



Feed Shortage 2018

Meeting the bank

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Your banker will have a mutual interest in your business success, so your banking relationship operates best as a partnership. The more you both understand each other's perspective, the stronger the business partnership.

Before you meet with your banker, it's valuable to have a clear understanding of your banking needs including overdraft, term loan and equipment finance facilities.

Main types of financial support used by dairy farmers

- › Working capital/overdraft to assist with cash flow when starting your career, cash flow fluctuations throughout the year or during industry challenges.
- › Finance to purchase key assets such as machinery or livestock. Usually 3–5 year loan terms or life span of goods/animals being purchased.
- › Longer term finance for purchase of land and/or off farm assets.

What should you take to your meeting with the bank?

The more information you can provide about **annual** summaries of financial and physical performance plus **monthly** cashflows underpinned by **assets and liabilities**, milk production and feed budgets, along with longer term plans and projections, the more confidence the banker will have in your business.

What is the bank looking for?

The bank wants to understand your business situation, your plans and what you want out of the partnership. You need to demonstrate that you understand your business, and the bank will establish a customer margin and risk profile based on your **cashflow**, **collateral** and **character**.

“There are no silly questions and bankers will work through all the items with you on your farm or at the bank.”

Key documents

- Three years of financial reports from your accountant (if current year unavailable, draft financials or cash book figures formatted as a profit and loss report)
- Corresponding year's annual milk statements (usually June's statement has all details required)
- Statement of assets and liabilities
- Bank statements for past 12 months
- Last year's DairyBase report
- A business plan; include risks and how you will manage them, budget and cashflow
- An income estimation from your processor
- Budgets for the next 12 months underpinned by milk production and feed budgets

The three Cs

When calculating your Customer Margin the bank will consider the three Cs:

C Your cashflow

You will need to demonstrate how loans and other commitments will be repaid. The bank will assess the historical financials of your business, your existing cashflow capacity and cashflow projections. For a start-up loan, cash flow future projections are critical.

C Your collateral

You will need to provide details about available security or equity, including land and livestock. The bank needs to know your assets and liabilities and your options if cashflow gets tight. Provide copies of rates notices, valuations and possibly a letter from your stock agent regarding values of stock, especially if high producing or stud cattle.

C Your character

The bank will need to determine your management expertise and if you and your business have a history of being competent, reliable and trustworthy. They will want to know your credit history and credit score. Banks also encourage open and ongoing communication.

Questions the bank might ask you

- › Do you understand your borrowing capacity and do you have adequate funding (debt or other) to support what you need to do in the business?
- › Do you know what working capital you will need?
- › Have you identified any long term debts which will effect a new loan?
- › Is there any required capital expenditure?
- › What are your plans for personal drawings?
- › Have you identified major risks to your budget and business and ways of managing these risks?
- › Do you have capacity to raise funding from other sources?
- › What are your fall back positions?
- › What are your long term goals and aspirations for the business and personally?

Questions you could ask the bank

- › What are the borrowing terms (debt and overdraft) for my business?
- › What are my options around managing interest rate risk?
- › What are variable, fixed and interest only loan options?

- › How can I reduce my customer margin?
- › What is the bank's view of my business, and what are my options to improve that view?

Dairy Australia farm business tools and training to assist you to organise and manage your dairy farm business.

Dairy Australia has developed a range of business tools in conjunction with the dairy industry. Tools to assist you to prepare for a meeting with the bank, and to organise, manage and analyse your dairy farm business information include:

- Dairy Standard Chart of Accounts
- Dairy Cash Budgeting Tool
- DairyBase

Training in farm business management is available in Dairy Australia's Farm Business Management training modules: 'Farm Business Fundamentals' and 'Dairy Farm Business Analysis'.

For further information, contact your Regional Development Program or go to the Dairy Australia website at dairyaustralia.com.au/feedshortage and click on Farm Business Management.

“Banks will look at finance outside normal lending margins (not fully secured) on an individual basis. Don't be afraid to go to the bank if you are not fully secured.”



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