# YOU GROW YOUR FUTURE.
## FINANCE WITH US.

AgHeritage Farm Credit Services

AGHERITAGE FINANCIAL GLOSSARY agheritagefcs.com

Financial terms can feel complicated at times. Our goal is to work alongside you, not only to understand your farm or business, but also to make sure you feel confident in the loan process. Below are some common terms you may hear when working with a lender. If you have any questions about these or anything else along the way, don't hesitate to ask. We are here to help.

**Adjustable-rate loan** - Loans where the interest rate is set for a certain period. At the repricing date, the rate is "adjusted," meaning reset based on the current rates for the selected period. This process continues until payoff.

**Agricultural assets** – Assets that are used in the production, marketing, or processing of agricultural products.

**Agricultural land** – Land improved or unimproved which is devoted to or available for the production of crops and other products such as, but not limited to, row crops, fruits, timber or the raising of livestock.

**Appraisal** – The act or process of developing an opinion of value. An appraisal is numerically expressed as a specific amount, as a range of numbers, or as a relationship to a previous value of opinion or numerical benchmark.

**Appraisal report** – Any communication, written or oral, of an appraisal or appraisal review that is transmitted to the client or a party authorized by the client upon completion of an assignment.

**Appraisal value** – The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Also referred to as Appraised Value or Market Value.

**Appraiser** – One who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.

**Assets** – All items owned that have a cash value categorized as either current, intermediate term, or long term.

**Balance sheet** – A statement as of a specific date that summarizes a farm or individual's assets, liabilities and equity at a specific point in time. Also known as a financial statement.

**Beginning farmer** – An individual is considered a beginning farmer if they have 10 years or less of farming experience as of the date the loan is originally made.

**Capacity** – All funds available for servicing the needs of the borrower, including the ability to pay current financial commitments, repay any new debt, provide for replacement allowances, make payments for family living and maintain reserves for adversity.

**Capital** - Capital allows a lender to see how much an applicant has personally invested in a business. Capital looks at both the equity (net worth) and the working capital (liquidity) of the borrower.

**Cash Flow** – A measurement of how much cash a company takes in versus how much it expends. More cash coming in than going out means the cash flow is positive. If the opposite is true, the cash flow is negative. A business is considered healthy when its cash flow is positive for a prolonged period of time.

**Character** – Character reflects a borrower's demonstrated willingness to repay obligations, based on objective, verifiable behaviors such as credit history, repayment performance, and documented decision-making. Evaluation of character begins with the borrower's interaction during the application process and is supported by consistent, documented evidence, rather than personal impressions or reputation.

**Collateral** - Considered a secondary source of repayment; the primary source being cash flow. Collateral is made up of assets such as real estate, crop inventory, growing crops, livestock and equipment that can be pledged to the lender as a form of security in case a borrower fails to pay back the loan.

**Conditions** - Define the purpose of the loan, what the money will be going towards specifically and any possible outside effects such as the financial strength of suppliers.

**Conventional residence** - Structure built on a permanent foundation using traditional building materials and methods (e.g., brick, wood, concrete or siding) with standard utility integrations that include electricity, plumbing and legal access. Mobile homes and temporary shelters do not qualify as a conventional residence.

**Co-signer**- A person or entity who agrees to be legally responsible for a loan along with the borrower and signs the Promissory Note.

**Covenant**- A condition or requirement in a loan agreement that the borrower must comply with during the life of the loan.

**Current Position**- Used to describe the borrower's present financial standing—often tied to: Balance sheet strength, liquidity, debt structure and overall financial health at a point in time.

**Down payment –** Initial payment that is made by the borrower towards the purchase of an asset.

**Fixed rate loan** - A loan where the interest rate is fixed for the life of the loan.

**Full-Time farmer**- An individual where 50% or more of their annual income is derived from agriculture and has a majority of their assets invested in farming. Eligible for full credit to cover agriculture, family, and non-agriculture needs. This includes personal vehicle loans, home improvements and education expenses.

**Guarantor**- A person or entity who agrees to repay a borrower's debt or fulfill the borrower's obligations if the borrower fails to do so.

**Hypothecator**- A person or entity that pledges collateral to secure a loan without being personally liable for repayment.

**Income Statement –** A financial report that summarizes an operation's revenues, expenses, and profitability throughout a specific time period.

**Interest rate –** The percentage that is charged to the borrower in order to borrow money.

**Interest rate conversion –** Change from one loan interest rate to another. Conversions are generally less costly and easier than refinancing a loan. Certain restrictions apply.

**Liabilities –** Debts or financial obligations that the applicant is responsible for paying. Categorized as either current, intermediate term, or long term.

**Lien**- A legal claim or right against property that serves as security for a debt, allowing the lender to take action against the property if the obligation is not repaid.

**Liquidity**- The ability of a borrower to meet short-term financial obligations using available cash or assets that can be quickly converted to cash.

**Livestock**- Domesticated animals raised or kept for agricultural production.

**Loan to Value**- Measurement of the loan amount and the value of the collateral securing the loan. Loan Amount / Collateral Value

**Mortgage**- A legal agreement in which real estate is pledged as collateral to secure a loan, giving the lender a lien on the property until the debt is repaid.

**Net worth –** Total assets minus total liabilities; the amount remaining if all assets were liquidated and debts repaid. Also referred to as equity.

**Non-Farm rural resident (rural home) loan**- a mortgage used to buy, build, remodel or refinance a single-family, moderately priced home that serves as the borrower's principal residence. The non-farm rural resident must reside in a rural area outside of the city limits or a town with a population of less than 2,500. A non-farm rural resident cannot have more than 1 rural home loan at any given time.

**Non-Traditional home**- A residential property that does not conform to standard site-built or manufactured housing, often utilizing alternative designs or construction methods, which may require additional consideration for appraisal, eligibility, and financing.

**Part-Time farmer-** A bona fide farmer who operates a valid agriculture enterprise but has a primary business or source of income unrelated to farming and generates less than 50% of their income from agriculture and often relies on off-farm employment to supplement their farm income. Eligible for full financing for agriculture and family needs, but non-agriculture lending is restricted based on collateral securing the loan. At least 50% of the collateral must be ag-related.

**Refinance –** Finance something again, usually with a different interest rate or terms.

**Repayment Margin**: The cash flow remaining after required debt payments, indicating the borrower's ability to absorb variability and maintain repayment capacity.

**Row crops –** Typically corn, cotton, rice, soybeans, milo, wheat or oats that are sowed into the ground.

**Rural Area-** Any area of the United States and the Commonwealth of Puerto Rico not within the outer boundary of any city or town having a population of more than 20,000 inhabitants based on the latest census of the United States. The 50,000 limit applies to USDA infrastructure, rural community facilities and rural business loans.

**Rural community –** An area or open country within a state or the Commonwealth of Puerto Rico, including towns and villages that have a population of not more than 2,500 people. This definition is used for the non-farm rural residents.

**Small farmer** - An individual is considered a small farmer if their combined annual gross farm income is less than $350,000 as of the date the loan is originally made

**Tax Returns –** Annual federal and state tax forms that are completed and provided to a lender to show earnings history from all sources.

**Title Insurance**: Insurance that protects against losses from defects, liens, or issues with property ownership that existed before the policy date.

**Variable rate loan –** A loan where the interest rate is subject to adjustment once per month, quarterly, semi-annually, or annually.

**Working capital –** The amount of margin available to cover expenses. Working capital is calculated as current assets minus current liabilities. Also referred to as liquidity.

**Young farmer –** Anyone involved in production agriculture age 35 or under at the time the loan is made.



# GROWING RURAL ARKANSAS



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