



National Farm Viability Conference

**Introduction to Farm Finance
Thursday, September 26 2013**

John Hamilton, NH Community Loan Fund



Overview

- **Know your Options**
 - Various Financing Instruments & Providers
- **Find the Right Match**
 - Mission alignment and values fit?
 - Map the Coverage/Capacity of Providers
- **Be Prepared**
 - Characteristics of a Prepared Borrower
 - Seek Experienced Advisors



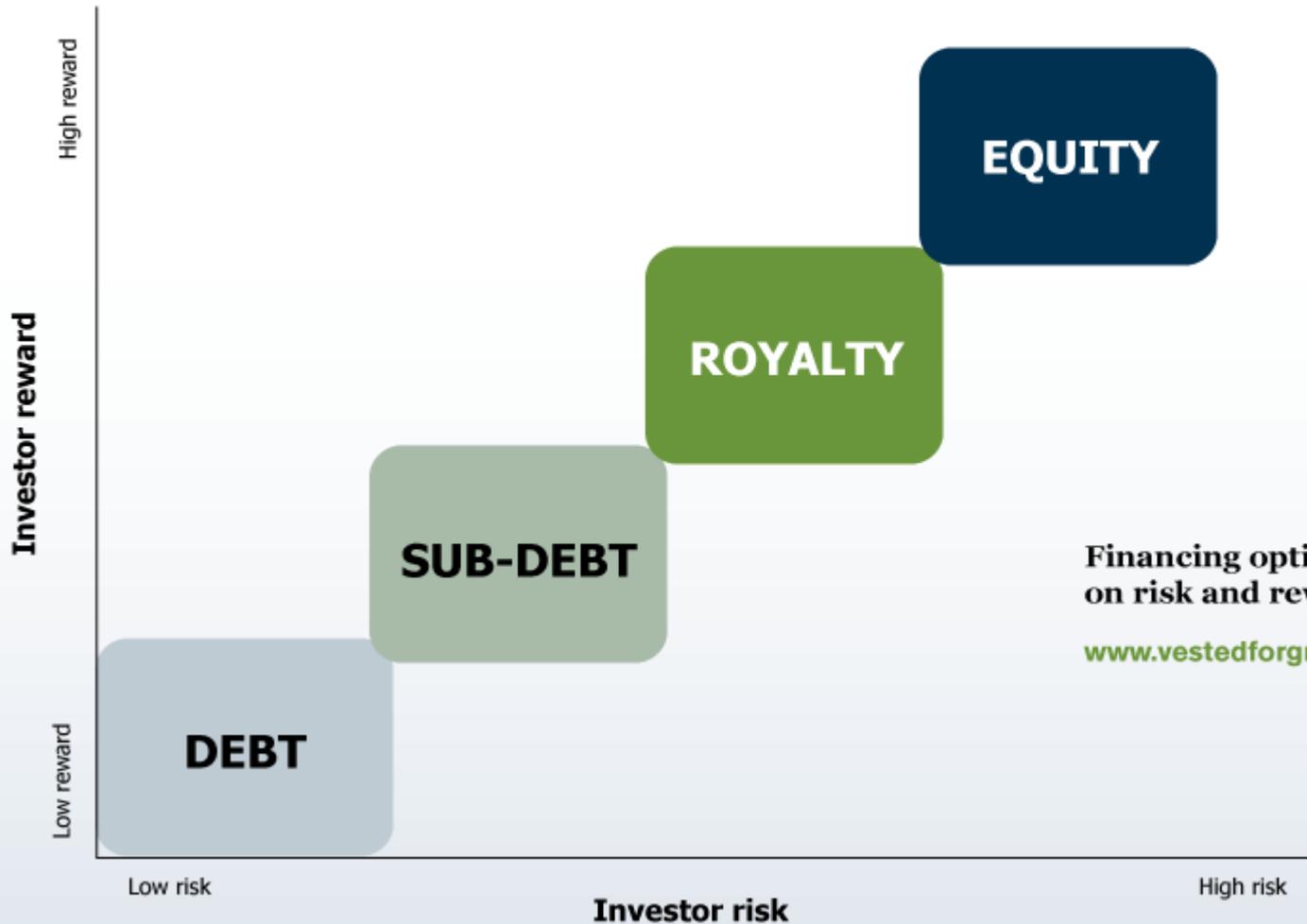
Capital Instruments

- **Debt, Sub Debt, Royalty, Equity**
- **Each structure has benefits and tradeoffs**
- **Know how to apply and layer them appropriately**



COMMUNITY LOAN FUND

Opportunity. Investment. Impact.



