



ISSUE: MARCH 2017

WHAT POTENTIAL ISSUES ARE ON YOUR HORIZON?

PLAN AHEAD AND IMPROVE YOUR CHANCES FOR SUCCESS

It is hard to believe that we will see seed going into the ground next month!

Spring is always an exciting time of year. We all know there are going to be some challenges in 2017 with current grain/livestock markets and input costs. The article below is a good reminder of some ideas from our friend Dr. David Kohl to determine any early warning signs of potential financial issues or challenges as producers look ahead to the year.

We are all about helping to identify potential issues - even months in advance - in order for producers to plan ahead, and improve chances of success.

Best Regards,



KEITH KNUDSEN
PRESIDENT/CEO | SECURITY BANK

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WHAT KIND OF AN IMPACT CAN A DETAILED BREAKEVEN ANALYSIS MAKE ON YOUR BOTTOM LINE?



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\$15,000 an
hour to me."**

- Bill Huss | Hartington, NE
Agri-business Customer

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Go to the link below to watch the video:
https://www.mysecbank.com/loans-agri-business.htm#BillHuss_Breakeven

EARLY DETECTION

by Dr. David Kohl | Published February 7, 2017

The time period from December 2016 to April 2017 has been defined as “ground zero” in the agricultural lending industry. Why? Well, in several cases, producers have not examined their financials since the last renewal season. Of course, variables have changed and in general, economic outcomes are less positive than last season.

Recently, while in North Dakota, I was asked to facilitate a panel of agricultural lenders at the Agricultural Bankers Conference. One question asked of these lenders was what early detection system is in place for the renewal season that determines whether the loan is restructured or denied. As loan renewal season is upon us, let’s examine some of the responses.

One lender emphatically stated that he was paying close attention to the price at which his producers marketed their corn crop. Early last year, some weather experts forecasted dry weather through El Niño that would create a temporary bump in prices to \$6 per bushel corn at some point in 2016. Of course, corn’s highest price in 2016 was just over \$4.50 per bushel. As a result, many grain bins are overflowing with an inflated expectation.

Another lender said he plans to scrutinize carefully the accuracy of financial records. During the commodity super cycle, many producers and even some lenders became complacent in record-keeping. Often, financials were not accurate and several debts and obligations were left unrecorded. In fact, all of the panel participants agreed that the quality of financial balance sheets and income statements, preferably accrual adjusted statements, were imperative in deciding who stays and who goes, so to speak.

Other lenders are maintaining close contact with

agribusinesses and even competitors to monitor new credit requests. At one time in the not-so-distant past, producers who were turned down for financing or re-financing could simply move onto a lending competitor. Today, especially in agricultural lending, risk interrelated. For example, if one large producer has loans with three different entities and fails financially, they are each impacted negatively. The old saying, “Trust, but verify” will ring true in agricultural lending this renewal season. Producers should expect lenders to request verification such as, serial numbers on equipment and identification for livestock. Sometimes, fraudulent activity increases during an economic downturn, but despite any temptation, remember that fraud only makes bad situations worse. Poor financials can be turned around, but a poor reputation sticks around for quite some time.

Renewals that boast a good chance are those where open communication is maintained; with the lender and within the business. Businesses and families that are willing to cut expenses and living costs to maintain profitability and production are in a stronger position than others. Each lender on the panel recommended a one-page written plan of corrective action for all accounts seeking renewal. This plan can be used as a discussion point, but also as something concrete to monitor and adjust throughout the year.

In production, if your crop begins to fail, you consult an expert and implement any corrective strategies possible to save it or at least minimize loss. Financial issues are no different. Regardless of your financial situation, accurate financial records, good character and a commitment to marketing and risk management are elements that can only improve your business.



Road Warrior
By David Kohl

QUESTIONS?

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