Agricultural Banks Need To Focus On New Ideas

by Randy Allen

The *subject* of the larger farms and the fewer farmers trend has been beaten to death by the media; however, the fact that in just a few short years 50% of Iowa's farm ground will be owned by those 65 and older is certainly alarming.[1] By the end of the new seven year farm bill (FAIR), well over half of the U.S. producers will be facing retirement. Another fact – more than 70% to 80% of the producers will mismanage the next price trend – is financially scary. These are huge issues, but the truth is that agricultural banking has not reacted to these issues or become seriously competitive – *yet.*

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So far, it has been mostly talk. However, the day is coming when a lending Darwinism will occur in agriculture. *You may not want to read on ...*

Since the ag financial debacle of the 1980s, there has been a common attitude of "everyone is in this together" or "if we get along with one another, we will all have a better chance of surviving." This is called *local loyalty* and it simply means, "Don't step on anyone's toes!" In many cases, rural towns support two to three agricultural banks with an average of 100 to 300 producers. When you have no one stepping on anyone's toes, by and large you have a social watering down of economic growth.

And then, of course, there's the new farm bill. For a change, the writing is on the wall – **"NO MORE AG SUBSIDIES AFTER SEVEN YEARS!"** It reminds me of Old Testament Jeremiah when he financially prophesied that food would become more expensive than the land that produced it.[2] Nobody would believe his forecast because it seemed too crazy. So they went about their normal business routines until they got hungry – until they felt the impact – until it was too late. But Jeremiah changed. He had faith in God and his own capabilities. When faced with starvation for his people – he bought the land, changed it, and made all things new. By doing so, he was empowered.

Realistically, here's how USDA subsidies have really worked in the past:

For one farm program reason or another, the producer gets a government check. For some farmers, this check helps bail them out of their poor crop year. For others, it's a free check because they produced an excellent crop; only to face marketing consequences that determine their final income. Either way, the check is deposited where? At the bank. In turn, these checks help secure the bank if they are geographically located in a poor crop area. For other banks, the extra check helps erode their customer's longer term debt.

In the final stage, the community is either helped out of a poor agricultural economy or they will find the local banks more aggressive loaning money. It has kind of been a rural development program all of its own. But it will be gone in seven years and the impact of the farmer's financial management skills will be felt the country over.

The warning has been issued and the program has been cast in stone, but for many, agricultural banking goes on about its merry routine.

In agriculture, the banking industry must create a new vision with new ideas. In this new vision, new products and services must also be created. Opportunity abounds when you discover the glass is (after all) really half full. To begin this process ask yourself, the bank management, and the board these three questions:

1. **How do we maintain what we have? – The safe zone.** Simply, what are you and your bank doing well?

2. **Will "what we are doing" work in the future? – The gray area.** What will work and what won't.

3. **Who's worth saving? – The risk terrain.** The NFL waives players who don't meet the team management's objectives. Vines are pruned to spur growth, etc. I think you get the picture.

Once you have answered these three questions you must create a vision. Here are some situations to get your idea juices flowing …

Situation One: *What if your ag lenders didn't have offices at the bank?* Say, instead of three offices at the bank, they had three company cars. What would they do? How would they report? Who would they report to?

Situation Two: *What if you built an office at a different location for only your ag clients?* What would the building look like? Who would work in it? What kind of employees would you need? How would you structure the routine?

Situation Three: *What if your bank sold certain services and products in your area that others are offering?* What would those services and products be?

If you aren't redefining your bank, the structure, and your farm customers there is a good chance the friendly bank across the street is. In seven short years, basic federal farm supports will be extinct, eliminating what everyone has relied on for the past 60 years. Your institution will have 30% fewer farm customers and so will your friendly bank across the street. The local grain/livestock terminal in your town will struggle, searching for enough volume to keep the sheriff away as Cargill, Con Agra, Continental, etc. grow. At this point (and it's closer than you think), wouldn't you imagine your bank and the friendly one across the street will be doing about anything possible to retain the current customer bases (what's left of it) and fill declining client numbers with new customers (from the other bank)?

Why doesn't your bank become *the* agricultural center of your community, county? Why can't your bank go beyond financing? Why can't it own the local grain/livestock terminal? Why can't your bank sell seed? Why can't it sell fertilizer and chemicals? Why can't your bank employ an agronomist or vet? Why doesn't it sell implements? There are many things you can do, but starting now is paramount. Most likely, all of these changes must take place before the seven years are up. In the 1980s, ag banking institutions faced financial upheaval. Today, banks face an industry upheaval. Those committed to agriculture will open their eyes and see the big picture before them and embrace change.

Take a look at other industries that have changed immensely. The first legitimate car manufacturer made a total of 13 cars. By 1908, there were 250 automobile makers. In 1929, there were only 44 left. IBM and Smith Corona were conducting business on an equal basis – typewriters. IBM risked their future on the computer business and Smith Corona filed Chapter 11 last year. Currently, in U.S. agriculture, the top two reasons for stressed farm borrowers are that the farm is too small, and poor financial management skills.[3] Do these statistics sound familiar? We have a long way to go, but for those who are committed it will surely be profitable.

[1]*Iowa State University*
[2]*Jeremiah 32*
[3]*Iowa State University* ▲