

Financial Risk:

The Importance of Lender Relationship

Kevin Ferguson

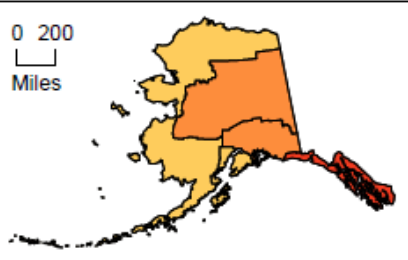
Extension Area Specialist – Farm Management

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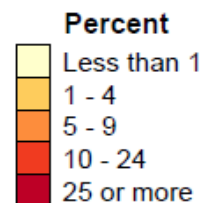
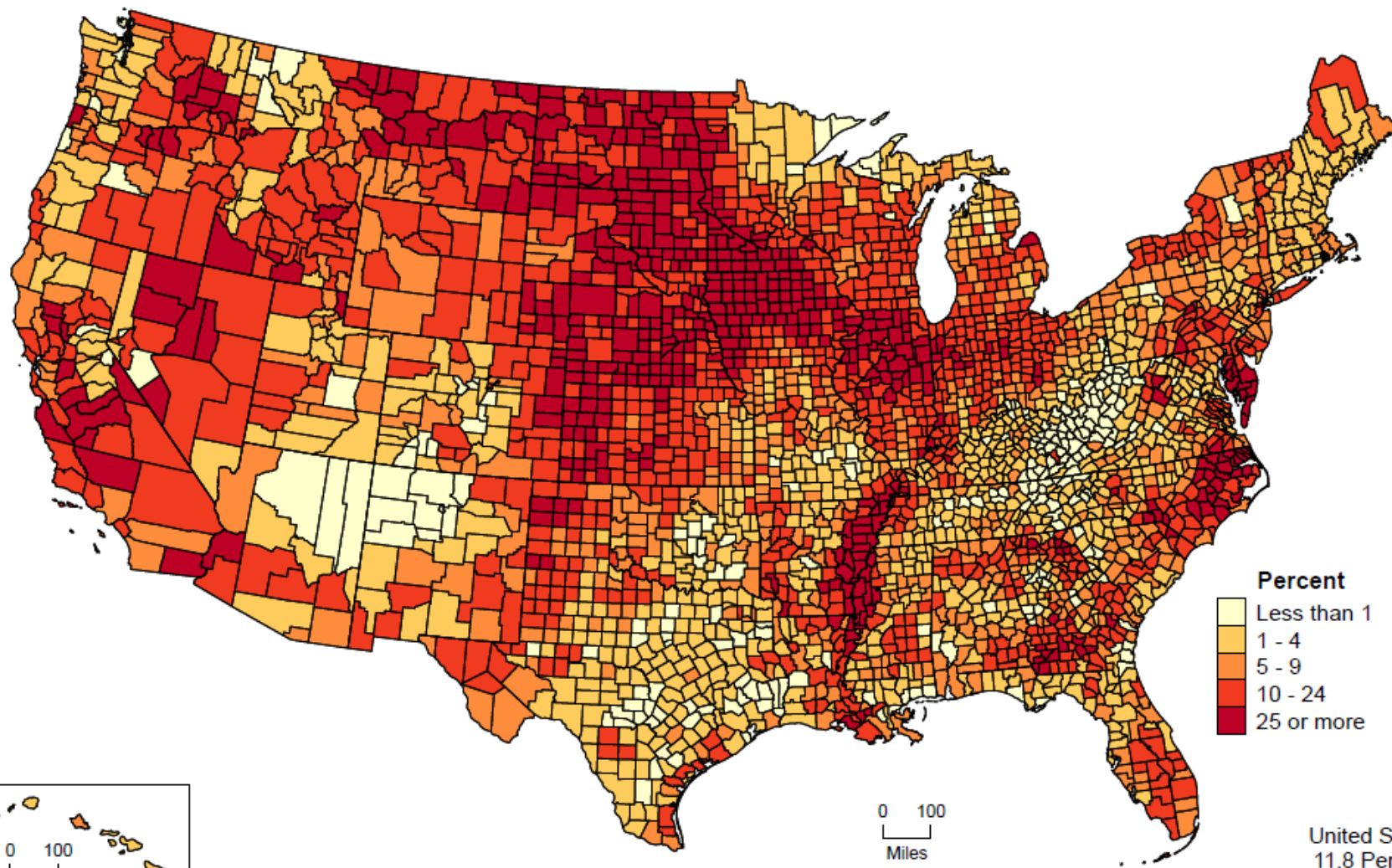
kferguson@utk.edu

