

RBS Agriculture Scotland



Segmentation

- **Business Banking**
- **Borrowing < £250k**
- **Or**
- **Turnover < £2m**

- **Commercial Banking**
- **Borrowing > £250k**
- **Or**
- **Turnover > £2m**

What type of facility required

- **Working capital** – short-term
- **Term Loan** – capital project repayable over longer term
- **Asset Finance** – funding of Plant & Machinery

Working Capital Facility (Overdraft)

- **Should swing from debit to credit**
- **Should be reviewed at least annually to fund growing crops, stock & routine monthly costs**
- **Should be reviewed throughout the year as assumptions made initially become clearer (i.e. yield of crop, sales price etc.)**
- **Any potential additional facility should be advised to bank as soon as possible**
- **Amount of any temporary increase should be quantified, reason for additional facility known and time/source of repayment identified**
- **Any hardcore element should be termed out – reduce annual costs**

Term Loans

- **Used to fund longer-term projects (land purchase, new shed, increase livestock numbers etc.)**
- **Under Funding for Lending no Arrangement Fee payable**
- **Term should match life expectancy of asset and what business can afford to pay**
- **Consideration should be given to Capital Repayment Holiday (2/5-years) – delay capital repayment of facilities until asset generates income**
- **Term loan funding can be provided for maximum period of between 10/25-years depending on sub-sector**

Asset Finance

- **Asset Finance lenders security is in most cases in the asset funded**
- **Asset Finance facilities are separate to bank facilities**
- **Term can in most cases be matched to the useful life of the asset**
- **Repayments can be matched to customer's revenue streams (low in Winter/High in Summer)**
- **Hire Purchase – customer can claim allowances/offset interest element against tax**
- **Hire Purchase can be fixed or variable rate**
- **Finance Leasing/Operating Leasing – possible tax advantages for business**
- **Residual Values/Balloon payments – are set in relation to usage of asset/anticipated future value and can have the effect of reducing monthly payments for cashflow purposes**
- **Renewable Funding – Wind/Solar PV/Biomass & AD**

Provision of Information

- **Finalised Accounts** – require to be provided within 270-days of financial year-end.
- **Projections** – should only be required for diversification or major additional facilities. Should include Profit & Loss Account, Balance Sheet and Cash Flow Forecast for ideally 3-years. Assumptions to figures should also be provided
- **Farming Statement of Affairs** – bank internal document that values all assets of the business at market value.

Requirements

- **3 Key Ratios (Debt to Assets, Fin Chg to Gross Output & Fin Chg & Drawings to Gross Output)**
- **Focus away from LTV to Ability to Service & Repay Debt – EBITDA before but now looking at Funds Flow Statements to fully understand cash position of business**
- **Adverse Weather Support – announced back in December 2012 to supported farmers affected by wet weather.**