

A BIT MORE ABOUT PROFITABILITY

To calculate a profitability ratio, your farm and non-farm earnings are combined to arrive at a “net earnings.” The net earnings figure subtracts depreciation charges, income taxes and family living expenses. Typically, FCS uses 3 years of historical earnings from your farm operation to arrive at an average earnings. This helps level out bad years and losses due to drought and other unpredictable circumstances.

The average earnings figure is used in our repayment analysis and profitability ratio calculation.

We also make exceptions when there has been a material change in your operation (such as a major expansion or moving into a new type of operation). In both examples, it's reasonable to change the number of historical years used or warrant using a projection for income based on the expansion.

SUMMARY

Making decisions on loans is a bit of both art and science. Good farmers and good business people know that numbers speak to an operation and cannot be ignored. At the same time, decision makers must respect the character of individual farmers, their history and their ability to weather trying times, even when the numbers aren't so encouraging.

One of the first and best steps customers can do to assure the fastest and highest quality on a loan decision is provide good information. Understand your balance sheet. Take time to think, “Why did I make or lose money last year?”

At FCS, our desire is to provide credit that makes you more profitable and more successful. We encourage you to ask questions about your loan analysis and the numbers. Our financial service officers and the business analysts who support them are a resource to your farm.



Making Wise Borrowing Decisions

Understanding What's Behind a Lending Decision



