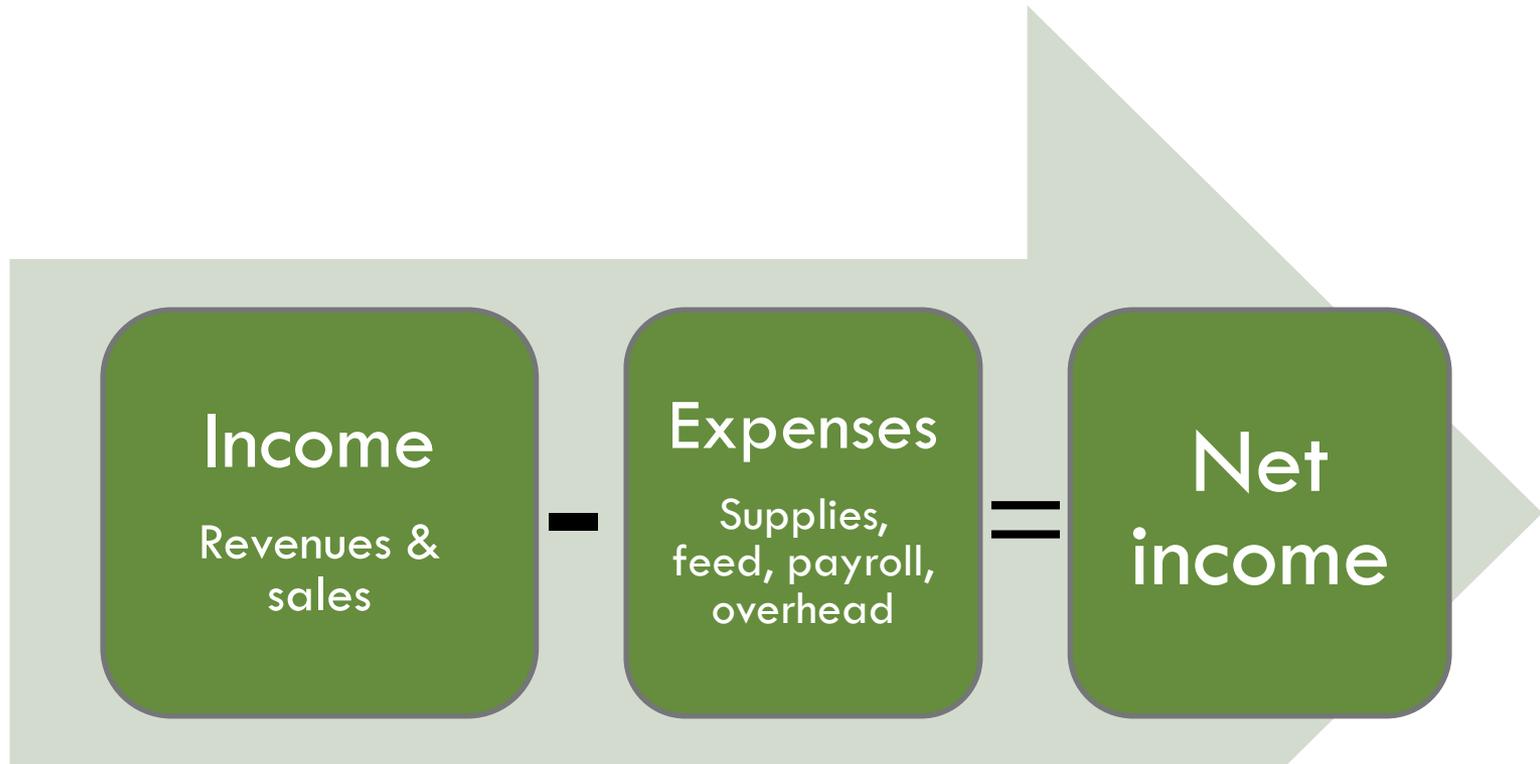
- **Cash Flow Budget**

Shows where money goes and when

The Balance Sheet



The Income Statement





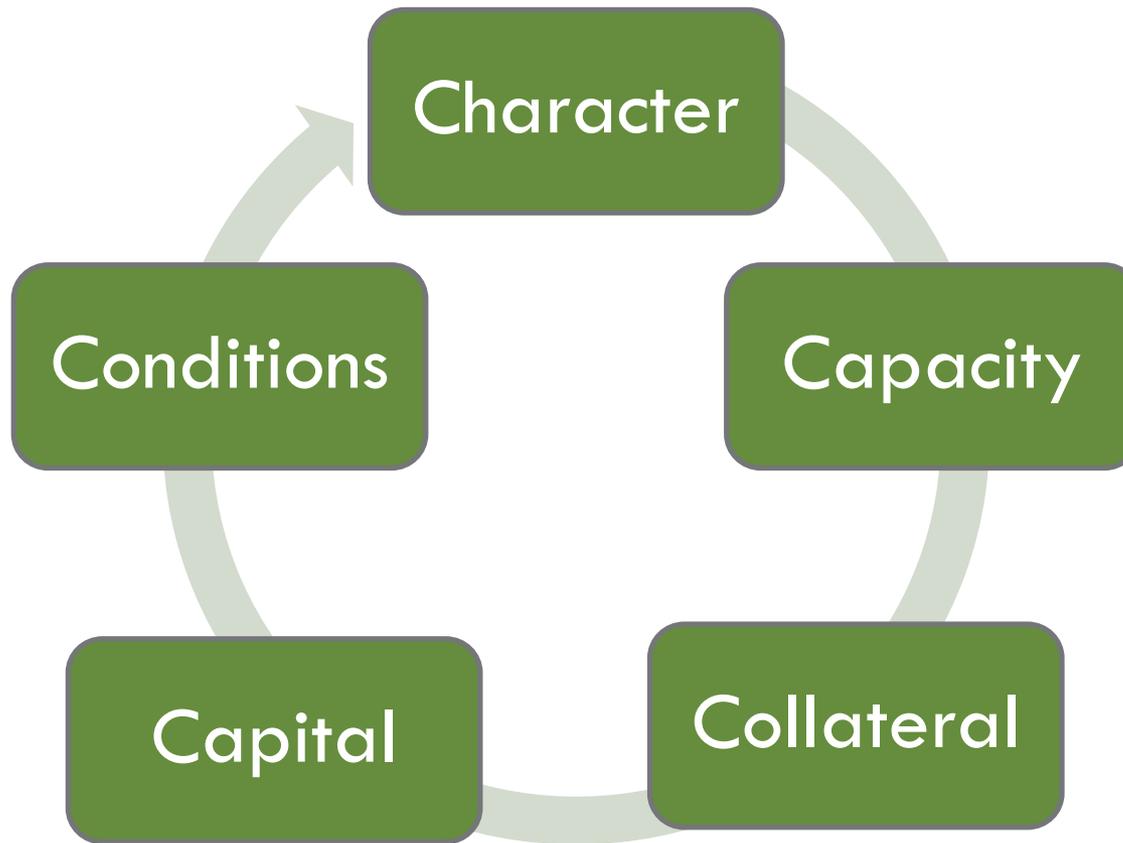
Simply Fresh Farm Budget Cash Flow Spreadsheet for Year 2016

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CSA	10,200	10,200	10,200	5,100	5,100	1,500	-	-	-	6,300	6,300	6,300	61,200	
Farmers Market						14,400	14,400	14,400	14,400	7,200			64,800	
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Cost of Goods Sold (COGS) or Variable Costs														
Production FTE's required	-	-	-	3	3	3	3	3	3	3	-	-	1.75	
Labor- Production	-	-	-	4,800	4,800	4,800	4,800	4,800	4,800	4,800	-	-	33,600	
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Employee Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
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Utilities														
Marketing	200					70	70	70	70	70			550	
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Total Fixed Costs plus Owner Draw	3,660	4,300	7,275	2,500	2,500	2,570	4,650	2,570	2,570	2,750	2,500	2,500	40,345	30%
NET MARGIN	6,540	5,900	(1,113)	(8,658)	(4,558)	5,225	1,645	1,325	3,725	3,119	(2,990)	3,800	13,959	
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Beginning Cash/Checking Balance	5,000	11,540	17,440	16,328	7,670	3,113	8,337	9,982	11,306	15,031	13,649	10,659		
Ending Cash/Checking Balance	11,540	17,440	16,328	7,670	3,113	8,337	9,982	11,306	15,031	13,649	10,659	14,450		

