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# IOWA STATE UNIVERSITY

## **Ag Bankers -- Today and Tomorrow**

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## **Ag Bankers – Today and Tomorrow<sup>1</sup>**

In 2008, U.S. farmers carried approximately \$225 billion in debt obligations. Nearly 80 percent of all farm debt was extended by either commercial banks (45 percent share) or the Farm Credit System (35 percent share). For the most part both banks and the Farm Credit System (FCS) are direct or relationship lenders where loans are originated and serviced by loan officers. This report looks ahead over the coming decade at the market for agricultural loan officers. Using data from a survey of Iowa bank presidents we present information on the following topics that are relevant to the agricultural lender market.

- Current and expected growth in agricultural loans
- Current and projected staffing levels by job title
- Expected retirements and estimated hiring levels
- Desired training and experience for new agricultural lenders
- Use of internships to develop agricultural lending talent
- Projected compensation for new hires with comparisons to other jobs
- Anticipated professional development activities

### **Survey Design**

In November 2008, we conducted an on-line survey of 401 bank CEOs in Iowa. The mailing list was provided by the Iowa Bankers Association and included nearly all bank executives in the state. In conducting the survey, we used a modified Dillman method with an initial e-mail and two follow-up e-mails a week apart. We received 106 valid returns for a return rate of 26.4 percent.

### **Respondent Overview**

Table 1 presents the job title of the respondent. Approximately 86 percent of the surveys were completed by the senior executive (CEO or market president) in the bank. The majority, 93 percent, of the banks described their trade area as county or as multi-county (Table 2). The average bank size measured by asset value was \$125 million (Table 3). Agricultural loans for farm operating, farmland or agribusiness – commercial comprised 42 percent of total loans. For the most part, the survey respondents represent medium-sized community banks serving heavily agricultural markets.

### **Expected Portfolio Change**

Respondents were asked to project growth in their loan portfolios over two five-year periods. Average responses are presented in Table 4. Projected growth rates are essentially the same for both periods. Total loans were projected to grow by 15 percent, a greater rate than farm operating, farmland or agribusiness loans. This suggests that the total volume of agricultural

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credit is expected to grow over the next decade. However, the proportion of agricultural loans in the banks' total portfolio is expected to decline.

### **Current and Projected Staffing Levels**

Agricultural loan customers can be served by a number of different credit professionals within the bank. For this survey we defined four job titles or position descriptions for agricultural lenders.

1. General agricultural loan officer. This is the traditional job title for an agricultural lender. This individual would perform most of the lending functions such as loan origination, underwriting and analysis, supervision, monitoring, some documentation and cross-selling of bank products and services.
2. Relationship manager. In some lending institutions, particularly the larger ones, the duties of the general agricultural loan officer have been divided into those of a relationship manager and a financial or credit analyst. A relationship manager is focused more on sales – on a business development, loan servicing and cross-selling.
3. Financial or credit analyst. This job title focuses on underwriting, risk rating and monitoring of new and existing credit customers. Often the financial analysts will be centralized and will work at a distance using on-line tools with several relationship managers.
4. Trust officer. This is a traditional job title in the bank that involves managing or servicing the needs of trusts created by bank customers. In agriculturally-specialized community banks, many trust assets will be related to agriculture.

Given these definitions, respondents were asked to describe their current staffing levels (Table 5). Staffing levels were requested both in terms of persons as well as full-time equivalents (FTEs). In general, if FTEs are less than the number of persons, in a particular function, we can assume individuals have multiple job responsibilities. The ratio presented in the last column of Table 5 measures the level of specialization in the job titles. On average the general agricultural loan officer is the dominant job title followed by relationship managers and credit analysts and trust officers. The general ag loan officer tends to be the most specialized. The trust officer appears to have more shared responsibilities.

In Table 6 we report projected staffing levels in FTEs for these job titles for the next two five-year periods. Respondents expect staff levels to grow over the next decade for all four positions. Employment of general agricultural loan officers is expected to grow at about the same rate as the expected growth rate of agricultural operating loans (Table 4). In relative terms respondents expect more growth to occur in relationship managers, financial analysts and trust officers over the next 10 years.

Finally, Table 7 reports projected retirements and estimated new hires based on anticipated staffing levels. Not surprisingly retirements are higher in the 2015-2019 period. However new hire rates are mixed – relatively more credit analysts are expected to be hired in the first five-year period and more relationship managers in the second five-year period.

