Cori Price

Vice President

Senior Commercial Loan Officer

South Valley Bank & Trust

Ag In Uncertain Times

Cori Price
Vice President,
Senior Commercial Loan Officer
South Valley Bank & Trust

What are the most important factors when considering financing a producer in the current economic climate?

- Character – know your Borrower
  - Business plan
- Capital Structure
  - Liquidity
  - Leverage position
- Cash flow – realistic budget
- Collateral position

- Know your Borrower
  – Historical experience with Borrowers.
    - Communication.
    - Have they had adversity before …. How did they act?
    - Do they follow their budgets?
    - Do they keep you informed of changes that they make? Before or after they have done something/changed something?
    - Do they consider you a partner/advisor or do they want to see once a year when they renew?

- Liquidity
  - Cash in operation/reserves
  - Ability to sustain or build reserves
- Leverage position
  - Borrowers tend to not understand the importance of their leveraged position and overlook the need for reserves.
  - Debt to Asset ratio measures the debt held from outside sources. Less than 30%, acceptable with compensating factors up 55%.
  - Debt to Equity ratio compares owners/creditors % of ownership in operations. Less than .42 to 1, acceptable with compensating factors up to 1.22 to 1.
    - Ratio guidelines based on Farm Financial Standards
- Your ability to withstand adversity (reduced yields/price or increased expenses) is directly related to your leveraged/liquidity position.
- Increased leveraged positions stress earnings to service debt.

- Amount of own funds invested in operating budgets.
  - Bank does not want to finance 100% of operating expenses.
    - Borrowers have cash to finance 20-30% of their expenses.
    - Cash could be spread out as they sell crops from prior years into the next operating budget.

- Budgets need to be **realistic**
  - Provide worst case scenario
  - Breakeven analysis
    - Borrower should know this – it should not be the loan officer’s job to figure this out

- Collateral
  - Current value
    - Crop inventory - maybe worth less the longer that it is held.
    - How liquid is the collateral?
      - Purpose of collateral to repay bank vs. secondary (RE not for repayment)
    - Does Borrower take care of the collateral?
      - Deferred maintenance
      - Animal husbandry practices
      - Storage conditions

Does scale of operation make a difference (i.e. small versus large production)?

- Factors for small and large operations are basically the same.
  - Small operations tend to have off-farm wages/income which supports a portion of debt service, medical insurance and family living.
  - Accounting systems are typically not as strong as is a full understanding of financial statements.
  - Accounting standards/practices tend to not grow/develop as operation grows.
  - Large operations are more likely to have product/geographical diversification – reducing risk
  - Off–farm income is usually a necessity
    - Careful review of likelihood that this income will continue

What are the critical things a farm or ranch business should do if they find themselves in financial trouble?

- Producer should review options within business plans
  - Emotional vs. objective view of operation
  - Ability to stay in business at current level
  - Partial liquidation to reduce debt
  - No ability to continue operations
- Communicate with lender… early!!!
  - Early detection makes correction easier.
  - Avoid surprises

- Rely on lender as an advisor to help look for possible solutions.
  - Debt restructure
  - Payment modifications
  - Sale of non-essential assets to reduce debt
- Outside advisors – CPA

How important is it to you that a borrower brings a business plan supported with detailed financial information that describes the purpose for a loan?

- Financial information and detailed budgets are key.
- Actual business plan…..
  - Tends to be a work in progress – based on budget/projections and historical information.
    - Overview of operation, production management and marketing management

What are the critical actions farmers/ranchers should be performing to keep their business healthy in the current economic/business climate?

- Capital expenditures – must pay for themselves
- Non-essential improvements/purchases should be delayed
- Expense control
- Tighten personal family living expenses
- Review marketing plans – have more than one option