FARM CREDIT
SOUTHWEST GEORGIA

Here We Grow
Episode 11 Transcript

Speaker 1 (00:18):

Welcome to here We Grow, a grassroots podcast by Southwest Georgia Farm Credit, focused on education and inspiring growth down on the farm at home, and in rural communities. Whether you're a farmer or farm, her advocate, land lover, or southern dweller, we have industry experts and homegrown leaders ready to share their insights with you. Thanks for listening.

Speaker 2 (00:44):

Here We grow with episode 11. Today's episode is focused on revolving annual lines of credit for all your operational cost. Today, I'd like to welcome Mike Harris out of our Dawson branch to the podcast today. Mike is a relationship manager with us out at the Dawson Branch. Mike has an extensive experience as a credit officer, commercial lender, branch manager, and market president. Mike's personal experience on the farm combined with his professional experience as an ag lender, makes him an awesome asset for farm credit in our customers. He has a passion for helping farmers succeed and rural communities grow. Mike will use his firsthand experiences and his financial skills to help our association to continue to serve our customers at an exceptional level. Mike, welcome to the podcast today.

Speaker 3 (01:28):

Thank you. Thanks for having me.

Speaker 2 (01:31):

All right. Well, like I'd said briefly before today, we are gonna discuss operating lines on revolving lines of credit, what we kind of offer in that product category here at Farm Credit, and how we've kind of tiered them to different operations in our different portfolios. So, Mike, welcome again and just kind of give us a little rundown of kind of what your typical line of credit looks like and what the typical line of credit needs may be for a farmer, and then we'll kind of branch later out into different operations that may have more unique structures.

Speaker 3 (01:59):

Sure, sure. Most of our operating lines obviously are to farmers here at Farm Credit, and they come in with a, with an idea of what they're for and, and how they're going to be used. They've, they've had a mentor usually when they're coming into the industry that has worked in this line of work and, and understands how they're gonna use that operating line. How, how it helps them get through the year and, and meet their goals and, and pay everybody, you know, as, as needed. You know one of the key components of a farmer when it comes to that operating loan is, you know, first of the year a lot of our guys are renting land and, and they need to be able to meet that need immediately so they don't lose that land or, or they can obtain new land for their operation.

Speaker 3 (02:46):

Where a guy that's out there without that working capital or without that ease to funds, he's bouncing around trying to figure out how to, how to grab some other land. And, and our guys, you know, they've got that in place. They've got that money just sitting there ready and, and they can grab up some land with that. That's, that's one of the big, big things that the farmers realize is importance to have that capital available to them at all times. As Billy as you said, you know, there's, there's lots of different operating lines that, that are utilized, and they're all, you know, they don't all work differently, but they all have different facets of, you know, why they need them or how they're gonna utilize 'em. And, you know, here we're gonna talk mainly about the, the benefits and the, and the pros side of the operating line. But as you know, you know, these, these are, these are tools that, that, you know, need to be managed and need to be used properly, or, or, you know, a farmer or a client or a business owner can get sideways with them, with, with the flexibility and what it brings to the table.

Speaker 2 (03:51):

I couldn't agree more. So basically for our new listeners, if you're current customer, you probably know what the process is like, but if you're listening today and don't have a line of credit with farm Credit or any other lender what can a customer pro prospect expect to expect when they come to the office? What should they maybe bring? What is Farm Credit gonna ask of them to present?

Speaker 3 (04:11):

It just depends a lot of the times on what industry that farmer is in, is that a cattle farmer? Is that a row crop farmer? Is this a agri-business owner that is needing working capital for, for him to have the products that the farmer's gonna need at the right time? You know, lots of businesses used to carry a lot more inventory than they do now, so, so they would utilize that line to, to keep that inventory, to keep that product on hand as those farmers come in and need it. So, but to drive back to your original question of what do they need to come in with, you know, a lot of us tend to tease each other. They need to come in with a, with a hope and a, and a and a heart for farming and, and a passion to how can they get in, stay in and, and grow their business.