It is difficult to project total new hires for the Iowa banking industry based in this sample. However, in 2007 there were approximately 258 banks in Iowa that are classified as agricultural banks (those with at least 25 percent of all loans secured by farm assets or used in agricultural production). If we use this as a estimate of the number of banks in our survey universe, the total number of new hires projected for all four job titles are 477 and 511 respectively for the two time periods.

### **Education and Experience**

We asked bank CEOs to rank attributes that they might seek in new agricultural lenders. Using a five-point Likert scale from (1) not important to (5) essential, respondents evaluated aspects related to a new hire's background, education, previous work experience and specific skills. Table 8 summarizes the ten highest ranking attributes (those ranked very important or essential) for general ag loan officers, relationship managers and financial analysts. Table 9 summarizes all of the attributes by mean score and the percent of respondents ranking the attribute not important or somewhat important (Likert score 1, 2) or very important or essential (Likert score 4, 5).

Clearly, the most desired attributes as shown in Table 8 are "soft skills" – communication, teamwork, problem solving. Formal education and work experience are considered important for the three job descriptions, but rank well below the soft skills. Financial analysts tended to have somewhat higher rankings in education, experience and some hard skills. General ag loan officers and relationship managers had similar training and experience profiles. Looking at Table 9, some of the apparently least valued traits were majors in liberal arts, an MBA, experience in teaching, public service or farming.

### **Internships**

One area that we wanted to examine was bank executives' perception of student internships. Most of the agricultural businesses, against which banks compete for talent, now make extensive use of internships as a prerequisite for hiring new employees. Internships provide a pipeline for new talent as well as creating an opportunity for an "extended interview" with a prospective hire. Students recognize the value of internships on their resumes and will generally try to have at least 2-3 summer internships by the time they graduate.

Respondents were asked to rank the importance of internships received in lending and agribusinesses for new hires in the three job descriptions. Their ranks are summarized in Table 10 and 11. The simple conclusion is that our respondents don't view internships as particularly important for new hires in agricultural banking.

The bank executives' perception appears to be at odds with trends within the agricultural industry. One explanation may be the difficulty of offering internships in smaller community banks. An inability to offer internships makes it difficult to gain some of the pipeline and extended interview benefits that larger businesses are able to obtain.

## Compensation

Starting and potential compensation levels play a significant role in recruiting new talent. Respondents were asked to estimate starting and projected compensation levels (salary plus bonus) for the three job titles. Mean values and ranges are reported in Table 12.

Relationships managers are, on average, the highest compensated new hires – both at starting levels and for the 10 year projection. Further, relationship managers appear to have the greatest range both on the upside and the downside. This may reflect a more incentivized pay structure. Credit analysts were the lowest paid job title with the least growth potential as well. The implied annual rate of compensation growth for general agricultural loan officers is slightly less than 5 percent. For credit analysts it is slightly less than 4 percent.

In Table 13 we report starting salaries for agricultural economics or agricultural business managers by a number of employers. The results come from a recent survey conducted by agricultural placement officers at several of the major universities.<sup>2</sup>

The report, [Entry-Level Salary Information for Recent Graduates and Related Disciplines](http://www.career.ag.iastate.edu/info/shi/salary_results08.pdf) is available on-line at [http://www.career.ag.iastate.edu/info/shi/salary\\_results08.pdf](http://www.career.ag.iastate.edu/info/shi/salary_results08.pdf)

Average starting salaries in lending and finance are second lowest – only insurance industry is lower. This may reflect a longer on-the job training program for new hires in ag lending. However, the lending salaries significantly lag those in merchandising and accounting – positions that would require similar skill sets.

## Training and Development

The training and development of new loan officers is a critical task for banks. The cost of this training, as stated earlier, may be evident in lower starting salaries. Also since career ladders are often short in smaller community banks, professional development and training may be required as a retention incentive – offering employability rather than employment.

Table 14 summarizes the type of training and develops methods employed by the respondent banks. Informal on the job training and external short course are most frequently employed. Few banks reported using a formal in-house training program, again likely a reflection of their small size.

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<sup>2</sup> Clemson University College of Agriculture, Forestry and Life Sciences; Colorado State University; Warner College of Natural Resources and College of Agricultural Sciences; Iowa State University College of Agriculture and Life Sciences; Michigan State University College of Agriculture and Natural Resources; Oklahoma State University College of Agricultural Sciences and Natural Resources; Purdue University College of Agriculture; The Ohio State University College of Food, Agricultural and Environmental Sciences; University of Florida College of Agricultural and Life Sciences; University of Georgia College of Agricultural and Environmental Sciences; University of Illinois College of Agricultural, Consumer and Environmental Sciences; University of Missouri College of Agriculture, Food and Natural Resources; University of Wisconsin College of Agricultural and Life Sciences.

