

# The Farmer's "Market"



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## Message from the President

ALAN HOSKINS

The phrase, "History doesn't repeat itself, but it often rhymes", is a quote often attributed to Mark Twain. While Mr. Twain could not have reasonably imagined the disruption we are currently experiencing to our daily lives, the phrase is applicable in regards to what we have worked together as a country to overcome prior challenges. Episodes such as the 1918 Spanish flu pandemic and periods of rationing during the World War II effort are other examples of the normal lives of Americans being affected. We know those events eventually subsided and normalcy returned their daily existences.

The Trump administration's recent designation of agriculture as an essential industry should ensure farmers and ranchers continue to have access to the products and services needed to allow them to continue feeding both America and the world. While the governmental action doesn't necessarily mean this year will be business as normal, it does remove some level of uncertainty as to what may be expected. Those of us in agriculture certainly understand other industries are dealing with major challenges. Our hearts, and more importantly, our prayers go out to them during this time.

The employees of American Farm Mortgage and our parent company, Legence Bank, stand ready to assist our customers as issues arise. We understand the uncertainty you may be feeling at this time and want to assure you the company's intent is to listen to your individual needs and work to develop customized solutions for each specific challenge.

As part of a 114 year old financial institution specializing in agriculture, we have previously assisted our customers in navigating problematic events. As the phrase at the outset of this article suggests, the specific challenges are different than those previously encountered. We know however that while we cannot control the trials, we can control our responses. Choosing to practice patience and consideration for others as well as taking time to appreciate and be thankful for the blessings we do have, are great ways to reduce the stress associated with trying times. I want all of you as customers of our institution to know you will be in my prayers during this period. The confidence you show in American Farm, by allowing us to serve you is greatly appreciated and we are here to be by your side during this problematic time.



# NATIONAL AG WEEK

March 22-28, 2020

National AG Week is celebrated on March 22-28, 2020. **It's a week to recognize and celebrate the abundance provided by AGRICULTURE.** Every year, producers, agricultural associations, corporations, universities, government agencies and others across America join together to recognize the contributions of agriculture. The Agriculture Council of America hosts the campaign on a national level.

Each American farmer feeds more than 144 people, a dramatic increase from 25 people in the 1960s. **Quite simply, American agriculture is doing more and doing it better.** As the world population soars, there is an even greater demand for the food and fiber produced in the United States.

## Thank A Farmer

### Loan Narratives: The Story Behind the Numbers

By Sara Schafer  
Ag Web

#### Why you should prepare a loan narrative for your lender

Numbers don't lie. But, do your financial documents tell the whole story about your operation? Likely, they don't.

With financial stress in farm country, lenders must thoroughly assess your financial standing. What can help prove you're a sound investment? One way is to prepare a loan narrative, which is a high-level overview of your operation and includes your goals, management structure and other information.

#### Frame Your Conversation

"A narrative paints a verbal picture of your farm and is not limited to just numbers," says Alan Hoskins, president and national sales director of American Farm Mortgage. "In today's world, where so much discussion is electronic, a well-written narrative can frame a

conversation between farmer and banker and ensure both understand where the operation is headed."

Narratives have always been important for farmers, adds Ashley Arrington, founder of ag consulting firm Agri Authority.

"Your banker, who knows you best, isn't making the decision about your loan," she says. "It's a credit analyst or board. A narrative makes it easy for the decision maker to understand your operation."

Another benefit of a narrative is it removes the chance of mistakes as your loan request moves from one person to the next.

"It shows professionalism and can make a positive difference if your lender is on the fence about approving your request," says Peter Martin, finance and growth consultant with K-Coe Isom.

#### Steps for a Top-Notch Narrative

1. **Keep it short.** This is a summary, so use bullets and try to not exceed a page or two.
2. **Don't overthink it.** This is your story; you cannot do it wrong. Complete it in 15 minutes or so.
3. **Include the appropriate information.** This can include:
  - A brief history of your farm and your current management structure.
  - Include any major changes made in the past year.
  - Details on any issues (good and bad) you have encountered recently.
  - Goals you have accomplished in the past year, as well as future short-term and long-term goals.
  - Your management succession plan, naming any specific children or non-related heirs.

