

Loan Evaluation: What do Bankers Want?

Presented By: Michael Hosterman

AgChoice Farm Credit, ACA

Overview

- Summary of preparing a client for a Lender.
- What does a Lender need for a Credit Decision?
- How does a lender make a decision?
- Case Study
- Summary of General Underwriting Rules
- Conclusions

As a lender, **Why** is a prepared customer important?

- We lend money to companies who can demonstrate the desire and ability to pay the money back with interest.
- A contract between Lender & Business (sharing risk).
- AgChoice is in business to be successful, make a profit, and increase shareholder value.
- We all have limited resources.
- If our clients are successful, we are a success.
- Win – Win!!!

As an advisor/consultant, **Why** is a prepared customer important?

- Relationship between Advisor & Business (business relationship).
- You are in business to be successful and make a profit.
- We all have limited resources.
- If your clients are successful, you are also a success.
- Win – Win!!!

What is Prepared?

- **To Get Ready**
- To make ready beforehand
- Working out details
- Planning in Advance
- In Written Form

What is Success?

- **To Succeed**
 - To turn out well
 - To attain a desired goal
- Attainment of wealth, favor, or eminence (great accomplishments)
- When Opportunity meets Preparedness

What does a lender need?

- Written Business Plan
 - History / Overview of Business
 - Future Plan
 - Financial Needs of Business
 - Historical Financial Position & Income Statements
 - Projected Financial Position & Income Statements
 - Marketing Plan
 - Risk Management Plan
 - Implementation
 - Who is responsible / accountable

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What does a lender need?

- What are the current financial conditions
- What are the historical profits and earnings
- What is the Break-Even Price – past and future
- What are the cash flow needs
- What will be pledged as collateral (Lender Risk Assessment)

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What does a lender need?

- Financial Statements in sufficient detail
- Year end balance sheets
- Annual milk shipped & \$
- Average cow numbers for the year
- Milk Quality (SCC, etc.)
- DHIA records
- What consultants are utilized
- Heifer raising arrangements
- Contracts for heifer raising, forage production, etc.

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How does a lender make a decision?

- Review & Assess Five Credit Factors
 - Character / Management
 - Capital
 - Capacity
 - Collateral
 - Conditions

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How does a lender make a decision?

- Summarize the information provided
- Historical Trends
- Compare Historical Trends to industry averages & benchmarks
- Projections – Income (2-5 years)
- Projections – Financial (2-5 years)
- Appraisals / Collateral evaluation
- Assess Management
- Written narrative Summarizing the analysis results and make recommendation

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How does a lender make a decision?

- Case Study

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Some General Underwriting Rules

Stable Dairy

- Owner Equity – 40%
- Term debt coverage ratio – 125%
- Liquidity Ratio – 125%
- Loan to appraised value – 70%

Expanding Dairy

- Owner Equity – 40%
- Term debt coverage ratio – 150%
- Liquidity Ratio – 125%
- Loan to appraised value – 70%

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Conclusion

- Review & Assess the Five Credit Factors.
- Let the numbers make the decision not your heart.
- Recommend a decision.
- If our clients are successful, we are a success.

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Questions



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