

# Overcoming the top 5 challenges of Ag Lending

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**Doug Johnson**  
Director–Ag Strategist  
Moody's Analytics

Join Doug Johnson from Moody's Analytics along with Alan Hoskins (President of American Farm Mortgage), and Caleb Hopkins (Vice President from Westside State Bank) as they discuss how to overcome the top 5 challenges of Ag Lending. This discussion will bring generational viewpoints on tips of "thinking for tomorrow", along with a recipe of Do's and Don'ts that every Ag institution needs to hear.

We will be discussing:

- Competition: it's not who you think
- Time: don't get distracted
- Technology Evolution: keeping up is hard
- Tough Discussions: when Producers shut down
- Building Bench Strength: transferring Knowledge is hard... Transferring Wisdom is harder.



**Caleb Hopkins**  
Vice President  
Westside State Bank

**Take Action Now:** Sign up your lending staff **AND** be ready to be challenged during this complimentary Ag Webinar.



**Alan Hoskins**  
President  
American Farm Mortgage

# Overcoming the top 5 challenges of Ag Lending

## Agenda

- Introductions
- Competition: it's not who you think
- Time: don't get distracted
- Technology Evolution: keeping up is hard
- Tough Discussion: when Producers shut down
- Building Bench Strength
  - Transferring Knowledge is Hard
  - Transferring Wisdom is Harder
- Action Plans



