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The Ag Economy

Bites...

Blah...

Blah...

Blah!

by Gary L. Kruse

Gary L. Kruse is president/CEO of ECI Software, a Glenwood, Iowa-based developer of the Farm Equity Manager credit and production analysis software. He can be contacted at 800-264-0787, by fax at 712-527-4856, by e-mail at inquire@eci-equity.com, or at www.eci-equity.com.

Tick-tick-tick-tick-tick-tick-tick. "I'm Andy Rooney. Aren't you just sick and tired of all the gloom and doom surrounding today's ag economy? Low commodity prices this, lost export markets that, and, oh, those localized droughts! It's enough to make milk shoot out of a dairy cow's nose...."

OK, perhaps we're not quite ready for the Andy Rooney of Ag, but I'm tired of the gloom and doom mentality pervading our industry today. I don't know about you, but I see good things happening all around us.

I see Federal Reserve and USDA reports indicating that ag loan portfolios are healthy, with lenders reporting strong profitability and good loan quality. I see Uncle Sam stepping up to help those hit hardest in the last year and a half. I see a lot of lenders out there doing everything they can to help customers through tough times, and I attribute a lot of their resilience and future successes to their use of Information Technology (IT).

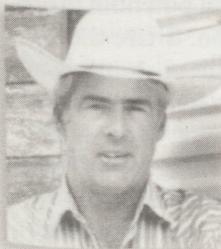
Ever since the anguished 1980s our industry has spent a lot of time and money on IT to keep the effects of a bad economy from plaguing our portfolios. And according to a report from New York City-based Datamonitor, this spending trend is not about to end anytime soon. Overall IT spending by banks will escalate to \$31 billion in 2002, up from \$23.49 billion in 1998. It's clear that banks understand the need to align technology with their business game plans in order to remain competitive.

Are you one of them?

Yes or no, here are some of the very cool things that can be accomplished by making IT a key part of

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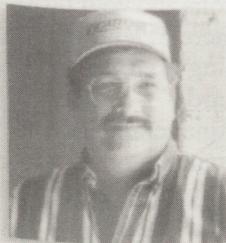
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your overall strategy (and help dissipate this haze of gloom and doom).

The Good. The Bad. The Ugly.

It is said that money makes the world go 'round. That's not correct. It is fast access to lots of information that helps make the money that makes the world go 'round.

Based on this theory, how do you know what's good, bad or ugly in your own portfolio? I'm assuming you have some type of reservoir or database of customer financial information, either on a hard drive in a computer or, God forbid, on hard copy in a filing cabinet, that allows you to know the status of your portfolio. The key here is how quickly and easily you can access your data.

It is imperative that you have your customer data in an electronic format that is easily accessible so you can quickly identify both the bad/ugly debts, as well as the oh-so-good opportunities that will keep you competitive. The only way to accomplish this is with quality IT tools. If you do not currently have these capabilities, *seek help immediately* (or move to the big city and get a factory job).

What if...?

Let's take this fast access to information concept to the next level. Let's assume you have 50 customers in a computer database and you can quickly and easily access this data anytime you want (and are enjoying great success with this system of yours). Now, what if you could add your database to other databases across the county, region or state? Think of it as a database of databases, or a central ag-specific database, containing thousands of quality financial

records. What could you do with it?

Peer-to-Peer Benchmarking

Many ag lenders see the value of performing peer-to-peer benchmarking on their customers for risk management and value-added customer service. How about you?

What if you could quickly and easily compare a 2,000-acre corn farmer in southern Minnesota with all 2,000-acre corn farmers in southern Minnesota and the surrounding area? It could help you spot potential problems in the operation. Share that information with your customer and you may be able to help him better manage what he's got. You would easily maintain the integrity of your portfolio through your daily routine and help the customer perform better. He would appreciate it and never leave you for another lender, ever.

Serious Competitive Advantage

Access to quality financial data, and lots of it, is vital to both your risk management decisions and your profitability. The commercial lending industry has been using credit scoring models or "scorecards" – based on mass quantities of financial data – as the sole decision maker, or as one input piece in the overall decision-making process, for many years. Why? So they can turn around a loan decision faster than their competitors can – without compromising their lending standards.

The Bad News: Ag lenders have never had access to a pure agriculture scorecard.

The Good News: You will have access later this year. The ag scorecard will be based on the variables that are most critical for differ-

entiating between good and bad accounts. It will be validated, meaning it will be based on statistical analysis using the very latest industry standards to reveal the best predictive indicators of loan performance. It will be a very powerful IT tool for increasing loan volumes and maintaining happy, loyal customers.

Workin' The Web

All this wonderfully quick and easy access to vital information that will keep you safe and competitive for generations to come needs a home. That home is called the World Wide Web, and it will become the single-most valuable tool you will use every single day of your working life for sales, training and customer service duties:

- *Streamline internal communications:* From branch to branch to holding company; relationship managers on the road; loan committee and board meetings; help desk support.

- *Reach out and touch customers:* Meet with them to renew loans; review financial statements; share documents and files – all from your

respective desktops!

- *Train your organization:* Train one person or 100, any software program any time, no software purchases necessary... Web browser does it all!

You don't need an official Web Site to take advantage of these opportunities (although I do recommend establishing a Web presence as soon you can). You can use the Web starting right now to save beaucoup bucks in annual productivity costs with a very minimal amount of cash and techno-fuss to get started. All you need is a computer, Web access; and a telephone.

Reality Check

There are some very cool IT tools and ideas out here designed to help you manage the risk you have, while taking advantage of the opportunities that are right in front of you, right now. Look at what's available in IT today. Ask questions. Get answers. And make the key decisions that will keep the gloom and doom haze from ever obstructing your view of a successful future in ag lending.

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