# Why Farmers Should Talk To Their Banker About Refinancing Today

By Natalina Sents  
Successful Farming

Last week Brian Scott sent his banker a text to see if refinancing at a lower interest rate was an option for his family's Indiana farm. Raising corn, soybeans, popcorn, and wheat is the fun part, but that's not the only place money can be found, he says. After some phone calls and signing a few documents, Scott will be on track to save \$100,000 in the next four years by refinancing one farmland loan and his home mortgage.

Because he refinanced the land loan with the same bank the farm has been using for years, the process didn't require much effort, Scott says.

"Most of our farm loans are a 20-year mortgage, but they renew every five years. This one just hit renewal last year, but we got a pretty good drop on the interest rate, so it's got four more years before it renews again. That's going to save me about \$4,800 a year for the next four years," Scott says.

While he was looking at the loans, Scott figured it wouldn't hurt to ask about his home mortgage. It turned out, there was opportunity to refinance.

The Scotts had heard interest rates may continue to drop and wondered if they should wait. Their banker explained things are moving quickly right now. There is opportunity to save now, and the future is unknown. Scott and his wife, Nicole, made the choice to take advantage of what was certain and move forward to refinance.

"In the long run, the house is going to probably save me more money than the loan on the field," Scott says.

Scott plans to put the money he's saving toward other farm expenses, maybe prepay some fertilizer at the end of the year or pay for a few acres of tile.

"If you're paying less interest on your loans, you'll have less tax deductions. If I just keep the savings as cash, I'm going to lose a third of it to taxes, so I better spend it on something," he says.

## IS REFINANCING RIGHT FOR YOUR FARM

Growing up, talking to the ag banker with his dad helped Tanner Winterhof discover his interest in finance. Today he's in his 13th year of ag lending and works for VisionBank of Iowa.

Lately, Winterhof has been working with several of his clients to refinance and take advantage of current low interest rates.

In the home mortgage industry where the average loan is \$250,000, the rule of thumb says it's worth the costs of refinancing if you can get a half percent lower interest rate and you plan to stay in the home for five years or more.

While there's not a widely used rule of thumb in farmland lending, Winterhof says the same idea applies. Generally, the bigger the loan, the smaller the interest rate change needs to be to create significant savings.

"If they've got a land loan for \$500,000 and they're going to keep that land for five years or more, it just becomes less of an interest rate. It doesn't need to be a full half percent lower to see benefit," he says. "It only needs to be a quarter percent to where it could be worth your time to do it."

## WHAT ARE THE STEPS TO REFINANCING

Winterhof points out refinancing usually comes up in one of two ways. A competing bank may approach a farmer to alert them that interest rates have gone down and they may be able to save money by switching their loan and refinancing.

Lenders may also contact their current clients. "At VisionBank is when we get some type of market blip or a little bit of a bulge like this, we review interest rate reductions on a case by case basis."

Even if your bank doesn't reach out, it's worth giving them a call to start the conversation and build the relationship.

The process of refinancing is relatively simple. Step one, a bank will need to determine what type of risk a farmer is. Most banks have risk-based pricing, Winterhof explains. If you're looking to refinance, make sure the banker has up-to-date financial information.

"It's not typical for rates to drop this time of year, but it's really convenient for farmers because they've probably already been into their banker setting up operating notes for 2020. More than likely, we've already got that information. The only thing you might sprinkle on top is your 2019 tax return if that has been done," Winterhof says.

Next, take a look at the type of loans that could benefit from refinancing. Farmers may have a personal home mortgage, equipment loans, farmland loans, and an operating loan.

"Right now I'm not seeing equipment loan rates dive as quickly as real estate rates. I'm not seeing ag real estate rates dive as quickly as home mortgage rates. A house loan right now is the cheapest I've seen in my entire career," Winterhof says.

He adds, "I do remember a time when farmland rates were lower than where they are currently. Not by a lot, but there is still an instance where someone might have a better rate."

Once a farmer knows what mortgages could benefit from refinancing and what new rates they're eligible for, the next step is committing to a lender.

After that, an appraisal will probably need to be done for real estate. An appraisal is ordered by the bank and conducted by a third party. Although an appraisal adds expense to the process, it helps establish how much equity is in the asset that is being refinanced.

Finally, sign the papers with the new agreed upon interest rate.

*Understanding Your Business... From The Ground Up*

**Experience** our **NEW** Website and see how  
American Farm Mortgage & Financial Services can further help **YOU!**



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