615-898-7710 (office)

0 200
Miles

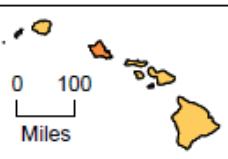


Percent of Farms with Sales of \$250,000 or More: 2012



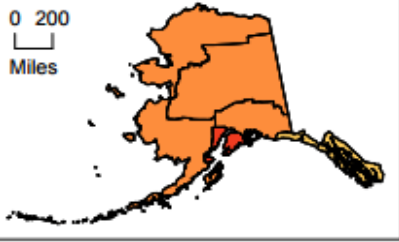
United States
11.8 Percent

0 100
Miles

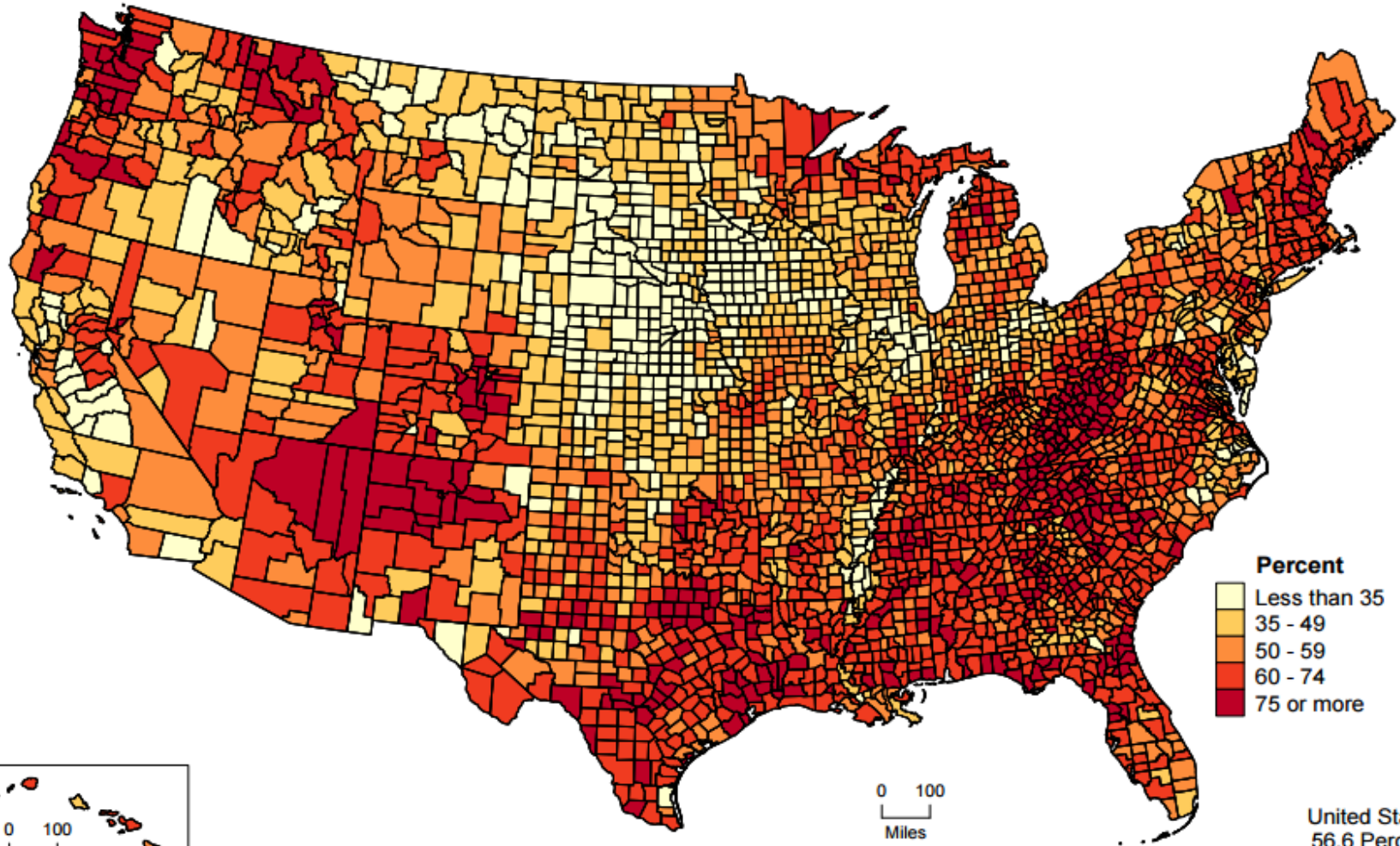


12-M011
U.S. Department of Agriculture, National Agricultural Statistics Service

