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Peak Performing Loan Officers

By Dr. David M. Kohl

In the competitive agricultural lending marketplace, gaining that extra edge is often top-of-mind. During a recent webcast of producers, agribusiness people, and ag lenders to five states and over 600 individuals, I was asked some intriguing questions. What differentiates a top loan officer? How do we position our business in a rising interest rate environment?

First, I have made two general observations in working with the ag lending market in the past three years. Relationship lending is back, and sound, balanced credit analysis is front and center. Generally speaking, five critical elements are attributes associated with top-performing loan officers.

An in-depth knowledge of the specific industry they are serving is very critical. The peak performer is frequently observed attending industry events, and even participating in programs related to the extension and use of credit. Being on the cutting-edge of industry change is not an option, but a requirement. In our webcast series, producers indicated that industry knowledge was one of the top three attributes sought in a lender.

Another element that producers favor is a lender or loan officer that can be a trusted advisor. Before you roll your eyes and start thinking about lender liability, let me explain. A trusted advisor knows the customer’s business, family, and personal motivations. A trusted advisor presents an array of options and allows the customer to choose products and services to meet their needs. A trusted advisor is a sounding board, facilitator, teacher, and coach. They also act ethically and are honest with borrowers when discussing their financial situation.

A loan officer who is ahead of the curve has a positive attitude and networks with other individuals who can see the cup as half-full rather than half-empty. They realize that persistence, patience, and building a reputation over time lead to branding and word-of-mouth selling. One of my former students stated recently at a holiday gathering that when it comes to customers and marketing, he is like a spider, in that he basically selects the ones he wants to bring into his web, and disregards the ones that do not fit.

A peak performing loan officer is amenable, always willing to help a customer. They are also available when customers need help. Being a good listener is a trait of many successful loan officers. It is important to hear what is being said, but also what is not being said, which requires a high degree of emotional intelligence.

An outstanding loan officer must have institutional and support networks that stand behind them and are willing to provide a flexible array of products and programs that address the special needs of agricultural producers. Stability in both the institution and loan officer is a top element in the competitive marketplace.

Finally, how do you market in a rising interest rate environment? Interest rates are very important in the lender selection process. In our webcast, this factor was rated as one of the top three components when selecting a lender. My advice is to maintain constant communications with your customer base on interest rate changes; objectively ascertain how a 1 percent, 2 percent, or 3 percent increase influences their profit margin.

Awareness of programs, loan structuring, and long-term fixed rate options that can be advantageous to the customer in the rising interest rate environment should be communicated. A disturbing note from my travels is that some young farmers and ranchers who are growth-oriented are just focused on the lowest interest rate. This segment, particularly on the grain and row crops side, has never experienced a downturn in agriculture and the importance of having a relationship lender. Thus, discussing and demonstrating the benefits of a relationship lender will be priority number one as interest rates rise and margins are challenged.

The leading economic indicators would suggest that the United States' economic recovery is well in place. The Conference Board Leading Economic Index® (LEI) is still ascending and is up about five points year-over-year. The diffusion of the LEI is at 65 percent positive rating. Very surprisingly, the PMI increased to 60.8 in January, the strongest reading over the past 12 months. However, much of this positive movement is driven by the stimulus packages.

Structural issues still present challenges for the long-term recovery. First, housing starts are a dismal 596,000, far below the long-term metric of one million plus. Rising interest rates and high unemployment still plague this important component of the economy. Factory utilization is at 76.1 percent, below the 80 percent strong metric. Unemployment, while improving dramatically in the past couple months, is still very high by historical standards. Automation replacing workers with capital and uncertainty over healthcare are very strong headwinds to recovery in regions taking the brunt of the Great Recession.

While core and headline inflation are below the ideal metrics of 2 percent and 4 percent, respectively, inflation concerns in emerging nations, particularly in food and energy, are driving economic policy in these regions. The uncertainty of oil and fertilizer prices, along with increased input and capital asset cost in the agricultural sector are quickly impacting economics in both crop and livestock sectors.

Indicator	Green	Yellow	Red
The Conference Board Leading Economic Index® - LEI	✓		
LEI Diffusion	✓		
Purchasing Manager Index - PMI	✓		
Housing Starts (millions)			✓
Factory Capacity Utilization		✓	
Unemployment Rate			✓
Core Inflation	✓		
Headline Inflation	✓		
Oil Price ($/barrel)		✓	
Yield Curve		✓	

Lender and Business Dashboard Economic Indicator Benchmarks

Indicator	Green	Yellow	Red
The Conference Board Leading Economic Index® - LEI	Increasing	Flat to Decline	Decline 0.3% for 3 consecutive months AND >1% over the period
LEI Diffusion[1]	>60%	40%-60%	<40%
Purchasing Manager Index - PMI	>50	41.7-50	<41.7
Housing Starts (millions)	>1.5	1.0-1.5	<1.0
Factory Capacity Utilization	>80%	70%-80%	<70%
Unemployment Rate	5%-6%	6%-8%	>8% or <5%
Core Inflation	0%-2%	3%-4%	>4% or <0%
Headline Inflation[2]	0%-3%	3%-5%	>5% or <0%
Oil Price[3] ($/barrel)	<$50	$50-$100	>$100
Yield Curve[4]	Steep	Flattening	Inverted

[1]Ten indicators make up the LEI - measures % that are increasing; [2]Includes food & energy; [3]Consumer's perspective; [4]3-Month Treasury Bill rate to 10-Year Bond rate