

HELPING YOUR CUSTOMERS FIND CREDIT

Presenters

Steve Fleming – Assistant Vice President, Lending

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F&M Bank – Darlington, Wisconsin

1) Overview of Presentation

- Sadly enough we still hear the old saying “Bankers lend money to customers who don’t need it because there is no risk”.
- Sadly enough, we still see lenders who still practice that adage.
- Sadly enough, those banks that adhere to that mentality won’t be lending to agricultural producers in the future.
- The changing face of agriculture is greatly affecting the availability of credit and it affects who administer ag credit in the future.
- Owner’s Equity is an important component in lending; however; small town community banks that expect to stay in business in the future will need to mitigate equity risk. This can be accomplished through state and federal loans guarantees and placing a higher emphasis on the farm producer’s production capabilities, and the overall farm borrower’s cash flow feasibility.
- There are two themes to our presentation today:
 - Developing relationships between the supplier, the producer and the lender
 - Available loan programs

2. Background

- Your topic presenters are “Front Line” lenders who deal directly with farm loan clients and agri-business clients. They both carry large loan portfolios and participate in their local loan-making and loan committee-lending decisions. Both lenders live and work in Lafayette County, Wisconsin. Lafayette County is the most “agricultural-dependent” county in the state of Wisconsin.

3. What Is Your Customer Looking For In A Creditor

- Commitment to production agriculture
- Dependability
- Follow through
- Someone that they can work with
- Flexibility

4. What A Good Ag Lender Is Looking For

- Opportunity to add new business
- Customers with strong production capabilities
- Procedures that utilize consultants and technical support
- Producers who show some ability in marketing their commodity
- Credit worthy customers and a feasible plan

5. What Can You Do As A Supplier

- Find out who the “players” are in your local market and develop a relationship with those lenders
- “Sell” your business to lender(s)
- Inquire about your local lender(s) production loan programs and find out what is available for your customers to use
- Consider developing your own in-house recourse and non-recourse input financing program
- Invite the area lenders to any educational seminars your firm provides, or team up with a lender for a seminar

6. Loan Programs

- Direct Bank Financing

Direct bank financing is available to a large number of customers that you are currently doing business with on fertilizer, chemical and seed purchases. Now is the time that you should be approaching your farmers and inquiring if they have financing arranged for 2000 crop inputs and discuss possible discounts that may be available for prepaying purchases.

Application process

- Balance sheet
- Cashflow projection on how loan is to be repaid
- Previous year tax return (three years needed if new customer)
- Marketing plan if grain will be sold as cash crop
- Insurance
 - Hail
 - Multi-peril
- Collateral
- Bank will determine if additional collateral is needed besides growing crop based on loan request
- Credit report

Loan decision is made promptly on crop loan financing requests. Ag banks are taking a more proactive approach on crop financing since alternative financing sources are becoming available (see companies, fertilizer companies or machinery companies).

- FSA Guarantee Loan Program
 - \$17,279,942.56 Guarantee loans as of November 30, 1999
 - 68 guaranteed loan customers
 - 127 guaranteed loans outstanding
 - \$8,462,865.02 Guarantee loans with Interest Assistance
 - \$1,581,059.89 loans sold to Farmer Mac II program
 - F&M Bank – Darlington has been doing FSA Guarantee loans since 1987
 - Average \$3,000,000.00 in new FSA Guarantee loans each year
 - F&M Bank – Darlington obtained PLP status in August 1999
 - Lafayette county is the county that all guaranteed loans are serviced through in the state of Wisconsin for F&M Bank – Darlington
 - F&M Bank – Darlington FSA Guarantee loans are serviced by the loan officer that assembles the loan application

FSA Guarantee loan application process

- One page application that identifies farm operation, amount of loan and proposed security
- Balance sheet
- Cashflow
- Three year historical on income and expenses and balance sheets (remains in customer file)
- Narrative that describes loan request, collateral, character, capacity and previous trends of farm operation
- Farm Service Agency will review application and approve application within 1 – 3 days of receiving request
- Important for farmer to understand that they have no contact with FSA, Bank responds and answers all questions

Advantages for using FSA Guarantee loans

- Provides 90% guarantee on a loan up to \$700,000.00
- FSA Guarantee Lines of Credit have a 5 year term
- Lender is able to use just growing crop or feed for collateral
- Interest assistance may be available on the loan if monthly cashflow determines that loan meets certain requirements

- WHEDA Crop Program
 - Eligible Lenders

Any Bank, Farm Credit Service, credit union, savings and loan association, savings bank or farm supply cooperative which in the normal course of business provides financing in the format agricultural production loans is eligible to become a participating Lender. The Lender must have a lender's agreement executed by the Lender and WHEDA to originate WHEDA CROP loans.
 - Farm Supply Cooperatives

A farm supply cooperative wishing to originate WHEDA CROP loans must meet the following criteria:

 1. Cooperative must be duly organized and registered to operate under the requirements established in Chapter 185 of Wisconsin Statutes.
 2. Cooperative must have a credit policy in force and procedures to implement the credit policy, including billing, collection, workouts, and foreclosures.
 3. Cooperative must operate under the guidance of a board of directors through a general manager.
 4. Cooperative must be duly authorized by all corporate actions to originate CROP loans.
 5. Cooperative must be financially solvent.
 - Farmer Eligibility
 1. Actively engaged in farm operation.
 2. Maintain Wisconsin residence.
 3. Current financial statement to show that debt-to-asset ratio of at least 40%.
 4. Sufficient collateral to cover the value of the CROP loan.
 5. Not delinquent in making child support, birthing expense or maintenance payments.
 6. Has not defaulted on previous WHEDA loans.
 7. Is not in forbearance on previous WHEDA loans.

