

# APPLYING FOR A LOAN

When a lender lends someone money, he wants to be paid back on time and with interest. Most people repay money they borrow on time. A few dishonest or irresponsible people don't. To avoid the cost and trouble of catching and prosecuting these offenders, lenders try to determine the **credit risk** of a potential borrower before lending him or her money.

Lenders use various tools to try to separate the honest, responsible people (**good credit risks**) from the dishonest, irresponsible (**bad credit risks**). The two most basic tools are the two financial statements, which you must complete as part of your McDougal Loan application – the **balance sheet** and a **budget**.

## BALANCE SHEET

The **balance sheet** shows the value of what you own and what you owe. The things you own are called **assets**. **Assets** include the money you have in the bank, money others owe you, the value of livestock you own, the value of feed and equipment you have, and the value of everything else you own. If you own a car, a bicycle, a stereo, or anything else, you should list it as an **asset** and estimate its value.

The things you owe are called **liabilities**. Common **liabilities** include car loans and money you have borrowed that you have not yet repaid. You must list all of your **liabilities** on the **balance sheet**.

Your **assets** minus your **liabilities** are your **net worth**. Your **net worth** shows a lender your ability to repay your loan.

## BUDGET

The **budget** shows the lender how you intend to use their money and whether you'll be able to repay your loan on schedule.

Your **budget** should include estimated income and expenses for your project. Even though you won't know your actual income and expenses until after the project is over, it is still important to prepare a budget based on what you think will happen. This shows the lender you've thought through your project in a responsible manner.

**Estimated gross income** consists of animal sales, wool sales, milk sales, income from premiums at the fair, sales of equipment or supplies you have related to your project and any other income related to your project. Use conservative estimates of prices you expect to receive.

**Estimated expenses** include money paid for the purchase of animals, feed, supplies, and equipment related to your project. It also includes money paid for rent, entry fees and vet bills.

You can calculate your **estimated profit** by subtracting your **estimated expenses** from your **estimated gross income**.

## INTERVIEWS

It's not enough to know that a project is profitable or that a borrower has the ability to repay. Lenders also need to know that they can trust the borrower to carry out their plan and repay the loan. This is one reason the McDougal Livestock Loan committee insists that **ALL** borrowers and their parent or guardians attend an interview. The committee will ask each applicant a few questions about his or her project and answer any questions that an applicant or parent have about the McDougal loan and the loan process.