We asked respondents to rank the importance of several specific training programs or schools for their agricultural lenders and analysts. Table 15 reports the percent of respondents ranking their school as very important or essential.

The highest ranking program for all job titles is the Agricultural Credit School – a specialized agricultural lending program offered by Iowa State University. Similar programs are available in other states or regions as well. The Agricultural Credit Conference – an annual two day continuing education event is the second highest ranking program.

Relationship managers are perceived to benefit more from graduate banking schools. In general, respondents are less likely to value further these education programs for credit analysts.

### **Agricultural Lending as a Career Step**

Finally, we asked bank executives for their assessment of the importance of agricultural lending experience in the career path for community bank presidents. Table 16 summarizes their responses. Despite growth in community banks, and the decreasing role agriculture plays in many of their loan portfolios, most respondents believe experience in agricultural lending is an important career step for future community bank presidents.

### **Conclusions**

In this paper we summarized information from a survey bank executives on the demand for agricultural lenders, desired job skills and likely compensation.

In general, the surveyed bank executives expected:

- Growth in agricultural loans but at a lower rate than total loans
- A net gain in employment for agricultural loan officers
- A preference for soft skills over formal training in agriculture or finance
- Limited use of internships to develop or identify future employees
- Starting compensation levels at or below those offered by competing industries
- Modest rates of growth in compensation

One final comment, the information presented in this report reflects the views of very traditional agricultural lenders. It may not be reflective of the whole industry – Farm Credit Systems non-traditional lenders, the Farm Credit System or the USDA's Farm Service Agency.

<b>Table 1. Respondent Job Title</b>	
<b>Title</b>	<b>Percent of Respondents</b>
President/CEO	70.1
Branch/Market Executive	16.4
Agricultural Loan Officer	12.5
Human Resource Officer	1.0

<b>Table 2. Bank's Trade Area Definition</b>	
<b>Area</b>	<b>Percent of Respondents</b>
County	21.8
Multi-County	71.3
Statewide	3.0
National	3.0
International	0.9

<b>Table 3. Average Loan Portfolio</b>		
<b>Market Segment</b>	<b>Loans Outstanding (\$ million)</b>	<b>Customers</b>
Farm Operating	15.3	137
Farmland	12.4	67
Agribusiness-Commercial	4.0	31
Total Loans	74.7	800
Total Assets	125.1	N/A



<b>Table 4. Average Expected Loan Portfolio Change (Percent Change)</b>		
<b>Market Segment</b>	<b>2009-2014</b>	<b>2015-2019</b>
Farm Operating	12.1	11.8
Farmland	9.4	9.2
Agribusiness-Commercial	7.4	7.2
Total Loans	15.1	15.4

<b>Table 5. Average Current Staffing Levels</b>			
<b>Job Title</b>	<b>Persons</b>	<b>FTEs</b>	<b>Ratio (FTE/Persons)</b>
General Agricultural Loan Officer	2.85	2.78	.98
Relationship Manager	1.46	1.41	.96
Credit Analyst	0.83	0.75	.90
Trust Officer	0.63	0.50	.79

<b>Table 6. Average Projected Staffing Levels (FTEs)</b>				
<b>Job Title</b>	<b>2009-2014</b>	<b>Change (%)</b>	<b>2015-2019</b>	<b>Change (%)</b>
General Agricultural Loan Officer	3.14	12.9	3.38	7.6
Relationship Manager	1.67	18.4	1.82	9.0
Credit Analyst	0.98	30.7	1.10	12.2
Trust Officer	0.58	16.0	0.68	17.0

**Table 7. New Hires and Retirements (FTEs)**

Job Title	2009-2014		2015-2019	
	Hires	Retirements	Hires	Retirements
General Agricultural Loan Officer	0.84	0.48	0.91	0.67
Relationship Manager	0.48	0.22	0.59	0.44
Credit Analyst	0.32	0.09	0.23	0.11
Trust Officer	0.21	0.13	0.25	0.15