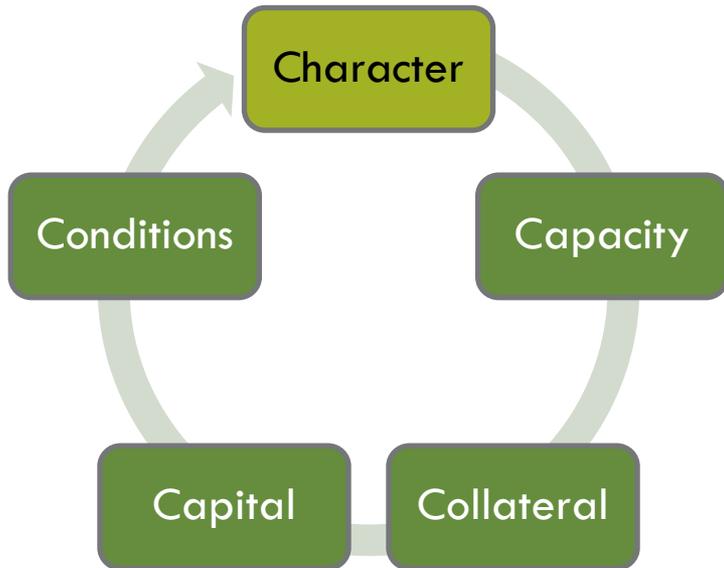
download more info at: www.farmbiztrainer.com/resources/groups/one-page-planning-suite/



How a Farm Lender Hears You: The 5 “C’s” of Credit



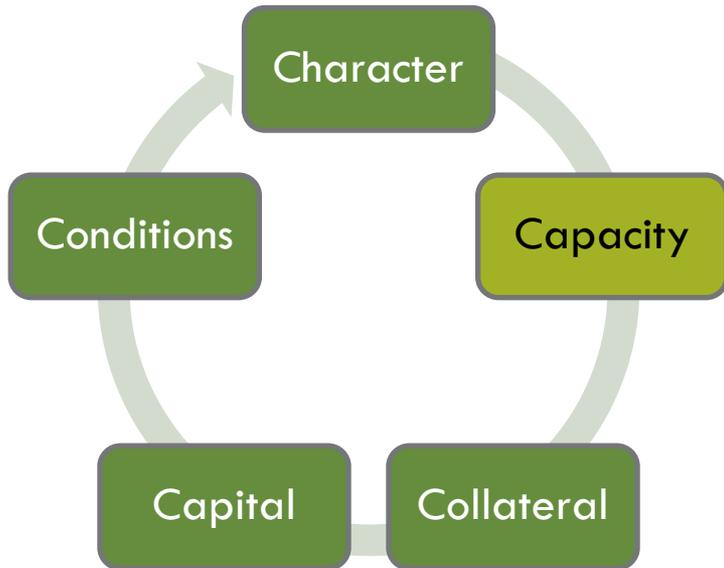
Character



- Credit Score (should be 700+)
- Demonstrates performance on past loans
- Indicates existing debt
- Know what is on your report
- Share and explain any problems that exist.

- www.AnnualCreditReport.com

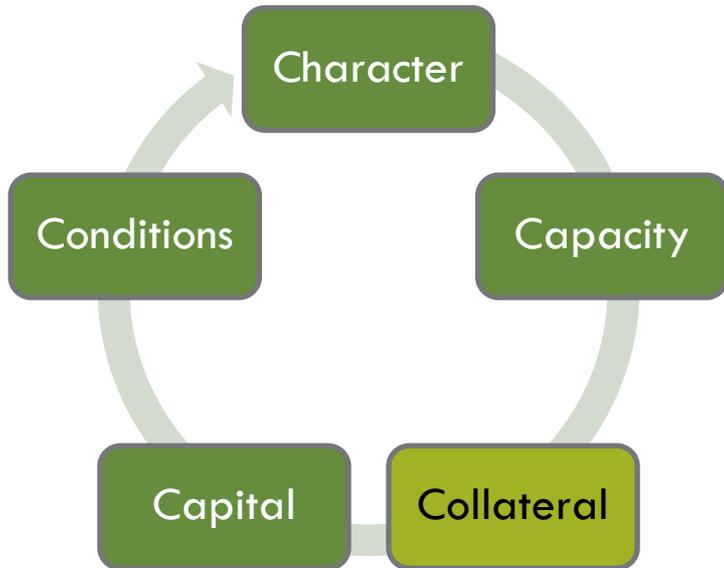
Capacity to Repay



- How will you repay the loan?
- What are your earnings today?
- What will they be after the investment?
- History is important:
 - Income statements
 - Cash flow statements
 - Tax returns
- Projections & Budgets
- What if things don't go as planned?
- Off-farm income may be important

