Module 3
Preparing for Your Lender

Module Outline

The Borrower-Lender Relationship: A Two-Lane Road
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- Capacity
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Financial Road Hazards in Borrower-Lender Relationships

Learning Objectives

The learning objectives for this module are for participants to:

- Know the important attributes to look for in a lender and understand how to better prepare for a lender
- Gain a better understanding of credit reports and how they are used in the lending process
- Discover some of the uses of financial records and other aspects of a business plan
- Be aware of some of the financial “road hazards” in borrower-lender relationships

The Borrower-Lender Relationship: A Two-Lane Road

Let's turn on to old Route 66, rev up the engine and explore both lanes of the borrower-lender relationship.

One of the most critical decisions a young agri-business person makes is choosing a lender. This is because the agricultural industry depends on the sound use of credit to finance real estate, production assets, and operating activities. Borrowers and lenders are similar because they both have the same goal - both want to ensure the long term viability of their businesses. The borrower and lender should have high expectations for each other in the relationship.

So, what are the important traits of a good lender? How can you as a borrower be a valuable partner in the borrower-lender relationship?

Rate Your Lender

Let's put the ball in the lenders' court and examine some attributes you should assess in selecting your lender.

Knowledge of Your Industry

Agriculture is a diverse industry, with each segment having its own unique needs. For a lender to make sound recommendations to you the borrower and also develop the best financial package for your business there must be common ground between the two of you upon which to start.

Choose a lender that has a stake in your industry! Their success should depend on ***your*** success. You should ask these questions: Can the lender quickly identify an unprecedented change occurring in the industry? Are they caught in a time warp, thinking only of yesteryear's agriculture? Have you seen them at industry trade shows? Do they sponsor events? In what ways are they active in the agricultural industry? The lender should understand your industry and your business, the risks involved with each, the production processes, and the cyclical nature of the business.

> **ROADSIDE CHAT #1: What's on the horizon in borrower-lender relationships?**
> During the next decade, over 50 percent of current agricultural lenders will retire. Many of the new lenders that replace them will not have a farm or ranch background! Some will be mostly analysts, only analyzing the financial numbers. This change will require a borrower to take every opportunity to educate their lender about their industry and acquaint them with their business ***beyond the numbers!***

Capacity

A lending institution should have the capacity to meet your loan requests for current as well as future borrowing needs. Ask a prospective lender about borrowing limitations in relation to individual businesses, as well as how much they can lend in certain industries. Some lenders have specific loan limits established by policy or regulators.

Some lenders might be able to get your business started, but will they grow along with you?

Competitive Products and Services

Does your lender offer products that can be seen as a *cookie cutter* approach to lending – the same for every borrower? Or, can their products be customized? Seek out a lender that provides loan products with competitive rates, and most importantly, flexible terms.

For example, repayment schedules should mirror the timing of cash flows for your operation. A good lender will customize loans to fit your needs and price loans recognizing the efficiencies of having multiple loans to a single customer. Consider a lender that offers quality services in addition to loan products. Services may include cash management tools, insurance products, investment products, retirement planning, and others. These additional products and services complement loan products and can save time and money, and also reduce risk to you as a borrower by creating a *total financial package* for your business.

Active in Special Lending Programs

There are several lending programs designed to assist young, beginning, small and minority farmers by offering special interest rates or favorable terms. Many of these programs are tied to government programs such as USDA Farm Service Agency or state-specific ag development boards. Is the lender knowledgeable of these programs and an active participant in these programs? Is the lender a USDA "Preferred Lender"?

Stable Staff

In a time of mergers, acquisitions, staff retirements, and employee turnover, it is important to select a lender that can offer stability in a changing environment. Look for an institution that takes a ***team approach*** to servicing your account. This assures that more than one person at the institution is familiar with ***you*** and ***your operation***. There should always be someone on the staff acting as a backup in case the primary credit officer is unavailable or leaves the institution. Does the institution provide the culture to attract and retain a qualified staff that can meet your needs?

ROADSIDE CHAT #2: Why do many borrowers switch lenders?

It is much more than the interest rate. Often borrowers will comment that the staff was like a revolving door, in-and-out, and the name changes were like price volatility at the gas pumps in times of inflation or an impending hurricane. Lenders that show stability in volatile times are the ones that rise to the top.