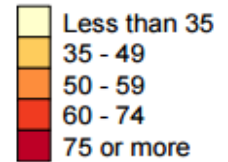
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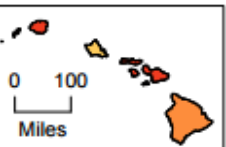
Percent of Farms with Sales of Less Than \$10,000: 2012



Percent



0 100
Miles



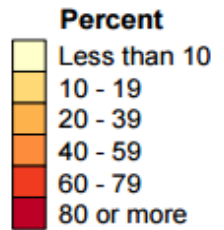
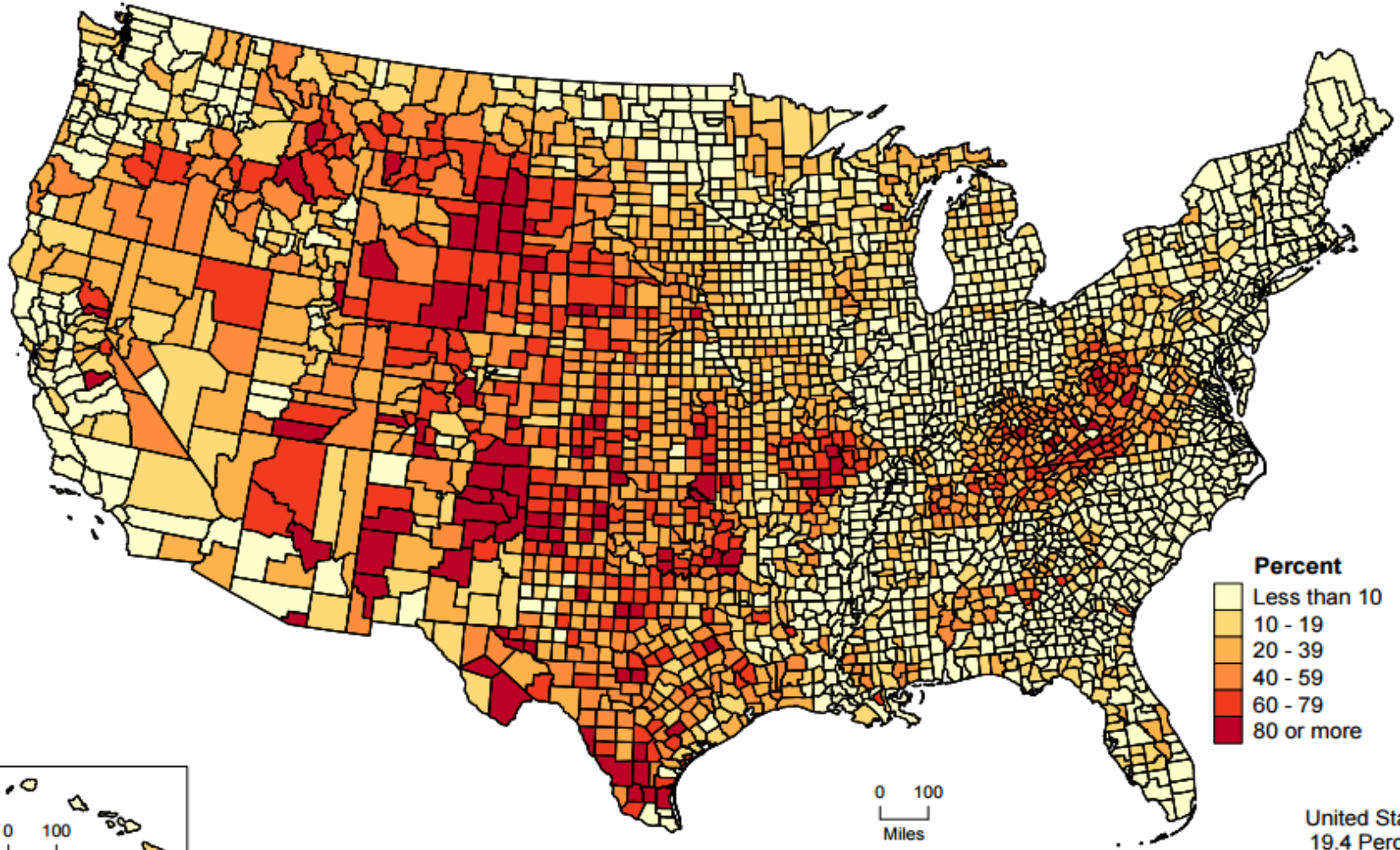
12-M009
U.S. Department of Agriculture, National Agricultural Statistics Service

