

# Preparing Your Clients for the Lender

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AgChoice Farm Credit, ACA

## Who is AgChoice?

- AgChoice Farm Credit, ACA
  - Largest Agriculture Lender in PA
  - AgChoice is a Co-operative
  - Headquarters is located in Mechanicsburg, PA
  - 10 Branch offices
  - Serve 52 counties in PA & 4 in WV
  - Outstanding Loan Volume -- \$1.0 Billion
  - 30% of these loans are Dairy Clients

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## Who is Mike Hosterman

- Live in Gettysburg, PA
- Married with two children
- Dairy Lending Specialist / AVP
- Manage a \$30.0 Million loan portfolio
- Co-manage a \$20.0 Million loan portfolio
- Co-Chair Association Dairy Lending Team
- Co-Author Association Dairy Outlook
- Consultant/Resource Person to Other Loan Officers
- Part of PDMP, PAFCY, South Mountain Fair, & other Ag Organizations

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## Overview

- Why is a prepared customer important?
  - Define Prepared
  - Define Success
- Questions a client might have about preparing for success
- What we can do to help a client prepare for success
- What a lender expects to receive from the clients
- Some General Underwriting Rules
- Conclusions

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## As a lender, **Why** is a prepared customer important?

- We lend money to companies who can demonstrate the desire and ability to pay the money back with interest.
- A contract between Lender & Business (sharing risk).
- AgChoice is in business to be successful, make a profit, and increase shareholder value.
- We all have limited resources.
- If our clients are successful, we are a success.
- Win – Win!!!

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## As an advisor/consultant, **Why** is a prepared customer important?

- Relationship between Advisor & Business (business relationship).
- You are in business to be successful and make a profit.
- We all have limited resources.
- If your clients are successful, you are also a success.
- Win – Win!!!

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## What is Prepared?

- **To Get Ready**
- To make ready beforehand
- Working out details
- Planning in Advance
- In Written Form

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## What is Success?

- **To Succeed**
  - To turn out well
  - To attain a desired goal
- Attainment of wealth, favor, or eminence (great accomplishments)
- When Opportunity meets Preparedness

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## Preparing for Success – Questions Client might have



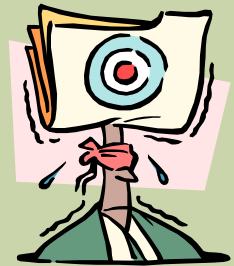
- How can I prepare to be successful?
- When success knocks on your door, will I have a room ready?
- "If you build it, they will come."
  - From the movie "Fields of Dreams"

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## Preparing for Success – Questions Client might have

- What do I need to be successful?
- What do I need for my lender?
- What financial performance will show that I'm successful?
- Is it important to write it down?
- Should I share it?



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## What can we do to assist our clients in preparing for success?

Assess what opportunities they have:

- Growth or Expansion of existing business
  - More Cows
  - New Enterprise
  - Better Facilities
  - Partner
- Improving existing business
  - Better profit margins
  - Higher milk quality
  - Increase production per cow
  - Risk management

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## What can we do to assist our clients in preparing for success?

- **Written Business Plan**
- Encourage a positive attitude
- Do not dwell on the negatives – eliminate or minimize them
- Encourage focus on things they have the greatest control over and which they do well
- Focus on Profitability, not just production
  - Create a business that is sustainable and attractive to others
  - Look at improving margins, not just cutting costs
- Most of all encourage clients to enjoy what they do and do what they enjoy

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## What does a lender need?

- Written Business Plan
  - History / Overview of Business
  - Future Plan
  - Financial Needs of Business
  - Historical Financial Position & Income Statements
  - Projected Financial Position & Income Statements
  - Marketing Plan
  - Risk Management Plan
  - Implementation
  - Who is responsible / accountable

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## What does a lender need?

- What are the current financial conditions
- What are the historical profits and earnings
- What is the Break-Even Price – past and future
- What are the cash flow needs
- What will be pledged as collateral (Lender Risk Assessment)

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## What does a lender need?

- Financial Statements in sufficient detail
- Year end balance sheets
- Annual milk shipped & \$
- Average cow numbers for the year
- Milk Quality (SCC, etc.)
- DHIA records
- What consultants are utilized
- Heifer raising arrangements
- Contracts for heifer raising, forage production, etc.

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## Some General Underwriting Rules

### Stable Dairy

- Owner Equity – 40%
- Term debt coverage ratio – 125%
- Liquidity Ratio – 125%
- Loan to appraised value – 70%

### Expanding Dairy

- Owner Equity – 40%
- Term debt coverage ratio – 150%
- Liquidity Ratio – 125%
- Loan to appraised value – 70%

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## Summary

- Prepared Success
  - Prepare – to get ready
  - Success – Attainment of wealth, favor or eminence
- Assess the opportunities
- Encourage a well developed and written business plan
- Encourage positive attitudes
- Main focus – Profitability, not just production
- Most of all Be Happy

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## Conclusion

- Create a business that is sustainable and financially attractive to others
- A client's success helps make us successful!!!
- Win – Win!!!

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