



# Farm Credit System Outlook on Agriculture Credit Conditions

*January 2019*

# Farm Credit Briefing

**Kathy Heustess**  
ArborOne Farm Credit  
Florence, SC



Kathy S. Heustess, Chief Executive Officer, holds a Bachelor of Science Degree in Business Administration from Francis Marion University and is a certified public accountant in the state of South Carolina. She is also a graduate of the Graduate School of Banking at Louisiana State University.

Mrs. Heustess' career in the Farm Credit System began in 1989 ranging from management of accounting, reporting, operations, credit, marketing, information management and human resources, and she has held the positions of Controller, Chief Financial Officer and Chief Operating Officer prior to being named President and Chief Executive Officer in January 2012.

**Mark Jensen**  
FCS of America/  
Frontier Farm Credit  
Omaha, NE



Mark Jensen was named President and Chief Executive Officer November 1, 2017. Prior to that, he held the role of Senior Vice President & Chief Risk Officer of Farm Credit Services of America since 2013.

Mark has over 25 years of agricultural lending experience and has provided leadership to the credit, risk management and appraisal teams that support sales, service and strategic planning activities. He was raised on a dairy farm in Southeast Nebraska and received his Bachelor of Science Degree in Agribusiness from the University of Nebraska - Lincoln.

**Marc Knisley**  
AgCountry Farm Credit  
Fargo, ND



Marc began his Farm Credit career in the spring of 1981 as a Loan Officer with a Production Credit Association in Michigan. He has served in various management and leadership roles at a Farm Credit System

association level including Branch Manager, Vice President of Producer Lending, Vice President of Marketing, and Senior Vice President. Marc has served as an association CEO since 1998.



### **100-Year-Old Mission**

*Support rural communities and agriculture with reliable, consistent credit and financial services today and tomorrow.*



## Farm Credit Facts

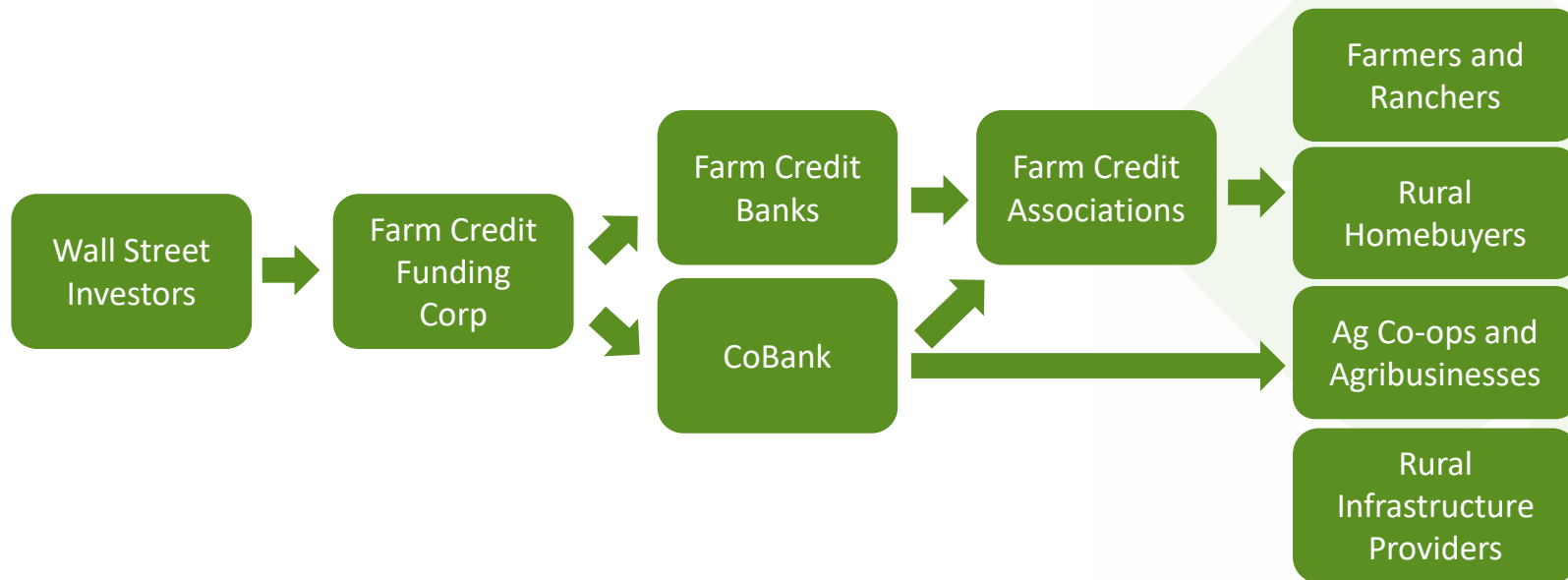
- Customer-owned Cooperative
- Provides Loans and Financial Services
- Nationwide Service
- No Government Funding
- Created in 1916
- Federally Regulated by the Farm Credit Administration



# Supporting Rural Communities and Agriculture

## Farm Credit Funding Flows from Wall Street to Rural America

*Farm Credit sells debt securities to investors and uses the proceeds to fund loans that support rural communities and agriculture.*