**Table 8. Top 10 List of Ag Lender Attributes (% Reporting Very Important or Essential)**

Ag Loan Officer	Relationship Manager	Financial Analyst
1. Problem Solving (92.8)	Verbal Communication (91.8)	Computer Literacy (86.5)
2. Verbal Communication (91.8)	Written Communication (87.0)	Problem Solving (84.0)
3. Team Work (88.7)	Problem Solving (84.5)	Written Communication (82.2)
4. Written Communication (80.2)	Team Work (84.5)	Team Work (74.3)
5. Computer Literacy (80.2)	Computer Literacy (78.6)	Verbal Communication (68.9)
6. Farm Background (77.3)	Leadership (66.2)	BS Business/Finance (52.6)
7. Leadership (67.0)	Farm Background (65.8)	BS Ag-Business/Ag-Econ (39.5)
8. BS Ag-Business/Ag-Econ (56.7)	BS Ag-Business/Ag-Econ (45.8)	Leadership (38.7)
9. BS Business/Finance (46.4)	BS Business/Finance (43.1)	Finance Experience (37.8)
10. Commercial Lending (34.4)	Commercial Lending (34.4)	Farm Background (35.5)

**Table 9. Importance of Selected Background, Education, and Experience Attributes of New Agricultural Lenders**

Background	General Ag Loan Officer		Relationship Manager		Financial Analyst	
	Mean	Importance	Mean	Importance	Mean	Importance
Farm Background	3.96	(1,2)=8.3 (4,5)=77.3	3.64	(1,2)=17.8 (4,5)=65.8	3.0	(1,2)=40.8 (4,5)=35.5
Leadership in Student Organizations	2.62	(1,2)=46.4 (4,5)=17.5	2.76	(1,2)=36.1 (4,5)=17.5	2.37	(1,2)=57.9 (4,5)=14.5
Internships in Lending	2.49	(1,2)=51.0 (4,5)=19.8	2.54	(1,2)=49.3 (4,5)=19.7	2.37	(1,2)=54.7 (4,5)=14.7
Internships in General Ag or Business	2.69	(1,2)=44.8 (4,5)=22.9	2.56	(1,2)=47.9 (4,5)=16.9	2.25	(1,2)=58.7 (4,5)=10.7
<b>Education</b>						
BS Ag Business/Ag Econ	3.53	(1,2)=17.5 (4,5)=56.7	3.35	(1,2)=22.2 (4,5)=45.8	3.14	(1,2)=31.6 (4,5)=39.5
BS Production Agriculture	2.80	(1,2)=35.8 (4,5)=23.2	2.68	(1,2)=42.3 (4,5)=15.5	2.53	(1,2)=50.7 (4,5)=16.0
BS Business/Finance	3.31	(1,2)=20.6 (4,5)=46.4	3.32	(1,2)=19.5 (4,5)=43.1	3.47	(1,2)=17.1 (4,5)=52.6
BS Business/Marketing	2.60	(1,2)=48.4 (4,5)=15.8	2.63	(1,2)=47.9 (4,5)=19.7	2.31	(1,2)=61.3 (4,5)=12.0
BA/BS Liberal Arts	2.06	(1,2)=73.4 (4,5)=9.6	2.14	(1,2)=69.6 (4,5)=8.7	2.18	(1,2)=65.8 (4,5)=8.2
MBA	1.30	(1,2)=95.7 (4,5)=2.1	1.34	(1,2)=92.9 (4,5)=1.4	1.36	(1,2)=89.2 (4,5)=1.4
<b>Previous Experience (1-3 years)</b>						
Commercial Lending	3.03	(1,2)=35.4 (4,5)=34.4	3.09	(1,2)=37.1 (4,5)=38.6	2.64	(1,2)=45.2 (4,5)=20.6
Farming	2.43	(1,2)=59.0 (4,5)=17.9	2.36	(1,2)=62.3 (4,5)=15.9	2.11	(1,2)=69.9 (4,5)=13.7
Agribusiness	2.67	(1,2)=49.0 (4,5)=20.8	2.59	(1,2)=53.6 (4,5)=15.9	2.26	(1,2)=64.9 (4,5)=10.8
Management	2.40	(1,2)=57.3 (4,5)=13.5	2.64	(1,2)=45.7 (4,5)=18.6	2.11	(1,2)=73.0 (4,5)=8.1
Sales and Marketing	2.69	(1,2)=46.9 (4,5)=20.8	2.93	(1,2)=38.6 (4,5)=30.0	2.13	(1,2)=72.2 (4,5)=8.3
Finance	3.06	(1,2)=25.3 (4,5)=30.5	3.10	(1,2)=28.6 (4,5)=32.9	3.15	(1,2)=28.4 (4,5)=37.8
Teaching	1.52	(1,2)=89.4 (4,5)=3.2	1.69	(1,2)=83.8 (4,5)=4.4	1.53	(1,2)=86.1 (4,5)=2.8
Government/Public Service	1.44	(1,2)=88.4 (4,5)=2.1	1.48	(1,2)=88.4 (4,5)=1.5	1.36	(1,2)=91.8 (4,5)=1.4
<b>Skills</b>						
Verbal Communication	4.51	(1,2)=0.0 (4,5)=91.8	4.51	(1,2)=4.3 (4,5)=91.4	3.95	(1,2)=9.5 (4,5)=68.9
Written Communication	4.16	(1,2)=1.0 (4,5)=80.2	4.28	(1,2)=2.9 (4,5)=87.0	4.23	(1,2)=4.1 (4,5)=82.2
Computer Literacy	4.20	(1,2)=1.0 (4,5)=80.2	4.16	(1,2)=5.7 (4,5)=78.6	4.46	(1,2)=2.7 (4,5)=86.5
Problem Solving/Analytical	4.43	(1,2)=0.0 (4,5)=92.8	4.30	(1,2)=2.8 (4,5)=84.5	4.40	(1,2)=1.3 (4,5)=84.0
Leadership	3.80	(1,2)=4.1 (4,5)=67.0	3.79	(1,2)=8.45 (4,5)=66.2	3.16	(1,2)=22.7 (4,5)=38.7
Team Work	4.38	(1,2)=1.0 (4,5)=88.7	4.34	(1,2)=5.6 (4,5)=84.5	4.19	(1,2)=4.1 (4,5)=74.3

