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CREDIT LINE UPKEEP

According to most experts, the financial crisis in America and around the world has not impacted farmers, but I am beginning to see things that indicate otherwise.

Recently, we have been getting calls from farmers having difficulty obtaining the credit needed to sustain even normal operation – let alone potential expansion.

My advice to farmers this summer was to keep very close contact with your lender so he “stays in the saddle” through these uncertain times. In some cases that worked.

In other cases the loan officer did a good job, but lending standards changed in the organization making what would normally be a bankable credit now one they are not willing to write.

In other cases, regulators are pressuring the lender, and that results in the classic case of the tail wagging the dog. The ultimate loser is the farmer.

Part of the pendulum swing is a reaction to over-lending fueled by volume incentives paid to loan officers and managers. Yes, Wall Street is not the only place where that occurred.

Here are some suggestions to help solidify your relationship with

your lender and increase your chances of being a bankable credit. (In November I addressed some of these, but I am now putting more definite numbers to these actions. Hopefully it will be helpful.)

First, sell as much grain as you can and pay down debt as quickly as you can. I visited with a client who had grain contracted for \$4.75/bu. for November and could roll the contract to July and pick up 31¢ net profit. There may be other risk-management factors to consider.

MY ADVICE WAS to sell the grain in November and reduce debt. Granted there are tax considerations, but even then, having the smallest debt or no debt to refinance will be a great insurance policy toward getting the credit needed for 2009. Paying more tax may be a good trade-off.

Second, “shock test” your P & L statement to determine the maximum line of credit you will need to meet margin calls or fund option strategies. For a hedging line of credit, I suggest \$2/bu. for corn and \$6 for soybeans or 50¢ and \$1.50/bu. for option strategies. If your lender will not go along with that, be prepared to make cash sales at

a point that will likely achieve the gross dollars per acre you need to make all payments, operating expenses, living, depreciation and a profit. I suggest a \$100/acre profit goal.

Third, if you pre-pay expenses prior to year-end for tax purposes, make sure you’re comfortable with the supplier you’re doing business with; have a letter of credit or take delivery of the product. If you pre-pay for inputs and do not take delivery, you are an unsecured creditor of the supplier. History suggests that unsecured creditors collect between zero and 10% in bankruptcy.

Last, continue to build a relationship with your lender based on integrity. Do what you say you are going to do. If you have bad news, tell your lender quickly. Lenders do not like surprises. When they get surprised it erodes that credibility base a good borrower-lender relationship is built on. **CSD**

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