

What Are Bankers Doing When They Evaluate Your Loan Request?

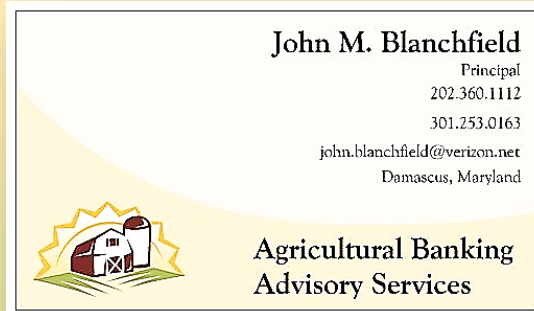
How you can improve your relationship with your banker

First Citizens Community Bank

Agriculture Forums

March 10 and 11, 2020

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Bankers spend a great deal of time, energy and resources to make sure the public perception of them is accurate. It isn't an easy job.

An early publication from the ABA Agriculture Commission. *The Banker-Farmer* June, 1916

BANKER + FARMER

Reviewing the Banker's Activities for a Better Agriculture and Rural Life
Conducted by the Agricultural Commission of the American Bankers Association

VOL. III CHAMPAIGN, ILLINOIS, JUNE, 1916 NO. 7

The cartoon is divided into 12 panels, each with a caption below it:

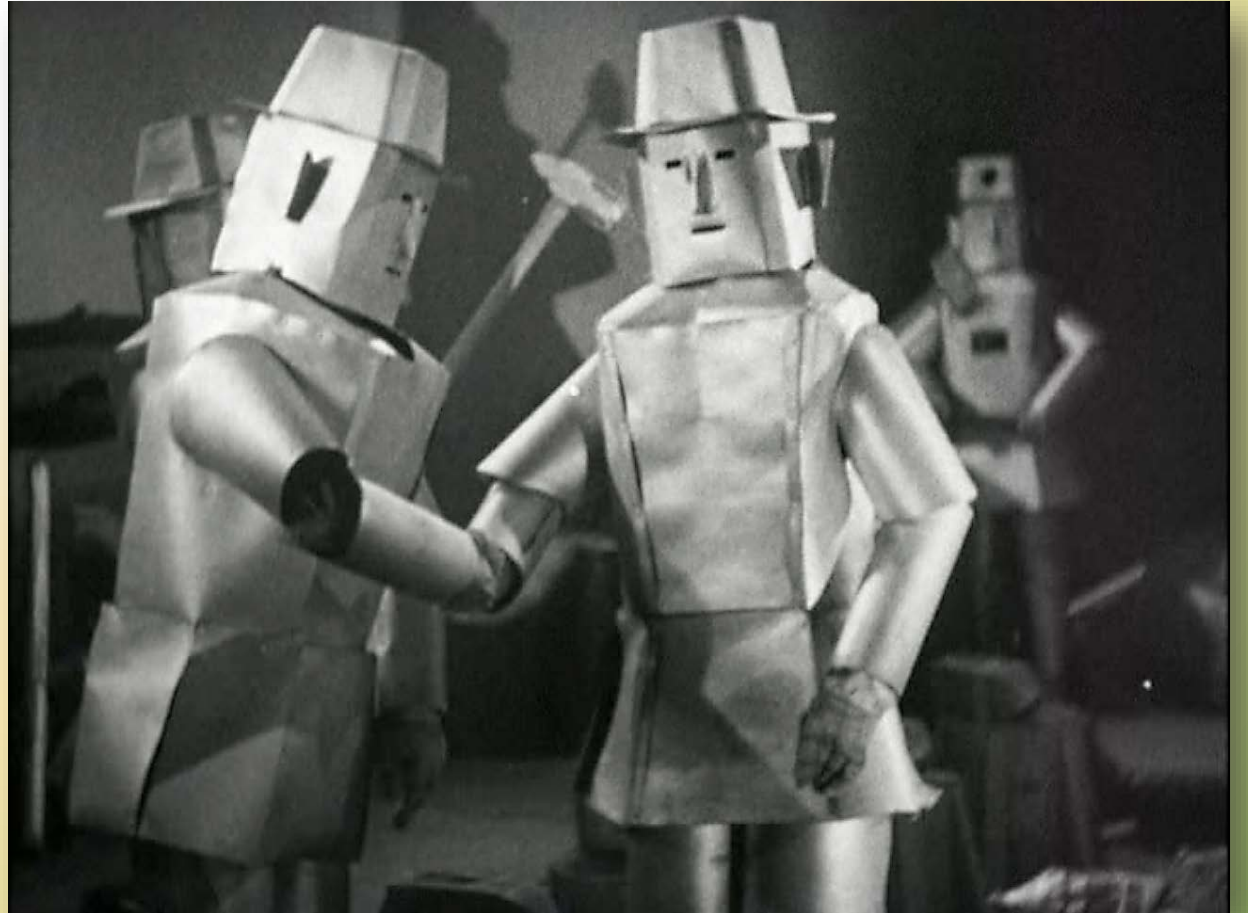
- Panel 1: A man in a 'PUBLIC' hat looks at a banker who is holding several bags of money. Caption: "He ain't Human!"
- Panel 2: A banker sits in a chair reading a newspaper while a woman and child look on. Caption: "THE BANKER AS HE REALLY WAS"
- Panel 3: A banker sits in a chair reading a newspaper titled 'BANKER-FARMER'. Caption: "HE HEARS OF THE BANKER-FARMER MOVEMENT"
- Panel 4: A banker sits in a chair while a man stands before him holding a sign that says 'THE BANKER-FARMER'. Caption: "It's our duty to help"
- Panel 5: A banker stands with two other men, one holding a sign that says 'PRACTICAL EXPERIENCES SCIENTIFIC TRAINING'. Caption: "-AND DETERMINES TO ENLIST"
- Panel 6: A banker stands at a table with a group of children. Caption: "HE HELPS FARMERS GET A COUNTY AGENT"
- Panel 7: A banker stands at a table with a group of children. Caption: "-ORGANIZES CLUBS FOR BOYS AND GIRLS"
- Panel 8: A banker stands in a stable next to a cow. Caption: "-BRINGS IN PURE BRED LIVE STOCK"
- Panel 9: A banker stands in front of a building labeled 'CONSOLIDATED SCHOOL'. Caption: "GOES ON THE SCHOOL BOARD"
- Panel 10: A banker sits at a desk while a farmer shows him a cornucopia of produce. Caption: "HE TALKS IN TERMS OF AGRICULTURE TO HIS FARMER CUSTOMERS"
- Panel 11: A man in a 'PUBLIC' hat looks at a banker who is holding a sign that says 'He's a pretty good Citizen!'. Caption: "AND THE PEOPLE GET A NEW IDEA OF THE BANKER"
- Panel 12: A banker sits at a desk while a man stands before him holding a sign that says 'Take Interest IN the Farmer as well as FROM Him'. Caption: "AND THE PEOPLE GET A NEW IDEA OF THE BANKER"

