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Agriculture Capital Markets Update

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Outline

- Operating credit
 - How are the banks doing? (Bank Update)
 - Who’s lending to agriculture?
 - What are the requirements for a loan today?
- Farm ground
 - When will rates rise?
 - Bank loan terms and requirements.
 - Farmer Mac terms and conditions.
 - Insurance company terms and conditions.

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Outline

- “Wall Street” money
- Equipment (briefly)
 - Vendors, equipment finance companies, private finance companies, foreign players.
- Audience Participation
 - Questions and comments

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Banking Update



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FDIC Insured Banks

- 7,574 Insured Institutions in the US.
- 1,531 designated as farm banks, down from over 3,000 in 1990.



1/3 of farm banks are under \$50MM in assets.

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Ag Loans vs. Non-Ag Loans

Ag Lenders are showing better results in several important categories including:

- ROA
- ROE
- Net Interest Margin
- % Noncurrent
- Charge-off %

Dollar Amounts in Billions

	All Insured Institutions	Farm Banks	Commercial Lenders
First Quarter 2011			
Number of FDIC Insured	7,574	1,531	3,983
Number of FDIC Supervised	4,664	1,069	2,547
Percent Profitable (QTR)	84.6	94.4	78.9
Average Return on Assets (QTR)	% 0.87	% 1.05	% 0.62
Average Return on Equity (QTR)	% 7.75	% 9.64	% 5.33
Net Interest Margin (QTR)	% 3.66	% 3.80	% 3.78
Noncurrent Loan Rate - Total Loans *	% 4.71	% 1.95	% 4.20
Real Estate Loans	% 7.01	2.48	5.36
CB&I Loans	% 1.90	2.11	2.03
Consumer Loans	% 1.65	0.69	1.23
Net Charge-Off Rate - All Loans (QTR)	% 1.82	% 0.30	% 1.32
Real Estate Loans (QTR)	% 1.45	0.21	1.40
CB&I Loans (QTR)	% 1.14	0.61	1.62
Consumer Loans (QTR)	% 4.30	0.45	3.89

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Data courtesy of the FDIC Q1 QBP.

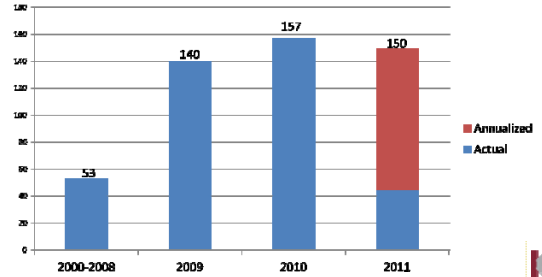
So, Why the Concern?

- Bank expenses are rising drastically
 - Technology
 - Regulatory
 - Insurance
 - Premiums and prepaids
 - Other: property, salaries, benefits, etc.
- What is their sustainable competitive advantage?

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Bank Closures

888 problem banks in the US. This is the highest number since 1992.



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Check on Your Bank



Bank call reports

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Who's lending to Ag

- Farm Credit System & CoBank
 - Has been some M&A in the system
- Continues to be an important provider of ag finance.



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Who's lending to Ag

- Local banks
 - There are significant challenges to being a local bank today.
- Regional banks
 - Some unique options
- National banks
 - “One-stop” solution
 - Good & bad



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Requirements Today

- Cash flow
- Liquidity
- Equity
- Management- Who you are is as important as the financials you show.
- Clarity & partnership
- Timely, quality information
- Risk management

	Ratio	Low	High
Debt Service Coverage Ratio		1.15x	1.5x
Working Capital/Revenue		20%	30%
Debt to Market Value Assets		40%	65%

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An example on clarity...