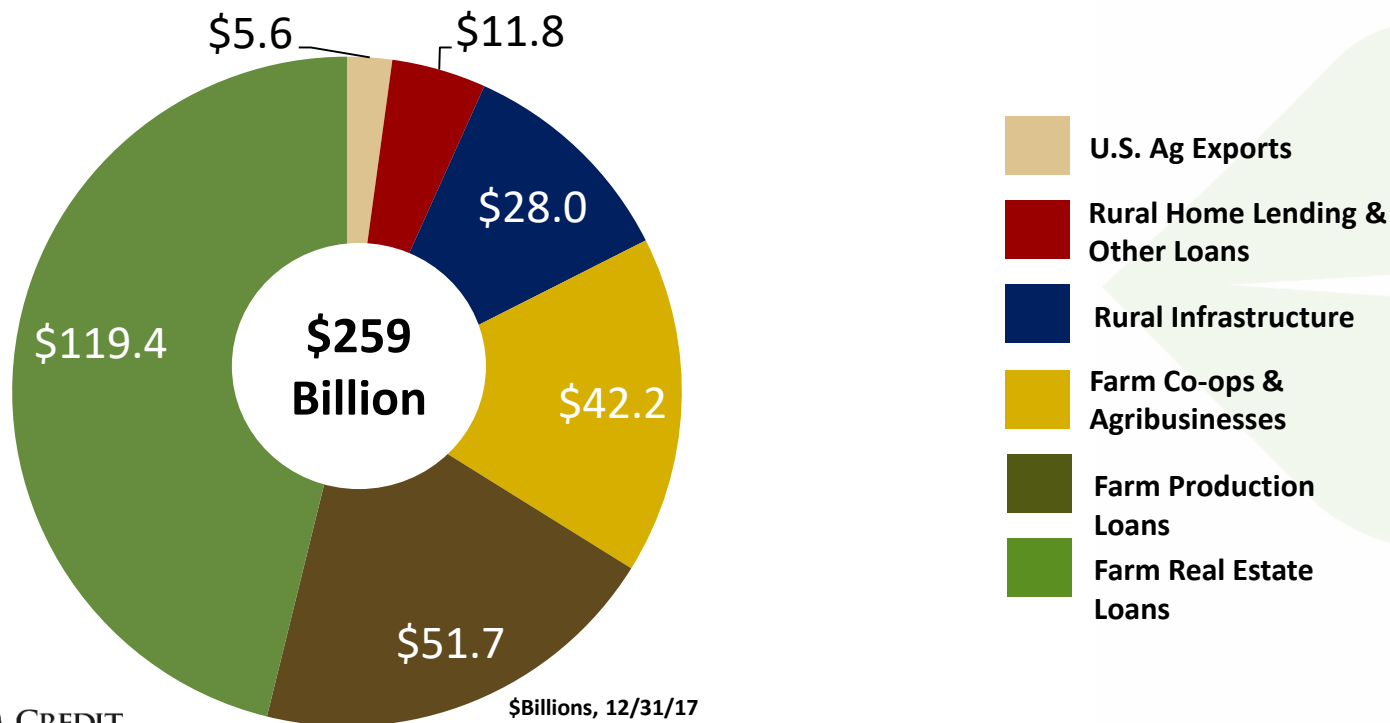






# Supporting Rural Communities and Agriculture

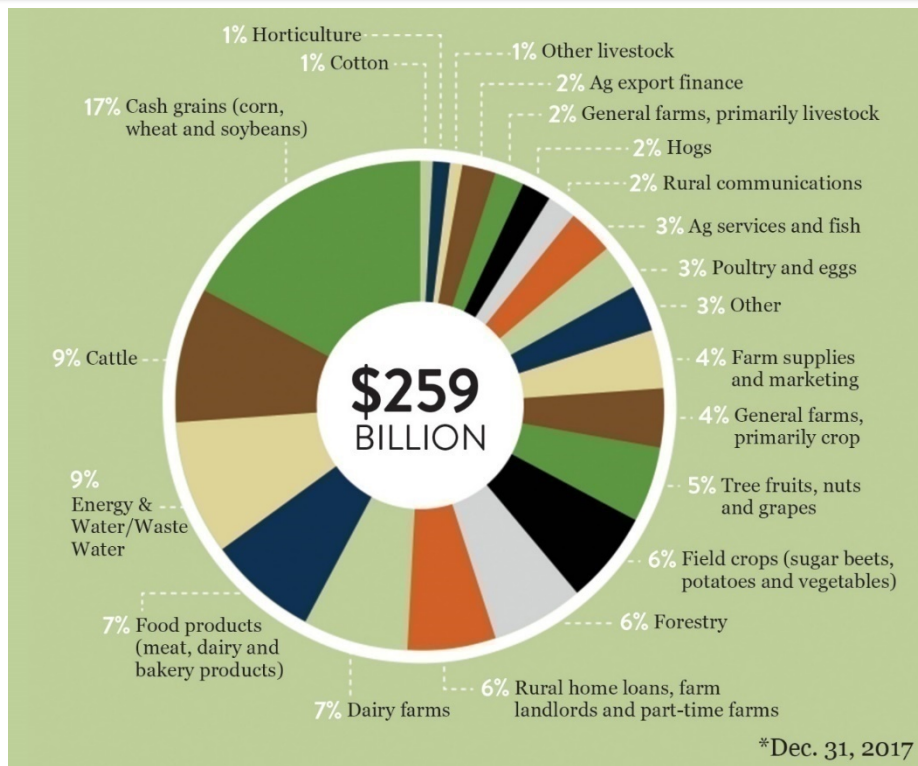
## Farm Credit Loans





# Supporting Rural Communities and Agriculture

## Farm Credit Loans by Specific Industry





# Supporting Rural Communities and Agriculture

## Total Farm Credit Loans by State

States	(in Billions)
California	\$ 27.5
Texas	\$ 17.9
Iowa	\$ 14.0
Illinois	\$ 13.0
Minnesota	\$ 12.7
Nebraska	\$ 10.0
Ohio	\$ 9.5
Wisconsin	\$ 7.8
Kansas	\$ 7.7
Indiana	\$ 7.7
Michigan	\$ 7.0

States	(in Billions)
South Dakota	\$ 6.6
North Carolina	\$ 6.5
Missouri	\$ 6.5
New York	\$ 6.1
Georgia	\$ 6.0
North Dakota	\$ 5.7
Washington	\$ 5.6
Florida	\$ 5.4
Colorado	\$ 5.1
Tennessee	\$ 4.9
Kentucky	\$ 4.8

States	(in Billions)
Virginia	\$ 4.6
Arkansas	\$ 4.6
Idaho	\$ 4.1
Oregon	\$ 3.7
Pennsylvania	\$ 3.6
Oklahoma	\$ 3.3
Alabama	\$ 3.1
Mississippi	\$ 3.0
Maryland	\$ 2.7
South Carolina	\$ 2.6
All other states	\$ 25.6





# Supporting Rural Communities and Agriculture

## Farm Credit Loans by Size

Range (\$ thousands)	Borrowers	% of Portfolio (# of Borrowers)	Amount Outstanding (\$ Millions)	% of Portfolio (\$ Volume)
\$1 -- \$249	423,591	76%	32,851	13%
\$250 -- \$499	61,296	11%	21,485	8%
\$500 -- \$999	35,396	6%	24,709	9%
\$1,000 -- \$4,999	28,661	5%	55,631	21%
\$5,000 -- \$24,999	3,965	Less than 1%	38,837	15%
\$25,000 -- \$99,999	751	Less than 1%	35,638	14%
\$100,000 -- \$249,999	169	Less than 1%	24,824	10%
Over \$250,000	62	Less than 1%	24,802	10%
<b>TOTAL</b>	<b>553,891</b>	<b>100%</b>	<b>258,777</b>	<b>100%</b>



