



# Problem Loan Servicing

as presented to:

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## Warning Signs

- Quantitative
  - Cash flow problems (income down or expenses up)
  - Late payments
  - Overdrafts
  - Declining credit score
  - A/P increasing
  - Credit card debt increasing
  - Greater use of vendor financing



# Warning Signs

- Qualitative
  - “Going Dark” – no communication
  - Spouse requests or doesn’t want to see banker
  - Changing accountants, feed suppliers or vendors
  - Doesn’t return calls
  - Suppliers, neighbors, friends inquire about client
  - Change in physical appearance – farm or client



# Mental Health Video

**National Corn Growers Association:**

► <https://youtu.be/I5hVlgxdCcw>



# Identifying the Problem

- Cash flow?
- Equity?
- Collateral?
- Lifestyle?
- Other?



# Course of Action

- Collect or Correct?



# Internal Actions

- Dual Officer?
- File review
  - Note, security agreement, filings, loan agreement, guarantees, assignment of insurance, other docs
  - Do we have what we think we have?
  - How do we shore up the gaps?
- Complete internally or with legal counsel



# Managing Problem Loans

- Relationship manager or Special Assets Unit?
  - Time requirements
  - Experience
  - Marketing vs. Collection mindset





## Interaction with Legal

- Does the bank have retained counsel?
- When should legal counsel become engaged?
- Who takes point on discussions with client?



## Monitoring Problem Loans

- Financial statement frequency
- Compliance certificates (loan covenants)
- Inspections and appraisals
- Internal or third party



# Guarantors

- Add guarantors to mitigate risk?
- Keeping guarantors informed
  - In person
  - Phone
  - Email
  - Text
  - Formal letter



# Covenant and other Violations

- Notify client in writing
- Waiver? If yes, reserve your rights.
- Timeframe to get back into compliance
- Amend agreement?
- Forebearance agreement?



# What is a Forbearance?

- Acknowledgement of non-compliance, violation or breach of contract
- Allows parties to clean up either documentation deficiencies or for client to get back into compliance
- Outlines responsibilities for each party
- Establishes time frame (deadline)
- Outlines next steps if not brought back into compliance



# Protecting Collateral

- Notify buyers of farm products – depends on State
- Joint checks
- Assignment of crop / other insurance
- Direct disbursement for purchases
- Monitoring – measurement and inspections
- Loan more money (protective advances)
- Know your state EFS rules
- Self help replevin



## What Else?

- Mediation
- Receivership
- Bankruptcy
- VFA
- Deed in Lieu
- Sell our position (the loan)



## Servicing actions

- Interest only on term debt (principal deferral)
- Re-amortization
- Earnings recapture
- Farm Service Agency or State guarantee program
- Add family or other guarantors
- Subordinated debt





# The Cost of Problem Loans

- Direct
  - Legal Fees
  - Allowance for Loan Loss
  - TDR
  - Charge-offs
- Indirect
  - Staff time
  - Public Relations
  - Emotional drain

