TAKING A LOOK AT YOUR REPUTATIONAL EQUITY
9.5 KEY PERSONAL TRAITS THAT MATTER

BY BRANDON BALLER
Senior Lender/Chief Credit Officer
Security Bank | Hartington

As bankers we talk about numbers frequently. Rightly so, it’s the world we live in and our belief is that those numbers will speak to you if you let them. In many cases if we can overlay the numbers onto what you already know to be true regarding production and management, it can help to provide tools which take the emotion out of what can be difficult decisions that need to be made.

Although we utilize a multitude of numbers and ratios to help form conclusions, those numbers certainly aren’t the be all, end all in making credit decisions. One of the basic principles of lending has always been the 5 C’s of credit, consisting of Character, Capital, Capacity for Repayment, Collateral and Condition, with the most important of these to be considered Character. This is widely considered to be lending 101.

You’ve heard us talk about the layers of defense in your operation, beginning with your earnings stream and the need to create sustainable earnings that are consistent from year to year. Should those earnings become stressed, working capital is relied upon as a fall back, or savings account so to speak. The last layer of defense is often thought to be equity. Structuring short term debt by mortgaging the equity in long term assets can be a strategy used to buy more time and continue operations into the future.

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Balance sheet equity isn’t the only type of equity that is evaluated. In fact, it may not even be the most important form of equity. Reputational equity, which refers back to character, can sometimes trump balance sheet equity. Let’s take a look at the differences between the two.

Here are examples of what your lender might refer to as “Character Assets” and “Character Liabilities”.

When we look at your balance sheet, a 50% equity position is something to strive for at a minimum. The same can be said for your reputational equity. If you take inventory of your own farm, which category do you fall into for each of the character traits listed above and do you have at least 5 that would be considered assets? In difficult times your lender will be looking for reasons to be optimistic about the future of your operation. Confidence in the some of the traits on the left inevitably have proven over time be a leading indicator of how the numbers will turn out. Careful attention to these details will help to produce results that speak for themselves. Work with your lender to strengthen some of the character assets on the left and don’t be afraid to think outside the box. Some of the best producers, marketers and record keepers in the industry live and work closer to you than what you might realize. Seek these people out for advice to sharpen your skills in each facet of your operation!