Speaker 3 (05:04):

So we're all educated and tooled up to, to walk them and hold their hand through the process. And like I said at the beginning when we started, a lot of our, our customers have already been there or mentored by a farmer already. So, so they've come in with, with the proper tools and their, and they're bringing what we need to go over. So it's not really a hard process. It's, it's, it's just, you know, time consuming, gathering, checking the right boxes, bringing in the right documentation. But with anything with a loan finance, you know, we, we want to see, you know, their strength, their credit performance, you know, with that, you know, we have to look at proformas, profit loss statements, tax returns, financial statements, but, but these are all documents we can help provide. They don't have to cr recreate the wheel. They don't have to come up with it on their own, you know, most have some form or fashion of this documentation, but if they don't, we, we can help 'em walk through it. We also, we always recommend a, a strong accountant present in your business. You know, you, you need somebody that understands the numbers, can help you drive your ship where it needs to go. If you, if you, if you're bringing in really strong documentation, it's just gonna make the process smooth.

Speaker 2 (06:19):

Yeah. Well, I completely agree. And to echo what Mike just said if you're out there listening and you, you want to come in and get a line of credit for the 2023 gross season we would like to see probably a minimum of two years tax returns. That's right. A financial statement that shows the assets on hand and the liabilities. Mm-Hmm. <affirmative> a historical yield report from your crop insurance agent would probably be helpful. That allows our underwriters and analysts to properly project your yields on the crop plan for the current year. If you have any contracts in place for crops contracted in the current year cotton contracts, peanut contracts, those allow us to properly price and project your crop. I know that cotton has fallen, fallen down where it was at the middle of last year, but if it comes back up, obviously locking it in at a higher rate rather than the FSA provided 85 cents. I'm not sure if they have picked their price again this year. That would be helpful. A landlord list. So just where we kind of can know where to go find the crops when we do our crop inspection, middle of the grow season towards harvest, and what else am I missing? Who,

Speaker 3 (07:24):

Who you gonna sell it to?

Speaker 2 (07:25):

Yep. Alongside of our normal operating lines, we do offer, I mean, your unique operating lines. I know I have some that are set up for cattle. I know, Mike, you're in the cattle business. So kind of tell us about some of the cattle lines or experience you've had in, in advancing money or preparing money to be advanced upon maybe a stockyard purchase or a farmer to farmer sale.

Speaker 3 (07:45):

Yeah. Cattlemen are, are, are very cool creatures. They, they, you know, they never meet a cow they don't want to own, so, so they're always wanting to grow that operation and, and how can they do that? So, of course, we do have term loans and, and we structure loans just to buy cattle and pay 'em over time, but cattle, cattle eat, you know, and, and they never stop eating. So, so there's always a, a demand for, for a feed source or, or for protein or, or for more hay or for things of that nature. So, you know, when you think of operating lines, bringing it to a very basic level. I mean, this is money we're providing you to carry that crop or that animal from the beginning of your business cycle, from, from having that calf, from, from feeding that cow and breeding that cow to having that calf getting it on the ground and then carrying it to whatever business model you want to carry it to.

Speaker 3 (08:36):

So, so some of our producers want to get a calf on the ground, get it where it can wean it and sell it, and then they'll bring that money back to us and, and pay that line back down. So it, it, it revolves, you know, every, every banker, every farm credit RM wants to be able to tell his credit team that this thing's gonna revolve, it's gonna peak up and it's gonna pay back down based off the product they're selling. So from that basic standpoint, th this is a short term needs loan. I mean, this is to allow you to get your product on the ground and carry it however long that may be. There are many cattle businesses that, that, that full turn on those animals is 18 months. And your common banker not to knock the banks, but they, they like to see their money turn around in 12 months.

Speaker 3 (09:29):

So they don't understand that cycle. Where, where we've worked with many, many cattlemen and row crop farmers, and depending on the commodity, we realize it may take more than that 12 month cycle, depending on what they're doing. If they're, if they're going to, if they're gonna, you know, cow calf pair operation and retain that calf all the way through to getting it into the feed yard and then retain their ownership at the feed yard and, and wait for that cow to be slaughtered and then have that investment returned, they're not gonna do that in 12 months. So they're gonna need that, the funds, but even your standard cattle operation that's gonna carry that calf to 750 pounds or, or carry those animals through the winter, they're gonna have extensive winter grazing. They gotta put in, they're gonna either have to buy hay they're gonna supplement that protein, keep that cow's flesh up.

