For most producers in the cattle business, the past several years have been characterized by persistent losses. The run up in feed and fuel prices last year has significantly eroded remaining equity positions for feedlot operators. The time to renew operating credit lines will soon be here. Because of the magnitude and duration of losses experienced by beef producers, renewal time is going to be difficult – both for you and your lender. How you approach your credit request and your lender will have an important impact on the outcome of your renewal discussion. Here are a few thoughts for you to consider.

Most ag lenders are expecting a rugged renewal season this year. It is likely that every livestock-related loan, particularly in beef and dairy, will require extra time, scrutiny, and hard choices. On top of that, many cash grain operations are facing potentially tighter margins this year, due to higher input costs last fall and spring, a jump in land rent, and lower crop prices.

Your lender is going to be glued to his or her desk for several months, with limited time to prepare financials and sort through your options. The more prepared you are, the better you will be able to get the best out of your lender’s time.

One more thing to remember: your lender works for a highly leveraged business that uses other peoples’ money. Your lender’s goal is to get paid back and earn a reasonable rate of return in the process. Loan losses can quickly undermine the financial position of the lender. Put yourself in your lender’s shoes as you work through your credit request for the year ahead.
Know your situation
You can’t wait for your beleaguered loan officer to prepare your financial statements – even if that has been your normal practice. Furthermore, you can’t afford to wait to discover the realities about your financial position until your renewal appointment.

At a minimum, you should have your beginning and ending balance sheets, an income statement, and a statement of cash flows prepared before you go in. These standard documents will give you a basic understanding of how your business has performed over the past year, and they set the stage for your plans for the year ahead.

If you aren’t comfortable preparing and reviewing these statements – get help. Your accountant would be a good place to start. You can also find financial information and spreadsheets on the Ag Decision Maker Web site (http://www.extension.iastate.edu/agdm/wdfinancial.html). There is no cost for this information or the decision tools.

Analyze your performance
Did you make or lose money? Were you able to meet your cash obligations? Has the equity in your business increased or decreased? Was the change due to earnings or changes in the value of your assets?

Booming land values can increase the market value of your net worth. But increasing land values can also cover up a world of problems that need to be addressed.

The objective in preparing and analyzing your business’ financial statements is to help you understand the reasons behind your financial situation. The better your understanding of the business end of your business, the better prepared you are going to be for formulating a plan for 2010 and beyond.

Use best management practices
High cost, inefficient businesses are high risk businesses. They lose money quicker during a downturn and they take longer to recover once economic conditions start to improve. Careful production management that results in quality products and low unit production costs will support the lending decision.

Have a plan
What do you want to do in the coming year? You won’t be able to develop a complete credit plan without input from your lender. But the place to start is with your ideas for your credit request.

How much operating credit will you require? When? Why? If negative cash flows are likely or if your equity is dwindling, what will you do about it? Your lender will expect a proposal. It is, after all, your business, not your lender’s.

Don’t forget risk management. A marketing plan along with insurance and participation in relevant government programs can reduce the amount of risk you face.

Controlling your risk exposure means your lender faces less risk in extending credit to you.

Plan B is still an option if your initial plans don’t pan out.★★★★