- Lender's Responsibility
 - The Lender will consider the farmer's assets, cash flow and management ability to repay the loan, and in the Lender's judgement, it is reasonably likely that the farmer has sufficient repayment sources to preclude a voluntary or involuntary liquidation before the end of the loan term.
 - To the Lender's knowledge, the Farm has no outstanding judgements or tax liens.
 - To the Lender's knowledge, the Farmer is not currently in bankruptcy or is anticipating filing bankruptcy during the term of the WHEDA CROP loan.
- Eligible Use of Proceeds

WHEDA CROP loan proceeds can only be used to pay for services or consumable goods necessary to produce an agricultural commodity. The agricultural commodity must be planted and harvested for consumption within the term of the loan.
- Eligible Expenses

•Fertilizer	•UCC filing charges	•Custom hire
•Seed	•Equipment rental	•Crop insurance
•Fuel	•Equipment repair	•Land rent
•Animal Feed	•Tillage service	
•Pesticides and herbicides		
•Utility bills pertaining to the production of the ag commodity		
•Labor costs related to planting and harvesting, excluding labor costs paid to the farmer and spouse		
- WHEDA CROP Loan Package
 - \$150 Non-refundable application fee
 - Application (CROP Form 2)
 - Farmer's Affidavit (CROP Form 3)
 - Agricultural Universal Note or Supplementary Loan Agreement if Lender is Farm Credit Services
 - Farm Security Agreement
 - UCC-1 Financing Statement
- Advantages for using WHEDA CROP loans
 - Provides 90% guarantee on a loan up to \$30,000.00 for crop inputs.
 - Good program for small – medium sized farmers to use for crop inputs and expenses.
 - Lender is able to use just growing crop or feed for collateral.

- Supplier/Bank Loan Program
ABC FERTILIZER, INC.

Point of Purchase Program

- The intent of this program is to provide crop and input financing for customers of ABC Fertilizer, Inc. The financing would be full recourse back to ABC Fertilizer, Inc. if customer were unable to repay loan.

Proposed Financing Program

- 8.99%
- Repayment would be monthly for dairy farmer
- Repayment would be single pay for crop farmer and coincide with sale of crop
- \$75.00 fee would include UCC filings, document preparation fee, credit report

Proposed Program Guidelines

- F&M Bank would receive referral from ABC Fertilizer, Inc. on customer
- Loan officer would arrange meeting with farmer to do financial statement or credit application
- Bank would obtain credit report and based on financial statement make recommendation to ABC Fertilizer, Inc.

Goal of Point of Purchase Program

Based on conversation with ABC Fertilizer, Inc., this program has the potential of creating an additional \$500,000.00 in crop and operating loans for F&M Bank. Since these loans are guaranteed by ABC Fertilizer, Inc., there will be little risk to the bank. Also, when obtaining the financial information from the farm it would be an ideal time to be prospecting new farm customers.

The advantage to ABC Fertilizer, Inc. is not carrying a large balance on open account with the farmer. Also, ABC Fertilizer, Inc. may be able to take advantage of greater discounts from suppliers by repaying invoices quicker.

7. Summary

BIOGRAPHY

NAME (as you wish to be introduced): Steve Fleming

HOMETOWN: Raised on a 70 cow dairy near New Lisbon, Wisconsin

CURRENT JOB TITLE AND LOCATION:

Assistance Vice President and Loan Officer, F&M Bank - Darlington

JOB RESPONSIBILITIES AND AREAS OF INTEREST:

Ag Lending

Ag Issues

EDUCATIONAL BACKGROUND:

Bachelors of Science from UW-River Falls 1985

Major: Ag Business

Minor: Ag Economics and Farm Management

AWARDS OR HONORS RELATED TO YOUR JOB:

Coordinated Farm Service Agency Guaranteed Farm Loan Program at F&M Bank – Darlington location with co-worker Tom Daly.

F&M Bank – Darlington is the 20th largest user of the FSA Guarantee Program in the nation and 3rd largest user among commercial banks in Wisconsin.

BIOGRAPHY

NAME (as you wish to be introduced): Tom Daly

HOMETOWN: Raised on an 80 acre farm near Argyle, Wisconsin

CURRENT JOB TITLE AND LOCATION:

Assistance Vice President and Loan Officer, F&M Bank - Darlington

JOB RESPONSIBILITIES AND AREAS OF INTEREST:

Working with farmers on structuring financing for their farm operation.

Involved with Optimist Club of Darlington and several local ag organizations.

EDUCATIONAL BACKGROUND:

Attended both UW-River Falls and UW-Platteville

Bachelors of Science 1990 in Ag Business and Business Administration

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