The Decision Maker

Who makes the lending decisions? Are these decisions made locally or at "corporate headquarters"? Choose a lender that has decision-makers who are accessible to you as a borrower. The person who analyzes information on a loan request should also be involved in making a decision about the loan. Also, the lender should share with you how loan requests are analyzed and decisions are made. Does the decision-maker have specific knowledge of your account? Are they willing to provide explanations, share insights and opinions, and occasionally say *no* if needed?

Long Term Presence in the Agricultural Industry
Your lender should support the agricultural industry during both prosperous and challenging times. The goals of your lender should include a permanent commitment to your industry and its people. Avoid lenders that begin lending to an industry while it's profitable, only to exit when times get tough. However, remember that a good lender sometimes has to say no, but will provide alternatives for you even though it may be a referral to their competition.
Ask the following questions: What is the financial health of the lending institution? Are the Board of Directors and management team committed and knowledgeable of the agricultural industry? Agricultural industry representation on the Board is critical.

Knowledge of Lending
Look for a lender that can provide financial benchmarks to help you evaluate your performance compared to others in your industry. Lenders with knowledge of your industry should be able to provide you with information on best management practices that could be helpful in your situation also. A lending institution's loan officer should be willing and able to ask you tough questions. A lender should be a three dimensional industry resource, with characteristics of a teacher, coach and facilitator. The loan officer should encourage the customer to do most of the talking. They should work with you to develop financial options and alternatives and allow you to make the final financing decisions.

Are You More Than a Transaction?
Look for a lender that believes in the importance of developing a long-term relationship with you. The lender should clearly understand your goals and risk attitude. You and your lender should grow together, benefiting from each other's success. Is the lender open to suggestions on what you would like changed or improved in the relationship? How often will the lender make on-site visits to your business? Visitation shows interest in your success and sincerity in the relationship. A good lender will follow-up after the transaction and show appreciation for your business.

Confidentiality and Ethics
Discussions between you and your lender are confidential and should not leave the confines of the office or your business. A good lender will not only earn your trust but will remain honest, even if it means telling you what you may not want to hear.

Timeliness and Convenience
Time is a precious commodity to people today. Crop and livestock production schedules require timely credit decisions to avoid adverse effects on cash flow and profits. Once the required information is identified and received, the lender should make a decision in a timely manner. Paperwork should be minimal and/or presented in a way that minimizes confusion and complexity.

Are the loan officers accessible and responsive? What are the lender's e-service capabilities concerning financial statements, paperwork, compliance and servicing your account? Reliable and secure access to account information online and by phone is now a requirement, not an option.

Interest Rates, Terms and Conditions

Be aware of hidden fees and prepayment penalties, the "Oh, by the way!" factors. There should be few surprises in the relationship. While having the lowest interest rate may give you *coffee shop bragging rights*, being able to obtain the lowest interest rate is only the tip of an iceberg. You need to ask other questions that help you compare "apples to apples" and tell you the rest of the story. Is your loan being sold to the secondary market or maybe to another lender? Is the lender only concerned with maximizing next quarter's results or are they in business with you for the long term?

A History of Winners

Carefully observe a lending institution's borrowers. Are they the individuals who are the whiners and complainers? With whom do they associate? Ideally, you want to conduct business with an institution that is not just the biggest in the area, but has a track record of attracting winners to their institution in a consistent, sustainable manner. Winners are those people with positive attributes, good value systems, and character.

Investment in Customers

Does the lender you are about to foster a partnership with invest back into your industry? Are they supportive of youth groups like 4-H and FFA? Do they sponsor educational programs and producer seminars? Is their staff visible and actively involved in networking and/or presenting subject matter at meetings? A peak performing institution has an edu-marketing strategy; that is, they educate while they market.

Refer to Appendix 1 for a list of sample lender interview questions.

<u>You, Inc.</u> – Rate Your Lender

Now that we have discussed the characteristics to look for in a lender, let's pause for a moment and have you rate your lender, or a lender you have worked with. Rate your lender from 1 to 5 in each category, with one being poor and 5 being excellent. If they rate a 1 or 2 in any category, provide a reason for the low score.