Importance	Ag Loan Officer	Relationship Manager	Financial Analyst
Not important/ Somewhat important	52.0	49.3	54.7
Essential	1.0	1.4	0.0

Importance	Ag Loan Officer	Relationship Manager	Financial Analyst
Not important/somewhat important	44.8	47.9	58.7
Essential	4.1	2.8	0.0

Job Title	Start	5 years +	10 Years +
General Agricultural Loan Officers	41.5 (25-70)	53.7 (34-85)	66.5 (44-100)
Relationship Managers	45.0 (25-140)	56.3 (30-150)	67.8 (35-160)
Credit Analysts	36.9 (20-70)	45.5 (24-85)	54.5 (35-100)
Trust Officers	39.5 (20-55)	50.1 (39-75)	61.1 (40-100)

Job Title	Average Salary	Low Salary	High Salary	Number of Observations
Accounting	\$45,250	\$30,000	\$56,000	8
Elevator Management	41,750	35,000	48,000	6
Farm Management/Operations	40,769	30,000	50,000	13
Grain Merchandising/Commodities	46,231	43,000	60,000	13
Insurance	35,200	30,000	39,000	5
Lending/Finance	36,422	24,000	54,000	23
Marketing/Public Relations	38,499	25,000	73,000	13
Policy/International Trade	44,500	44,000	45,000	2
Production/Management Trainee	40,753	17,700	65,000	32
Sales Representative	42,719	20,000	55,000	42
Other	38,896	22,500	52,500	24
Major Total	\$40,765	\$17,700	\$73,000	181

Source: Entry-Level Salary Information for Recent Graduates and Related Disciplines,  
[http://www.career.ag.iastate.edu/info/shi/salary\\_results08.pdf>07/08](http://www.career.ag.iastate.edu/info/shi/salary_results08.pdf>07/08)

<b>Method</b>	<b>Never or Rarely Used</b>	<b>Occasionally Used</b>	<b>Always Used</b>	<b>Mean</b>
Formal In-house Training Program	41.4	38.4	20.3	1.79
Schools and Short Courses Offered by Other Organizations	12.0	44.0	44.0	2.32
Information on the Job Training	17.0	16.0	67.0	2.50
On-line Courses	23.0	58.0	19.0	1.96
Conferences	16.0	61.0	23.0	2.07
Trade Shows	27.3	49.5	23.2	1.96

	<b>Agricultural Loan Officer</b>	<b>Relationship Manager</b>	<b>Credit Analyst</b>
IBA Commercial Lending School	23.5	29.1	32.4
ISU/IBA Agricultural Credit School	69.4	63.9	50.0
Graduate School of Banking (WI, CO)	20.4	23.6	16.2
IBA Agricultural Credit Conference	39.8	32.0	23.0

<b>Response</b>	<b>Percent</b>
Strongly Disagree	2.0
Disagree	13.0
Not Sure	15.0
Agree	46.0
Strongly Agree	24.0