When Bankers Say "NO"

Many farmers have at one time or another applied for credit and have been denied. Since banks are required by law to provide a reason for denying credit, you may have received a form letter with a well placed "x" in a small box indicating: "Cash flow insufficient for ...", "Past earnings record inadequate to ..." or perhaps even, "Collateral too low for..." None of these reasons are of comfort as your dreams and hope begin to slip through your fingers. Few people like to be told that they're not good enough, and to many, that's just what a credit denial tells them. It's personal, and it hurts. What most farm applicants never find out is that many times the real reason the credit is denied has little to do with which box the "x" is in.

Right Credit Decisions

Helping farmers develop and submit hundreds of credit applications for over past twelve years has left me curiously befuddled at why some loans are approved and others are not. There are a great number of excellent loans made to farm businesses. Most of the time, credit is extended because the farm's management has developed a business that is attractive to outside investors. The farm business is profitable. It is a low-cost producer with a history of solid financial performance. The closer the business is to not needing credit, the more likely it is to get it and lending money to these farms is a "no-brain-er." In a shrinking pool of farm borrowers, lenders guard these customers jealously.

In recognition of numerous good agricultural loan officers, many loans are made that are risky for the lending institution, and to the loan officer's career. The funding of big-step expansions, debt restructuring for problematic farm businesses, or “bail-outs” during periods of extraordinarily low prices or yields is what defines a good credit relationship. Both borrower and lender have an equal understanding of the causes underlying the need for credit as well as the risk of repaying that credit and work closely to make sure their efforts solve a problem.

Wrong Credit Decisions

Creditors can make mistakes and poor credit decisions can be wrong in two different ways. The first is that a loan is denied unjustly. This is the wrong credit decision that many applicants can relate to. The lender fails to see the logic and security of the request, or questions management’s ability to implement the proposal. In denying the loan, the lender is “safe” at least for the short-term because he or she has not exposed the lending institution to new or more credit risk. In the long run, the lender may be in a worse-off position because fundamental production efficiencies remain in place and the farm business slips even further from it’s competitive position. The farm cannot achieve the benefits that the capital investment would have provided, and remains a high-cost, inefficient producer.

The other type of wrong credit decision is when loans are approved when they shouldn’t be. In this scenario, the applicant puts together a plan using poor technique and/or unrealistic assumptions and the banker goes right along with them.   Sometimes, the lender will put together the unrealistic loan package and the farmer follows along, assuming the lender knows what he’s doing. In either case, borrower and lender dash headlong over the cliff. These types of loans usually result in really big problems for both parties. When the business collapses, the borrower blames the lender for being too conservative or too liberal with credit and the creditor blames the farmer for lack of management ability. Neither side admits to their mistakes made with the initial plan.

When the Creditor Says "NO"

When denied credit, it is important to determine the real reason for your lender's concern. The standard grounds given include insufficient cash flow to repay the loan, insufficient equity in the business to secure the loan, or lack of historical earnings. When you have a loan denied for any of these reasons, you should try to determine if the these are in fact real problems. If they are, then you should be able to map out a strategy to improve these areas of the business. One sure sign that a lender is being straight with you is when he or she offers to look at the loan request again after the current fiscal year to make sure your business is viable. If you can interest a lender in providing a smaller loan so you can prove your credit worthiness, you may be able to get a foot in the door. If you receive your denial with no personal response, you can be sure the lender is really not interested.

Lenders often use standard denials as a cover for other reasons they feel uncomfortable with the loan application. If you have a history of mistreating creditors or vendors or are unpleasant to deal with, you will never know why your request was denied. Loan officers may be forced to take an application by law, but they do not need to subject themselves to a life of abuse. Someone who does not want to lend you money will always be able to come up with a solid-sounding excuse. Other reasons that a lender may not want to do business with you include lack of a long-term business plan, no apparent estate plan, no plan to run the farm in event of the untimely death or disability of the primary owner or manager, or a blemished credit history.

If your loan request makes it to a loan committee, it might be wise to find out who is on the committee and what relationship or reputation you have with them. Doing some research before submitting the request may improve your chances of approval. Researching the loan officer can also be of help. Knowing how many loans he or she is currently supervising and how many of them may be problem loans that are consuming his time is important information. Submitting a credit request to an over-worked loan officer who puts it on the back-burner should be avoided. High turnover or workforce reduction in your bank's agricultural credit department are not good signs. They can signal a bank's intentions about their seriousness as an agricultural lender. Try to work first with banks or other farm lenders that are committed to agriculture and serve a rural market niche.

Finally, once a denial has been issued there's little chance for reconsideration. In all my experience with loan applications, I have rarely seen a lender change his or her mind. Only when a creditor is actively involved in helping you solve your problem is there a chance that a denial can be changed to an approval. In fact, truth be known, most experienced lenders know whether or not they want to lend you money within 15 minutes from meeting you. All the rest may just be a formality.

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