Requirements for buying a farm

Prospective purchasers need some money or capital of their own before buying farm and it is highly unlikely that anyone can successfully raise a 100% loan without any money/capital of their own.

As a rule of thumb at least 50% is required as deposit by commercial banks depending on the financial position and standing of the client/applicant.

Finance is required for purchasing farm land, financing vehicles and equipment (bakkies, tractors, equipment) and working capital (6 months farm running costs).

i.e. **Solvency Ratio** is ratio of assets: liabilities and must be 2:1 (NB this rule of thumb varies for different farming commodities with extensive farming enterprises not able to sustain as high a level of debt as more intensive enterprises)

Also ones liquidity ratio should ideally be in the region of 4:1

i.e. **Liquidity Ratio** is ratio of current assets: current liabilities and must be 4:1
Each bank/financial institution has specific lending criteria and a prospective client should ask the bank/financial institution for a print out of the banks lending criteria, lending/credit policy and/or requirements for a farm loan.
Land Bank can go as low as 20% deposit.

Getting a loan or credit from a commercial bank

for commercial small-scale farmers

> Farmers who want to establish or expand their farming operations can obtain finance from commercial banks. It is, however, important that they understand the terms and conditions of credit, eg. what credit is and repayment requirements.

What is credit and why do you need it?

Credit is money borrowed from someone or from an institution by agreement with the intention or promise to pay it back at a later date, with or without interest.

Commercial banks can grant credit to farmers for specific purposes, especially those which can generate income.

(They can lend you money to buy equipment and vehicles, to buy land and animals or to install irrigation and water pumps, etc).

The bank will, therefore, want to know how the credit is going to be used and what your financial position is (assets and liabilities).

It is important to provide your bank with this information to enable them to assess your net worth (financial standing).

To determine whether one needs credit or not, some financial aspects must be looked into:

- Assets and liabilities (financial standing)
- Present and expected income (cash flow)
- Risks involved and how you plan to cover them
- Knowledge of the industry in which you want to get involved.

Ask your extension officer or a financial advisor to assist you to compile this information.

The extension officer is a person who works for the Department of Agriculture in your area and who is trained to assist farmers in agricultural matters.

When and how much can you borrow?

- Know the purpose for which you are borrowing money, for example, to improve the performance or increase the survival capacity of your farming operations.
- Do not apply for credit for a project which will generate too little income to cover the interest and the capital (money borrowed) repayments.

Therefore, the expected net income (income left over after all expenses have been deducted, except tax and interest) will give a good indication of how much debt the project will be able to carry.

- When applying for credit, make sure that your debt is not more than 30 % of your current assets and 25 % of the expected income.

Repaying the bank

Before any commercial bank can grant a loan, it determines whether your income exceeds your costs to such an extent that there will be enough money to repay the loan and to cover household expenses.

The bank will ask for a collateral or security for the loan. A collateral or security is property pledged as security for the loan. Should you fail to repay your loan, the bank will repossess your property and sell it to realise its security

Property which is presented as collateral must meet certain requirements:

- It must be identifiable and not perishable
- It must be in a saleable condition
- The bank must be able to estimate its market value
- It must be your own property and preferably not immovable.

Repaying the loan within a given time limit will improve your creditworthiness and credibility with the bank and also save on interest charges.

How to apply

- Once you have identified why you have to borrow money, you can go to your nearest bank and fill in application forms or ask your extension officer to assist you. Your application should contain all the relevant information because it forms the basis for negotiations with the bank manager.
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* After submitting the forms, the bank will call you in for an interview. (Take an extension officer who knows your business well with you.)

* During the interview you will be given a chance to motivate your proposal, negotiate the possible loan terms and also to develop a good business relationship with your bank manager—prepare the presentation of your loan request beforehand.

* The bank manager will tell you after the interview whether your application was successful or not.

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