

10-14-2015

## Working With Your Banker

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Goeller, Dave, "Working With Your Banker" (2015). *Cornhusker Economics*. 805.  
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# Cornhusker Economics

## Working With Your Banker

Market Report	Year Ago	4 Wks Ago	
<b>Livestock and Products,</b>			
<b>Weekly Average</b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .	160.50	138.27	126.88
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .	286.59	241.00	212.77
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .	236.51	214.92	196.33
Choice Boxed Beef, 600-750 lb. Carcass. . . . .	238.19	238.45	203.67
Western Corn Belt Base Hog Price Carcass, Negotiated. . . . .	108.32	66.12	71.15
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . .	121.45	84.61	87.02
Slaughter Lambs, woolled and shorn, 135-165 lb. National. . . . .	164.00	154.79	159.30
National Carcass Lamb Cutout FOB. . . . .	374.30	359.13	358.99
<b>Crops,</b>			
<b>Daily Spot Prices</b>			
Wheat, No. 1, H.W. Imperial, bu. . . . .	4.90	4.02	4.20
Corn, No. 2, Yellow Nebraska City, bu. . . . .	2.75	3.59	3.48
Soybeans, No. 1, Yellow Nebraska City, bu. . . . .	8.42	8.69	8.16
Grain Sorghum, No.2, Yellow Dorchester, cwt. . . . .	4.95	5.96	5.95
Oats, No. 2, Heavy Minneapolis, Mn, bu. . . . .	3.62	2.85	2.60
<b>Feed</b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . .	195.00	160.00	180.00
Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .	90.00	82.50	75.00
Grass Hay, Large Rounds, Good Nebraska, ton. . . . .	87.50	82.50	77.50
Dried Distillers Grains, 10% Moisture Nebraska Average. . . . .	115.00	137.50	116.25
Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . .	40.00	46.25	49.50
* No Market			

Commercial ag bankers are in the business of making loans. But not just any loans. They want to make good loans. A good loan is somewhat subjective, but there are many factors that lenders evaluate to help them decide if you will be able to pay back both the principal and the interest, as well as maintain a mutually profitable, long term business relationship.

### Evaluating a Potential Borrower

#### Collateral

Most bankers will insist on an annual Balance Sheet and, if available, a series of past Balance Sheets to help them determine the assets that are available to secure the loan. If for some reason the payments are not made, what assets can the lender pursue to recapture the principal, interest and liquidation costs? Collateral value is impacted by quantity, quality, marketability and condition. Lending institutions have slight differences in how collateral impacts a loan request, but all lenders consider very closely the collateral value and its relationship to the loan amount. The current climate in Nebraska agriculture creates somewhat of a challenge in that nearly all forms of collateral e.g., land, crops, used machinery, livestock and even non-farm investments such as stocks are currently in a softer position than was the case a year or two ago.

Younger producers may find themselves in a situation where the lender requests a co-

signature from a parent or a more established producer. Although this may be a *quick fix* for a loan that is short on collateral, it may become a very costly band aid if conditions worsen, potentially risking the assets and financial well-being of the person who provided the co-signature.

### Cash flow

A monthly cash flow plan that is accurately prepared will be required by most lenders as well. Many producers view this as a busy work assignment to please their lender but the cash flow can be a very valuable management tool for the farmer as well. Through close examination of all operating expenses, many times producers can identify ways to improve their efficiency. Sometimes it is also possible to lower the maximum needed amount of credit by simply shifting the timing of sales and/or purchases. Lower loan amounts are less risky and therefore may improve the chance of financing. Most of the information needed to estimate a cost of production will be present in the cash flow. Knowing how much it costs to raise a bushel of grain or produce a pound of beef can be very helpful when making a marketing plan.

### Credit Score

Most lenders will access one or all three credit reporting services to run a credit check on an individual and their spouse before approving a loan. The credit report will show all loans and loan activity and develop a credit score for all borrowers. Credit card debt, department store charge accounts, loans on cars, boats, RV's etc. will be itemized. A credit score is developed for each borrower. Although each of the credit reporting services has a slightly different way of calculating the credit score, most will factor in late or overdue payment history, loan/available credit ratio, recent loan and credit card applications. Using traffic light symbolism, if your credit score is 600 or below your lender will likely interpret that as a *red light* warning and put on the brakes on your loan application; if your credit score is 600–700, most lenders will view that as a *yellow light* and use some caution but still proceed with loan approval; if the credit score is over

700, lenders will view that as a *green light* and move to loan approval.

### Character

This is obviously a highly subjective criteria for loan approval; however, most lenders either formally or informally consider the character of the borrower when evaluating loan approval. Factors such as standing in the community, status and reputation may sway an otherwise marginal application. Character is not easily converted to a numeric value and as we see more centrally owned banks and less community owned banks, the character of the borrower is less important than a decade or more ago.

### Communication

Lenders are looking for a long, solid, mutually profitable relationship. Both parties will benefit if a great line of communication is established and cultivated. Discuss long range plans with your lender. Needs for expansion or changes in loan amounts should not come as a surprise. Discuss your **Risk Management Plan**. How will you use insurance or the Government Farm Program safety nets? What about your **Marketing Plan**? Will there be a need for margin money? Hedging accounts? Remember, however, that this is your business to run and manage; and although communication with the lender is essential, a good lender will allow you to make the essential management decisions and will not attempt to run your business.

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