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Across the Country

What Makes the Computer Software Work for the Customer and Lender

by Rhonda J. Brooks

Investing in computer software or services

Five years ago James McGrann often agreed with agricultural lenders who said computers were too costly an investment. But he doesn't support that argument anymore. "If lenders only use a Lotus spreadsheet, that would be profitable for them," says McGrann, professor of agricultural economics at Texas A&M University.

The question, he contends, no longer is "Do lenders need computers for financial analysis?" The questions now are: "What do they need and when do they need it?"

"That's easy enough to answer," says Judy Buffo, Vice President of Products for Data-sphere Computer Systems, Portland, Oregon. "Ag lenders need to buy a system or a service if they start noticing bad loans in their portfolios. That may be an indication that the loans weren't qualified properly."

Choosing a software package

Last year the First National Bank in Blandinsville, Illinois, purchased software to improve the quality of credit information

farm borrowers provided. "Our customers didn't utilize a formal record-keeping system, and we could see how one would provide added income," explains Ben Powell, Assistant Vice President. "We also saw it as a way to review new customers."

After examining several systems, First National bought a software package consisting of Coordinated Financial Statements (CFS) and TransAction Plus. CFS is a menu-driven program that consists of financial statements, ratio analysis reports and performance statements. The system also includes a balance sheet, income statement, statement of changes in financial position and a cash-flow statement.

TransAction Plus is a check and deposit-writing double entry accounting software program that integrates with CFS. Both were developed by Farm Business Systems Inc. (FBS), based in Aledo, Illinois.

"This system met our management objectives, and we also knew with FBS we'd have good support," Powell points out.

In 1987, Powell used the system in a pilot stage with six farmer-customers and will launch it officially this fall. The bank will

charge each customer a start-up fee to cover supplies — a binder for reports, a beginning balance sheet and a projected cash flow. In addition, the bank will charge customers a monthly fee and a per-line charge.

The cost of the program, Powell says, was covered in the first year. "We needed five accounts to do that, and we had six," he says. "We feel comfortable with the idea of handling 20 accounts next year."

...the major producers of agricultural software today have viable programs.

Powell says that bank farmer-customers are very receptive to the program, even though they must pay for it. "Word got out that we were going to do this, and we ended up having to turn some people away," he notes.

James McGrann points out that the major producers of agricultural software today have viable programs. "There's a maturity in these companies now that didn't exist five years ago," he says. "There are a number of them, depending upon your needs, that would provide satisfactory packages." In 1987, McGrann, in conjunction with two associates at the university, reviewed seven financial analysis programs that are used widely by producers, educators and lenders. This review, "Evaluation of Agricultural Financial Analysis Software" is available without charge by contacting the Department of Agricultural Economics at Texas A&M University.

Buying service

For agricultural lenders with limited resources, working with a consultant is a viable alternative to purchasing a system. For the past five years, Darrell Dunteman, a managing partner of Dunteman and Company, Lewistown, Illinois, has provided financial analysis services to lenders and farmers. Dunteman says lenders who seek his con-

sulting services, which cost up to \$60 an hour, usually have small loan portfolios and lack the internal resources to meet their farmer customers' financial analysis needs.

"Our bank customers typically have total capital of \$20 million or less," Dunteman says. "Banks larger than that probably could justify establishing their own system."

Though size dictates to a large degree whether a bank uses a consultant's services, other factors play a role. Within the past two or three years, concerns with lender liability have prompted banks to turn to a third party.

"A lot of lenders are worried," he says. "I have a friend who won't input a financial statement into his computer to do a cash flow for a farmer unless the farmer fills out the worksheet — he wants that for documentation."

Dunteman says liability isn't as great a concern for consultants since they make no recommendations to farmers. Dunteman also points out that he uses already established standards to document his analysis. "In some cases we use FmHA's (Farmer's Home Administration) standards or the state record-keeping systems," he explains.

Pressure from auditors is another factor that prompts some banks to seek outside help. Since 1984 the Center for Excellence and Farm and Ranch Management, a division of Pratt Community College, Pratt,

Pressure from auditors is another factor that prompts some banks to seek outside help.

Kansas, has offered Kansas lenders and farmers a computerized farm management program.

The Center's nine-member staff has the capability to provide farmers and their lenders with a variety of services including financial statements, projected cashflows, debt amortization, a five-year "Schedule F" tax analysis, a USDA farm program analysis, monthly recordkeeping and enterprise

analysis. Roger Thornton who farms in addition to directing the Center has worked with more than 20 banks and their farm customers.

"After initial information is developed, it then becomes important to monitor how actual cash flow compares to projected cash flows on a monthly basis, and to educate farm clients and lenders in analysis of the generated data," Thornton points out.

"Much of the incentive banks have for record-keeping analysis has resulted from auditors' demands," Thornton adds. "However, it's in a bank's best interest to help farmers improve their business outlook and income."

Farmers take initiative

Farmers' interest in record keeping and financial analysis is evident by their response to a project that James McGrann directs at Stiles Farm Foundation in Thrall, Texas. There, farmers can enroll in micro computer application short courses on farm and ranch accounting, performance records and financial-management decision aids. Cost for the three-day course is \$185.

"Farmers find having good financial information is profitable irrespective of

lenders' document requirements," McGrann says.

Gary Karkosh is a farmer who sees both sides of the fence. A row crop and hog producer from north-central Iowa, Karkosh just recently finished a term as a board

"Farmers find having good financial information is profitable..."

Jim McGrann, Texas A&M

member of the Lincoln Savings Bank in Reinbeck.

Karkosh, who does his own record-keeping and analysis, believes lenders need to develop an information-specific form that farmers can use to convey data to them. "It would help farmers communicate better with their lenders," he notes.

McGrann agrees. He also points out that most farmers perceive their lenders as experts at analyzing financial management records. And McGrann thinks they should be. Otherwise, he points out, "It's like telling a guy he ought to buy a car when you're still riding a horse."