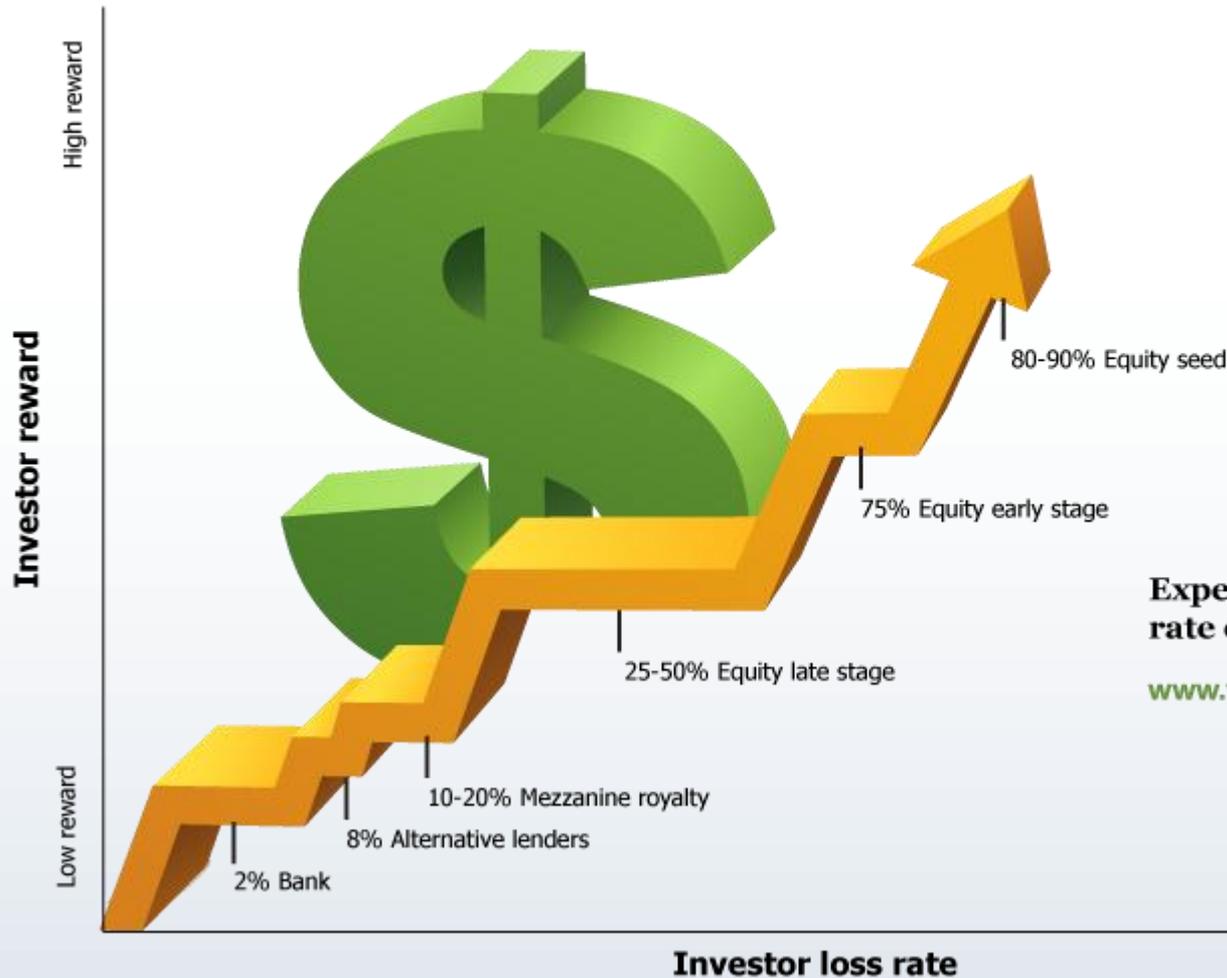
Financing options based
on risk and reward.

