

DISCUSSING THE ROLE OF THE BORROWER IN AG LENDING



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Hello, my name is Scott Clawson, I am the NE area ag economics specialist for the OCES. In this webinar we are discussing the borrowers role in ag financing.

An overview of the situation...

- Do we have a relationship?
- How do we view our relationship with our lender?
- Both parties benefit from information sharing
 - Financial
 - Planning



lets look at some big picture concepts in terms of the relationship between borrower and lender.

First, do we have a relationship with our lender? How detailed is their knowledge of our operation? These are nonmonetary items that we need to consider in order for the lender to assist us in accomplishing our operational goals.

From the perspective of the borrower, how do we view our lender. Do we see them as teammate or a necessity to get funding. More specifically, a teammate would be considered someone that we could use as a sounding board for decisions and ideas that we may have for the operation. Ideally, we need to consider our lender as part of our farm management team or advisors along with folks like our accountants, nutritionists, insurance provider, etc.

Lastly,

What could/should we be sharing?

- Usually 3 fundamental documents that could be requested from the borrower
 1. Credit application
 2. Personal financial statement
 3. Tax returns

DO THESE ITEMS ALONE DO JUSTICE IN TELLING YOUR CREDIT STORY?



As we look at what information gets passed across the desk, there are the fundamental documents that are involved in the credit processes. Each has a bit of a different purpose

The credit application is more of an information gathering exercise and usually some sort of credit authorization.

A personal financial statement is usually requested also. While the PFS is a useful document, it is important to remember what it does not do. The PFS does not show profitability and it is just a point in time measure.

Lastly, your tax returns are usually requested. This will show history of cash flow and operation. While not the most ideal method to gather financial data, it is the one thing that all producers will have.

What could/should we be sharing?

- What other documentation/discussion could be helpful?
 - Projected cash flow or business plan for the new money
 - Enterprise budget
 - Credit report discussions
 - What about a farm goals?



These first two items are the real answer to the previous tax return issue. A projected cash flow and budget that encompasses not only the new money but also the current operation are really appreciated documents. This may seem like a bit of an undertaking, and it is. But it will give us some great information for management decisions, capital expenditures, etc. More importantly, it shows that we the borrower have thought through the process from start to end. If you are uncomfortable with this process, your local OSU extension educator is a great resource to help.

Be ready to discuss your credit report and any hiccups that might exist there. You will certainly not be the first to have a small medical claim that was overlooked or an item from a cell phone company. Or are there other issues that to discuss. Be aware of what your credit report looks like and be ready to discuss it.

Lastly, communicate your farm/ranch/operational goals. This may be step one of a herd expansion plan. This may be the beginning of you transitioning to running stockers. For example, lets say that you are financing a load of stockers. And you plan to be running 2-3 loads in the next couple of years. Ask your lender what you need to do to ensure sufficient financing for that jump. They might ask you to keep a good cost of gain record for them to use. They might suggest that you start looking to

price protect those cattle so start getting acquainted with a broker and risk management strategies. What ever the case may be, be open and see how you can position yourself to execute those operational goals.

What could/should we communicate?

- Anything that could impact your credit decision in the future
 - ❑ Other borrowings since approval
 - ❑ Operational goals
 - ❑ Price risk concerns or risk management
 - ❑ Discuss items at occurrence, not at maturity
 - ❑ Waiting until renewal time to discuss an issue that has developed is not a good practice



Just remember, anything that has to do with our credit worthiness needs to be discussed with your lender. Shown above are some items that we have discussed previously. Another point of emphasis is borrowing outside your relationship. Today, we can finance virtually anything anywhere. So how does financing a tractor, boat or fourwheeler impact our ability to borrow in the future. An open line of communication discussing our position and plans can save both parties some headache in the future.

Another example would be the impact that falling cattle prices had on your operation the previous year. Or, maybe you encountered an abnormally high death loss on that particular load of cattle. Surprises are no fun for either party so let's make communication happen early and not wait for a renewal. Again, open lines of communication can benefit everyone.

What are our responsibilities as borrowers?

- The obvious, fulfill our payment obligations and other items from the loan agreement
- Provide timely financial information
- Use loans for the intended purpose
- Openly communicate
- Safeguard your credit
- Have and communicate a plan
- Value another opinion



Lastly, we have many responsibilities as the borrower. Many of these we have discussed already.

First and foremost, fulfill your financial obligations from the loan documents. In addition to payments and collateral, when are interest payments due, what documents are needed.

Help the lender keep their financials documents. Annually you may have to bring in your tax returns and a financial statement. If you are wanting a faster turn around for credit decisions, this is a good head start.

Use loans for the intended purpose. Using an operating line for household living or other types of asset purchases can chew up operating capital and leave you in a bind. Both for operating and repayment.

Communicate what your goals and expectations are. Also discuss how both parties can help reach the operational goals that are set. Lastly, value having another opinion. Again, your relationship is mutually beneficial. Having someone that is in your corner and knows your financial positions advise you can be a big help

Thank you for partici[a

THANK YOU



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Thank you for participating in this program and feel free to contact me if you have any questions.