# Overcoming the top 5 challenges of Ag Lending

## Moody's Analytics Underwriting



**New:**

**Ag Peer  
Benchmarking**

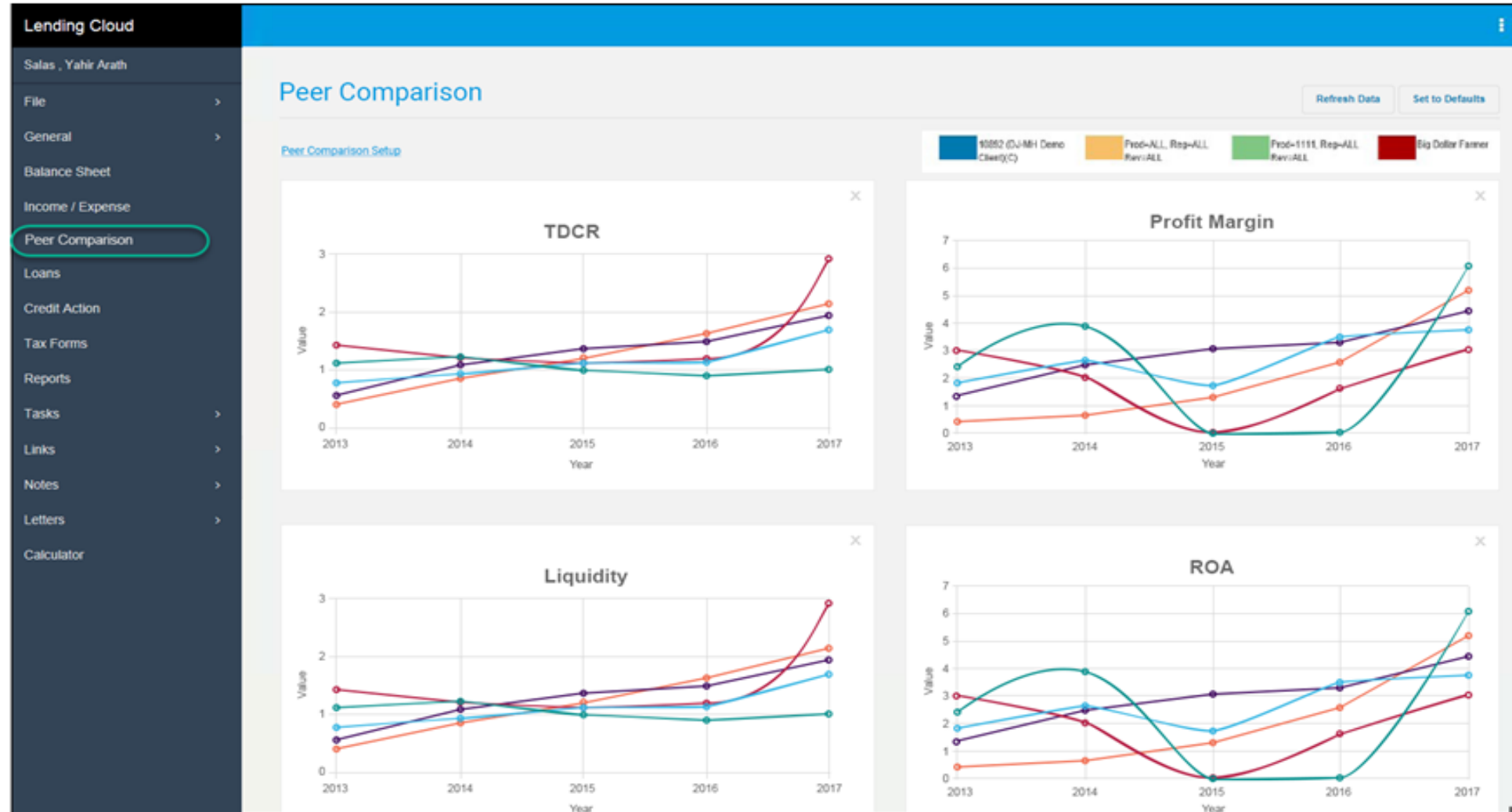
**Ag  
Scorecards**



# Overcoming the top 5 challenges of Ag Lending

## Ag Peer Benchmarking

- How Do I Compare
- Strengths
- Weaknesses
- Create Value



# Overcoming the top 5 challenges of Ag Lending

## Ag Scorecard

- 4 Models
  - Crop
  - Livestock
  - Feedlot
  - Dairy
- Compare Internally
- Model Confidence
- *New:* Quick Score

### Your Bank Risk Rating

Score Now

Score = 1.50  
REVIEW

2 Good

Financial Statements and Forms calculated from:  
Balance Sheet: 12/31/2015 Inc. / Exp.: 01/01/2015

Criteria		Wt % Review
Management Experience	Greater than 15yrs	12.50 -
Experience in Industry	10-15 years	12.50 ✓
Risk Management	Pro-Active	12.50 ✓
Debt to Equity	3.59	12.50 ✓
Current Ratio	1.42	12.50 ✓
Return on Assets	15.09%	12.50 ✓
Term Debt Coverage Ratio	1.92	12.50 ✓
Margin of Collateral to Loan	3.03	12.50 ✓

Comments

Wordpad for User Comments

Moody's can help predict Probability of Default (PD) and identify potential Risk in your portfolio

### Moody's Ag Scorecard

Score Now

8.27 %=PD Risk Rating: 13

Financial Statements and Forms calculated from:  
Balance Sheet: 03/26/2018 NPP1 Inc. / Exp.: Avg

Criteria		Criteria Score
Liquidity Ratio	0.91	1.00
Debt to Assets	51.29%	1.42
Term Debt Coverage Ratio	-0.36	3.48
Interest Expense Ratio	4.01%	0.86
Return on Assets	-3.90%	1.89
Ag Sector Type	Crop	-1.78
Industry Conditions	Declining	42.97
Diversification of Products	Non-Diversified	35.94
Years in Relationship	1-3 Years	35.94
Conduct of Account	Fair	1.38
Farm Conditions	Fair	18.75
Experience in Ag	3-15 Years	35.94
Financial Reporting and Formal Planning	Poor	68.75
Risk Management	Fair	-15.63

Comments

Wordpad for User Comments

# Overcoming the top 5 challenges of Ag Lending

## Predictive Ag Analytics

## Predictive Analytics

Advanced predictive analytics help you forecast your yields, expenses, and sale prices across commodities.

### Producer:

- Farm Overview
- Peer Benchmarks
- Daily Business Updates
- Financial Statements
- Marketing Plans
- Predictive Analytics
- Business IQ

### Lender:

- Portfolio Overview
- Collaboration Tool
- Risk Assessment



# Overcoming the top 5 challenges of Ag Lending

## Presenters



**Doug Johnson**  
Director – Ag. Strategist  
Moody's Analytics



**Caleb Hopkins**  
Vice President  
Westside State Bank



**Alan Hoskins**  
President  
American Farm Mortgage



# Overcoming the top 5 challenges of Ag Lending

## Polling Question

### What's Your #1 Challenge Of Being An Ag Banker

- **Competition:** *Rates*
- **Time:** *Too Little To Do Things Right*
- **Technology Evolution:** *Hard To Keep Up*
- **Difficult Discussions:** *When Producers Shut Down*
- **Future Of Agriculture:** *Knowledge Transfer*

# 1

## Competition

- It's Not Who You Think

# Overcoming the top 5 challenges of Ag Lending

## Challenge Statement:

When You Focus On  
***Competition vs. Your Value,***  
You Diminish **Your Value**

# Overcoming the top 5 challenges of Ag Lending

## What's Unique About *You*...asked the Producer

- Competition Challenges Value Props
  - I'm better at building relationships
  - I'm better at follow-up
  - We care about our customers
- It Strengthens Resolve or Exposes Weaknesses
- Think Strategically Or Think Reactively
- It Defines Where to Spend Time

# Overcoming the top 5 challenges of Ag Lending

## What Do Your Producers Need vs. Want

- Lender of Lowest Rate ?
- Lender that provides Thought Leadership ?
- Lender that asks Challenging Questions ?
- Lender that Shares Data Insights ?

