Advice To Bank On

In an uncertain economy, here's a financial checklist to review with your banker.

by ***Kindra Gordon***

Tough financial times require better financial management. That's the mantra that farmers and ranchers need to be reminding themselves during this uncertain economy. So, how can you get better about managing your finances? Sandy Priest, a financial officer with Farm Credit Services of America — in the heart of ranch country at Broken Bow, Neb. — offers these five tips:

1. Communicate. In this economy it is more important than ever to be communicating with your banker, Priest says. As a financial officer, "The more I know about a client's business the more I can help," she says.

Specifically, Priest says if you haven't already, it is a wise idea to sit down and talk with your banker about the economy, its effect on your operation and devise a plan for going forward.

"Let them know your plans — if you are carrying over grain, sending a kid to college, building, etc.," she says. "It may allow you to change your term payment time, or other things to fit your situation."

Priest says topics such as marketing, insurance, family changes such as a child going to college or large medical bills, and whether you are looking to buy, rent or sell should all be discussed. As well, tell your banker about significant events affecting the operation such as crop failure, livestock disease, lost acres, kids coming back to the farm, or a spouse losing their job.

"These things impact your bottom line, and your lender needs to know about them in order to help you manage your debt and operating note," Priest says.

"Ideally we'd like to talk to you as you're planning to do something," she adds. "But we also understand that circumstances come up where you may have to tell us after the fact." The key is to keep your lender informed, she says.

2. Number-crunch. For new farmers or ranchers getting into the business, or families with a younger generation wanting to return to the family operation, Priest says you'll need to be able to show your banker your plan and how you intend to make the business work cash-flow wise.

"You need to be able to show that you've done some research and know the numbers," she says. This includes projecting income and expense, your marketing plan

10 more tips

Here are 10 additional financial tips for farmers and ranchers to consider:

1. In tough times, cash is king. Carefully examine every capital purchase that will require additional debt. Ask yourself if the expenditure will generate the cash flow needed to pay for itself. If the new item can't create enough new cash to pay for itself over a reasonable period of time, delay the purchase.

2. Let a farm or ranch budget be your financial road map. A budget helps you maintain the direction of the business and must be updated frequently.

3. Objectively look at your farm's financial position and performance. Ask if you are getting the maximum return from your investments. If not, why not? Are your non-farm assets generating a maximum return? Is it possible to sell any farm or non-farm assets that are not contributing to the financial health of your business and family finances?

4. Examine how your debt is structured. As a rule, finance long-term assets, like real estate with longer-term debt. Finance shorter-term assets like machinery with shorter-term debt. This sounds easy, but many producers typically end up with too much short-term debt that was used to acquire or improve long-term assets. You may be able to greatly increase your monthly cash flow by spreading out your short-term debt over a longer period of time.

However, be cautious when getting a loan against long-term assets like your farm real estate; it's like drawing against your savings account. If you are going to use your long-term equity, make sure your need is extremely significant.

5. Prepare for your financial review with your banker. Have current inventories, cash flows and balance sheets ready for review. Often bankers spend time with customers looking for misplaced information instead of concentrating on resolving important issues. If you are having financial problems, put your thoughts about how to resolve them on paper so your banker can review them with you.

6. Ask your banker about the U.S. Department of Agriculture (USDA) guaranteed farm loan program. Your banker may be able to restructure your farm debt over a longer period with a lower interest rate if the USDA provides a credit guarantee to the bank. Your local Farm Service Agency (FSA) can also provide details about USDA programs.

7. Review your insurance coverage. Increasing your deductibles can lower your premium. Carefully review every item on your inventory list and consider eliminating coverage on obsolete or low-risk items.

8. Likewise, carefully examine your life insurance policies. Understand what type of policy you have and what you are paying for. You should never be without life insurance. All key personnel in the business should be covered so the business can continue in the absence of a member of a management team.

9. Deal with financial problems immediately. Solving financial problems often requires a team approach. Create a personal board of directors comprised of people you know and respect — including your banker — who can be your sounding board.

10. Maintain a clear perspective. One of the best ways to think through business problems is to get away from them. For instance, take a weekend off — and not just to attend a farm show. It is important for you to put your concerns aside temporarily and shift your focus to other activities. It will make your home team stronger.

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and what your living expenses are. "It all comes down to repayment capacity," Priest says.

Additionally, for operations planning to bring the next generation into the business, Priest says, "I can't stress enough how important it is for the parent and son (or daughter) to communicate with each other."

To the retiring generation she says, "Let the incoming generation make some decisions — and some mistakes. Successful operations communicate well with each other and are open about money."

3. Plan for retirement. If you are a farmer or rancher who is looking to retire, Priest says having a plan is also important to address whether you are liquidating, putting things in a trust or passing it to the next generation. Also consider what payments you still have for real estate, machinery, cattle, etc., and determine how you'll make those payments and pay for your cost of living.

Priest says a financial officer is just one piece of your team as you look toward retirement, and she advises visiting with an attorney and accountant to put together an estate plan and determine legal and tax implications, as well.

4. Re-evaluate expenses. With the present economy, Priest says it is a good time to re-examine your finances and look for ways to minimize costs. For instance, she suggests reviewing insurance coverage to make sure it is appropriate and up-to-date. That includes health and life insurance — as well as insurance on vehicles and buildings.

As an example on buildings, it is wise to insure buildings for their economic value. So if a building isn't being used at all or has little value, it may not make sense to insure that building.

She also advises keeping a close eye on living expenses — for food, entertainment, clothing, travel, etc. "It is very important to keep family living expenses in check. It's the most common mistake I see. People think their expenses are low, but it just slips by and people don't know where the money went."

She cautions business operators from getting into debt too far too fast. "This is also a common mistake, and then those producers can't generate the income to make their payments."

5. Find the right fit. Lastly, Priest stresses that it is very important to be with the right lender and loan officer. "You want someone who is interested in your operation. And, you want to be able to be honest with each other."

If you don't feel comfortable with your lender, Priest says consider making a change. But she cautions, "Don't make a switch based only on interest rates. You want someone who provides service and advice, too."

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