# Supporting Rural Communities and Agriculture

## Young, Beginning and Small Farmer Loans

### New Loans Originated by Farm Credit in 2017

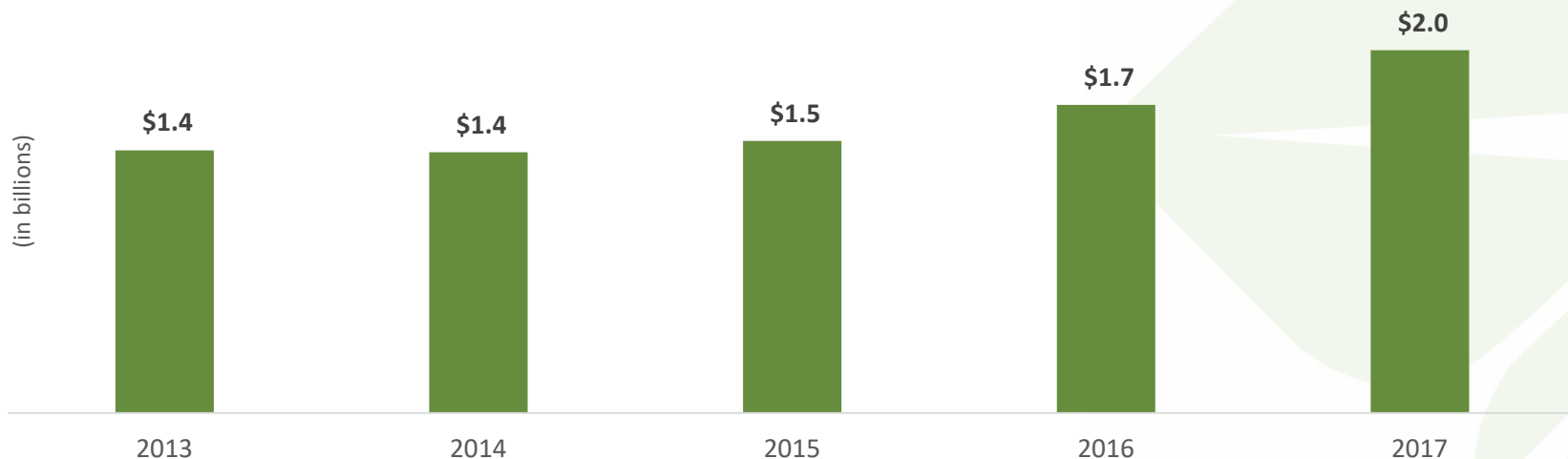
	Young (<36 Yrs)	Beginning (<10 Yrs)	Small (<\$250K)	All Farm Credit Borrowers
# of Loans	56,890	73,756	136,911	336,063
\$ of Loans	\$9.2 billion	\$12.5 billion	\$11.9 billion	\$82.9 billion

The figures shown in the young, beginning, and small categories above CANNOT be combined. A single loan to a 25-year-old rancher in her third year of ranching with annual sales of \$100,000 could be counted in the young, beginning, and small categories. We report this way for two reasons: our regulator requires it and, more importantly, it is the most accurate portrayal of who we serve.



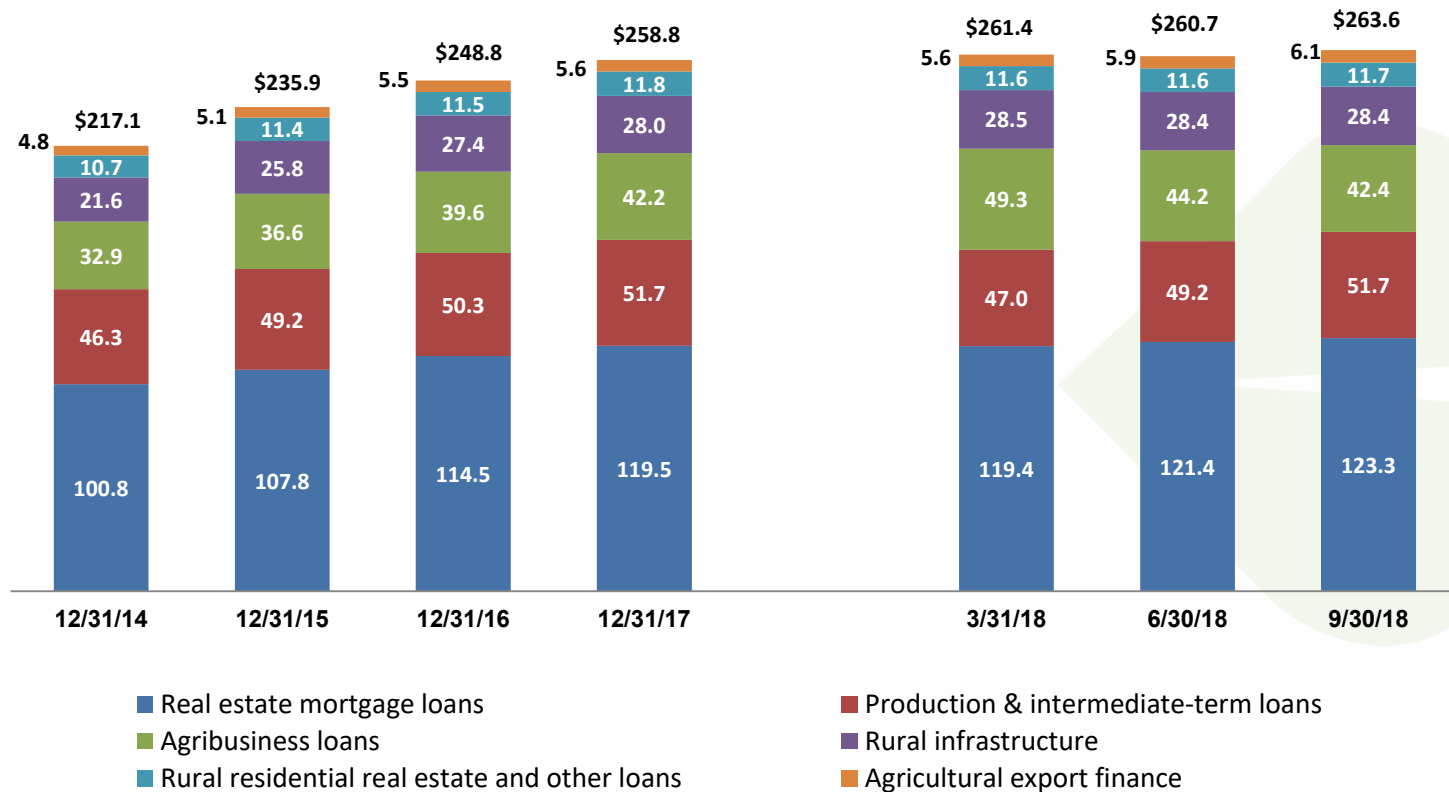
# Supporting Rural Communities and Agriculture