	Poor				*Excellent*
▪ **Industry knowledge**	**1**	**2**	**3**	**4**	**5**
▪ **Capacity**	**1**	**2**	**3**	**4**	**5**
▪ **Competitive products and services**	**1**	**2**	**3**	**4**	**5**
▪ **Active in special lending programs**	**1**	**2**	**3**	**4**	**5**
▪ **Stable staff**	**1**	**2**	**3**	**4**	**5**
▪ **Accessible decision makers**	**1**	**2**	**3**	**4**	**5**
▪ **Long term industry presence**	**1**	**2**	**3**	**4**	**5**
▪ **Knowledge of lending**	**1**	**2**	**3**	**4**	**5**
▪ **Are you more than a transaction?**	**1**	**2**	**3**	**4**	**5**
▪ **Confidentiality and ethics**	**1**	**2**	**3**	**4**	**5**
▪ **Timeliness and convenience**	**1**	**2**	**3**	**4**	**5**
▪ **Suitable interest rates, terms and conditions**	**1**	**2**	**3**	**4**	**5**
▪ **A history of winners**	**1**	**2**	**3**	**4**	**5**
▪ **Investment in customers**	**1**	**2**	**3**	**4**	**5**

By totaling the scores of several different lenders you can objectively assess and compare them with regard to the categories discussed.

Now, the Lender Rates You!

Now, let's change directions and come back to see the other side of the road from a lender's perspective. What do lenders look for in a borrower?

Accurate Financial Information and Documentation

A good borrower-lender relationship is built on a mutual understanding of the financial condition of the borrower's business. Most lenders request three to five years of financial statements of an existing business. These should include a balance sheet, cash flow projections, and income statement. If it is a new business, an existing **balance sheet** with three years of financial projections and sensitivity analysis to revenue, cost and other key factors is also recommended. **Cash flow** projections should include different scenarios regarding prices, costs, and capital acquisitions. **Income statement** may be the Schedule F tax form; although an accrual adjusted income statement is preferred. Refer to <u>Appendix 2</u> for a checklist of documents a lender might request. If a borrower has multiple business interests or operations, the lender will need to have information on each to fully understand the dynamics.

Always document any assumptions made when utilizing your best estimates. For example, when valuing assets, be on the conservative side, and make sure to include all liability items such as accounts payable, leases, etc. Conduct an analysis by enterprise if your business involves several enterprises, such as dairy, crops, and retail vegetable sales.

As a borrower, you should have an understanding of your business' financial situation, especially if an accountant or CPA is used to prepare your financial statements. In addition, information pertaining to personal debt should be provided to the lender. Most lenders require personal financial statements including credit card balances and details on personal or non-farm investments.

A Written Business Plan

In the last module, we covered the development of a business plan. In today's volatile agricultural markets, your written business plan can act as a guide for objective decision-making whether the business is a startup or a third-generation partnership. Your lender can better serve your needs if he or she knows your operation's current and future direction and how you plan to get there. Be prepared to provide information on the amount and stability of non-business revenue and personal financial variables that may influence the viability of the business.

ROADSIDE CHAT #3: How important is having a written business plan when seeking financing?

Lets' draw upon how my friend Henry got started. He developed a business plan with input from his college professors. He worked and proved himself as a good manager for a high profile successful producer while building some equity. He discussed his plan with the lending institution's Board members and loan officers individually. When they all met, he was approved with 5 percent equity and 95 percent debt! Go to my podcast to hear the rest of the story. It's truly inspirational.

<u>You, Inc.</u> – Financial Documentation Checklist

Complete the following financial documentation checklist. Answer Yes, No or Partial, if it is partially completed. Develop your game plan for improvement with a timeline and action steps.

	Current	**Past**	**Projected**
▪ **Balance Sheet**			
▪ **Income Statement (or Schedule F & W-2)**			
▪ **Accountant-Prepared Statements**			
▪ **Accrual-Adjusted Income Statement**			
▪ **Projected Cash Flow**			
▪ **Complete Written Business Plan**			

Personal Consumer Credit Check

Most lenders use credit reports to verify customers' balance sheet information. Credit reports are maintained by the three consumer credit reporting companies - Equifax, Experian, and TransUnion - and they keep a record of actions related to consumers' creditworthiness. Your use of credit with other lenders will be considered when a lender makes credit decisions pertaining to you. Unfortunately, your credit report may contain errors or other items of which you might be unaware. Periodically, at least once a year, request a credit report to check for incorrect or unknown items in your credit history. Unless you contest incorrect information, your requests for credit, and in some cases insurance and employment, could be denied based on inaccurate information.

