Extending Credit in Agriculture

Getting to know your customer is one of the first steps to take when looking to extend credit or evaluate the risk of forming a new credit relationship. LexisNexis Risk Solutions is trying to make the initial phase easier for financial intuitions with two products: Business InstantID 2.0 and the Small Business Credit Score. These products are built to help lenders assess credit risk for small businesses with little to no credit history. Not having a credit history "makes it a challenge for financial institutions to use traditional methods to assess the credit risk in these millions of thin-or no-file businesses," according to the news release from the company.

Extending credit is a gamble, especially in the agriculture industry. "Farmers are the world's biggest gamblers," said Kevin Stinner, CCE, CCRA, credit manager with Crop Production Services. Agriculture credit is its own animal, according to Stinner. When assessing risks, plan for the worst—a complete loss of crops.

A credit manager in the agriculture field has to have a fallback, in some cases it is crop insurance, which could be a farmer's guaranteed income to pay back debts. Other times credit professionals have to go after the guarantors in order to get paid. Stinner also suggests a personal guarantee from new LLCs or businesses or individuals with thin or no history of credit. "It's OK for companies to have limited liability, as long as it doesn't limit my ability to get paid," Stinner said.

Agriculture is a mature industry, said David Molley, CCE, CICP, credit manager with CF Industries Enterprises Inc. It is commodity-based, and according to Molley, customers are good at paying their bills. The agriculture industry has short credit terms compared to other sectors such as construction, and they vary depending on the circumstance. He uses credit risk monitoring technology to interpret data and get a scoring model when determining whether to extend credit. This will help suggest a credit limit for his customers.

Another way of collecting data, said Molley, is going to group meetings and events. They help credit professionals evaluate the temperature of the industry. Agriculture is tight; credit managers share information at conventions based on trade credit reports among other items. Market conditions are also a factor in how much credit will be extended, he said.

A problem that might come up when working with new customers is communication issues, which can lead to a disconnect between the credit manager, customer and sales department. A common setback is having forms or documents not filled out correctly, Molley said. To avoid this, he does his best to be active at the beginning, middle and end of transactions with customers.

As far as assessing risk, credit professionals in agriculture are trying to predict the future by looking at the past. Should a client lose the ability to pay back their debt, a payment plan is an option that Molley uses. Customers typically have "significant equity" and are "financially sound," he explained. Agriculture is a stable business and is better now than it was two decades ago; it will rebound since it is a fundamentally sound industry, added Molley.

When starting the process of building a credit partnership or potential marriage, it is important to state terms and to make sure the client understands these terms, said a Florida credit manager in the construction industry. The construction lien law in Florida allows the business to be more liberal when issuing credit and assessing credit risk.

When it comes time to collect, it is important to be friendly but firm. When working with companies or individuals with little to no credit history, adding a personal guarantee and having a small credit limit to start are key, said the credit manager. Reviewing the potential customer's personal credit history is also a good indicator if you will be paid.

LexisNexis Risk Solutions' products will help "financial institutions confidently assess risk and establish credit relationships early, leading to increased customer loyalty and more opportunities for expansion down the road," said the release. It all comes down to mitigating risk when looking at extending credit, said Stinner. The number one thing "is to see that I get paid," he added.

-Michael Miller, editorial associate