0 100
Miles

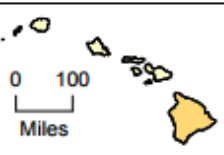
United States
56.6 Percent

Value of Cattle and Calves Sold as Percent of Total Market Value of Agricultural Products Sold: 2012

0 200
Miles



0 100
Miles

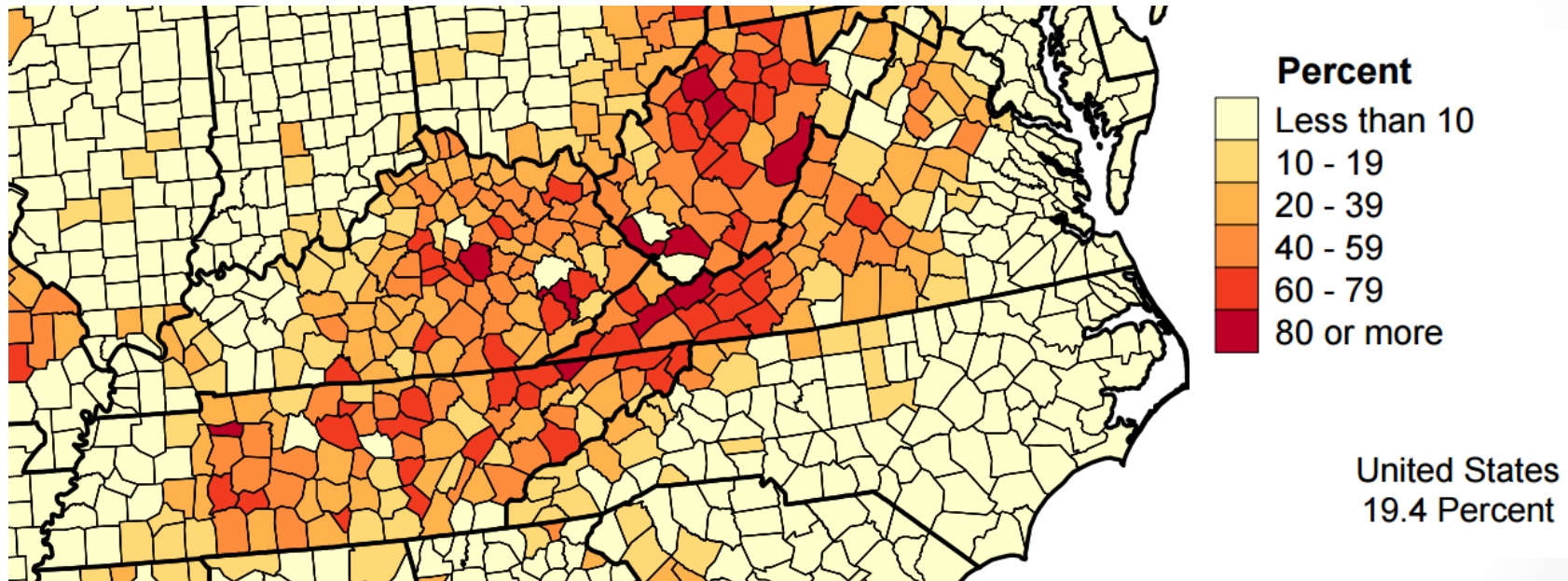


0 100
Miles

United States
19.4 Percent

12-M029
U.S. Department of Agriculture, National Agricultural Statistics Service

Value of Cattle and Calves Sold as Percent of Total Market Value of Agricultural Products Sold: 2012



Transactional vs. Relationship

- Transactional Marketing
 - Focused on single objective
 - Making the sale
- Relationship Marketing
 - Focuses on developing long-lasting relationships with customers
 - Broader, longer term goals
 - Secure sales into the future

Transactional

- Professional
- Self – Interest
- What you get
- Stay in touch
- Understand the process
- Judge the results
- Win conflict
- Agreement
- Evaluate the results

Remember 2004 – 2007?

Source: Mark Sanborn

Relational

- Friendly
- Mutual Interest
- What you give
- Keep informed
- Understand the person in the process
- Evaluate the relationship
- Resolve conflict
- Acceptance
- Evaluate how the other feels about the results

Two way street!

Good Times & Bad Times

Relationship Lending

- Long term investment in obtaining customer specific information
- How does the ~~borrower~~ lender interact with the customer?
- Relationship / information / knowledge in addition to the financial statements
- Better insight into what the borrower can do and how the business will function

