Financial Risk: The Importance of Lender Relationship

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

2012 Census of Agriculture
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

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

Remember 2004 – 2007?

Two way street!

Source: Mark Sanborn

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

- Knowledgeable staff: 30%
- Service after the sale: 18%
- Friendly staff: 16%
- Flexible policies for returns/exchanges: 13%
- Readily available staff: 9%
- The product is all that matters: 8%
- Not sure: 5%

MSN Money and Zogby Analytics poll, 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.

Source: Southern Style Hospitality
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

Source: Dr. Steve Isaacs, Univ. of KY
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

*Underwriters*
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

Source: Dr. David Kohl
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

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

Source: David Marrison, The Ohio State University Extension
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 KTs)

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.
G. Administration of Medication

☐ Check here if your child, ________________________, will have the following medications and is 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.
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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!!

Many farmers raise dairy cows on mountain land in East Tennessee.

Source: Tennessee Third Grade Social Studies Text Book
QUESTIONS?