



## Farm Credit *EXPRESS*

**W**hat if you could get a Farm Credit loan or lease at the dealer for your farm equipment — without ever setting foot in a Farm Credit office? Now you can with Farm Credit **EXPRESS!** Better yet, you can buy equipment at any of nearly 1,000 Farm Credit **EXPRESS** participating dealer locations in the Southeast and get a Farm Credit loan or lease that books back to your local Farm Credit office. The simple application is completed at the dealership and usually approved in 20 minutes or less. Farm Credit **EXPRESS** is a quick, easy alternative to dealer-provided financing without the hassle of making a separate trip to the lender's office. Better still, it also gives you a tool that may help you get a better deal on your equipment purchase — with a little knowledge and asking the right questions.

So you've picked out the perfect piece of equipment to purchase for your farm. You can picture what it looks like in your fields, how it's going to make your farm more efficient and your life a little easier. In fact, there's only

one question left: How are you going to pay the dealer for it? Finance it through a dealer program (often at 0% interest)? Get a loan or lease from Farm Credit? Perhaps pay cash? Let's look at the options and what you should consider to make the best decision for you.

**Pay Cash:** It sounds simple. You may even get a better price or free upgrades added since the dealer/manufacturer won't be financing the equipment. You avoid having to make that "dreaded payment" for years and you don't have any interest expense. While it sounds good on the front end, make sure you think in terms of your whole financial picture. Do you have adequate cash reserves and liquidity? If not, paying cash for equipment is seldom your best move. Worse yet, unless your revolving line of credit is paid to \$0, you're ultimately financing equipment on the revolving line and that's never a good long-term situation. Do you owe money on other loans? If so, you may be able to get the equipment loan at a lower rate and use cash to pay down or pay

off higher rate loans. Again, think in terms of your total financial picture before you pay cash for your equipment.

### Dealer/Manufacturer Provided Loans:

Equipment companies learned a long time ago that they sell more equipment by making it easy and/or offering low interest rate financing. What about 0% interest loans? These type of loans have become the norm in equipment and automotive finance. Are they really 0%? Well, the stated interest rate in the contract is 0%, but (as the old saying goes) there is seldom any free lunch. Simply put, dealers and manufacturers have to make money. They can't afford to have their money loaned to you for three, five or even seven years without making anything on it. In fact, lots of them have loans they're paying interest on too so they have to at least recover that cost. They also have to cover the risk that some loans will default and they'll lose money. Be sure to ask what the price is if you don't finance it through the dealer/manufacturer. Unless the price is the same either way, you're



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ultimately paying a finance charge equal to the difference between those two prices. One other thing to keep in mind: Paying off a 0% loan early doesn't save any of the finance charge like it does with a simple interest loan. In fact, the effective rate caused by the "hidden" finance charge can end up quite high if the loan is paid off early. Dealer provided financing is a great option to consider and can be the least costly way to acquire equipment. Be sure you ask the right questions, know what you're getting and consider all options before deciding.

**Farm Credit EXPRESS:** Ask your equipment dealer if they offer Farm Credit **EXPRESS**. The program is just as simple as dealer financing but gives you a way to get the same discounts or free upgrades as if you paid cash (since it's not financed through the dealer/manufacturer). The program offers fixed rate loans with monthly, quarterly, semi-annual or annual payments. Farm Credit **EXPRESS** loans earn patronage refunds that can significantly reduce your effective interest rate and interest cost. New equipment and used equipment less than 10 years old qualifies for 0% down payment and up to a seven-year term. Used equipment less than 25 years old can be financed for up to seven years with a 10% down payment. Used equipment more than 25 years old can be financed for up to three years with a 15% down payment. New in 2017, Farm Credit **EXPRESS** also offers leasing as another tool to meet your equipment needs. Be sure to consider leasing if it's right for you (see next section).

**Leasing:** Have you ever thought about leasing equipment instead of owning it? Historically, most people used leasing as a tool to manage income taxes once they maxed out the IRS Section 179 deduction. There are other reasons leasing can be a good tool to meet your equipment needs. There are lots of different lease structures but we'll focus on the Fixed Purchase Option which allows you to purchase the machine at a pre-determined cost or turn it back over to the lease company when the lease matures. Simply put, leasing transfers the ownership risks to someone else. That can be to your benefit with equipment that is unique or atypical for your region. It's also a good tool to consider for equipment where the latest and greatest technology changes quickly. Leasing can be a good fit too if you want to keep relatively new equipment at all times. Leasing usually gives you a lower monthly payment compared to financing the full cost of the equipment. By nature, leasing is generally more expensive than owning because you're paying a premium for someone to take the ownership risk for you and essentially provide a down payment. Leasing is more complex than buying the equipment outright for the same reasons. Make sure you understand all of the terms of the lease – especially any hour/mileage limitations and excess wear penalties. It's always a good idea to talk with your accountant about leasing and make sure the lease is properly structured to work with your income tax situation.

Wow, this all seems like a lot to consider but it really isn't. It's this simple:

1. Ask the right questions.
2. Consider all of the options and compare the total cost of acquiring the equipment.
3. Choose the best option for you. Remember, the cheapest total cost to acquire the equipment is usually best BUT only if:
  - a. Paying cash doesn't leave you owing a balance on your revolving line of credit and you still have adequate cash reserves and liquidity.
  - b. The cheap interest rate and lower interest cost that comes with shorter loan terms is manageable without creating a cash flow crunch during the life of the loan.

### **Let's help set the record straight:**

Whether you farm full-time or part-time, farm 1,000 acres or a half dozen, whether you have a large herd of cattle or a small livestock operation, grow sod or operate a nursery or greenhouses, you'll need to purchase equipment at some point. You are potentially eligible for Farm Credit and Farm Credit **EXPRESS**. The program is available for almost any type of mobile farm equipment – things like tractors (big or small), trailers and farm implements to combines and self-propelled forage harvesters. And with everything you've just read, it seems to be a very good option. Visit the website [www.farmcreditempress.com](http://www.farmcreditempress.com) for more information, including a list of all participating dealers. ∞