**Examples: Risk Management (options)
Schedule F Tax Preparation**

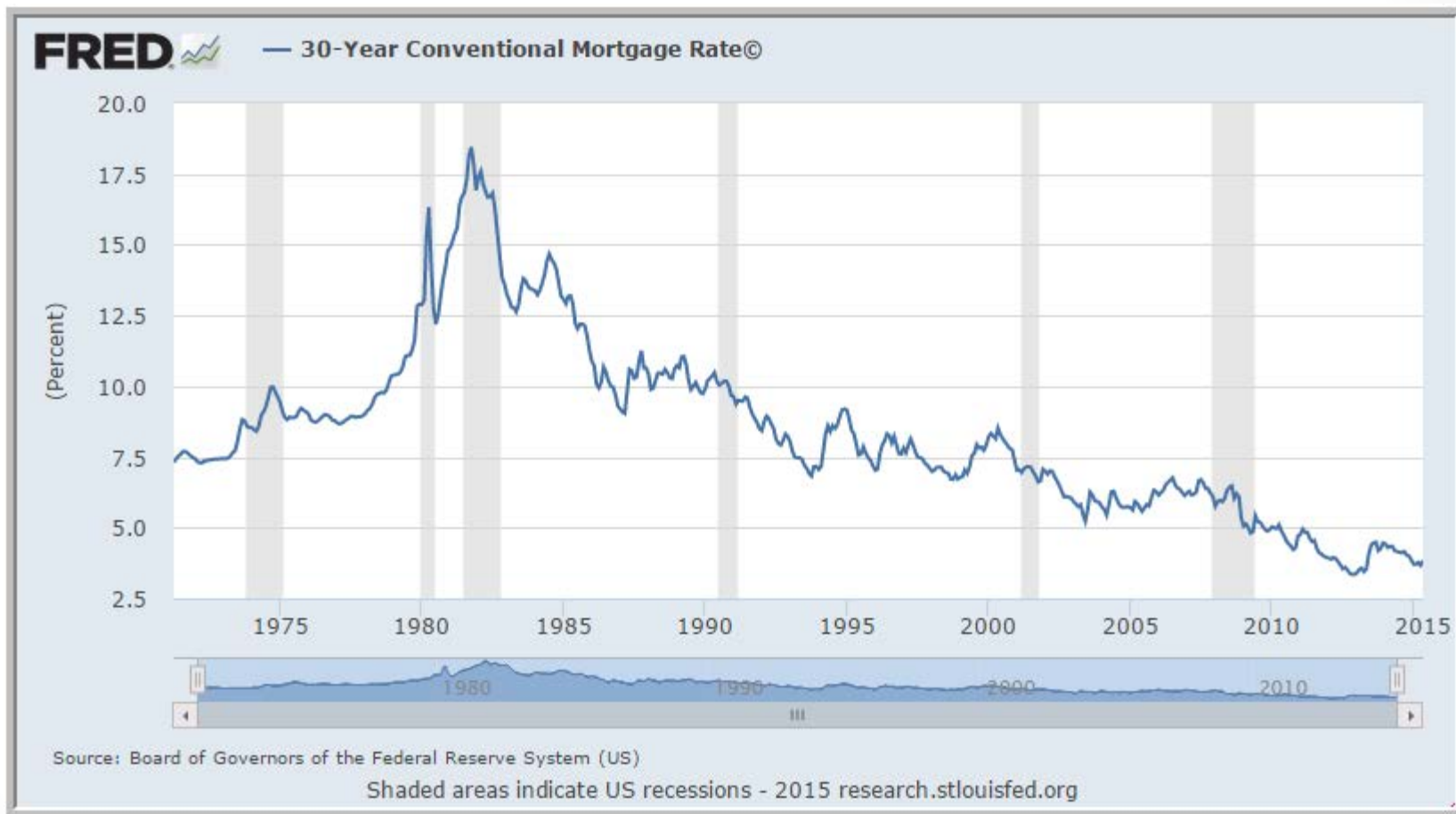
What does the customer want from a lender?



- Low Interest Rates!!
- Generally, 1/2 percentage point (or more) to make a difference with most customers

Interest Rates

Younger generation of farmers and lenders have never experienced double digit interest rates!!



What do customers want??

At your service: What customers say matters most



MSN Money Zogby Analytics poll

MSN Money and Zogby Analytics, July 2013, 1500 respondents.

Did you know?



- Almost 70% of customers that leave a business do so because of poor service.
- It costs 3 to 5 times more to earn a new customer than to keep an existing one.
- 96% of unhappy customers do not complain.