## Total Patronage Distribution Returned to Customers





# Farm Credit Loan Portfolio





**ARBORONE**  
FARM CREDIT

***Kathy S. Heustess, President & CEO***

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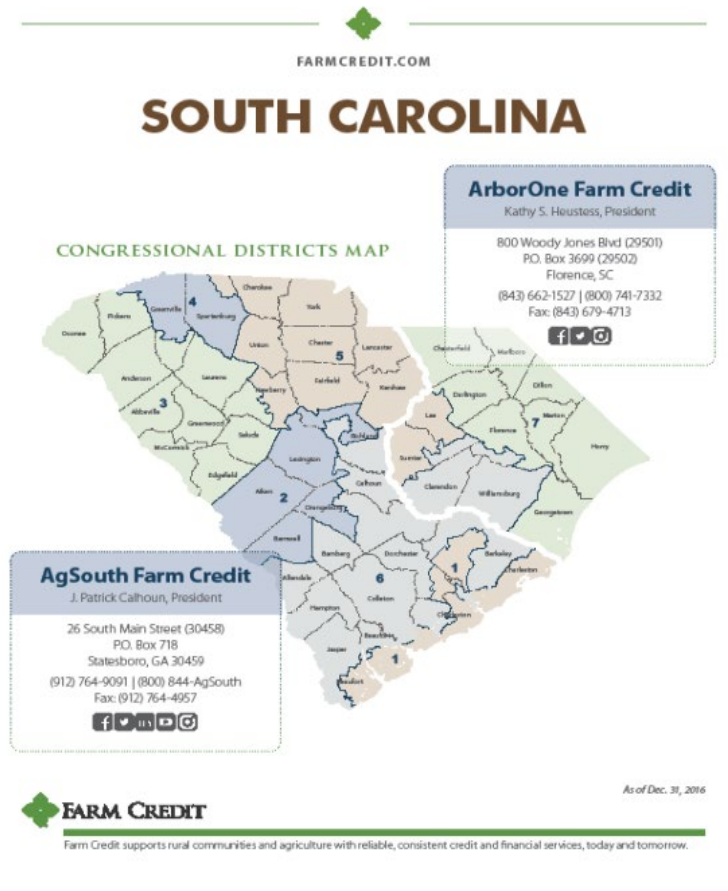
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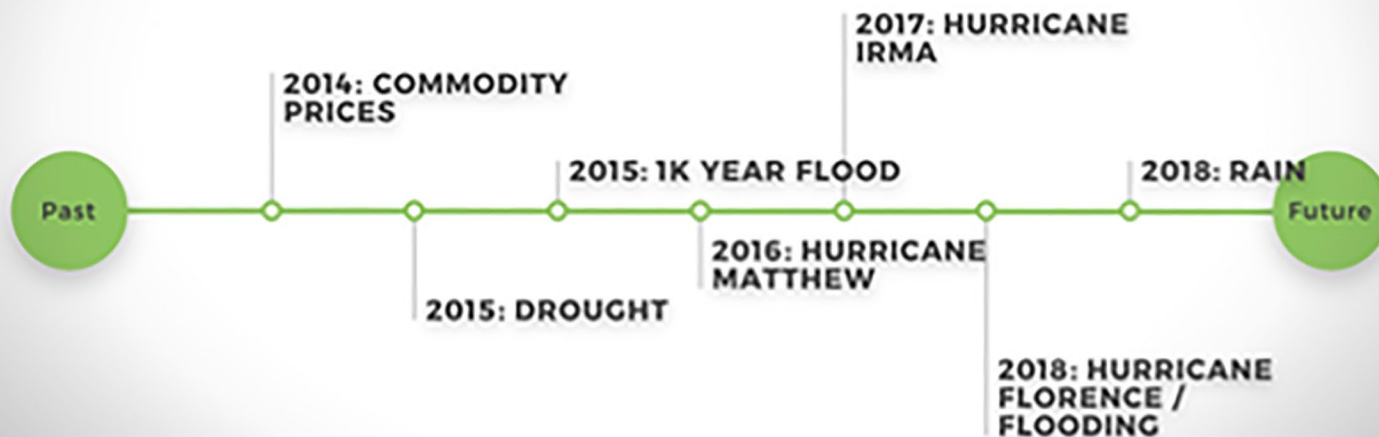
*6,790  
Customers*

*\$2.6 Billion  
Loans*

*\$30 Million  
Patronage*



# CUMULATIVE IMPACT TO SC AGRICULTURE



COTTON



CORN



SOYBEANS



TIMBER

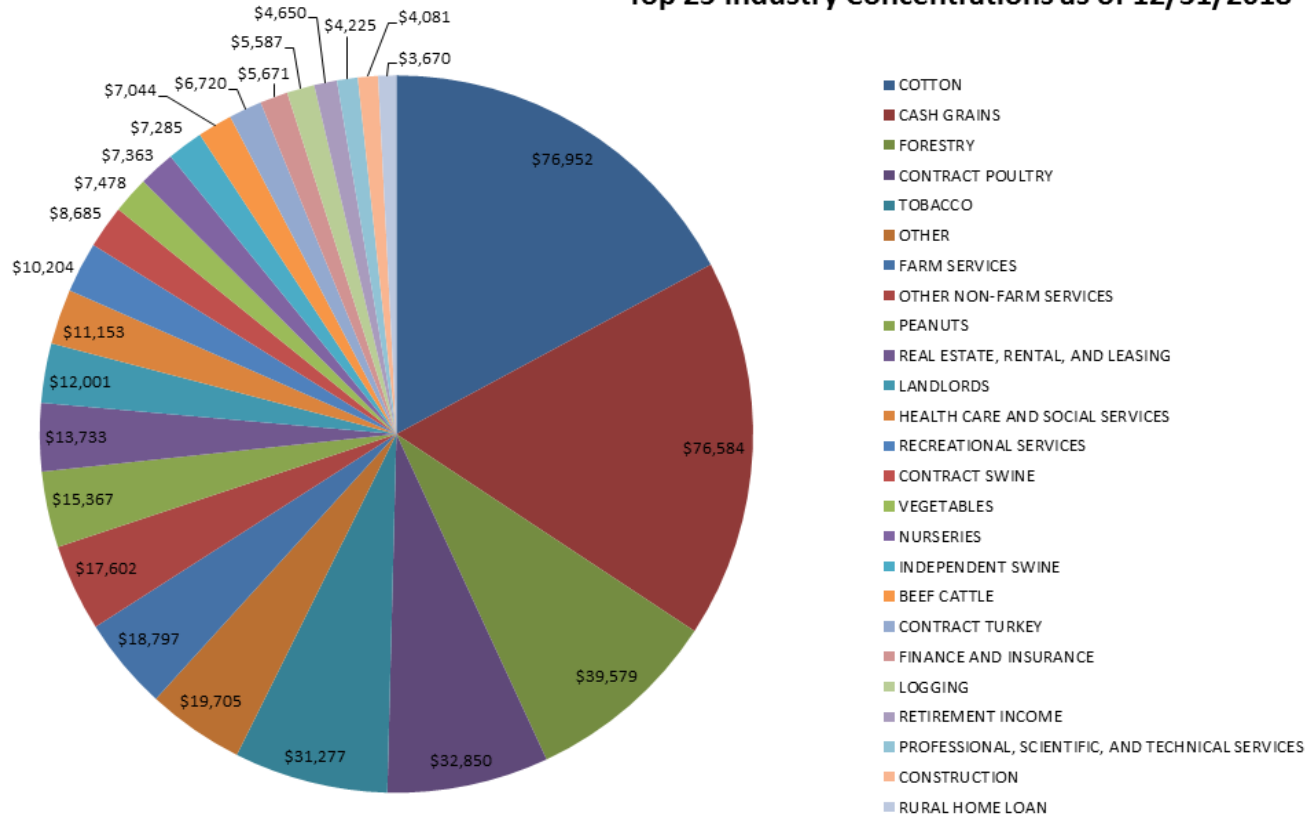


POULTRY



*Top Crops Financed*

## Top 25 Industry Concentrations as of 12/31/2018



**Diverse Portfolio**





Devastation



# Real Life Example

	Current Assets	Current Liabilities	Working Capital	Ratio	Total Assets	Total Liabilities	Net Worth	Equity Ratio
2014	\$ 1,554,249	\$ 1,425,401	\$ 128,848	1.09	\$ 6,432,640	\$ 2,747,104	\$ 3,685,536	57%
2018	\$ 1,241,112	\$ 1,583,274	\$ (342,162)	0.78	\$ 6,579,117	\$ 3,385,220	\$ 3,193,897	49%
\$ Change	\$ (313,137)	\$ 157,873	\$ (471,020)		\$ 146,477	\$ 638,116	\$ (491,639)	
% Change	-20%	11%			2%	23%	-13%	