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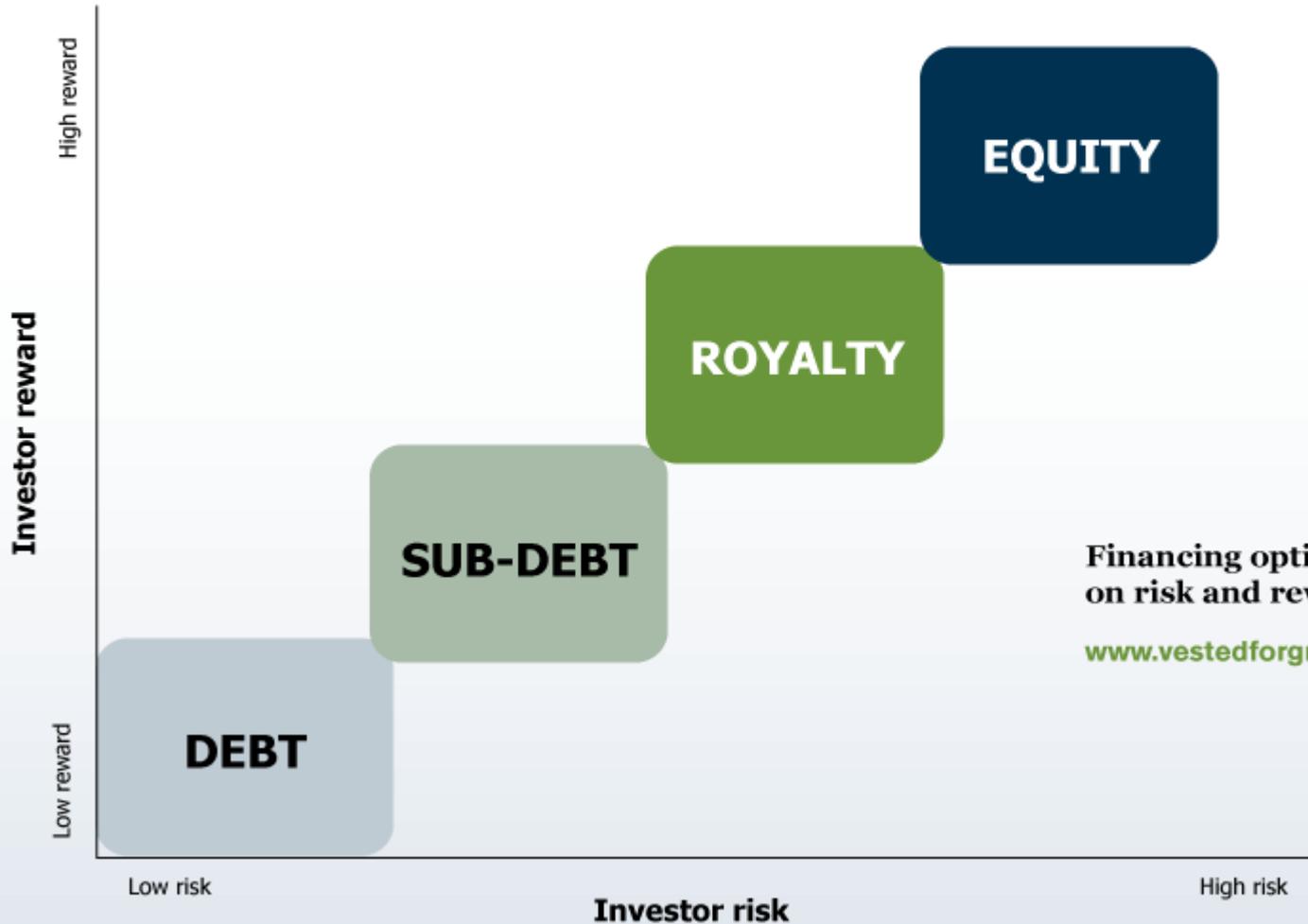
Expected reward and loss rate of investment types.

