Expectations of Lenders When Financing Anaerobic Digesters

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"You want a loan, you say? Ha, ha, that's a good one!... Where in the world did you hear that banks made loans?!"
Digester Lending Disclaimer:

How many digesters has Farm Credit of New Mexico currently lent money on?

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Would Farm Credit of New Mexico be willing to lend on digesters?

Yes – *But as lenders we need to be educated just like you!*
What are Ag lenders going to look at when financing a digester project?

The same factors that they will look at with any specialized facility project.
Those factors are:

- Character
- Capital
- Capacity
- Collateral
- Conditions
Character issues

• Will need to have a proven dairying operation with a history of good production and overall financial management.

• As the Farm Credit system is currently chartered an outside investor (non farmer/dairyman) would not be an eligible borrower.
  
  • That means we will be looking at mostly full time dairyman that have been in the dairy business.
Capital issues

- **Strong financial ratios**
  - Liquidity
  - Owner’s equity
  - Net Worth
  - Etc.
Capacity issues

- Varying and very unique revenue streams that require a case by case study.

- Digester technology is generally being driven by environmental concerns/nutrient management.
  - So how does a digester affect cashflow in the short and long term?
Our concept is simple. We intend to lose money on every sale but make it up on volume.
Collateral issues

- Very Specialized facility
  - For Farm Credit lending purposes it would have to be part of a dairy facility and not a stand alone facility.

- Currently very little market data available to appraisers in arriving at a contributory value of a digester to a dairy facility.
Collateral issues – continued

• *Ever changing technologies mean that what’s the best today may be obsolete tomorrow.*
Condition issues

• Need to understand and approve of agreements with the power companies.

• When split financing and/or government guarantees are utilized all parties need to understand what lien priority each entity has.
What would encourage a lender to lend money on a digester?
How to make your lender say yes!

- Long term relationship with your loan officer/bank with proven trust on both sides.
- Well thought out business plan showing how this will be beneficial to your operation.
- Government assistance in the form of high percentage guarantees and grants to get the adaptation more common.
You're part of the 6% we won't be lending money to...