- “I **owe 11% more** that is due (in 12 months or less) BUT I have **20% less** to pay it with!”
- “Since 2014, I have **increased my total debt** load by **23%** and I have NO increase in ASSETS to show for it.”
- “I am **worth 13% less** than I was 4 years ago!”
- **How can I pay my bills today?**
- **Long term, should I continue farming at the risk of eroding my life savings?**

# “Non-controllables” to Farmer

- Weather
- Commodity Prices
- Trade Wars – Tariffs
- Government Policies – Farm Bill
- Government Shutdown – FSA
- Public Misinformation/Perceptions
- Anti-farming groups
- And more...

# What is Farm Credit Doing?

- Continuing to serve its mission by utilizing every credit enhancement tool available
  - Government guarantees through FSA,
  - Payment deferrals,
  - Payment re-amortizations,
  - Assignments on government payments,
  - Assignments on crop insurance proceeds,
  - Joint checks with buyers.
- Remaining Financially Sound to Fulfill Our Mission
- Early and maximized patronage payments

*Supporting AG and Rural Communities*

# What is Farm Credit Doing?

- Skilled Team of Ag Financing Experts
- Proactive Communications
  - On-farm Visits
  - Group Meetings
- Special Programs for YBS Farmers
- Economic Forums/Advisory Groups
- Financial Workshops
- Online Tools, Ag Portals
- Serving Rural Communities - Disaster Recovery Efforts

AGRICULTURE  
WORKS  
HERE.



MEMBERSHIP

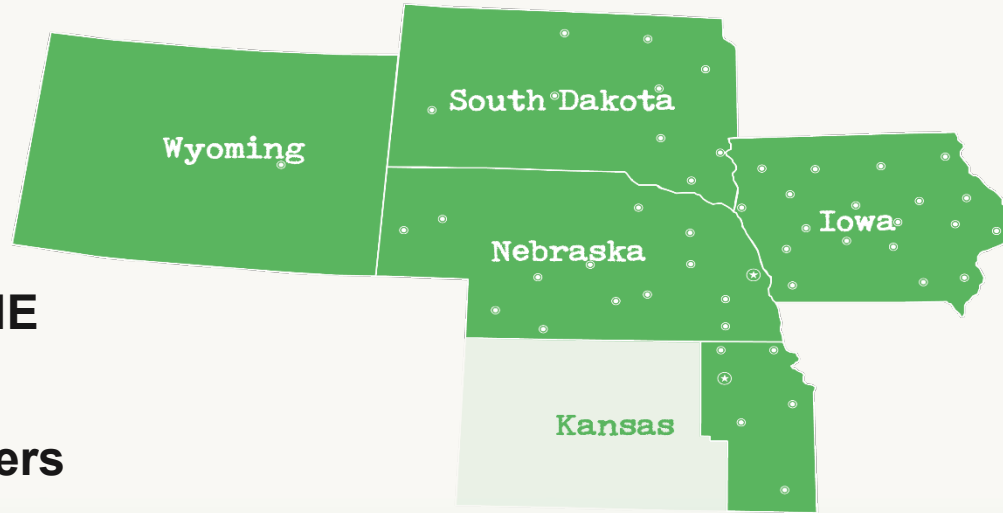


## Ag Environment Update

January 2019



# Farm Credit Services of America & Frontier Farm Credit



- Headquarters – Omaha, NE
- 48 Retail Offices
- More than 57,000 customers
- Approximately 1,750 employees
- \$30 billion in loan volume

# Financial Overview



## FCSAMERICA & FRONTIER FARM CREDIT

**Loans**  
(in billions)



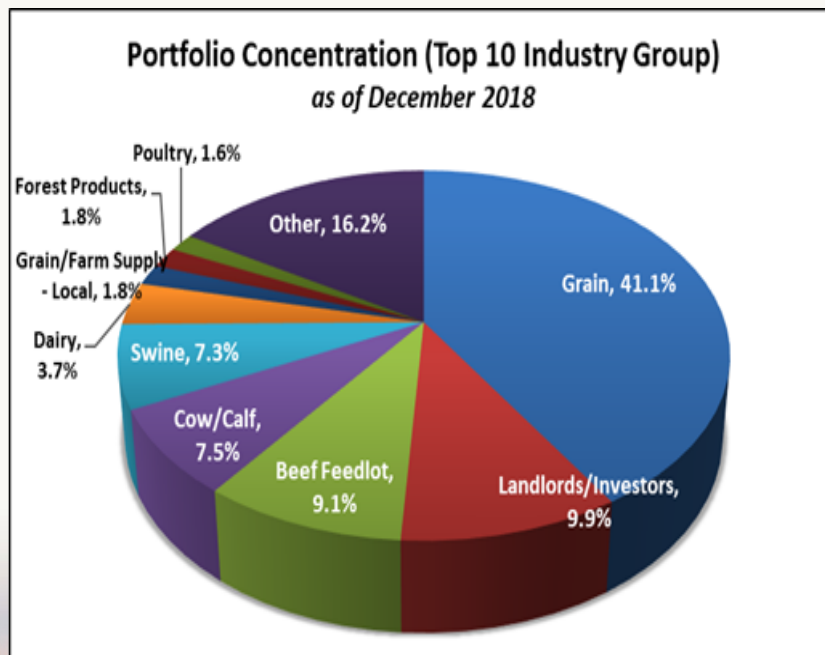
**Members' Equity**  
(in billions)



**Cash-Back Dividends Declared**  
(in millions)



# Loan Portfolio



Portfolio Concentration	
December 31, 2018	
Industry Group Top 10	Net Book Value (millions)
Grain	\$12,708
Landlords/Investors	\$3,046
Beef Feedlot	\$2,809
Cow/Calf	\$2,302
Swine	\$2,246
Dairy	\$1,156
Grain/Farm Supply - Local	\$568
Forest Products	\$560
Poultry	\$492
Other	\$5,000
Total	\$30,886

# Current Environment

- Grain production agriculture has spent five years reconciling the reality of the lower revenue stream
  - Strong production
  - Increased volatility (weather, trade, etc.)
- Don't see “price” being the fix in the foreseeable future
- For some, the usual options have been exhausted (re-structure debt, principal deferment, cost reduction)