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Subordinated Debt

- **Debt instrument that accommodates additional risk**
- **Same structure as debt**
- **In case farm is liquidated, primary debt gets fully repaid before any is paid to subordinate debt holder**

Royalty financing

- **Investment, not loan**
- **Fills gap between debt and straight equity**
- **Return mostly from cash flow**
- **Monthly payment based on % of gross revenue for a negotiated term**



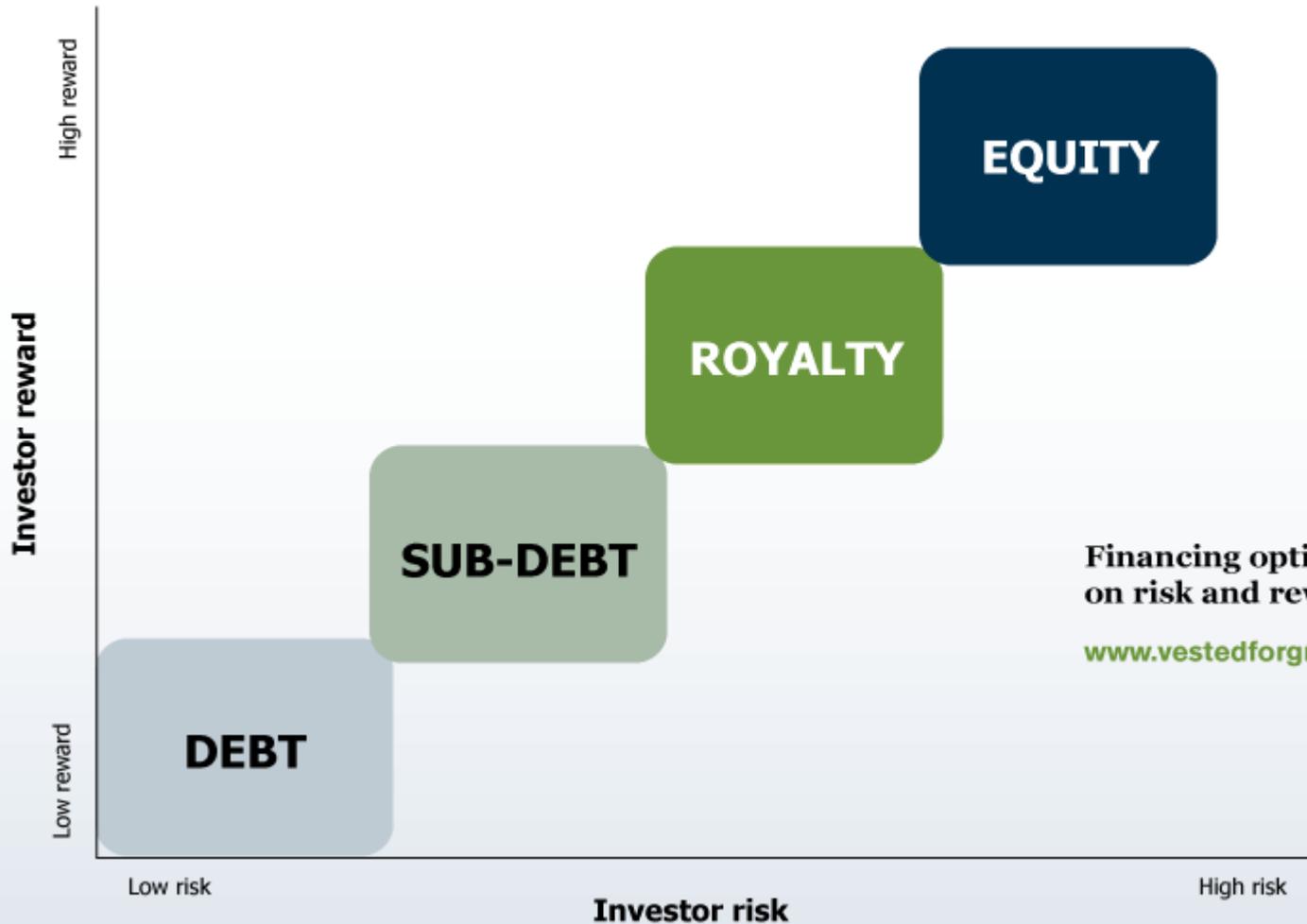
When is royalty relevant for our food finance system?

