



Managing for Today's Cattle Market and Beyond

Working With Your Lender In Times of Financial Stress

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Periods of low prices commonly cause farmers and ranchers to: a) have difficulty in making payments on loans, b) seek new loans and/or c) desire a restructuring of loan conditions. In each of these cases, your ability to work with your lender(s) may make the difference between a successful resolution and a decision by a lender that is less than desirable. While no easy solution is available during difficult times, there are things you can do as a borrower to assure the best outcome possible. Your actions will generally center around periods when action is needed. These include early recognition and warning, making plans to meet obligations, meeting with your lender and implementing your plan of action.

Early recognition

There is probably no factor that is as important to a good working relationship with a lender as early recognition that a problem exists. If you will not be able to make a payment or if different payment arrangements are needed, recognize this need before payments are due. Take the opportunity to visit your lender and indicate that you anticipate a need for some change(s). This is also a good time to indicate that you are working on a plan than you want to discuss with him/her at a later date. In short, recognize that a problem exists and **become proactive**. Do not wait to contact your lender after a payment is due. Your lender recognizes that periods of low prices lead to financial

difficulties. You also need to know that you are not the only beef operator that is having difficulty. But, you need to make sure your lender recognizes that you are aware of the situation and that you plan to do something about it.

Planning to meet with your lender

Meeting with your lender in times of difficulty will almost always be stressful. But, several things can be done that can make your visit as pleasant and productive as possible. The most important thing that needs to be accomplished is to prepare for the visit. This will involve several steps.

While record keeping is “drudgery at its worst” for many farmers and ranchers, there is probably nothing that is more important to a lender than evidence that you are keeping track of your financial situation. If someone else keeps your records for you (e.g., an accounting firm or record keeping service) obtain the latest information available. If you or a member of your family does this, make sure all of your entries are up to date and summarized. This is the time to carefully review all financial statements that are available (balance sheets, income statements and cash flow budgets). Special attention should be given to the liabilities side of a balance sheet — what payments are due (principal and interest), to whom and when are payments to be made. Next you should estimate if these payments can be paid. If there is

evidence that some of the payments cannot be met, your next step is to formulate a plan of action. Numerous actions might be taken (e.g., selling part or all of the breeding herd, obtaining off-farm employment and restructuring loans) but, actions that will have a major impact on cash flows will differ from what has been done in the past. Many of the actions that might be considered will be discouraging (e.g., selling an asset that has sentimental value) but, ultimately some difficult decisions will either be made by choice or forced upon you if debt payments cannot be met.

Meeting debt payments ultimately means that net cash flow must be increased. This means that some combination of the following actions must occur— increase in revenue, decrease in operating costs, sale of capital assets, reduction in family living expenditures or a change in repayment schedules. Some of these have greater potential than others.

Many actions can affect revenues but these either involve greater efficiency (e.g., reduced death loss) or marketing alternatives that increase the prices received. These actions commonly involve time, may not affect cash flows in the short run (e.g., improvements associated with breeding) and will not be obtained freely. One alternative that may however, assist in the short run is obtaining off farm income. This usually means that other members of the family will need to do more to meet the day to day demands of the ranch (e.g., feeding, irrigation or home care).

Nearly everyone advocates that costs need to be reduced during times of stress as well as times of plenty. The costs that are most commonly suggested are production related (are you a low cost producer?). But, some costs need to be carefully evaluated that are not production related. These include the amount taken out of the business for family living that are commonly paid from ranch funds (e.g., home payments, fuel, health insurance, utilities). One of the most difficult decisions that may be needed involves labor—is extra help really needed? Which of these costs can be reduced without adversely affecting net returns?

The alternative that most borrowers seek for lenders is some redress in payments. This may involve restructuring existing loans and/or taking out a new loan(s). This however, places most of the burden and risk of adjustment on the lender and will be resisted. If this is the preferred alternative, evidence must be shown that the borrower is also making adjustments that he/she considers to be a sacrifice.