# Current Environment



- Results this winter – a mixed bag
- At current revenue levels – scale is a challenge
- Biggest question right now – what about 2019?
- Asset sales are still an option – and will increase
- The scope of the challenge is increasing – but not the '80's





# Real Estate Value Trends

State	Six Month	One Year	Five Year	Ten Year
Iowa (21)	-1.4%	0.7%	-15.0%	68.1%
Nebraska (18)	-1.0%	-0.9%	-13.7%	107.1%
South Dakota (23)	-0.6%	-2.0%	-3.4%	95.5%

- Real estate values continue to show stability
- Primary drivers:
  - Limited sales activity
  - Continued low interest rates
  - Stable and strong demand

Cropland Benchmark Changes			
State	Peak Period	Benchmark	Δ From 2013 Peak
Iowa	Q32013	Jul-13	-18.1%
Nebraska	Q32013	Jul-13	-19.5%
South Dakota	Q42013	Jan-14	-12.0%

**“Sustain the capacity to remain consistent through the good as well as the challenging times – to be consistent all of the time.”**

**Bob Bruxvoort**

**2012 Board Chairperson**

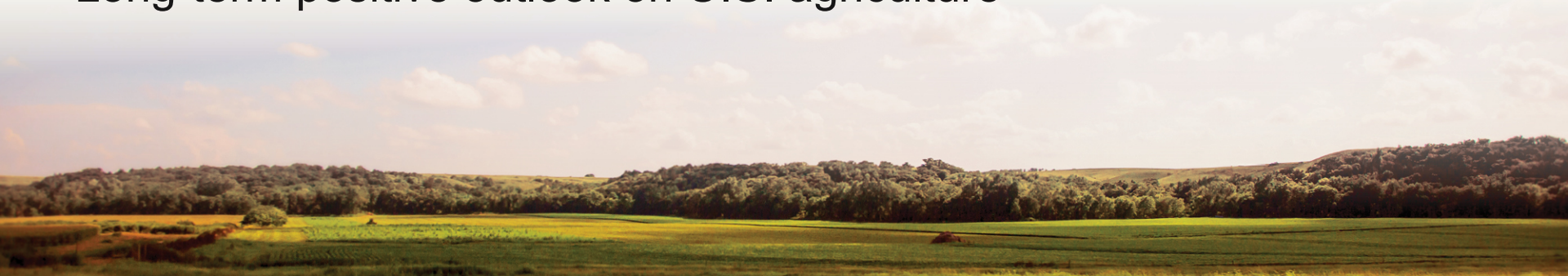
**We will be a dependable lender to farmers and ranchers.**



# What does “dependable” mean?



- Understand the impact of industry cycles
- Identify risks and consult with our customers about them
- Encourage proactive adjustments
- Long-term positive outlook on U.S. agriculture



# What actions did we take prior to the price/revenue decline?



In 2010, implemented the following:

- “Sustainable” Real Estate Lending
  - Regional lending “caps” based on underlying value of the property
- “Sustainable” cash flow projections
  - Cash flow projections based on \$4.00 corn vs. \$6.00
- Emphasized the use of crop insurance as a key risk tool
  - Specialized resources and technology
  - 8.9 million acres - \$5.3 billion coverage – well over 90% of our customers



# What actions have we taken?



- Annual Customer Education Seminars
  - Adjustments needed in this environment
  - Risk (Marketing & Crop Insurance) and Financial Management
  - Over 7,000 attendees
- Young & Beginning Enhancements
  - Development Fund
- Disaster Assistance Program
- Magnify
  - Budgets, Cash flows, Breakevens, Projections

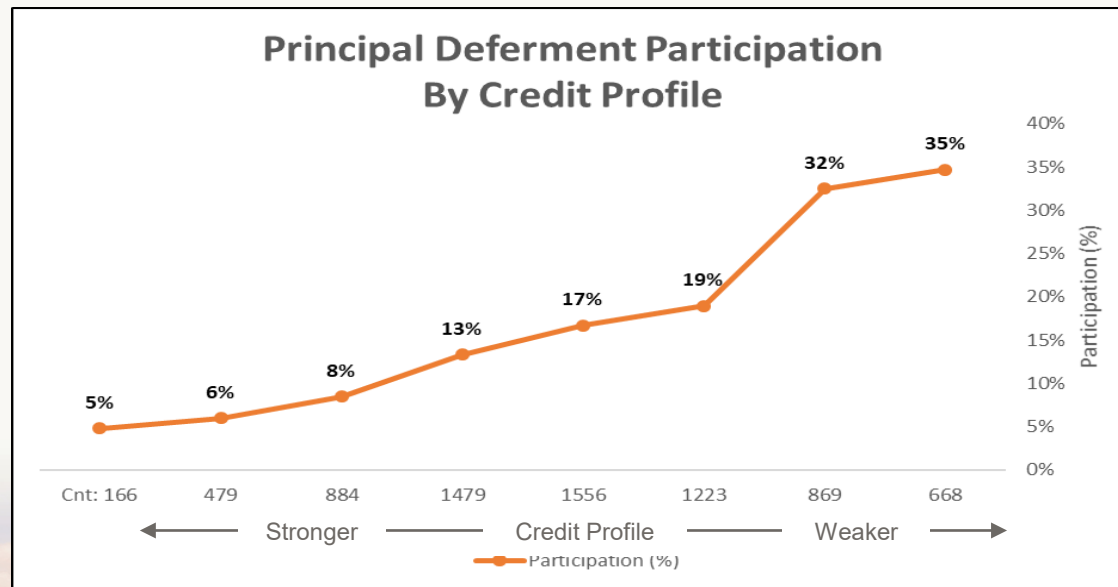




# What actions have we taken?

7,300 loans for  
over \$145 million  
in payments

## Cash Flow Relief





# Investment in customer relationships



Over 50 added resources (employees) - Relationship Officers and Credit Analysts

Customer Example:

Joe & Lisa – Huron, South Dakota

- Young producers – bought family operation 2011
- Profits in '12 & '13 – over \$300,000
- Losses in '14, '15 & '16 – over \$800,000

What did we do – together?

- Transferred to a Relationship Officer – more hands on service
- Re-amortized debt payments that were too aggressive
- Prepared detailed budget and breakeven analysis – streamlined operation and cut costs
- Sold equipment

Result?

