

# *Strategies from an Ag Lending Veteran to Help You Navigate 2019*

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# Diminishing Lending Options

The Number of Banks is Shrinking!

Number of Banks:

2002 – 7,870

2017 – 4,909

Reduction of 2,961 banks or a decrease of 37.62%

Source: Statista.com

Projected to Decrease to 2,000 by the Year 2022

Some Banks will Cease to Exist Due to their Failure to Change

# Diminishing Lender Options

Experienced Ag Lender Shortage on the Horizon?

Perhaps We're Already There?

How Did We Get Here?

- The “Lost Generation” of Farmers and Ag Lenders
- The “Graying” of Agricultural Lending

Repeat of the 1980's?

- Agricultural Knowledge versus Financial Knowledge (the 80's)
- Financial Knowledge versus Agricultural Knowledge (Today)

# What are Lenders Thinking?

## The Numbers

- Cash Flow
  - Yield
  - Marketing
  - Expenses
  - Debt Refinancing
  - Living
  - Off-Farm Income
  - Actual versus Projected
- Profitability
  - Accrual versus Cash

# What are Lenders Thinking?

## The Numbers (continued)

- Working Capital
  - Earned or Acquired from Refinancing
  - Sufficient for Operation's Size
- Owner's Equity
  - Amount by Asset Type (Working Capital, Equipment, Real Estate)
  - Earned Net Worth versus Revaluation

# What are Lenders Thinking?

## The Numbers (continued)

- Trends
- Testing for Interest Rate “Shocks”
- Family Living Budget
  - Monthly or Annual
  - Family Living Expense (Families of Three to Five Persons)
    - Average Farm Living Expense (High Third) - \$133,769
    - Average Farm Living Expense (Low Third) - \$61,023

# What are Lenders Thinking?

## The People

- Is a Written Marketing Plan Present?
  - What Plan Aspects Have Made It Work Well in Your Operation?
  - How is Your Cost of Production Utilized in Your Marketing Plan?
- If an Individual's Debt is Being "Refinanced", How Are They "Reinventing" Themselves?
- What is the Operation's Succession Plan?
  - How was it Successfully Developed and Implemented?
  - What Worked Well in Communicating it with All Involved?

# What are Lenders Thinking?

## The People (continued)

- What Steps Have You Taken to Continue Increasing Your Management Skills over the Past Two (2) or Three (3) Years?
- What are Two (2) Things You and Your Spouse, Partners, etc. (as applicable) have Discussed to do Differently Next Year to Increase Profitability?
- What are Your Written Goals for the Operation over the Next Three (3) Years?
- What Things Would You Like to See Me/Us (Your Lender/Financing Institution) Do Differently Next Year to Help You More?



# What are Farmers Thinking?

## Possible Questions to Ask Your Lender

- How are You Seeing Other Producers Increase Profitability?
- What Do You See as our Operation's Strengths and Weaknesses?
- How have You Seen Other Farmers Successfully Increase Their Management Knowledge?
- What Do You Feel are the Positives and Negatives in our Operation's Financial Trends?

# What are Farmers Thinking?

## Possible Questions to Ask Your Lender (Continued)

- How Do You Feel About The Equipment Values Shown on the Operation's Financial Statement?
- How have You Seen Other Operations Successfully Develop and Implement a Succession Plan?
- What Actions, if any, Would You Suggest We Consider Given the Current Interest Rate and Commodity Price Environment?
- What Information Do You See Other Producers Utilizing in Discussing Land Rents with Their Landlords?

# Your Lending Relationship

## Possible Discussion Items Regarding Your Lender

- What Suggestions or Thoughts Provided by Our Lender/Lending Institution have We Implemented That Made Us Better?
- What Unique Skillset Does Our Lender Possess Compared to Others in the Marketplace?  
How Did This Translate to Quantifiable Value for Our Operation?
- What is Our Lender's Passion Level for Agriculture?
- How Does Our Lending Institution Educate the Area's Non-Producers About the Importance of Agriculture?

# Your Lending Relationship

## Possible Discussion Items Regarding Your Lender (Continued)

- How Effective is Our Lender/Lending Institution in Recognizing the Opportunities Present in Challenging Times
- How Effectively has Our Lender/Lending Institution Communicated What We Should Expect Should Our Lender No Longer be Present?
- What are the Tools Our Lending Institution Utilizes to Keep Their Employees Agricultural Knowledge Relevant to the Times?
- What Would it Cost Our Operation to **NOT** Do Business with Our Current Lender/Lending Institution?

# Closing Thoughts

- Know Your Numbers
- Be Prepared for the Unexpected (Financial Risk Management)
- How are You Improving Your Management
- Risk Management from the Succession Planning Perspective
- How is Your Lender/Lending Institution Sharing with You What They are Learning
- How is Your Lender/Lending Institution Providing You Value Beyond the “Yes”

# Closing Thoughts (Continued)

- Whether Good News or Bad News, You Can't Over Communicate
- Other than at Christmas,  
Neither Producers Nor Bankers Like Surprises!
- The Producer Gets the Only Vote in the Lending Relationship
- Optimism or Pessimism  
Everyone Chooses One Each Day  
Do You Say "Good Morning Lord" or "Good Lord, it's Morning"?

Questions?

# Thank You

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