



## **MANAGEMENT ASSESSMENT & CUSTOMER PROFILING**



# Character & Cranium

- **The starting point and ending point of every credit and lending decision.**
  - Because we depend on the character of the borrower to reasonably assure that the funds are used wisely, and the loan repaid as scheduled.
- **Character is the human dimension of any credit decision.**



# Character and Cranium

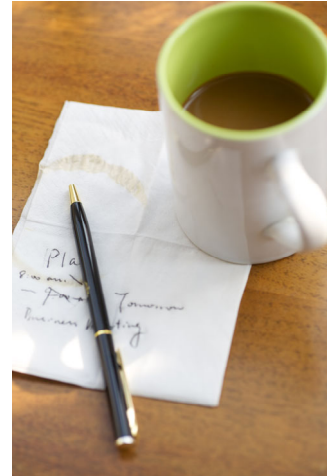
- **Character is a measure of honesty and integrity. We are usually best able to properly assess these characteristics under adverse circumstances.**
  - “They are only as honest as they can afford to be”!!!*
- **Will they do what is needed in a timely manner?**
- **Character addresses general management, production, and marketing.**



# Character and Cranium

## Borrower's accounting method:

- Delivery of information from borrower.  
(napkin vs software-generated)
- Who completed the information – the borrower or the loan officer?
- What corrections or revisions were needed?  
Why?
- Background checks.



# Management Assessment

## • Management Team

- Experience
- Strength and limitations
- Ability to overcome threats and take advantage of opportunities!
- Use of advisors/consultants



# Management Assessment

## • Track Record

- Compared to segment for production metrics
- Compared to segment for financial metrics
- Variances from historical
- Trends for liquidity and leverage
- How do they act in good times? In bad times?



# Management Assessment

## • Planning

- Do they complete a cash flow projection?
- Scenario planning?
- Sensitivity analysis?
- Assumptions – are they realistic?



# Management Assessment

## • Communication

- Reports are accurate and timely
- Regular communication – good and bad
- Open to visits
- Responsive to and respectful of requests for information



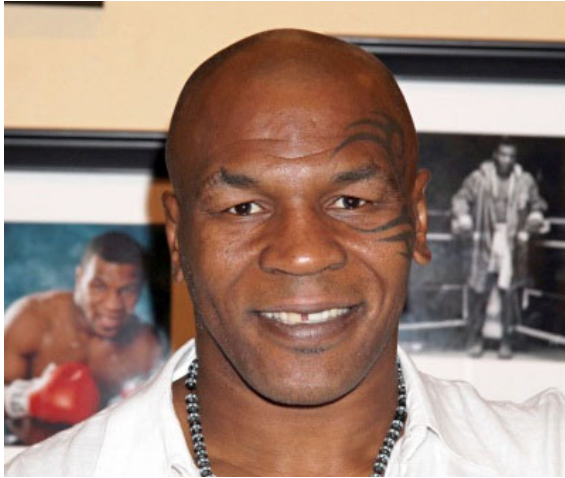
# Management Assessment

## • Operational Management

- Knows cost of production
- Utilizes price risk management tools and skills
- Facilities and equipment in good order
- Evaluates and adjusts as needed



## Taking the Economic Punch



Everyone has a plan 'till they get punched in the mouth.