- **Option for value added food businesses with GPM above 25%**
- **2nd and 3rd stage businesses with strong growth proposition**
- **Not for farms with thin margins**



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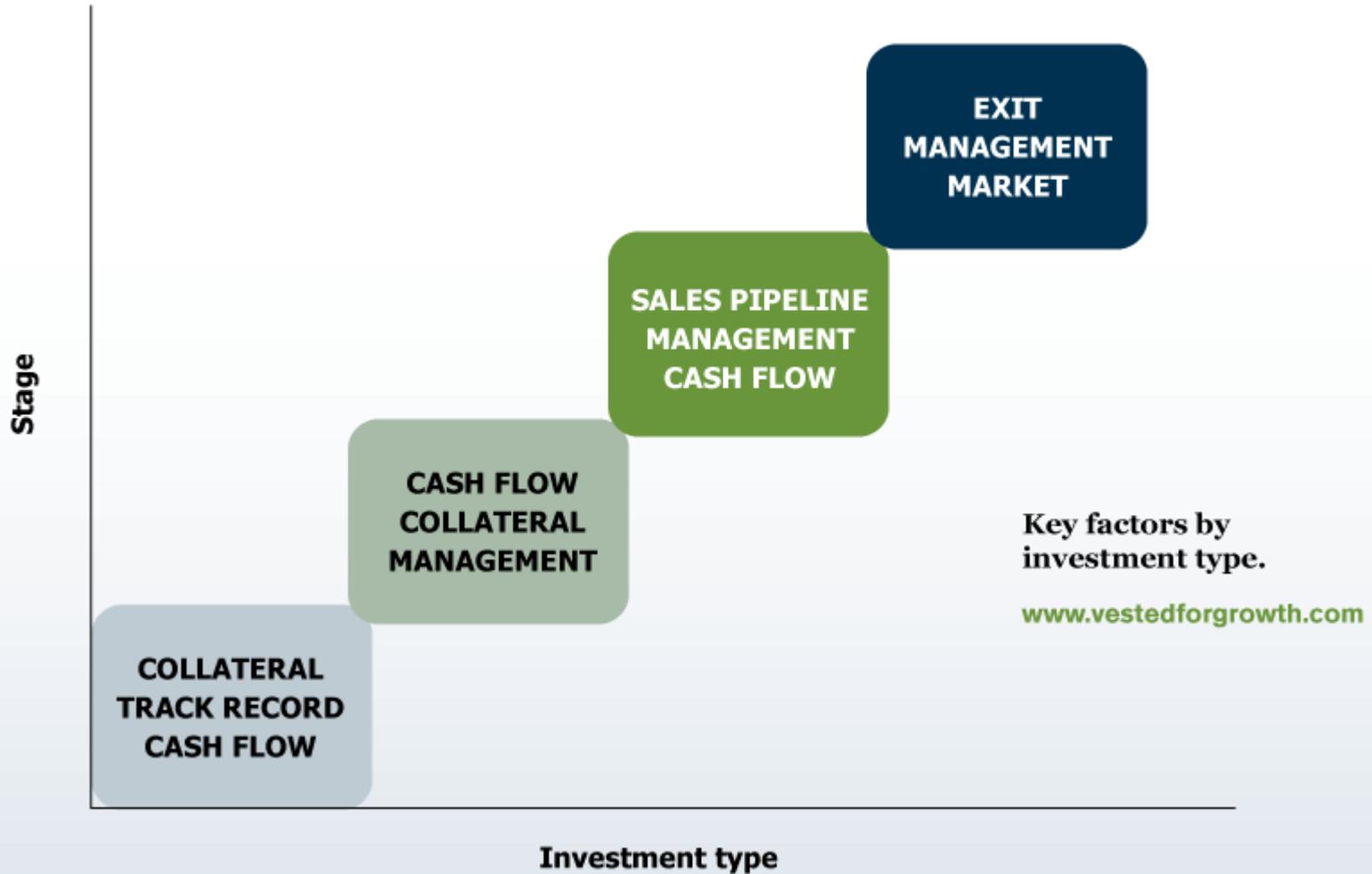
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Capital Providers

