

# Great Lakes Banker

MAGAZINE



June, 2017 • Volume 2 • Number 6

## Escaping Dodd-Frank: The Financial Choice Act

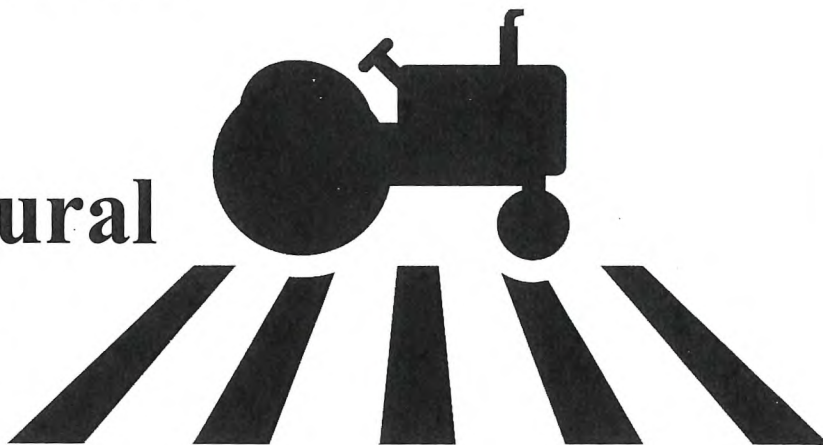
This Month Featuring...

- *Weathering the Current Agricultural Lending Market, Page 37*
- *The New Digital Payment Fraud, Page 48*
- *USDA Rural Development Offers New Opportunities, Page 53*

...and So Much More!

# Weathering the Current Agricultural Lending Market

BY TRENT C. HILDING, ESQ., KOTZ SANGSTER WYSOCKI P.C.



Just a few years ago farmers, ranchers, agribusiness, processors, equipment dealers and agricultural related entrepreneurs witnessed agricultural lenders coming from all directions to lend them money.

Today many of those same lenders have already, or are trying to, jump out of the agricultural lending market just as fast as they jumped in. What can or should lenders do to establish an agricultural loan process that weathers the storms and can be available to those agricultural borrowers seeking solid lending partners?

Understanding the agricultural lending environment is key. Lenders need to devote resources and manpower to understanding the agricultural environment as well as its risks. This article provides insight to cultivate a sound agricultural lending program based upon experiences gained over the last five years.

## Agriculture 101

Agriculture is unique as an industry and profession. One thing is certain, people and animals need food. So every year folks in production agriculture will plant and harvest a crop and/or raise livestock for processing. There are two keys lenders must be aware of: (i) agriculture is cyclical and (ii) agriculture is a business.

## Agriculture is Cyclical

Several items may change or impact the highs and lows of commodity prices in agriculture (not an exhaustive list):

- Supply and demand (*Samuelson, Economics 101*)
- Weather
- Health/disease
- Traders/brokers
- National trade, foreign investments

- World supplies
- Government policy

Outside factors are unpredictable. Overall moderate profitability and stability exists in agriculture. Producers and their team, including lenders, must know and understand that when there is a down turn, stabilize operations for when there is an upturn and profitability. This takes knowledgeable lenders with patience, passion for their farm clients and the foresight to plan ahead.

## Agriculture is a Business

Agriculture is a lifestyle and a way of life. Even if it's a family farm, it still must be profitable in order to sustain. Bankers can or should be able to analyze the typical balance sheets, income statements, and tax returns to assess the business health. This, however, may only be a short-term picture. Lenders should be willing to do more to protect their lending interest by:

- Identifying the CEO or management team, understanding and be comfortable with the chain of command in management.
- Identifying the history and length of time the company has been in business. Does the equity ratio show this? Have there been major expansions?
- Understanding the need for the lending and its lending history.
- Does the business have a plan? Growth, marketing, succession?

continued 'Agricultural Lending' page 38

## 'Agricultural Lending' *continued from page 37*

These items will help give the lender a unique perspective on the "business" and enable it to analyze the health of the farm business.

### Agricultural Risks

When asked what are the risks to agricultural lending, how would you respond? Is weather or markets your top answer? If either is, you should not make your primary portfolio agriculture lending.

Farmers and those invested in agriculture are well prepared for seasonal market and weather risks. They know each year that as they put hundreds of thousands of dollars in an acre of dirt, there could be a drought, flood, disease or other risk to wipe out the crop. These two risks, weather or markets, should not be the lenders worst fear. The biggest risks are hidden and not evident in your customer interview, such as:

**Death of an Operator/Partner** – In the past 10 years of succession planning for farmers, death of a key person has been one of the top farm-ending causes.

**Divorce of an Operator/Partner** – Family farms, although a business, fail to have documents in place to protect the business assets.

**Existence of business entity without Buy-Sell terms or succession plan** – The lack of formality often creates havoc in succession, retirement, separation, divorce or death.

**No Management** – How do you assess management? How do you transfer management? How does a bank position itself to be involved or take over management if required to protect its lending interest?

This risk discussion should lead you to review business documents outside of the balance sheets, income statements and tax returns, such as:

– *Wills/Trusts/Estate Plans*

– *Partnership Agreements / By-Laws / Operating Agreements*


– *Buy-Sell Agreements/Lease Agreements*

– *Management team and capabilities of all involved in the operation.*

Do not assume all siblings get along or all marriages are stable in the operation you lend to.

Agriculture is a business with cyclical events. Farmers and lenders should prepare for and understand the possibility of disruptions. The key is to keep the relationship through the ups and downs in order to hold and grow your agricultural client base. Identify customers that are in for the long haul and cultivate these relationships.

Agricultural law attorney Trent C. Hilding serves as Of Counsel to Kotz Sangster. A fifth generation farmer, Trent owns and operates a family farm in Central Michigan. He has extensive experience representing farmers, ranchers and agribusinesses in a broad range of services, including business, estate, succession and tax planning, financial planning and workouts, real estate transfers/leases, oil/gas/mineral agreements, and wind to energy agreements. Trent can be reached at (989) 427-3436 or [trent@hildingaglaw.com](mailto:trent@hildingaglaw.com) or via Kotz Sangster's website: [www.kotzsangster.com](http://www.kotzsangster.com).



© 2017 Wipfli LLP

**I NEED TO ENSURE THAT MY CUSTOMER INFORMATION IS ADEQUATELY PROTECTED WITH ALL THE NEW TECHNOLOGIES.**

Talk with one of Wipfli's IT experts today about your institution's IT security. We can offer you:

- Certified experts with vast experience
- Best-of-breed tools and methodologies
- Analysis and verification of findings
- Summary reports in easy-to-understand language
- A flexible approach to meet individual requirements
- A continuous communication approach to eliminate "surprises"

800.486.3454 | [wipfli.com/fi](http://wipfli.com/fi)

**WIPFLI**  
CPAs and Consultants