Speaker 3 (10:22):

If, if she doesn't keep her flesh up, she's gonna, she's gonna not breed back. And then you're gonna have, we don't wanna talk about too much negatives here today, but, but you could even have death loss if you don't have the funds to carry those cattle. So, you know, you go out, you think you want more animals, but you have not done the plan to make sure you have the resources to feed them. You've got more cattle on hand and now you can't get 'em, you can't get 'em to the, to, to the premium money. Mm-Hmm. <Affirmative>, I mean, we all want the premium money, right? So, you know, you need to have the, if you haven't come to someone or, or have the cash on hand to carry that animal to that, to that point, you're gonna end up having to sell that animal premature and, and not, and not make as much money or even obviously lose money.

Speaker 3 (11:05):

So, you know, we, we wanna, we want to give you that tool. We wanna give you that resource. So we want put all them plans in place. We wanna know where you're at. We want you to give us that, you know, Billy said, what do you need to bring, you need to bring that, that that farm plan. So in the cattle industry, that farm plan looks very differently than a row crop plan. You know, it's, it's how many head, what's, what's you gonna feed 'em? How far are you gonna take 'em? Are you planning to, you know, where you taking 'em all the way to the feed yard or you gonna sell 'em at ween weight? You know that that's gonna drive how much money you need and that needs to be done before you've purchased those cattle. You know, you could, you could find yourself in a really bad spot if you're having to sell those cattle into the winter.

Speaker 3 (11:44):

You know, the winter, winter market sometimes tough cuz there's afl there's a abundance of cattle hitting the market cuz people don't wanna carry 'em through the winter and winter cost is, is is the most expensive, right? There's no grass growing. So if you think of that, if I make you a term loan, I just give you a hundred thousand dollars and starts churning interest that operating line, I'm gonna give you a hundred thousand dollars. But it's not gonna cost you anything but the, the closing costs to get it set up until you start drawing money. So if, if you've got some cash on hand, you know, it won't carry you through the winter, but you can cover your first two, three, even four months. You, you can cover that cost and then start drawing that money. So once you draw that first $10,000, that's when your interest spent starts. So you don't pay anything on that money until you start utilizing it. So it, it's a very good product for, for being efficient in covering those ex that expense load efficiently by not paying interest on it until you need the money.

Speaker 2 (12:40):

Yeah, that's great information Mike. And one thing now that we're talking about more so cattle lines of credit, in the years past, I've, I've done a revolving or non revolving line of credit that just sits there for when that customer is ready and finds the herd they wanna buy, they can then use it and we don't have to keep those cattle set up on that 12 month term. We can then have pre pre-approved term out details in the package. So once you've purchased the cattle and say, Billy Mike, these are the cattle that I'm happy with, I'm ready to grow my herd, we then can turn them out over a five to seven year period. That's right. And structure you up that way and still leave the line credit open maybe for a lesser amount to feed the cattle or buy more cattle.

Speaker 3 (13:17):

Yeah. You may go to a sale and and think, hey, I'm, I'm gonna buy these cow calf pairs for a certain dollar amount. And you get there and there's somebody prouder than of them than you. And so you don't want to be locked in to, you know, my banker said I gotta buy these cows this weekend, you know, now I'm buying 3000 a head cattle were, you know, my budget was so many ahead at 2000 ahead or something. So that non revolving, like you said, will allow you, we'll give you that over a, over a three month period and you can hit however many sales you want to go to and, and get that number of cattle at the price you want to pay at at the, not all cattle are created equal. So you know, you go to one sale and they're not what you're looking for. You, you need that flexibility to go to another one.

Speaker 2 (13:59):

So we've discussed what a line of credit can kind of be used for. What collateral should our customers or prospects bring to the table or have in mind, or what can they expect to be asked of them? So right now, discussing cattle borrowing bases are kind of something that kind of ties in with livestock. If you've got livestock on hand, can farm credit come in and appraise those cattle and advance you money off that current herd value?