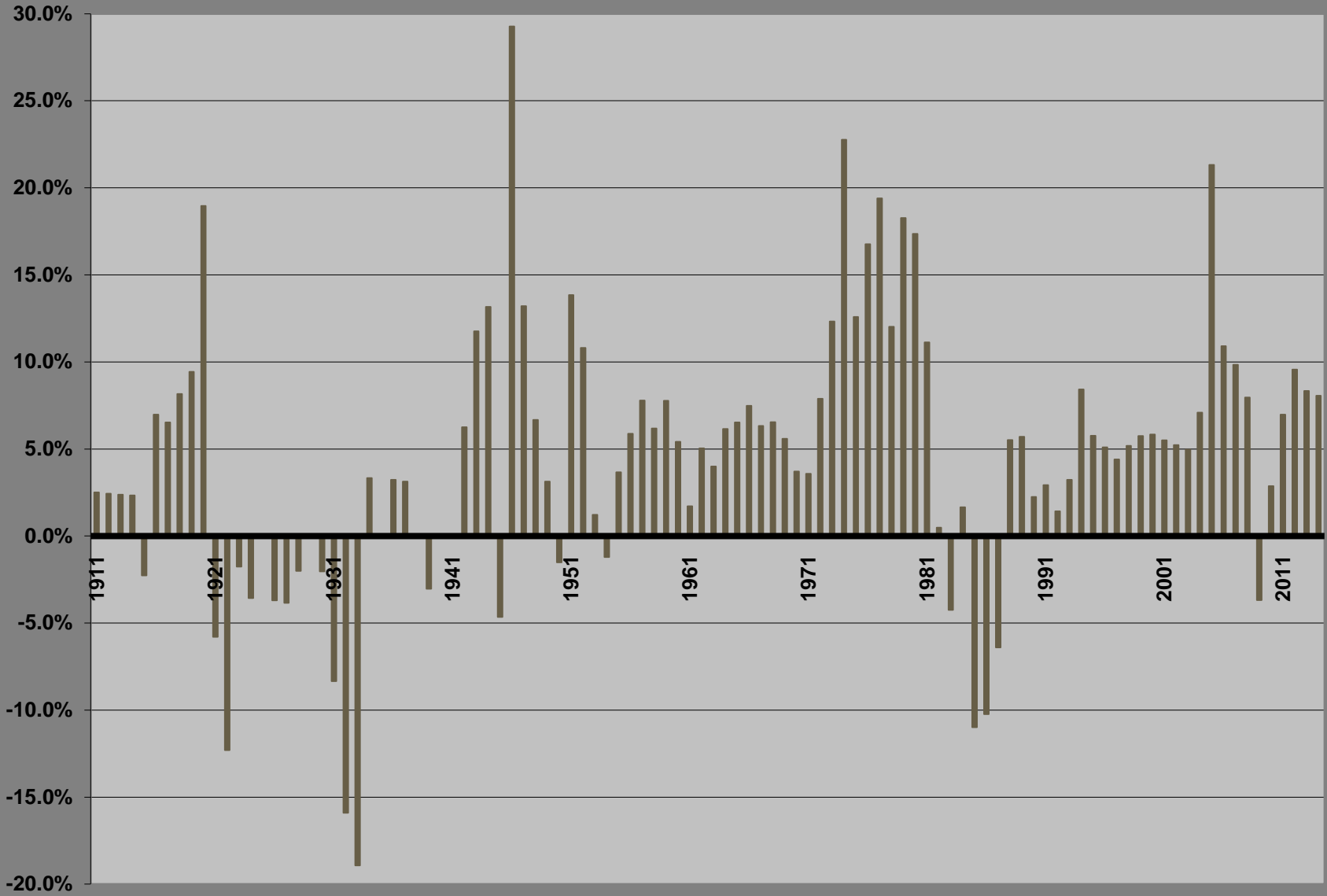
Know what lenders look for . . .

Five C's of Credit

- **Collateral** to back the loan

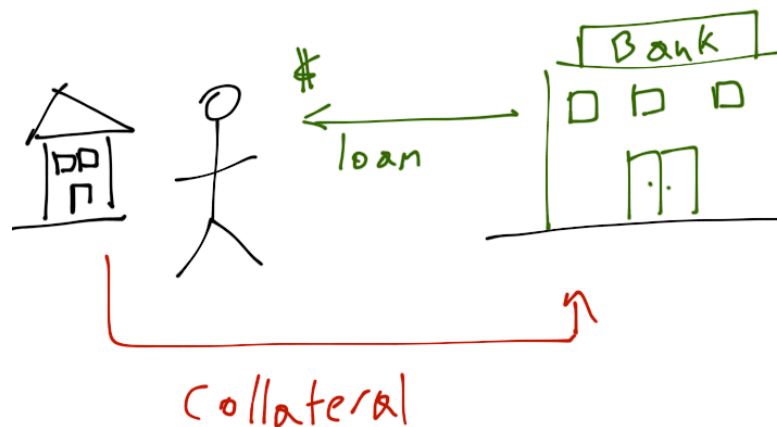


Annual Percentage Change in US Farm Real Estate Values 1910-2014



Five C's of Credit

- Collateral
- Collateral
- Collateral
- Collateral
- Collateral



Know what lenders look for . . .