Be aware that some agricultural lenders do not report to the credit reporting companies. Therefore, some of your loans may not appear on your credit report. This can result in inaccurate credit scores and credit reports. As a result, credit scores tend to be more accurate in urban areas with higher levels of traditional consumer debt, as opposed to agricultural and rural areas. ***Click here to view a sample credit report.***

<u>Credit History</u>
First, understand that everyone with a credit history has a credit report and score. These are based on the records compiled by credit reporting companies and include information such as whether a customer has been late with payments on their mortgage, machinery and equipment, and/or credit card debt. The amount of credit and the number of sources a customer owes are all included.

Credit scores give lenders a measure of how likely a customer is to default on a loan. The higher the person’s credit score, the lower the probability that they will be delinquent on their payments. That is – the higher your credit score, the better for you!

Lenders use a number of systems to calculate credit scores, but the most common -- nicknamed FICO -- was developed by Fair, Isaac, and Company, a California data-management services and consulting company. The three main credit reporting companies provide credit scores; however, scores may vary from one company to another due to their means of calculation. Scores could also vary depending on which creditors report to each company. The credit score predicts the likelihood a consumer’s account will be seriously delinquent (over 90 days delinquent) within the next 24 months. Minimum scoring criteria are that the individual is not deceased, has one trade line open in the last six months, and one undisputed trade line updated in the last six months. Trade lines are the different credit accounts listed on your credit report. Federal rules state that credit reporting companies are not allowed to give a report to an employer without your permission. Credit reporting companies will not release your score directly for free. However, a lender or broker may show you your score since you are their customer, if it is requested.

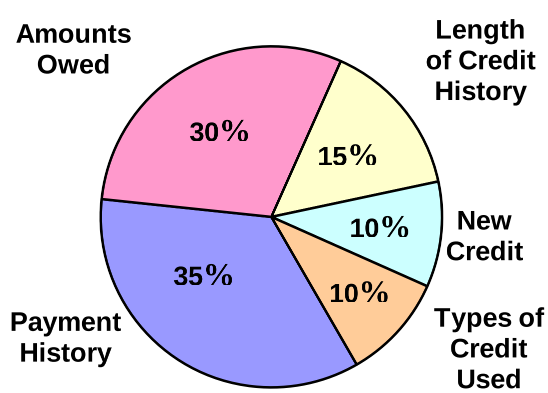
ROADSIDE CHAT #5: Are credit scores really that important?
Yes, not only for credit, but also for insurance and employment. I know a man who had once passed all the mental, physical, and background tests for employment by the state police, but was denied employment because of a low credit score. His cousin with a similar name and Social Security number had a low credit score. The cousin's score was accidentally placed on his record. A year later, the mistake was corrected. Now, the man is a successful state highway patrolman, and he and his wife are successful part-time farmers.

Do You Know Your Credit Score?
Credit scores range from the 300's to the 900's, with most consumers falling somewhere between 500 and 850. Each lender decides what score is acceptable and how much weight it constitutes in someone's final credit evaluation. Most lenders use other supplemental information along with credit scores to make a lending decision.

Generally, scores above 700 are considered high. A score below 600 will draw scrutiny from your lender because the chance of default increases to about 50 percent. Nationwide, average credit scores in recent years range from 675 to 700. See www.nationalscoreindex.com for average scores by state.

Under the Fair and Accurate Credit Transactions Act (FACT Act), consumers can request and obtain a free credit report once every 12 months from each of the three nationwide consumer credit reporting companies at www.annualcreditreport.com.

What Impacts Credit Scores?



Over 30 elements factor into someone's credit score. There are five major credit report evaluation categories according to the Fair Isaac Corporation (FICO).