# 2

## Time

- Don't Get Distracted

# Overcoming the top 5 challenges of Ag Lending

## Your Dilemma: *Time*

### 80 / 20 rule

- » 80% of time spent on bottom 20% of Producers
  - *Are you ok with that?*
- » Are you sacrificing time with your Gold Producers
  - *Are you ok with that?*
- » Are you offering “Value” and seeing a difference
  - *Are you sure the Producer would agree?*



# 3

## Technology Evolution

- Keeping Up Is Hard



# 4

## Tough Discussions

- When Producers Shut Down

# 5

## Building Bench Strength

- Transferring Knowledge is Hard
- Transferring Wisdom is Harder

# Overcoming the top 5 challenges of Ag Lending

## 2021 Ag Educational Series

### Ag Webinar recordings:

- Commodity Markets & 5 tips to improve Farm profitability
- Overcoming the top 5 challenges of Ag Lending

### Ag Chat Series podcasts: ([LinkedIn](#) | [YouTube](#) | [Twitter](#))

- Tips to Financially Strengthen the Farm Operation
- Art of Improving Marketing Skills for your Farm
- Building a Successful Marketing Plan for your Farm
- Removing Financial Risk of the Farm Operation with FSA
- Managing 3 Key Drivers of a Successful Farm Operation



# Overcoming the top 5 challenges of Ag Lending

## 2021 Ag Educational Series

### Upcoming Ag Webinar themes:

- Disruptors to our Ag Industry and the Road Ahead
- Ag Regulators Outlook: what to expect in post-pandemic cycle
- A Century of Ag Experience: lessons learned & what to apply
- Ag Renewals: tips to prepare for 2022

### Upcoming Ag Chat Series themes:

- Creating Value with Producers
- Filter out the Noise: Making Best Decisions for the Farm
- The Art & Science of Ag Lending: 5 tips
- Adapting for the future of Ag: Disruptors Part 1 & Part 2
- Regulatory Impact from a Lenders Perspective
- 5 Mistakes AG Lender need to avoid
- Mitigating mistakes by young Farmers & Ranchers Part 1 & Part 2
- Back to the Future: Young Farmer & Rancher Advice

## 2021 Moody's Analytics Ag Day

### Upcoming Virtual Ag Day Conference:

- Dates TBD
- Virtual Conference
- 2020 had OVER 2,000 Register

**Watch for upcoming information!**

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Action Plans

# Overcoming the top 5 challenges of Ag Lending

## Business IQ: Management Factors

- Self-Assessment
- Is the **Business** side as good as the **Production** side
- **Goals** to Improve
- **Strengths** to Maintain

### Business IQ: Management Factors Critical Questions for Crucial Conversations

Farmer Checklist	Your Score	Green (3 points or 4*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production		Written	In head	No idea
2. Knows cost of production by enterprise		Written*	In head	No idea
3. Goals - business, family, & personal		Written*	In head	No idea
4. Record keeping system		Accrual	Schedule F (one & done)	No idea
5. Projected cash flow		Written*	In head	No idea
6. Financial sensitivity analysis		Written*	In head	No idea
7. Understand financial ratios, break evens		Written*	In head	No idea
8. Work with advisory team and lender		Yes*	Sometimes	Never
9. Marketing plan written and executed		Yes	Sometimes	Never
10. Risk management plan executed		Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget		Yes*	Sometimes	Non existent
12. Written plan for improvement executed & strong people management		Yes*	Sometimes	Non existent
13. Transition plan/Business Owner plan		Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses		Yes*	Sometimes	Never attend
15. Attitude		Proactive	Reactive	Indifferent

#### \*Extra Points:

- Progressive Business may receive 4 points for #2,6,7,8,14  
 - Struggling Business Attempting Turnaround may receive 4 points for #3,5,8,11,12  
 (See pg. 2 for Progressive and Attempting Turnaround)

Score	Overall Analysis
35-54	Strong management rating, strong potential for resiliency & agility
24-34	Moderate management rating, potential issues in resiliency & agility
<24	Weak management rating, potential major issues in resiliency & agility

2021 Version - Developed by: Dr. David M. Kohl, Professor Emeritus, Ag & Applied Economics, in cooperation with Dr. Alex White, Dairy Science, Virginia Tech

Source: Dr. David M. Kohl, Professor Emeritus, Virginia Tech

# Overcoming the top 5 challenges of Ag Lending

## Action Items:

**Time:** *Prioritize Who*

**Tech:** *Prioritize What*

**Value:** *Articulate Your Worth*

**Educate:** *Build For Tomorrow*

# Overcoming the top 5 challenges of Ag Lending

Remember....

*Never Confuse*

*Self-Worth*

*With*

*Net-Worth*





# Overcoming the top 5 challenges of Ag Lending



**Keep Farmers Farming & Ag Lenders Lending**  
Thank You For Supporting Agriculture

MOODY'S  
ANALYTICS

Better  
Faster  
Decisions

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