Banker's version:	12/31/2009	DSCR	Our Version:
Net Income	\$ 272,049		Net Income
Depreciation	\$ 273,361		Depreciation
Interest Expense	\$ -99,833		Interest Expense
Cash Available to Service Debt	\$ -		Other non-cash add-backs
Interest Expense	\$ -		Other non-cash add-backs
Less: Distributions	\$ (1,644,675)		Cash Available for Debt Service
Cash Available for Debt Service	\$ (999,432)		Interest Expense
Principal	\$ 482,999		Less: Distributions
Interest	\$ 99,833		Cash Available for Debt Service
Annual Debt Service	\$ -		Principal
Interest	\$ -		Interest
Combined Total Debt Service	\$ 582,832		Annual Debt Service
Debt Service Coverage Ratio		0.58	Interest
			Combined Total Debt Service
			Debt Service Ratio
			Margin (Shortfall)
			\$ 972,046

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Farm Ground Lending

- Almost all lenders are interested in farm ground
 - April 2011 report shows a **19.7%** estimated change in values for Iowa farm ground.*
- Lenders and the FDIC see the “potential” for an ag credit problem due to the rise in farm ground prices.
- For now, the “potential” is not impacting borrowing.

*<http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-75.pdf>

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Farm Ground Loan Terms

- Traditional banks (\$100,000 to ???)
 - 5/5, 5/10, 5/15, 5/20, 10/10, 10/20, 20/20, 20/25
 - Prepayment penalties, personal guarantees
 - Fees of 0-100 bps, fixed rates from 5.0% to 8%.
- Farmer Mac (\$100,000 to \$22.5MM)
 - 7/15, 7/25, 10/10, 15/20, 15/25, 20/20, 25/25-30
 - Prepayment options, require personal guarantees
 - Fees of 50-125 bps, rates from 2.7% to 7.5%

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Terms

- Insurance companies (\$1,000,000+)
 - Terms of just about any combination
 - Prepayment options, personal guarantees typical
 - Fees from 50 bps, to 300 bps, rates from 3.5%

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Let's Talk About Rates

- Rates are low, rates will rise, fixed rates are available....
- Look at fixed rates as an insurance policy against rising costs.
- The tighter your cash flow and liquidity, the more important this becomes.
- Sensitize your financials by simulating a 1%, 2% and 3% increase in rates.
- Before accepting a rate hedge, UNDERSTAND it.

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“Wall Street” Money



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“Wall Street’s” Interest in Ag

- Private equity funds
 - Estimated 2,000 PE firms in the US
 - Control an estimated \$400B to \$500B
 - Backed by: pension funds, foundations, sovereign wealth funds, wealthy individuals, corporations, family offices, etc.
 - G.P./L.P. arrangement
 - Majority/minority buyout
 - PE vs. VC

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“Wall Street’s” Interest in Ag

- REIT's (Real estate investment trusts)
 - Receive favorable tax treatment for distributing 90% of their income to investors
 - REITS exist for just about every type of real estate
 - A number are focused exclusively on agriculture
 - Typically focused on a cash rent model
 - Some returning over 20%

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“Wall Street’s” Interest in Ag

- Direct investments
 - Pension funds and other money managers
 - Often work through intermediaries
 - Interested in both foreign and domestic real estate

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“Wall Street’s” Interest in Ag

- The next frontier
 - Ag real estate will lead to ag operations
 - There is a disconnect between ag investors and producers:
 - Quality of financials
 - “Professional” organizations
 - Interests
 - Operational knowledge
 - This is changing. Fast.

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“Wall Street’s” Interest in Ag

- So what do I do with this?
 - Know that it's there, because it will impact Ag going forward
 - Don't close doors, position yourself for new opportunities
 - Improve your “professionalism”
 - Improve your financial reporting and analysis
 - Separate yourself as a “Top Producer”
 - Follow what is happening with ag investment

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Equipment Finance



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Equipment

- Vendor finance continues to be the most common.
- Several new leasing companies have started marketing to agriculture, including one based in Asia.
- Bank finance companies continue to look for new customers.
- I said brief!



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Audience Participation



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Audience Participation

- What are you seeing
 - Banks, land buyers, investors
- General questions and comments

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