

Prepare to Meet Thy Lender

Strategy is the key to **successful renegotiations**

"In battle I have found plans are useless but that planning is indispensable."—Dwight D. Eisenhower

No one ever said loan renegotiation is like war. Lives aren't at stake and liberty won't be lost if you don't emerge victorious. But, in one way, that nervous visit to the banker in times of a cash shortfall does have a parallel to battle. Then, a defensive strategy can be the key to your survival.

"You can't plan what will happen," says Danny Klinefelter, agricultural economist with Texas A&M and former officer with the Farm Credit System's workout unit during the 1980s. "But if you have considered alternatives and developed a strategy, you will be in a better position to make adjustments on the run."

Luckily for borrowers with carryover debt this year, the lending environment is different from the '80s. One change is low interest rates, but lenders also don't want a repeat of the Farm Crisis.

"Many of us lived through the '80s and saw the mistakes that were made. We can be more proactive, and we've keyed in on cash flow and unit viability," says Joe Oliver, senior lending services executive with AgStar Farm Credit Services in Minnesota. "And in our division, if we don't come to a conclusion where we both win, we feel like we haven't succeeded," he says.

Lance Woodbury, conflict mediator with Kennedy & Coe, Wichita, Kan., teaches negotiation skills to lenders preparing for upcoming discussions with borrowers. "They expect to have difficult conversations, but they want to keep a good relationship with the borrowers," he says.

By Joanne Spahr Welsh

With that in mind, Woodbury, Klinefelter and Oliver give insights into how farmers in financial stress can boost their bargaining power as they renegotiate their loans this winter.

1. Understand your financial situation. Most top producers already have the financial documentation lenders will want—a current, accurate and signed financial statement; income and expenses for the last three to five years (more if you have it); and a cash-flow projection. The key is to understand the information.

"You need to know more about your side than the other party does. Know how your business works; what the numbers mean and where your business stands," says Woodbury. If you pay an accountant to do the work and then pass it to your lender, analyze the numbers as they cross your desk. Oliver says a surprising number of producers don't understand their financials. "That group will be the ones to fail first," he says.

Failure aside, having a handle on your records gives you what may be your strongest bargaining chip: options. Think through several before seeing the lender. "Then, if the lender offers you something, you know what you can counterpropose, rather than letting him or her dictate all the terms," says Klinefelter. "Lenders hold most of the cards, but they don't know all the answers." If you can suggest something that protects them, and it's better for you, they will probably buy into it. "It's not in their best interest for you to fail," Klinefelter says.

2. Have a plan. Next to knowing your numbers and options, detailing how you will set your business aright is one of the biggest components in a successful renegotiation. Your plan should be realistic and show that you have considered less-than-favorable circumstances.

Oliver's voice reflects admiration when he tells of a young bor-

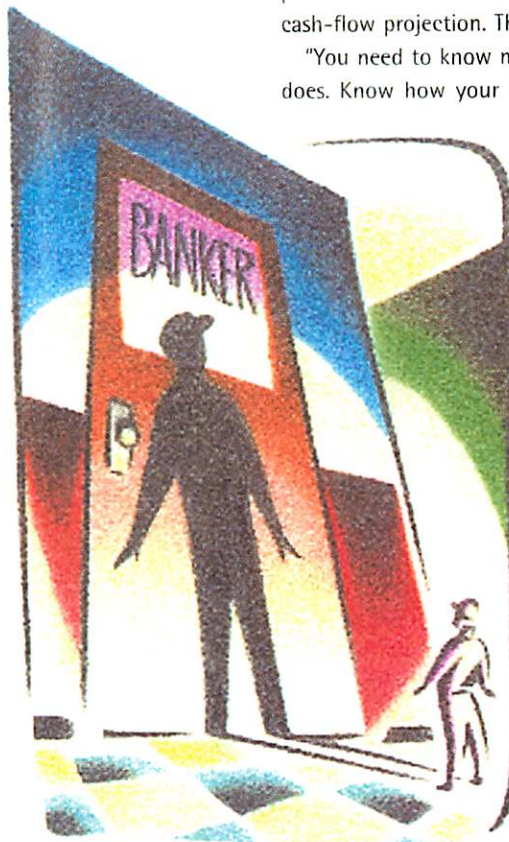


ILLUSTRATION: JOHN CYMERMAN

rower who tried a new venture—heifer raising—then defaulted on loans when he couldn't fill his barns. "When I received the loan, it didn't look like it would work. But he came in, we talked alternatives, and he prepared a plan. He showed me what he could sell and how he could restructure. Sometimes you have to take two steps back to get ahead," says Oliver.

If restructuring is in your plan, build in some cushion in case finances go south for a second year. "If you keep going back to the well, you lose bargaining power," says Klinefelter.

The battle. After planning for the negotiation, the key to the meeting itself is thinking on your feet and keeping the tone cooperative. "Approach them as if you are working with them, not *against* them," says Klinefelter. "You can bluff when you don't need them and they want to get your business. That's not this situation."

NEGOTIATION NO-NOS

1. Don't make threats or unrealistic promises
2. Don't convert collateral
3. Don't frustrate the lender with nit-picking and noncooperation

It's best to make a deal upfront, if you can. "Let them know that you'll try to address their issues, if they will try to address yours. That give and take is critical," Woodbury says.

Asking questions opens the discussion. As a mediator, Woodbury sees negotiations sour because people don't feel they are heard, not because of interest rates or loan terms. "You've won half the

battle if you show the other person you are listening," he says.

But, of course, you're there to take care of yourself. If your loan is in bad shape, lenders may want you to sell assets. "In those cases, keep as much flexibility as you can and sell those things that are dragging on you, not those making money," Klinefelter says. Unfortunately, moneymakers sell best. So knowing ahead of time what you can afford to sell adds to your negotiating strength.

Klinefelter knows several operators who sold land and kept rented acreage. "They figured if they restructured and it didn't go right, they would be behind the eight ball. By selling, they paid off debt and got enough cushion to weather other storms."

How much should you reveal upfront? "Be as straight as you can, but you don't have to immediately lay out all you can do. Hold a few cards, so you have something to play," says Klinefelter. And if the lender asks for restrictive covenants, bargain for flexibility. "Some covenants can be written so tightly that they actually dictate how you manage the business. You're better off agreeing to accomplish certain things, but retaining control of how you do it."

Above all, carry out what you agree to, then stay in contact with your lenders. They have bosses (regulators) they have to answer to, too. "One borrower calls me every week with things he has accomplished," says Oliver. "That just impresses the heck out of me." ■