Five C's of Credit

- **Collateral** to back the loan
- **Capital** or net worth
- **Capacity** of repayment
- **Conditions** of the credit
- **Character** of the borrower
 - Credit History



The 6th C of Credit “Cranium”



- Improved business management with partners / associates
- Adversity management (bounce back from the tough times)
- Disciplined profit managers (business plan)
- Proactive in changing economic and business environment
- Balance
 - Business, Family, Lifestyle

Tips to Work Effectively with Ag Lenders



- Preparation of a cash flow projection
- Sensitivity analysis (price, cost, and production changes)
- Financial liquidity versus equity

Source: Farm Credit University

Tips to Work Effectively with Ag Lenders



- Written business plan
 - Goals, details on production, marketing, and finance
 - Transition planning (include an exit strategy)
- Communications
 - HUT Principle
 - (Hear, Understand, Take the appropriate action)

Source: Farm Credit University

Communication: Generational Definitions & Differences

Age	Year	Titles
70+	1922 to 1945	Veterans (silent, traditionalists, hard workers, formal communication style, deliberate, no news is good news)
51 – 69	1946 to 1964	Baby Boomers (workaholics , face-to-face communication, diplomatic, need to feel valued)
35 – 50	1965 to 1980	Generation Xers (entrepreneurs , work life balance, direct & immediate communication-blunt)
1 – 34	1981 to Present	Nexters (millennials, entrepreneurs, multitasking, work life balance, communicate through technology)

Tips to Work Effectively with Ag Lenders



- Written business plan
 - Goals, details on production, marketing, and finance
 - Transition planning (include an exit strategy)
- Communications
 - HUT Principle
 - (Hear, Understand, Take the appropriate action)
- Invest in productive assets (avoid KT's)

Source: Farm Credit University

Just purchased our dream
home and 20 acres in the
country!



Farm /country living is the
life for me!

Now I need a new ...

Killer Toy



Lender Relationships



- Talk to / communicate with your lender
- Make sure you understand the lingo

GFI
ROA
NAV
COGS
R & D

Email From: Loan Officer

Subject: ream

- Definitions:
- A quantity of paper.
- To enlarge (a hole) as with a reamer.
- To extract the juice from (a lemon, orange, etc.).
- [Slang] to cheat, deceive.

Tennessee 4-H 600A Form

G. Administration of Medication

Check here if your child, _____, will have the following medications and is
(Name of Participant)

competent to self-administer them under appropriate supervision. Medications should be sent to the event or activity in the original pharmacy container and include the following information:

Name of child

Name of medication

Dosage and directions

Name of licensed prescriber *(if applicable)*

Name, address and phone number of pharmacy *(if applicable)*

Prescription number *(if applicable)*

Date prescription was filled *(if applicable)*



You must attach a photo if you are bringing medication.

Tennessee 4-H 600A Form

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Lender Relationships



- Talk to / communicate with your lender
- Make sure you understand the lingo
- Let them know how you prefer to be contacted
- Don't surprise the lender
 - Unless it is a pleasant surprise
- Update the new loan officer

Sound bytes from happy customers...

- “They listened to me.”
- “Never thought they were blowing smoke.”
- “They have a level of willingness to educate.”
- “I felt like they were helping create solutions.”
- “Lenders should realize they hold the key to dreams.”
- “Relationship vs. Rates/Terms!”
- “It’s too late to send me a fruit basket . . .the week after I switched all my loans to a new lender.”

Always check your sources!!



Source: Tennessee Third Grade Social Studies Text Book

A photograph of a dog sitting in a pen with several calves. The dog is a black and white breed, possibly a Border Collie, sitting in the center foreground. There are several calves of various colors (black, brown, and white) around it. The setting appears to be a farm or a stockyard with metal fencing and a building in the background. The word "QUESTIONS?" is overlaid in large, bold, yellow capital letters across the middle of the image.

QUESTIONS?