Proactive Strategies for Long-Term Solvency

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Farm Credit Mid-America

• One of 80 associations that comprise the U.S. Farm Credit System
• Financial strength in numbers
  • $20 billion in assets
  • Cover four-state territory (IN, OH, KY, TN)
  • More than 97,000 customer-members
  • Governed by member-elected Board
  • 1,145 staff in 93 offices
U.S. Economic Outlook

- Slow GDP growth in 2013, after 2.1% decrease in Q1 2014, saw 4.6% increase in 2Q 2014
- Short-term interest rates likely to remain low in 2014 – modest increases expected in 2015
- Rising U.S. sales boosted hiring/wages in 2Q 2014. Trend expected to continue this fall
- Economy still sluggish
- Inflation tame in 2014 – likely to remain controlled into 2015
What’s Important to Lenders

- Future earnings supported by history
- Appropriate risk management practices to add stability to earnings
- Adequate liquidity for present environment and future objectives
- Solvency that provides stability for the customer and will support future growth
- Open communications about the present, future plans and ongoing updates along the way – most important
Building Blocks: 5Cs of Credit

**Character**
- Reputation
- Management style, appetite for risk, goals

**Capital**
- Solvency
- Liquidity

**Capacity**
- Analyze earnings – accrual, cash flow, repayment capacity

**Collateral**
- Chattel collateral, real estate, Farm Credit Mid-America spending caps

**Conditions**
- Loan term/maturity, borrowing base/reporting, risk management, financial reporting

Bottom Line: A strong offense is the best defense
Proactive Management Is Key

- A 5-year plan is critical to continued growth – start planning for 2019 today
- Contingency planning important – multiple scenarios are critical
- Succession planning important for prolonged growth
- Always look for opportunity – Rapid changes in market demand = opportunity
- Prepare your cash flow for higher interest rates and low grain prices
- One-size-fits-all financing no longer works
  - Specialization, volatility and capital access require solutions tailored to specific situations

Looking Forward: Access to Adequate Working Capital?

- Create an accurate projection of worse-case scenario
- Balance short, intermediate, and long-term debt
- Fix interest rates for long-term debt for life of loan
- Establish a line of credit with adequate cushion
- Plan ahead for future purchases/expansion
- Build adequate cash reserves – NOW!
- Use crop insurance and other tools to manage risk
2014 Farm Bill Changes

Crop insurance is an even more important risk management tool:

- **Flexibility**
  - Allows individual farmers to purchase the coverage they need, tailored to their farms, their financial standing and their tolerance to risk.

- **Safety Net**
  - Provides certainty and confidence in making responsible planting decisions
  - Ensures farmers can repay operating loans in event of weather or price-related issues – Reassurance for farmer and lender

What’s Changed From a Risk Perspective?

- **Commodity Prices**
- **Yields (Projected for 2014)**
- **Farm Income**
- **Crop Insurance is Primary Safety Net**
Options to Manage Risk

• Grow Revenue
• Diversification
• Build/Maintain a Strong Balance Sheet
• Strong Marketing Program
• Farm Programs (Farm Bill)
• Crop Insurance

Crop Insurance as Risk Management Tool

Crop Insurance

Has moved from "exception" to "norm"

Preserves key financials: liquidity, solvency, working capital

Integral part of an overall management plan

Costs per acre

Positive revenue

Crop losses

Market price

Capped part of overall management plan

Farm Credit Mid-America
Strategies for Risk Management

- Borrow at Attractive Costs for the Future
- Maintain Working Capital
- Manage Margins
- Make the Grade for Lender
- Financial Measurements
- Secure a Strong Lending Partner

Conclusion

- Choose a lender who understands your specific situation
- Work toward solvency that provides stability and supports growth
- Work with your lender to determine the crop insurance strategy that works best for your operation
- Communicate openly with your lender on present and future plans
Thank You