- Breakeven or better the past 2 years



# Summary



- Market was adjusting to \$3.50 corn and \$9.00 soybeans – another \$1 to \$1.50 will be more challenging – especially around scale
- Decreased volatility helps
  - Farm Bill – helped
  - Trade
  - Ethanol
  - Labor
- Confidence remains – reflected in real estate value
- Reason to be bullish about our position to feed the world



Marc Knisely, President & CEO



# About AgCountry

- We are a farmer-owned cooperative
- We serve 18,000 patrons in Minnesota, North Dakota & Wisconsin
- We provide reliable, consistent credit & financial services
- 600 employees working in 37 offices between the three states



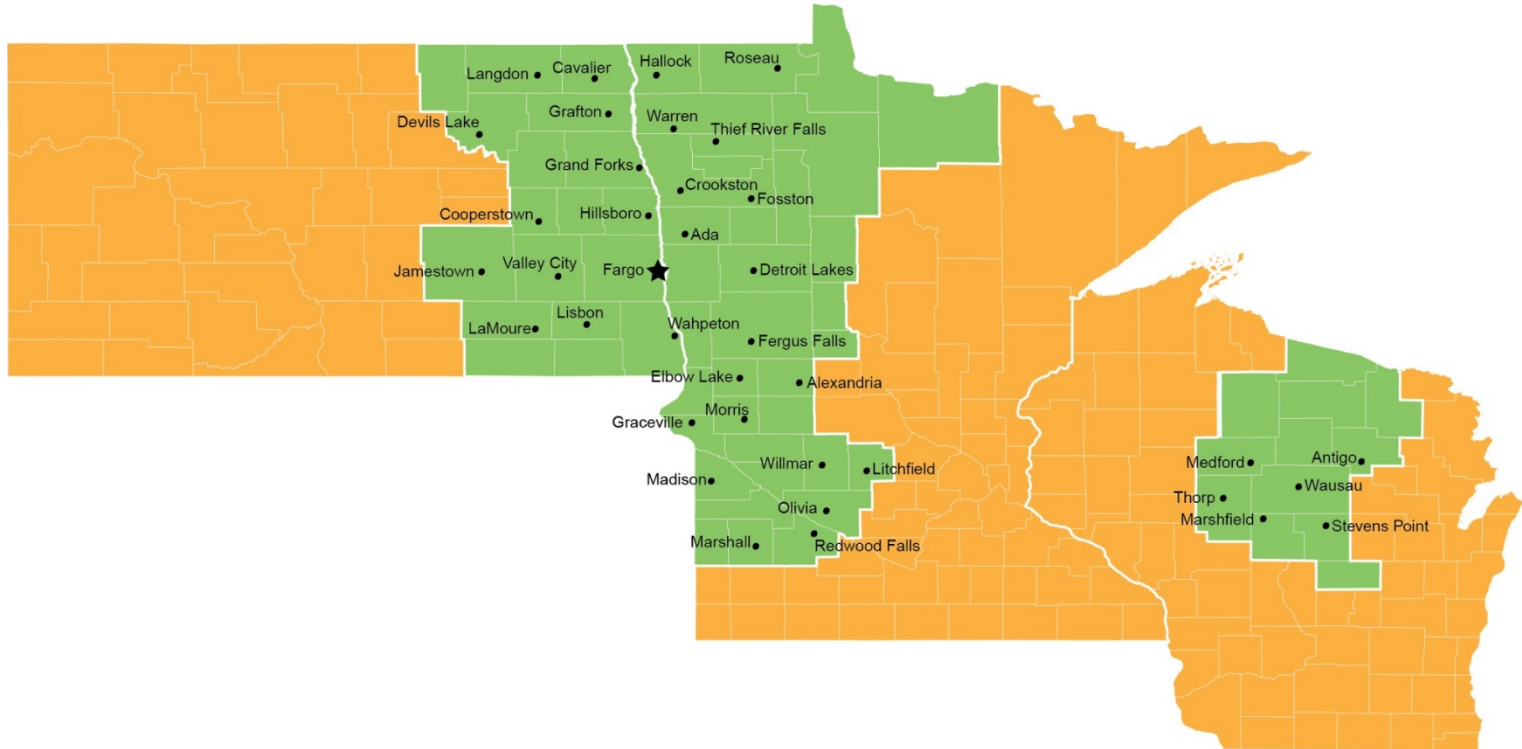
# What Guides Us

- **Mission:** To support agriculture and rural America.
- **Vision:** To be your destination for success.





# AgCountry Service Area



# Cash Patronage

- We return a portion of our annual profits back to our members
- Since 2014, we've returned over \$135 million

Year	Amount
2014	\$10.6 million
2015	\$12 million
2016	\$15 million
2017	\$34.5 million
2018	\$42.5 million

# Current Ag Environment

- Ag commodities are facing challenges across the board
- Large supplies of commodities are depressing prices
- This is leaving many farmers & ranchers with below break-even prices
- Farmers & ranchers of all ages, experience levels & sizes are facing increased hardship



# Commodity Break Down

Commodity	Break-Even Price	Cost of Production	Current Price
Corn	~\$3.50/bushel	~\$500-\$525/acre	~\$3.25
Soybeans	~\$9.25/bushel	~\$330/acre	~\$8
Wheat	~\$6.25/bushel	~\$375/acre	~\$5.10
Dairy (200 cows or less)	~\$17/cwt or \$1.46/gallon		~\$15-\$16

# Our Approach

- We strive for long-term customer success
- We take a balanced approach regardless of the economic environment
- Be proactive in financially positioning farmers & ranchers for when tough times do hit





# What We've Done & What We're Doing

- Visit customers on farm & help them understand their costs:
  - Inputs, family living expenses, land rent, crop marketing, etc.
- Proactively rebalance/restructure debt:
  - Loan extensions, deferments, interest-only payments, use of FSA & state programs
- Provide educational opportunities:
  - Seminars for YBF, crop insurance, marketing, tax, women in ag, succession & retirement, etc.