Speaker 3 (14:24):

Yeah, absolutely. I mean, when you, when you think of collateral, you know, it's, it's obviously gonna be business specific. We, we know every farm at, we know they're not all the same in, in a lot of people think of it as just looking at it as like a blanket or a wall and they're, they all got the same collateral, right? You know, but, but, but that's not true. I mean, a cattle operation like we've been talking about, obviously they're gonna have cows on hand so we, we can look at their cattle, but then also maybe, maybe you want the flexibility to buy and sell and trade your cattle and you, you don't really want us to hold the cattle. So then, then we'll look at the real estate they're sitting on, you know, if it's not rented land, then we can, we can take your land as collateral and, and, and use the real estate and then you have all the flexibility with, with the cattle that you want buying and selling the calves and trading and not, you know, not having to come in and getting joint checks signed or, or anything like that.

Speaker 3 (15:13):

So, so really we, we kind of put that back on the client to, to look through their financial statement or their balance sheet. You know, you ask why do we ask for all that information? You know, we al often get teased is there you need a blood sample, anything else we need? And you know, you know, we're not, we're not just trying to you, you know, find everything to, you know, be nosy. We we're looking through that balance sheet to see what, what other assets you have so we can help coach you to tools that maybe you, maybe you be, didn't think you could use to grow your business. So kind of the sky's the limit on that collateral standpoint. We can look at your equipment, we can look at your land, we can look at the cattle itself. You know, we, we have lines of credits in the pecan industry where we look at the, the commodity of the actual nut.

Speaker 3 (15:57):

If you think of an agribusiness, you, you can think of the raw materials that they keep in, you know, those are a little more extensively underwritten, they're dug into a little bit deeper. Those take a little more time. You're not gonna come in and get that in two days if we see it necessary, like Billy said, on a non revolver, you, you, you may come in and, and have a, a, a contract with someone. I, I won't say any specific businesses, but if you have a contract that's gonna yield you a return of, of 200,000 and you've got a really good plan in front of me that says it's gonna take me, you know, a hundred thousand dollars to generate that 200,000, but I don't have a hundred, but I've got a really good plan and I've got a contract that says if I can do this, I'll get paid that you can utilize your experience.

Speaker 3 (16:41):

I mean, we're not gonna look at that on a, on a brand new young beginning, a small farmer to do something like that. But, but you know, we can look at contracts, all those other commodities and we'll give you a non revolver, you know, it's gonna be capped at that a hundred thousand. You've complete the job, you get paid, you pay us off first. We take assignment of that check and then the rest is yours. You know, we, we look, we can look at, you know, it, it's often said that no two, no two loans look the same. You know, because they're, they're business specific or they're farmers specific. But that's why we ask for all that information cuz we're looking for tools to help you get where you want to be.

Speaker 2 (17:16):

Right. I agree. And sometimes, I mean, current customer of mine have been like, wow, y'all are, y'all are really dive down into the weeds. Y'all are very intuitive when it comes to your underwriting. Well that becomes with, I mean, over a century of lending experience here at Farm Credit. We do ag loans all day every day. It's our bread and butter. It's the only thing we do. So naturally we're gonna have a little bit more of a heightened sense of what to look for, what to ask for, to make sure we're making the right decision for our association, for our cobar or co-owners of Farm Credit, which are our borrowers. And another perk of the lines of credit is the patronage. The operating funds is predominantly the most expensive thing on all of our farmer's operations. Sometimes the debt schedule and the equipment can be a little higher than maybe necessary, but they definitely need funds to operate.

Speaker 2 (18:01):

And you will get a patronage check back from Farm Credit in the spring and it is typically between 17 and 18% of the interest you paid out in the prior year. And that has been a, a huge tool to have in my bag when I go out and talk with customers because that, that money comes in, in the time in a farmer's year when only money is going out. So that makes my job easy and I'm sure it makes your job easier too, Mike. Mm-Hmm. <affirmative>, one thing we haven't discussed is pricing. What to see on lines of credit, what we're seeing in the rate industry right now, being a tenured lender, not just at Farm Credit. Kind of tell us what you've seen over your career where you see the rates going now and just kind of how or what pricing index that our lines of credit are based off of

Speaker 3 (18:46):

In a typical operating line. We, we, since there's so much about these lines that are variable, you know how much you're gonna need, how much we we make available when you're gonna access it. It, it's kind of a two-way street. We, we don't know when you're gonna need that money and how it, how it's gonna be pulled from that line and, and typically the, the farmer or the client doesn't know how much they're gonna need, you know, so it's going to be, that's why these are such a great product to have in this industry is those unknowns allow the flexibility needed from everybody. You know, I I know Billy you know, my time is, is precious as long as our, our our client's time's precious too. And, and coming into the office multiple times throughout the year is hard. I mean, it's hard for them.