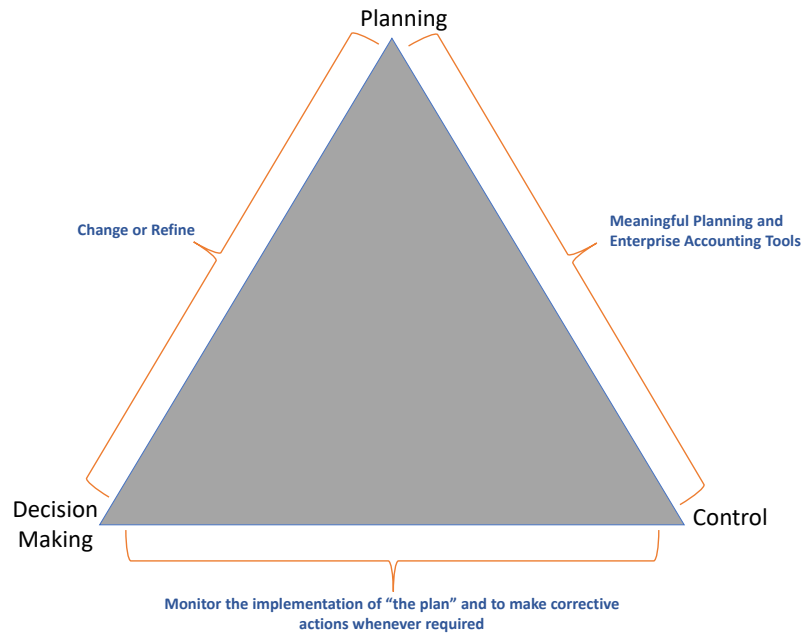
-- Mike Tyson

## Taking the Economic Punch

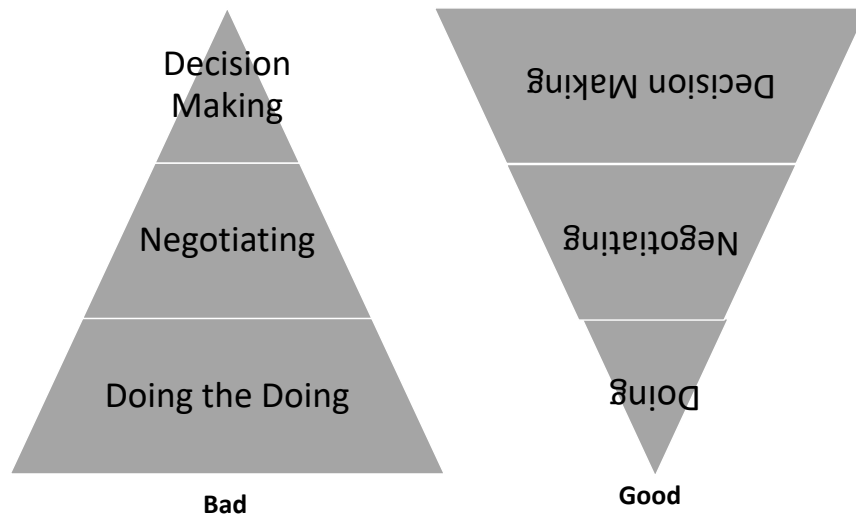


- **Has the producer...**
  - been profitable?
    - Economic cycle vs. management
  - demonstrated the ability to build working capital?
    - 2.5 years of working capital burn rate built
  - had modest living expenses & non-farm capital expenses?
  - shown the ability to shed marginal assets?
    - land, livestock, machinery, human
  - consolidate vs. split lines of credit.
  - HUT principle
  - communications
- **Shed “victims” and “know it all’s”.**

# Basic Management Skills are Well Executed



# Time Appropriately Spent



# Crisis Management

- **The best producers recognize the need for plans outside the ordinary.**



## Customer Profiling: *Credit Worthiness*

- **Focus on the type of customer that best fits your bank:**
  - Lending Limit
  - Risk assessment models/Risk rating
  - Product types
  - Pricing & Spread expectations
  - Industry types
    - Dairy, Cattle feeding, Poultry, Grain, Swine, etc.
  - Territory

# Customer Profiling: *Sales & Prospecting*

- Identify needs (Mine the balance sheet)

- Financing for growth, replacement
- Other consumer needs (vehicles, mortgage, home equity)
- Liquidity and cash management
- Retirement accounts
- Estate Planning

- Identify referrals (In your Bank vs. Outside your Bank)

- Marketing skills (brokerage)
- Succession management (attorney, accountant)
- Tax & financial management (accountant, financial advisor)

# Customer Profiling: *Sales & Prospecting*

- Ask for referrals

- Other producers similar to your client
- Centers of influence
- Who do you buy from?
- Who do you sell to?

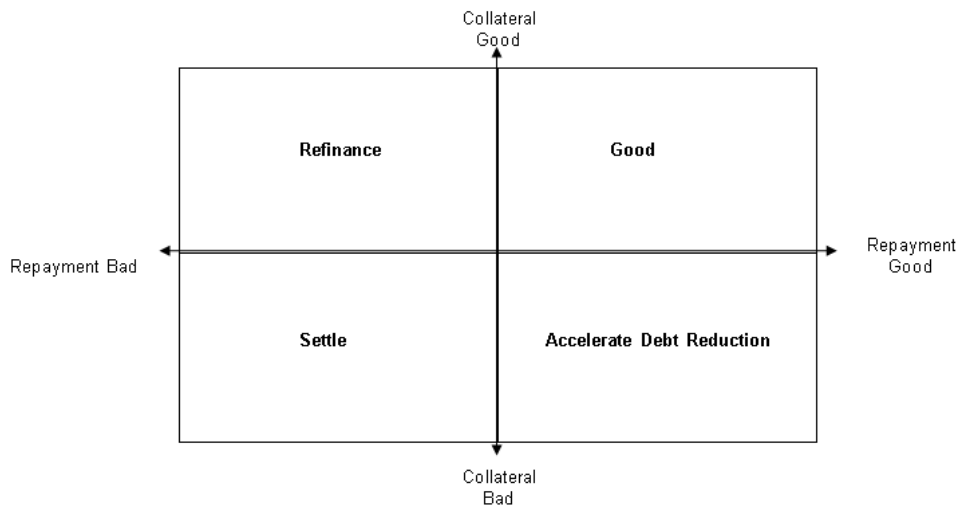


# REACH

- **R**elationships:
  - Empathy - truly care
- **E**ducation:
  - Build your expertise and educate clients
- **A**ccountability:
  - Follow through, under promise, and over deliver
- **C**haracter:
  - Your reputation is earned and vital
- **H**ard work:
  - Never lose because you were outworked

## LOAN DECISION





## Loan Narratives

- **Tips & tricks**
- **Is the story complete?**
- **Does the story make sense?**
- **Did you have a question or concern?**
  - Did you answer that in the credit proposal?
  - If you recognized a weakness, state offsetting strengths that mitigate the concern!
- **Explanation vs Expectation**
- **Own it? Slippery slope!**



# Communicating the Decision

- **Approval, Counter, or Denial**
- **Acceptance**
- **Commitment Expiration**



# Communicating the Decision

- **The Closing**
- **Document Prep & Review**
  - SLTV / Flood / HMDA
  - Large Loan Document Review
- **Collect the loan when you make the loan – set expectations at closing**



# Communicating the Decision

- **Customer Review & Discussion**
- **Do's & Don'ts**
  - Signatures (Witness, Validate & Notarize)



## 3 C's of Superior Ag Lending

- **Be Conservative in the good times.**
  - Guards against complacency
- **Be Courageous in the bad times.**
  - Living our commitment (Two-way Street)
  - Being proactive
  - Willing to have the tough conversations
- **Be Consistent all the time.**
  - Dependability
  - Not viewed as Hot & Cold in the marketplace