- **Previous credit performance (payment history)** accounts for 35 percent of the total score. Have you paid debts? Were you late on any payments? How recent were any delinquencies, and how often you have been delinquent in paying? Answers to these questions will determine your credit worthiness.
- Your current **level of indebtedness** accounts for 30 percent of a credit score. This is usually measured as debt outstanding as a percentage of your credit limit. Balances on credit cards, mortgages, and auto loans fall into this category. People

who are close to their credit limits for mortgage and consumer debt are considered to be at a higher risk of default. Realize that maximum limits on credit cards will be scrutinized because they are an unsecured line of credit.
- **Length of credit history** amounts to 15 percent of the credit score. Lenders will prefer borrowers with a track record. Young people who have not developed this track record and older people who are reluctant to use debt are frequently penalized in this category.
- The **pursuit of new credit** is 10 percent of the score. This measures how many times you authorize lenders to check your credit record. For example, a customer may be truck or tractor shopping. An abnormal number of inquiries in a short period of time can lower the score. Unsolicited inquiries as well as those you make yourself will not lower your score, but those you authorize others to do will.
- The **types of credit used**, such as credit cards or installment debt like personal loans, will influence scores and is 10 percent of the total credit score. Someone who has a mix of installment debt and revolving credit would be lower risk than those who have just one or the other.

<u>How to Deal with Errors</u>
One has to be careful of errors and inaccuracies in their credit report. For example, your credit report may have someone else's bankruptcy or late payments listed if the names or Social Security numbers are similar.

Credit reporting companies defend accuracy. People who are turned down for credit, insurance, or employment because of their credit report are entitled to a free copy of the report within 60 days of rejection.

If a customer notices any mistakes, they should contact the credit reporting company immediately. The company must respond to consumer complaints within 30 days. A customer can correct errors, as well as enter a statement as long as 100 words explaining the circumstances of the credit blemish on their credit report.

<u>Credit History Can Affect Your Insurance Premium</u>
Over the past decade, credit history has served an increasingly important role in the insurance industry as well. A credit based insurance score is a statistical analysis of a consumer's likelihood of filing a claim within a given period of time in the future. Insurance companies use these insurance scores along with other factors – such as years of driving experience – to calculate premiums that are better tailored to each individual. Industry studies have shown a relationship between a consumer's financial history and the potential risk he or she might represent to an insurer.

Pertinent data from a policyholder's credit report is entered into a statistical model developed specifically for insurance companies. This model derives the actual insurance score, which is then delivered to insurance agency to include in the insurance premium calculation.

<u>How to Improve Your Credit or Insurance Score</u>

- Reduce or stop late payments and collections. Consumers can accomplish this by paying bills on time consistently and keeping accounts from going into collections.
- Avoid bankruptcies and liens. These can have a significant impact on a consumer insurance score, and bankruptcies can remain on a credit report for as long as 10 years.
- Limit new account activity. In many cases, the more accounts a consumer applies for, the more negatively it reflects on their credit score.
- Keep balances low on unsecured revolving debt, like credit cards.
- Try to maintain relationships with your main creditors over a long period of time.

You, Inc. – Check Your Credit Report

Now that we have discussed credit reports, go to www.annualcreditreport.com and request your free credit report. You may request a free credit report once every 12 months from each of the three credit reporting companies. You may want to go ahead and view your report from all three companies at once, or just view one for now and the others later. Check your report for accuracy of information and be sure to contact the credit reporting company if you find any errors. This will prepare you for a credit check by your lender as part of any upcoming credit requests. While you are entitled to a free *credit report*, the credit reporting company may charge you if you'd like to receive your *credit score*.

Personal Characteristics of Desirable Borrowers

Honesty and Ethics

Just as surprises by the lender are undesirable, the same is true for decisions made by the borrower. Inform your lender up-front about significant business transactions, such as machinery purchases, purchase or sale of real estate, or changes in operating expenses. You should disclose all information that may be significant to a lender, such as insurance held, pending lawsuits, retirement plans, divorce proceedings and other life events (births, deaths, etc.), co-signatures, and co-obligations.

Open and Regular Communication

A lender can be a valuable resource to assist with decisions and help you avoid decision-making based on emotion. Inform your lender of problems or changes in the business that may impact your ability to repay. Timely communication can minimize the impact of adverse situations and maximize available options. The borrower should maintain open and on-going communication with the lender before and during hard times and view the lender as a business partner. It is better to work with the lender than hide from the lender! It's important that you allow the lender time to make a decision, and this begins with good communication.