Speaker 3 (19:38):

It's hard for us. So by having that line available, they, they can draw as needed as I mentioned earlier. But the, but that flexibility means that we tie it to a, a variable rate product as well. Meaning, meaning, you know, we're gonna tie that to a rate that that could potentially change. It's usually tied to the prime rate. We price it that way just due to those unknowns and that flexibility. You know, you, you know, if it's, if these are gonna draw up and down and, and hit different points in the market, you know, we, we need to have them flexing with that, with that rate index. So typically most of our lines across the all industries are tied to, tied to prime here at Farm Credit in southwest Georgia.

Speaker 2 (20:20):

I'll tell you, Prime's been moving a good bit this year on us. I believe it started the year at three and a quarter and we are now at what, seven and a half.

Speaker 3 (20:28):

Seven and a half. And again, we didn't drive that. I mean that, that's not something decided by Farm Credit. We don't, we don't come in and say, Hey, let's raise Prime today so we can make more money. That's an index that's, that's driven by, not by us. I mean the, you know, that Wall Street Journal prime rate is, is set by the Fed for the most part. So when they decide the economy's hot and we need to slow it down, they raise it. And that's, that's what we've been seeing. You know, we've all talked about, you know, inflation until we're, we're about sick of talking about it. Nobody really wants to talk about inflation anymore. We wanna see inflation cool. And stop. And, you know, when, when inflation's rocking and rolling, you can typically watch rates rise.

Speaker 2 (21:13):

Yep. I've unfortunately heard rumors of, of more hikes in 2023. So it seems that they're,

Speaker 3 (21:18):

Let's hope that's just rumors.

Speaker 2 (21:20):

I hope they're rumors. It's been a pretty credible source thus far, but and then, and they're just trying to, I guess combat inflation, but it just doesn't, it doesn't seem like the right model, but it is, unfortunately, and I know in years past, we have offered a few fixed rate products that is, it'll be fixed off the prime of when the deal goes through. And I believe there is a fee that can be paid, just a personal opinion. Now, I wouldn't maybe look at one of those fixed rate products because Prime has already risen so high.

Speaker 3 (21:49):

Yeah. We've moved through, I I would hope we've moved through the bulk of those moves. So even if there are a couple more, you, you'd be paying an absorbent fee just to maybe not protect from, you know, just a few more basis points. So you know, yes, if you'd have got in, you know, eight months ago, I mean that fee, you would've made that up by now more than likely. But as, as my granddaddy said, us water under the bridge, we, we can't get that

Speaker 2 (22:15):

Back. I completely agree. Well, just to circle back, I mean, most of our farm credit employees and mo especially the relationship managers have a family member tied to ag or they're personally tied to ag and we're just local people helping out other local farmers and, and people involved in agriculture. So if you're thinking about getting involved in agriculture or if you're with another lender and are not happy, give us a call. We'd love to sit down and learn more about your operation and we pride ourselves on being able to grow your operation and we're here for the long haul. I mean, I, I guess that's why they cost relationship management, not loan officers. Sounds better. And it is the truth too. We're not gonna sign your paperwork and then call you the next year. We're gonna stay in the conversation with you all year long.

Speaker 2 (22:56):

We're not gonna be nosy. We do have to do farm visits. I try to just figure out where most of my customers larger fields are, and a lot of times I don't even bother them. I say, Hey, if you see my red truck out on your property tomorrow or the next day, that's because I'm doing a quick little farm visit and I'll normally follow up with the, Hey, everything looks great. Or if I have a question, I'll reach out to 'em and say, Hey, what we got going on on this field? Definitely some unnerving times ahead still with prime continuing to rise in commodity prices being uncertain. I know we'd much rather have that dollar $25, 35 cotton that we had last year. Absolutely. There was a lot of cotton acres planted last year. And obviously with rotations we could see a lot of peanuts being planted also because peanut prices are holding strong. So give us a shout. We'd love to help you grow your operation and save you some money. That's, that's the thing I always try to lean on when I'm talking with somebody. I was like, come, come over and bank with me if you like me, but I mean, I really wanna save you some money.