- **Traditional Lenders**
- **Alternative Mission Based Lenders**
- **New Investors**



Traditional Lenders

- **Mainstream choice for majority of businesses**
- **Specific loan products and standards**
- **Capacity to do larger deals**

Farm Credit System, Banks, with USDA/SBA



Alternative Mission Based Lenders

- **Creativity and flexibility to fill capital gaps**
- **Appetite depends upon mission match**
- **Offers broader “advisory” relationship**

**Community Development Finance Institutions,
Economic Development Groups**



New Investors

- **Individuals and foundations motivated to invest locally in organization shares values**
- **Gifting to nonprofit and for profit**
- **Crowdfunding pools money usually through internet**

Slow Money, Kiva Zip, Kickstarter

Crowdfunding

- **Definition - turns investing on its head**
 - Small # of sources, each offers a large amount
 - Large # of sources, each offers a small amount
- **3 Types of Crowdfunding**
 - No return expected – gifts
 - Returns expected – loan/investment with intermediary
 - Returns expected – loan/investment without intermediary



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Values/Mission Fit?

- **If the process involves paper work, and ongoing reporting, is that OK?**
- **How quickly is money needed?**
- **Are you comfortable with being open, and getting advice from others to help you grow?**
- **Are you an introvert/extrovert?**



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Due Diligence on Capital Providers

- **Ask what capital options they offer**
 - one capital option vs. full service with options and TA
 - cash transaction vs. growth partner
- **Ask how they work**
 - quick and easy vs. take time to get to know you
 - no vs partner and/or referral to others
- **Discover their reputation**
 - get references from farms/businesses in their portfolio



Coverage of Capital Market Providers

- **Amount**
- **Sector**
- **Company stage**
- **Deal structure**

Coverage of Capital Market Providers

	Provider A	Provider B
Less than \$25k	Red	Green
\$25k - \$100k	Yellow	Green
\$100k - \$250k	Green	Green
\$250k - \$500k	Green	Red

Capacity of Capital Market Providers

	Provider A	Provider B
Find	Green	Yellow
Analyze	Yellow	Green
Structure	Red	Green
Add value	Red	Red



Providers to Fill Capital Gaps

- **Go beyond “silos” to learn full range of capital choices along capital continuum.**
- **Refer to next best option if reject a borrower for all/part of their capital needs. Offer TA if borrower unprepared/raising “bad” debt.**
- **Partner with other providers to fill gaps.**
- **Expand the range of capital offerings to fill gaps.**



Consultants to Fill Capital Gaps

- **Learn full range of capital choices along capital continuum and benefits/tradeoffs.**
- **Conduct due diligence on providers and map their coverage and capacity.**
- **Advocate for referrals among providers.**
- **Advocate for expanded coverage by providers.**



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Characteristics of a Prepared Borrower

- **Clear about why capital is being raised**
- **Clear about values/mission fit they seek**
- **Know options (instruments/providers)**
- **Know financial condition and have information ready to share**
- **Ability to weigh pros and cons against goals**
- **Thoughtful business plan for use of capital**



Experienced Advisors

- **Advisory Board**
 - Tap into expanded skills and experience
 - Sounding board for your decisions
- **Expert Consultants**
 - Attorney and accountant
 - Others



Review

- **Capital providers and capital instruments:**
 - Not simply an “either/or” choice
- **Values/mission fit with the provider matters**
- **The choices and characteristics of providers may be different in your geographic area**
- **Technical assistance integrated with capital is powerful way to fill gaps**



Share Context For Questions

- **Capital:** Grant, Debt, Sub-Debt, Royalty, Equity
- **Capital Provider:** Traditional, Mission-Based Lender, New Investor
- **Amount:** < \$25k, \$25k- \$100k, \$100k to \$250k, \$250k to \$500k, \$500k+
- **Stage of Business:** Startup, Early, Growth, Mature
- **Need for Capital:** Land Acquisition/Improvement, Working Capital, New Value Added Enterprises