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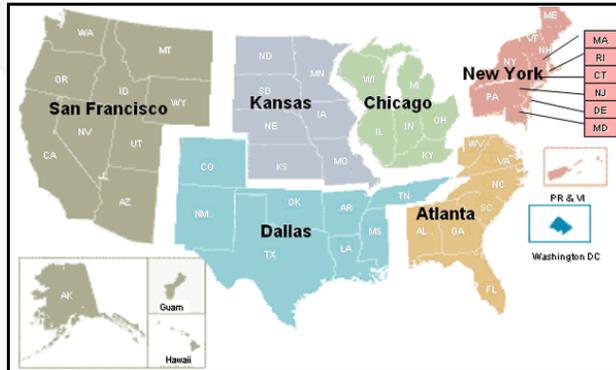
Lending Market Update

Overview

- Lender health
- Today's repayment standards
- As time permits:
 - Who's lending
 - The need for alternative lenders
 - What's everyone seeing



- 6,589 insured institutions
- 4.4% decline from previous year
- 9,025, ten years ago
- 1,501 Ag banks



As of 9/30/14

Farm banks continue to report better results than their counterparts

		All Insured Farm Banks	Commercial Lenders
Number of institutions reporting		6,589	3,285
Percentage profitable (Qtr)	%	93.43	92.75
Average return on assets (Qtr)	%	1.02	0.95
Average return on equity (Qtr)	%	9.04	7.91
Noncurrent loan rate- Total loans	%	2.11	1.50
Net charge off rate- All loans	%	0.49	0.26

As of 9/30/14



FDIC QBP Highlights

- Largest revenue increase since 2009
- Lowest charge-off rate in seven years
- 18 quarters of falling non-current loans %
- Fewest problem banks since March 31, 2009
- DIF balance at highest level in history

As of 9/30/14



FDIC Financial Institutions Letter

- Focus on repayment capacity- Stress test
- Consider, but don't rely on secondary sources and collateral
- Be aware of speculation in land and commodities
- Identify and manage concentrations

Source: FDIC FIL-39-2014



FDIC Financial Institutions Letter

- Work with borrowers experiencing difficulties
- Assess borrowers risk management techniques
- Continue to lend money to creditworthy Ag borrowers

Source: FDIC FIL-39-2014



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Let's start with the basics

- **Borrowing only takes two things:**
 - Confidence in the borrower's plan to repay the note
 - Confidence the team will execute the plan

Every interaction with your lender should build confidence in both factors!



Demonstrating repayment

- **Three step process to demonstrate repayment**
 - Know your numbers
 - Calculate expected performance
 - Sensitize and demonstrate modified repayment



First things first.....

- You must know your numbers!
 - True production breakeven
 - Actual living expenses
 - Revenue and expenses already locked in
 - Changes from previous years



Detailed Crop Plans & Task Management

GRANULAR FARMS NE Planning Operations Analysis Resources Hello, Demo

Create Plans

New Plan New Task 2014

Irrigated Corn 102 - 105 days

Spring Tillage	Primary, Chisel plow	2014-03-15	Tilling
CC Planting	102 - 105 days	2014-04-01	Planting
2" Plant Water	Center pivot, 2 inches, VE	VE	Irrigation
SB Mix	Spraying, SB Mix: Rate 25 gal	2014-06-01	Product
Roundup	Spraying, Roundup WeatherMAX...	2014-07-01	Product
CC Harvest	Commercial Corn	Black layer	Harvesting

Planting

- CS SB Planting Commercial Soybean
- CC Planting Commercial Corn
- CC CC Planting Commercial Corn

Product Application

- CC Planting Spraying
- SB Mix Spraying
- Roundup Spraying

Tillage

- Spring Tillage Primary

Pre-Plant Mar 18, 2014 V10 Plant VE V2 V4 V6 V8 R1 R2 R3 R4 R5 R6 Black L... Oct 14, 2014

Step two- The budget

- Create a budget (projection)
 - Ideally: cash flow, income statement and balance sheet
 - This draft is based upon “most likely” scenario
 - The end result should be a debt service coverage ratio of 1.25:1



Repayment plan tools

Net income
+Depreciation
+ Interest
-Distributions
+/- Other Non-cash items
+/- Extraordinary items
Cash available for debt service
/ Debt Service
Debt Service Coverage Ratio



Field Budgets & Actuals

Granular Farms Planning Operations Analysis Setup Hello, Mike			
Crop Budgeting 2014			
2 Boundaries Selected			
	West 80 Commercial Corn 80.10 acres	East Wellman Commercial Soybeans 104.01 acres	
▼ Summary	\$3,304.01 (net)	\$6,286.54 (net)	
	\$43.01/acre	61.84/acre	
	\$23/bu	\$1.26/bu	
Revenue	\$63,615.72	\$61,657.89	
Production Expenses	\$49,651.91	\$42,651.91	
Gross Profit	\$13,963.81	\$19,005.98	
Gross Production Margin	22.0%	30.8%	
Overhead Expenses	\$5,775.64	\$6,175.81	
Financing Expenses	\$105.75	\$99.21	
Net Profit	\$8,082.42	\$12,730.96	
Net Profit Margin	12.7%	20.6%	

2/3/2015

Granular Confidential

15

Step three- Stress testing

- Revenue
 - Price
 - Yield
 - Acres
 - Other significant sources
- Expenses
 - Seed
 - Chemical
 - Fertilizer
 - Labor
 - Interest rates
 - Other significant costs

How will I pay back my notes if things don't go as planned?



Repayment plans

- What will I rely on if my primary repayment source dries up?
- How do I ensure my secondary source will be there when I need it?
- What would liquidation look like?
- How would I restructure my notes if there was a significant departure from the original plan?



Relationship checklist

- Talk to your lender at least quarterly
- Provide a written “annual report”
- Have a standard renewal package
- Make sure you know others at the bank
- Know your numbers
 - Detail! Enterprise! Accrual! Timely!
- Communicate problems early



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