The area that many operators least like to

consider is the sale of capital assets. But, the sale of non productive assets (e.g., recreational vehicles, extra equipment, vacation homes/timeshares) must be one of the first things considered in times of financial stress.

Meeting with your lender

The time and place you meet your lender(s) to outline your plan of action is important. The most common place to meet is in the lenders office at a time that he/she specifies. This is the place where your lender will feel most comfortable because he/she has access to information (e.g., files and computers). This is also where your lender will do almost all of the analysis associated with your operation. But, this location may not always be in the best interest of the borrower. Some producers have found that at least one lender/borrower meeting can be profitably held on the ranch—around your kitchen table or in your home office. This does several things that favor you as a borrower. First, your lender is on your turf and can see how you live. Secondly, any additional information concerning your operation (e.g., ability to see assets, access to records) should be readily available. Your ability to “show me” is significantly enhanced in this environment. Third, your ability to have your lenders full attention is enhanced because they are not close to a phone or other normal office operations.

Before you meet with your lender, you need to be prepared in several areas. First, these are extremely important meetings and should be treated as the most important thing that is to occur at that time. Be on time for the meeting and make arrangements so the time needed for discussion will likely be uninterrupted (e.g., children will not interrupt, chores are completed). Secondly, if the meeting is to be held at the ranch take some time to make the place “look good”. This does not mean that major efforts are needed but the home, yard and premises are at least as “clean and tidy” as you. Third, a person needs to be designated as the primary spokesperson if the business involves several people. Fourth, and most importantly, have your proposed plan of action clearly outlined. Indicate what actions you plan to take and what you want your lender to do. You should anticipate what objections your lenders may have to your plan. You should try to anticipate what questions your lender will raise and be prepared with a reasonable answer(s)—“I don’t know” may be an acceptable answer at the time but every question asked needs to be carefully and honestly answered as quickly

as possible. Providing answers to some questions (e.g., what were funds used by the family used to purchase?) may appear to be too personal but commonly are needed by lenders when difficult decisions must be made because these questions will be asked of the lender when he/she meets with superiors or loan committees. Personal opinion rarely carries much weight in these meetings. You need to help prepare your lender for these meetings—documentation and analysis (“number crunching”) are essential to a successful loan presentation— if he/she is to be an advocate for a decision that has been mutually agreed upon but, is subject to approval by the lending organization. Other options that you have also considered need to also be discussed with your lender. This will usually require more than one meeting before the actions to be taken by the lender and borrower can be mutually agreed upon.

If your lender is not willing to accept any of the actions that you believe are acceptable, the natural reaction will be anger and frustration. Resist expressing this to your lender because nothing productive is accomplished. If an agreement cannot be reached with your current lender you may need to seek another lender (the same general procedure outlined above is suggested) or other plans are formulated. Should none of these alternatives prove to be acceptable to lenders, it may mean that mediation is necessary (mediation programs are available in most states) or other more drastic action (e.g., liquidation or bankruptcy) may be necessary. In these circumstances, many borrowers turn to the legal system for solution. In some cases this may be justified but, remember that this solution can be very expensive (legal fees are normally high). Most lenders will try to avoid bankruptcy because it is not commonly the least cost way of handling the situation for either the lender or borrower.

Implementing the plan

If your plan of action is accepted by your lender(s), the burden of implementation is squarely on you. Do not expect your lender to follow up and see how you are doing—keep him or her informed of progress and of adjustments that are needed. Regular communication with your lender concerning major decisions that may affect your operation becomes even more important in times of stress.

A strong borrower/lender relationship requires open, honest and regular communication by both parties. If this cannot be developed you should ask to

work with someone else in the organization/firm or change your lender. A decision to change lenders however, should not be taken lightly because the monetary and administrative costs are commonly substantial.

Improving your relationship with your lender is an important part of implementing any plan of action. However, nothing will make this relationship stronger than demonstrating that the actions taken were beneficial to you and your lender.