Involved Spouse/ Business Partner

Spouses and business partners can influence credit and business decisions. If at all possible, invite your spouse or the younger generation to attend meetings and participate in development and analysis of financial statements. A keen understanding of these statements can be a useful tool in shared decision-making and business plan development.

> **ROADSIDE CHAT #4: Although it can be disappointing when a lender says "no" to your loan request, have you found that it can work out for the best?**
> Yes, it can be for the best in some situations. My first farm loan request was denied by Farm Credit. Oh, was I upset! I actually obtained financing acceptance through a bank. However, my wife and I decided it wasn't best for us after re-thinking Farm Credit's denial.
>
> By the way, the bank and bankers that accepted our loan request were jailed just six months after saying "yes" to us because of participation in some unethical banking transactions! The Farm Credit loan officer who denied my loan was in my seminar 25 years later. I thanked him for his denial!

Uses of Financial Statements

<u>As a tool for management</u>

Successful managers use financial statements in combination with production records to identify strengths and weaknesses in their operation. In addition to tracking trends in assets and liabilities, financial statements can reveal where revenues are originating and where expenses are occurring. Also, financial statements can be used to schedule cash expenditures and plan for credit needs. Finally, the statements provide the critical data for ratio analysis and benchmarking, tracking financial performance.

<u>As a tool for use with lenders and other professionals</u>

Lenders request, and in most cases require, an accurate set of financial statements to accompany a credit request. A carefully prepared set of financial statements shows that you have a detailed understanding of your business and its repayment capacity. Others, such as attorneys and financial planners, also need financial statements for services such as estate and retirement planning, organizational establishment, (corporation, partnership, or limited liability company), and buy-sell agreements for business transition purposes. It is important to note that financial statements are only as beneficial as the quality of data found on them, so extra effort spent checking the accuracy of financial statement numbers will go a long way in gaining the confidence of lenders and other professionals.

<u>As a tool for tax compliance</u>

A carefully prepared set of financial statements can make life much easier when tax time comes around. This prevents last minute information collection and provides peace of mind in an IRS audit.

Financial statements can be prepared by individuals, in-house employees, or accountants. Statements prepared by accountants will range from simply compiling a business owner's numbers, to reviewing and reconciling numbers, to a formal, unqualified audit. Even if you have an accountant who keeps your operation's books and prepares your taxes, it is still important to understand how financial statements are prepared. Although accountants are professionals and are knowledgeable in their field, no one understands your business like you do. Many accounting software programs are available for you to use to easily manage your business' financial information. QuickBooks and Quicken are popular small business accounting programs, and other industry-specific software is also available.

You, Inc. – Rate Yourself as a Borrower

Now that we have discussed the personal characteristics to look for in a model borrower, let's pause for a moment and have you rate yourself as a borrower. Rate yourself from 1 to 5 in each category, with one being poor and 5 being excellent. If you rate a 1 or 2 in any category, provide a reason for the low score and a plan for improvement.

	Poor				Excellent
▪ **Honesty and ethics**	**1**	**2**	**3**	**4**	**5**
▪ **Open and regular communication with lenders**	**1**	**2**	**3**	**4**	**5**
▪ **An involved spouse/business partner**	**1**	**2**	**3**	**4**	**5**
▪ **Utilizing financial records and documentation**	**1**	**2**	**3**	**4**	**5**

Financial Road Hazards in Borrower - Lender Relationships

Now let's conclude our discussion by talking about some of the potential potholes in the borrower-lender relationship.

Would you like to watch your lender age in front of your eyes? Do you want to breakdown the relationship with your lender? Do you want to see your interest rate increase on your next loan? Well, here are the Road Warrior's observations over the years that will get your lender's dander up and put you in a speed trap.

What is the major mistake made by young borrowers?

- Running before they learn to walk. Especially in new business ventures or in new markets, young borrowers often go "full steam ahead" with a business idea before pausing to think logically. Lenders prefer a customer who first tests new areas, then moves in a measured manner.
- Purchasing a new set of equipment with zero-percent financing and then attempting to get it refinanced after you have difficulties making the payments. This is a classic mistake of young borrowers.
- "I need the money yesterday." This will get your lender's blood pressure to pre-heart attack levels very quickly, particularly if you have already purchased the asset at auction and have a short time limit to generate the money needed for the investment.

