Are you "Bankable" or not?

The term "bankable" emerged several times at the recent 65th Annual ABA National Agricultural Bankers Conference in Milwaukee, Wisconsin. The conference provided information-packed sessions as well as networking with bankers and other professionals, who shared rich perspectives for an agriculture industry in the midst of an elongated downturn. While the farm crisis of the 1980s was short and abrupt, today's economic reset could be described as a "grinder," as it is less steep, but has no end in sight. As the next season of lending begins, some borrowers will look to refinance or the restructure their debt. For others, the capital may be for growth and expansion. Whatever the reason, producers will need cash for business operations, so how can they increase their chances of being "bankable" or a more favorable borrower from the bank's perspective?

In answer to this question, Curt Covington, Senior Vice President of Farmer Mac, presented "Why the lender should make the loan." In his presentation, he stated that bankers and lenders need to know who owns the repayment source, particularly if it is a business with multiple entities. Next, they should also secure the purpose of the loan, where the funds are directed, and if and how they will be used to improve business profitability.

On the borrower's side, producers need to have an idea of which factors will be considered most favorable in assessing their ability to repay a loan. For example, is it strong management, a sound marketing and risk management plan, or perhaps it is a proven history of generally positive cash flows and profits? Further, producers must determine whether there is sufficient working capital or equity to bridge a financial gap in case of negative margins.

In this same session, a question arose concerning these borrowers that exhibit negative margins and what, if any, additional factors should be considered. From the discussion, the following were some observations bankers and lenders should make during the winter renewal season. Is there a lack of cooperation from the borrower or a specific family member in the business? In the larger businesses that employ numerous people, is there unusual employee turnover due to mismanagement, payroll delinquency, or rejected checks? In addition, it is important for bankers and lenders to watch for discourse in the family as this may be a sign of difficulties to come. Of course, deteriorating assets such as machinery and livestock, land, and buildings may also be signs that the borrower is not "bankable."

While watchful for signs of trouble, lenders and bankers should also be familiar with the proactive ways borrowers can improve their chances for credit. Often, becoming more "bankable" means improving management practices.

First, borrowers must recognize the factors through which they can better manage the business. Specifically, borrowers need to manage those factors they can control, and manage around the factors that are out of their control like weather, market direction, and to some extent, governmental policy.

In managing around those factors that cannot be controlled, one must think through the intended and unintended consequences, as well as potential changes to the business. Most often, this requires one to have a solid marketing and risk management plan that regulates the tendency to make decisions based on marketplace news.

The controllable factors are elements such as expenses, and attempting to live and operate a business within one's means. This includes developing a personal family living budget as well as budget projections for the coming year. Of course, the real value in budgeting comes from monitoring the results which allows for tweaks and adjustments throughout the year. In fact, these small, periodic changes are frequently the difference between bottom line profit and loss.

Next, another factor within the borrower's control is accurate financial information. Producers must have a good idea of their cost of production in order to market efficiently. When a window of profit appears, the producers in a position to seize that opportunity demonstrate their businesses to be more "bankable."

Of course, it may be debatable whether this factor is controllable or not, but either way, character will be a large part of the lending equation for lenders and bankers. Does the borrower use borrowed monies for the intended purpose? Are adversities communicated in a timely manner? Does the borrower have well-articulated goals that are implemented into the business strategy? And if seeking refinancing, is there a written plan of improvement? In other words, as a borrower, a positive character and proactive approach can make you much more "bankable."

In summary, the points and perspectives presented at the 65th ABA National Agricultural Bankers Conference actually represent improved overall management. This "grinder" of an economic cycle will test many in the agriculture industry. Yet, as seen in the 1980s, adversity can position the business well for the next cycle. In reality, the difference between lemons and lemonade, and those that are "bankable" or not, comes from the individual borrower and management of the business.

Management Tip:
One good tip from this year’s conference is to get rid of the toxic people in your lives. Remember that your net worth financially and mentally is directly correlated to you network of people.