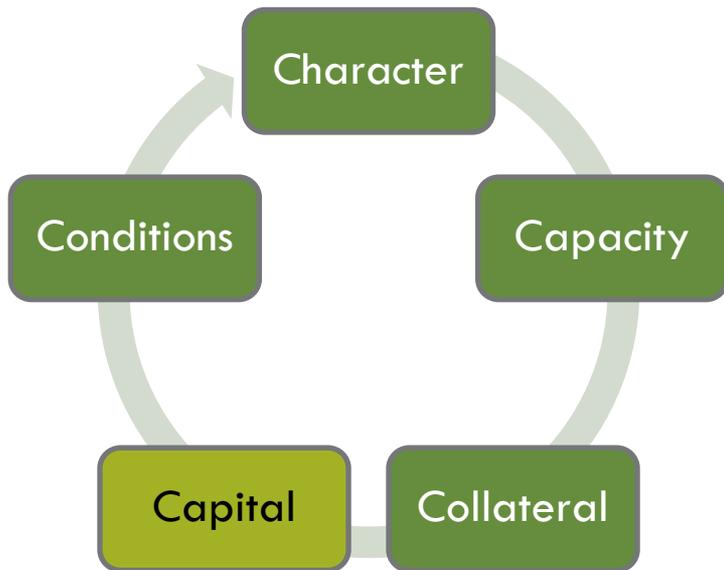
Collateral

The Lender's Fall Back Position



- **Real estate is best**
 - Livestock
 - Machinery/Equipment
 - Inventory
- **What is it really worth?**
 - Fair market value (FMV)
 - Net recovery value (NRV)
 - What will it get at auction?

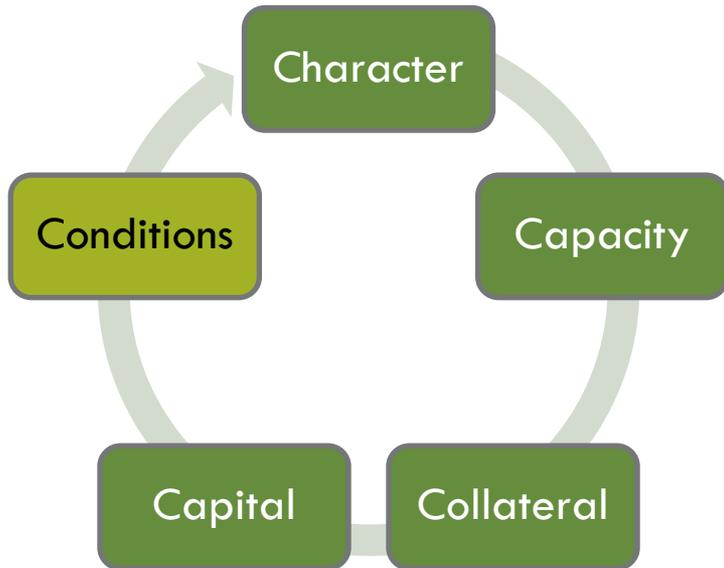
Capital



Do you have skin in the game?

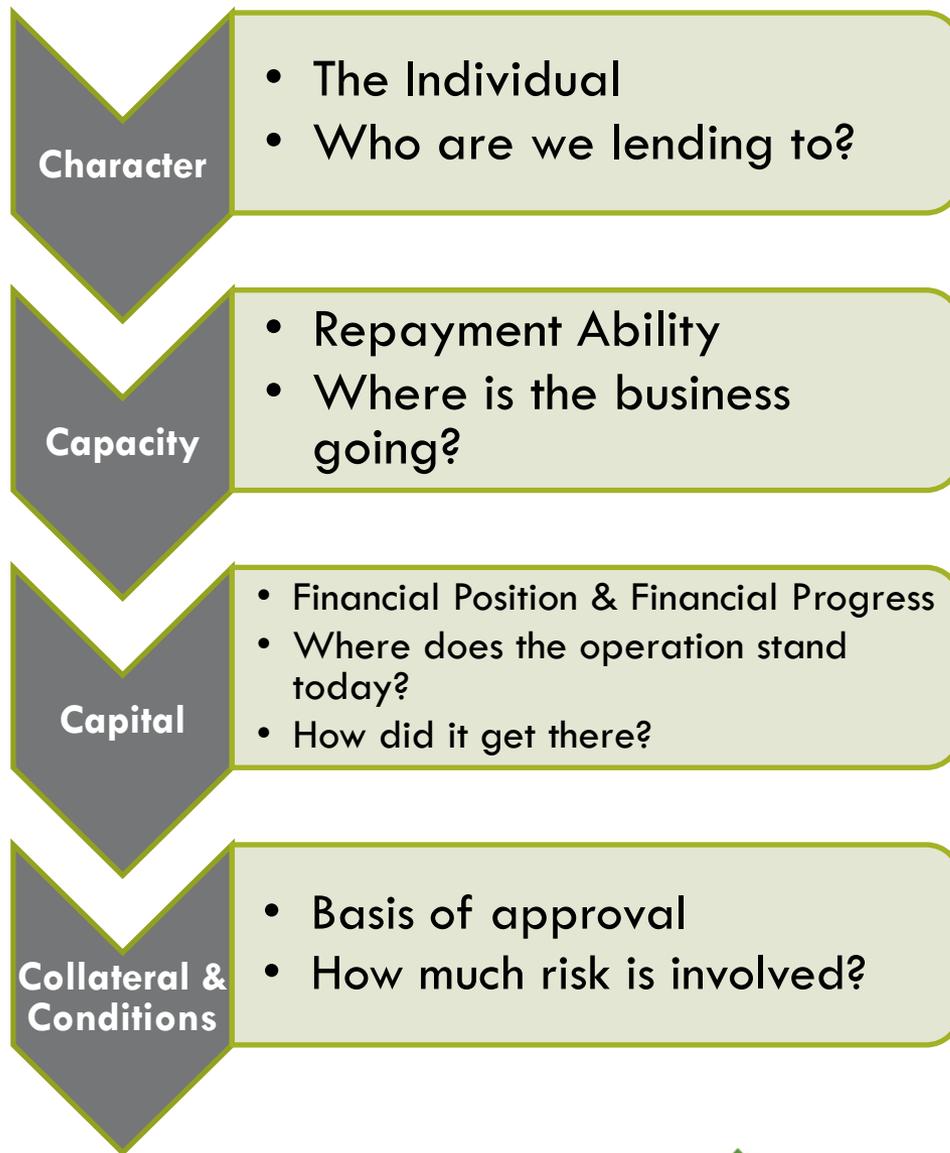
- Net Worth – or Debt-to-Asset Ratio
- How much do you own net of debt?
- Market value vs. Book value
- Balance Sheet