Speaker 3 (23:49):

So yeah, we're really looking to add value. I mean, if we can, we can find a way to add value to your bottom line or or to your family farm. That's, that's what we're in it for. And like Billy said, as relationship managers, we, we do ask a lot of questions and we get involved. We, we dig in deep, so we do know you pretty well, but I think most of the guys I work with here, Billy, I know we are, we are open to build that relationship, get to know you, let you get to know us some too, you know, let you know our background that most all of us are not just, you know, guys coming outta college with a, with a degree and and finance or something and, and trying to figure out do it. We've got some involvement in ag and had boots on the ground.

Speaker 3 (24:25):

One more thing I'll add about just operating lines and and revolving loans. Typically people, if you think about people trying to figure out when, when they're running a business when they, when they start seeing the stress of running outta money, they, they try to figure out where do I get it from? And then they go to mom and dad and you know, they go to a relative or they try to think of somebody rich or they try to go get a grant or something like that and it's just not crossing their mind that there's a product like this out there that, that could fit within their business. So when, when a business is seeing that strain, that strain could come from making payroll. That strain could come from just their accounts receivable aren't coming back in fast enough. So they know they're making money and they know they can see that they're making money that, but they can't understand why the checking account's not gonna enough money in it.

Speaker 3 (25:14):

And and we can help with that. We can look at that and, and diagnose that and say, man, it's taking you 90 days to turn that, that money into, into cash that you can spend. But you, but you paying these guys every week. So I mean, we can look at your payroll and know exactly how much money you got going out every week and how long it takes to get your receivable in. And I mean, and that's a really good tool to derive just how much working capital you need to get from us just to cover that, that gap and that, you know, that goes back to what I said earlier with all the other industries, cattle road crop contractors agribusiness men, they all have a gap. It might be a long gap for some, it might be a short for others, but, but it could happen over and over and over through that year. And so that operating line is, is really designed to handle those gaps. But I just want to throw that back in

Speaker 2 (26:01):

There too. Oh, you know, and I, I mean I know that some of your customers and some of mine this year are are seeing this, whether they're holding their cotton longer than them normally would have, whether they've joined another cooperative and they've got crops on hand that haven't been sold or haven't been shelled and Yep, they

Speaker 3 (26:15):

Put the corn in the bin, they've got sorghum they're waiting on.

Speaker 2 (26:18):

Yep. And and that's why it's so important to have a detailed farm plan and a profit and loss from your prior year. You can go to a loan officer or relationship manager like Mike or myself and say, Hey, I made the crop, I just haven't sold it and it's sitting here in this warehouse. And so we can advance on your 2023 crop in confidence knowing that we've gonna have receivables from our year prior extensions. So that is very important. And then another thing we, we value young beginning and small farmers so, so much here at Farm Credit cuz y'all are the future of agriculture and it is very tough to get in agriculture. So a lot of times lenders will impose or ask that a guarantee is, is placed on the loan and a lot of times it is with the Farm Service Agency and FSA guarantee there is a fee that most of the time the borrower customer pays to get that guarantee.

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Speaker 2 ([27:04]):

And it's a guarantee for five years. Well, if you're at another bank right now and you're not happy or you want to come, come on over to the fence and join Farm Credit, we, we will work with the other banks in trying to get that guarantee moved. They can be transferred and we will not try to charge you again for that same guarantee you paid in the prior year. So don't, don't, I've had several conversations this year, it's like, oh well I'm so and so, but I just got a new guarantee. Well, we'll try to do it with no guarantee, but if a guarantee is warranted, we will reach out to that bank and do everything possible to swing that guarantee. So at the end of the day, it's the customer's money, not the banks. They should be willing to appease their customer. If not, they'll probably never have a chance of them walking back through their door. Well, thank y'all for tuning in today. That concludes our episode. Mike and I thank you for joining us. For more information, visit our website at ssw g a farm credit.com. Make sure to subscribe to our podcast on your favorite app to get notified of new episodes as well as follow us on Facebook and Instagram for great industry resources. Thank you. Have a great day.