### Averages by Revenue Source

Corn & Soybean	Average	Top 25%	Average	Average	Average
Farm Income and Expense	2017	2017	2016	2015	2014
Gross Revenue	\$1,362,879	\$1,358,096	\$1,597,490	\$1,321,249	\$1,406,259
Feed Purchases and Resale Expenses	\$71,318	\$33,028	\$66,310	\$65,617	\$52,565
Value of Farm Production	\$1,291,560	\$1,325,068	\$1,531,179	\$1,255,631	\$1,353,665
Operating Expense before Depreciation and Interest	\$1,052,596	\$906,178	\$1,092,284	\$1,064,387	\$1,101,240
Profit Before Depreciation and Interest	\$238,963	\$418,889	\$438,894	\$191,244	\$252,424
Depreciation	\$142,639	\$102,888	\$173,397	\$143,010	\$147,450
Interest Expense	\$68,040	\$49,855	\$64,927	\$57,649	\$52,933
Total Expenses	\$1,263,276	\$1,058,921	\$1,330,610	\$1,265,046	\$1,301,623
Net Farm Income from Operations	\$28,283	\$266,146	\$200,569	\$(9,414)	\$52,041
<b>NonFarm Income and Expense</b>					
NonFarm Income	\$28,006	\$20,439	\$29,618	\$24,932	\$31,295
Gain from Sale of Capital Assets	\$20,743	\$1,875	\$14,034	\$16,225	\$24,617
Income Tax Expense	\$20,554	\$20,274	\$21,449	\$21,868	\$33,099
Family Living Expense	\$75,901	\$59,521	\$73,108	\$73,198	\$89,267
Retained Earnings	\$(19,422)	\$208,666	\$149,664	\$(63,324)	\$(14,413)
<b>Liquidity</b>					
Current Assets	\$1,218,501	\$1,114,289	\$1,296,826	\$1,129,977	\$1,170,075
Current Liabilities	\$826,954	\$641,158	\$771,031	\$777,482	\$716,274
Working Capital	\$391,547	\$473,132	\$525,795	\$352,495	\$453,801
Working Capital Percent	29.7%	35.2%	33.7%	27.5%	32.8%
<b>Solvency</b>					
Total Farm Assets	\$5,425,862	\$3,987,075	\$5,476,769	\$5,090,149	\$5,177,139
Total Farm Liabilities	\$1,846,803	\$1,391,616	\$1,783,768	\$1,710,362	\$1,591,260
Farm Net Worth	\$3,579,059	\$2,595,459	\$3,693,001	\$3,379,787	\$3,585,879
Farm Owner Equity Percent	66.0%	65.1%	67.4%	66.4%	69.3%
<b>Financial Performance</b>					
Return on Farm Assets	0.4%	6.6%	3.6%	-0.5%	0.3%
Return on Farm Equity	-1.3%	8.2%	2.9%	-2.4%	-1.0%
Asset Turnover Ratio	\$ 0.24	\$ 0.34	\$ 0.28	\$ 0.24	\$ 0.26
Operating Expense	\$ 0.81	\$ 0.68	\$ 0.71	\$ 0.85	\$ 0.81
Depreciation Expense	\$ 0.11	\$ 0.08	\$ 0.11	\$ 0.11	\$ 0.11
Interest Expense Ratio	\$ 0.05	\$ 0.04	\$ 0.04	\$ 0.05	\$ 0.04
Net Farm Income From Operations Ratio	\$ 0.02	\$ 0.20	\$ 0.13	\$( 0.01)	\$ 0.04
<b>Repayment Capacity</b>					
Term Debt Coverage	85.0%	246.9%	196.3%	57.7%	79.1%
<b>Source of Equity Change</b>					
Retained Earnings	\$(19,422)	\$208,666	\$149,664	\$(63,324)	\$(14,413)
Change Contributed Capital	\$(11,409)	\$(36,443)	\$(15,722)	\$25,188	\$9,195
Valuation Equity Change	\$(21,525)	\$55,064	\$105,320	\$41,066	\$(64,044)
Total Equity Change	\$(52,356)	\$227,286	\$239,262	\$2,930	\$(69,262)
Percent Owner Equity Change	-1.5%	8.8%	6.5%	0.1%	-1.9%

## Eye on Earnings

- Our program allows customers to compare their farm financials to a benchmark or average within different commodities



# Help Isn't Just Financial, Though...

- Increased stress levels are leading to mental health issues
- We're trying to combat the stigma surrounding mental health while providing help. Our efforts include:
  - Sponsoring statewide mental health training workshops
  - Sharing mental health resources through social channels/website
  - Training employees how to spot issues/deal with stressed customers
  - Record & share podcast with a mental health expert specializing in ag





*For more information, contact:*

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**Robbie Boone, [boone@fccouncil.com](mailto:boone@fccouncil.com)**

**Jenny Mesirow, [mesirow@fccouncil.com](mailto:mesirow@fccouncil.com)**



## Glossary of Farm Credit Financial terms:

**Allowance for Loan Loss** – the amount of money that a lending institution holds, in addition to capital, to cover a given expected value of loss when writing a loan.

**Asset** – resource with economic value that an individual or entity owns or controls, such as cash, land, grain etc. For Farm Credit institutions, assets are mostly loans that the institution has made to customers.

**Basis Point(s)** – generally used to express the amount of an interest rate. There are 100 basis points in 1.00%. An interest rate of 2.25% is expressed as 225 basis points.

**Capital** – is the value of a lending institution's assets minus its liabilities. The more capital a lending institution has, the more it can absorb losses on its assets before it becomes insolvent.

**Chapter 12 Bankruptcy** – a type of bankruptcy within the US Bankruptcy Code only available to family farmers or family fishermen that is intended to provide more flexibility for the farmer/fisherman to make periodic loan payments to take into account the seasonal nature of farming or fishing operations. However there is a limit to the total amount of the debt that a farmer can claim under Chapter 12, for 2018 it was \$4,153,150 for a farmer and \$1,924,550 for a fisherman.

**Collateral** – something pledged as security for repayment of a loan that the borrower would have to forfeit to the lending institution in the event they are unable to repay their loan.

**Credit Quality** – an assessment of the likelihood of repayment for the loans in a lending institutions portfolio.

**Credit Risk** – the risk of loss that a lending institution assumes from a borrower's failure to repay a loan or meet their contractual obligations

**Delinquency** – the state of a loan when a borrower is late or overdue on loan payments.

**Default** – when a borrower fails to repay the loan as specified by the terms in the original loan contract.

**Debt to Asset Ratio** – a financial ratio that indicates the percentage of a producer's debt over the assets they hold. It is a measure of financial leverage.

**Equity** – the difference between the value of an asset and value of liability held against it.

**Interest Rate Spread** – the difference between the interest rate which a lending institution accesses funds and the interest rate at which they lend money to borrowers.

**Liability** – debts or obligations that arise during the course of business operations, such as unpaid bills and other expenses. For Farm Credit institutions, most liabilities are debts incurred to raise funds to loan to farmers.

**Net Farm Income** – Income generated from farm activities plus income generated from farm ownership, minus the cost of production.

**Net Interest Income** – the difference between the revenue generated from a bank's assets (loans, securities, etc.) and the expenses required to fund those assets. Essentially this is the difference between interest paid on debts incurred to fund loans and the interest received on those same loans.

**Nonaccrual Loans** – a loan that is not accruing interest due to nonpayment; a loan that lenders predict will not be paid in the future; or when any part of the loan has been taken as a loss by a lending institution as part of a restructuring of debt from the original contract.

**Patronage** – portion of profits from a cooperative entity that is returned to member-customers. Generally, patronage dividends are paid out to cooperative owners according to how much business each owner does with the cooperative.

**Operating Loan** – a short-term loan that a producer uses to cover the costs of their production over the course of a year and then is typically repaid when they sell their crop or livestock at year end.

**Real Estate Loan or Mortgage** – a long term loan that is used to purchase land, facilities or other forms of real property in which that land, facility, or real property is held as collateral for the loan.

**Restructured Loan** – altering an already existing loan contract to allow the borrower more flexibility on payments, typically by lengthening the due date for the principal payment or modifying the frequency of interest payments.

**Stress Testing** – a method of determining how a lender's portfolio will be effected during a period of financial strain.

**Working Capital** – the monetary reserve that a business uses to fund its day-to-day operations and is the difference between a producers current assets (Cash, grain, etc.) and their current liabilities (debt, unpaid bills and other expenses).