- Overvalue your assets by 10 percent or more and fail to identify all of your liabilities. The biggest culprits tend to be account payables; capital leases, particularly on equipment; and personal credit card balances. Do you want to see your lender's blood boil like Bobby Knight disagreeing with a basketball official on a close call? Then place the leased asset at full value on the asset side and fail to list the lease as a liability on the balance sheet.

What are some ways that a "rate shopper" might get under a lender's skin?

- The slow boil comes when the lender works with a potential customer, does all the financial analysis and develops numerous alternatives. Then, after all this work, the customer goes to a competitor for a slight discount in interest rate. The slow boil becomes a case for anger management when the lender finds that the producer was only using the first lender as a ploy in negotiations. Next, the lender finds the producer is bragging about the loan rate and his schemes at the local coffee shop. If you are a producer who does this, don't expect the first lender to be in your camp when tough economic times arise or when you need another loan. Playing games based upon rates is very unprofessional.
- One thing that puts many lenders into a frenzy is what can be called a "marketing home run hitter" who has no marketing plan. This individual tries to hit the top market prices without using a disciplined marketing plan. Sometimes they hit the home run (top market price), but more often than not they strike out (poor market prices). To compound this, these producers are usually bragging about their good fortune at the coffee shop. These producers will not be so lucky over the long term.
- The nightmare on Elm Street for a lender is the producer who sends their spouse in to meet the lender when they have never been involved in loan negotiations before. This is usually a sign that there is trouble in paradise and/or a divorce may be pending. In tough times, personalities do change. There is a tendency for the stressed partner to become unresponsive, put their head in the sand, and avoid contact with the lender. As a producer, if you have a problem, proactively work it out so this factor does not become an issue.

I hear lenders do not like surprises. Is that true?

- Surprise, surprise, surprise! This sounds like a line from the old Gomer Pyle TV show. For those who are too young to remember this, go back and watch Nick at Nite. Lenders do not like surprises. This could include changes in marketing plans, asset and liability disclosures, income projections vs. actual, changes in family business relationships, or the purchase of a neighbor's land. Keep the surprise element to sports and the military, not in relationships with your lender.
- Split lines of credit are one of the common denominators of problem credits. For example, producers with more than five different sources of credit, frequently "rob Peter to pay Paul." While occasionally it is necessary to juggle the finances, this approach can lead to severe challenges if a producer's financials get into an adverse situation via communications, workout schemes, and sale of collateral.
- Your lender sponsors you and your spouse in attending a conference. For no reason other than laziness or fear of being challenged, you do not go. Do not expect many more opportunities. Professionalism is not an option, rather a requirement when an investment is made with you and your family business.

Module 3: Preparing for Your Lender

Producer-lender relationships are a two-way street. Professionalism, communication, and sharing can only make the relationship stronger. These attributes can take the producer's and lender's businesses to the next level.

Appendix 1: Sample Questions to Ask Lenders

- How many years has your institution been involved in agricultural lending?
- What is the status of your financial condition and how do you measure it?
- How much flexibility do you have in interest rate, products and pricing?
- Are you a government entity?
- What agency is your regulator?
- What is your management team's background?
- Who makes the credit decision and where does this occur?
- If something was to happen to you, the loan officer, who is your backup and what are their credentials?
- Do you work with other institutions to provide solutions for customers?
- Is my information confidential? Who has access to it? What technology firewalls are in place?
- Could you explain, in broad terms, the process you follow in extending credit?
- How can the borrower expedite the credit decision-making process?
- Does your institution have a clearly-defined policy to finance young, beginning, small and minority customers?
- Are there special programs available for young, beginning, small and minority producers?

Appendix 2: Information Checklist: Documents a Lender May Request

- Updated business balance sheet
- Updated personal balance sheet
- Three years of tax records including Schedule F, Schedule A and W-2
- Projected cash flow statement
- Birth certificate
- Copies of business license
- Documents verifying legal business entities, if applicable
- Financial information on additional business interests or operations, including Schedule K-1 for involvement with other businesses
- Federal EIN
- Proof of life insurance
- Proof of medical insurance
- Documentation of all significant asset accounts (pension, retirement accounts, etc.)
- Other

* Information requirements vary greatly depending on the size and type of loan being requested.