Conditions – “The Deal”



- Terms of the loan:
 - Real Estate 10-30 years
 - Machinery/Equipment 3-7 years
 - Livestock 1-3 years
 - Inventory – less than 1 year
- Loan term should be equal to or shorter than the life of the asset financed

How do
lenders
arrive at a
decision?





Lender “turn-offs”

- **Poor records**
- **High existing debt**
- **Low credit scores**
- **Relying too much on collateral – not enough earnings**
- **Low personal investment**
- **Unrealistic expectations**
- **No “plan-B”, i.e. What if?...**
 - Prices fall
 - The weather doesn’t cooperate
 - A buyer goes away
- **“Build it and they will come” business plans**
- **Lack of cooperation & commitment when times get tough – We’re in it for keeps! You need to be too!**

What's the dream farm?

and where does the money to
make it happen come from?



Equity Financing- Investment

- Start-up or venture capital
- Often high cost (ownership)
- High risk of failure
- Usually comes from self, relatives, angel investor.

Debt Financing – Loans

- Finance ongoing operations or expansion
- Does not dilute ownership – cost is limited to interest
- Banks live here

NOTE: Traditional lenders like Farm Credit and Banks are not really in the business of financing start-ups. They primarily provide capital to ongoing enterprises with collateral. You are unlikely to walk in with a “business plan and a dream” and come out with a loan.

Spectrum of sources of capital

How much money can you get and how long does it take?

LESS



MORE

Amount of Dollars from Source

Savings Microcredit Family credit Crowdfunding IDA Accounts Peer-to-Peer Lending Credit cards Trade Credit Commercial Credit MRI Lenders Angel Investors Loan Participations Venture Capital

Regulatory Compliance

Family credit Loan Participations Microcredit Crowdfunding Peer-to-Peer Lending Trade Credit MRI Lenders Angel Investors Venture Capital Commercial Credit Savings Credit cards

Time Required to Complete Loan Process

Savings Credit cards Trade Credit Commercial Credit Microcredit Loan Participations Peer-to-Peer Lending Crowdfunding Family credit MRI Lenders Angel Investors Venture Capital

Why chose one over another?

Don't Finance Beyond the Useful Life of an Asset



“ONE MORE YEAR OF PAYMENTS AND SHE’S ALL MINE!”

Don't Borrow Your Last Dollar



COST OVERRUNS HAPPEN – DON'T GET CAUGHT!

Capitalizing Operational Debt



WHAT WILL CHANGE SO YOU WON'T DO IT AGAIN NEXT YEAR?

Lack of Commitment



WHEN THE “GOING GETS TOUGH” THE TOUGH STICK IT OUT!



Things to do Before Starting

Save money

Protect credit rating – (www.AnnualCreditReport.com)

Gain experience

Network

Plan

Observe