THE NEW IDEA OF THE BANKER

How the Bankers State Associations are Working for Agriculture—Pages-2-3-4

Machine based lending is becoming more commonplace.

In machine based lending, it's just the facts, and only the facts, please.



Most home lending is machine based today

If you fit the ratios, have a good credit number (generated by a machine) and have the down payment, chances are good you get the loan. Lacking any of the above, you don't.



Is ag lending too complex to automate? Most “experts” say it is not.

Larger institutions tend to use more machine lending in agriculture than smaller institutions. Machine systems are still very expensive and smaller institutions have not been willing to spend the money – but that won't be the case forever.



The human aspect is still alive and well in ag lending*



* And in tough times, that could be a good thing

Four Steps to Borrowing Success

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The Plan/Request



The Plan/Request

- Is the plan well thought out? Reasonable assumptions?
- Is it reasonable given the financial situation of the applicant?
- Achievable based on past performance?
- Is the request a Hail Mary?
- How much skin in the game, and by who?
- Is it “good” debt or “bad” debt?
- Does the customer understand the proposal or was it handed to him?
- Is it legal?
- Is the proposal in the customer’s best interest?

The Financials



The Financials

Why are we nearly done with the first quarter of the 21st Century and still talking about financial statements?

Lets just say that nearly everyone in this room could benefit from improvement in this area and leave it at that!

The Financials

- Decent, not necessarily perfect financial statements.
- Generally bankers will want three operating years documented.
- IRS 1040 Schedule F isn't the farm operating statement, or cash flow statement, but most banks will request it. Some banks will now also request a "tax transcript" from IRS.
- Many bankers have favorite ratios, but there is no secret sauce – But banks generally have a set of ratios they look at when they analyze a credit request. Know what your banker looks at.

The site visit



The site visit (more than a day out of the office for the banker)

- Try to understand what the banker is looking for and help him or her get it. Avoid a goat rodeo.
- The banker is looking at a lot of things on site including:
 - How does the livestock look?
 - Is the machinery well maintained and under cover?
 - Are the buildings being well maintained?
 - How does the customer interact with the employees?
 - Does the customer seem open or is he evasive?
 - Are there a lot of toys evident?
 - Does the cell phone ring all of the time?

The site visit (more than a day out of the office for the banker)

- Are there key people working during the visit?
- Do they seem like they know what they are doing, or are they waiting to be told what to do?
- Many financial institutions will send a collateral person out to do the inventory counts, list the machinery, etc. These people may also be the ones appraising the collateral, so help them get the information they need.
- If real estate is involved, expect an appraiser to show up. Make sure you have a list of significant improvements you have made to the property, and make sure the appraiser knows where all the tracts of land are.

Analysis of the deal by the banker



After the financial statements, the interviews, and the site visit. The banker asks...

- Does the proposed cash flow have a reasonable chance of working?
- Is there collateral to support the request?
- Does the request fit the policy guidelines of the bank?
- Can blemishes on the financials or the CBR be overcome?
- How much time will this loan take to service?
- What will change to prevent constant refinancing?
- Does the customer have a record of sticking to plans in the past?
- Can he or she learn from past mistakes?

The banker asks himself...

- Is there a history of violations of loan covenants and other agreements regarding the use of funds?
- What happens to the customer's net worth position post financing?
- Could the customer find financing elsewhere?
- Is the proposal in the customer's best interest?
- Can I sell this to senior management?



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- Is your operation a going concern or a closing concern?
- Protection of your remaining equity is essential.

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- No one, especially your banker, wants to see you farm until all of your equity is gone.
- Do what you can to keep your banker your willing partner.
- Having a little more insight into what he or she has to do will give you an edge.



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- New crops (hemp) might offer new opportunities, but don't go crazy!
- Interest rates are near historic lows
- 2020 might give dairy farms some time to recover from a string of very poor years

Additional reading

Check out my recent articles

in *Progressive*

Dairy magazine:

***“How to Improve
Your Relationship
with Your Lender”***

Issue Number 16

October 1, 2019

***“Have you hedged your interest
rate risk?”***

Issue Number 1

January 1, 2020



Additional reading

Also see,
Progressive Farmer
magazine:

“How Lenders See You”
Mid-November 2019



The Small Print

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Thanks Very Much!

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