A MIDWESTERN FARM ECONOMY OUTLOOK

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Compeer Financial

Leadership for Midwestern Watersheds Meeting
November 6, 2019
Cedar Rapids, IA
Compeer Financial

- Formed in 2017 by merger of three Farm Credit System cooperatives: Badgerland Financial; AgStar; 1st Farm Credit
- Rural lending (& other financial services) cooperative
- Any owner of agricultural assets or person engaged in ag production is an eligible borrower
- Largest ag lender in Upper Midwest…$20 billion in assets
- Approximately 45,000 members
- Recently paid $150 million in dividends back to members based on 2018 profits
How I ended up in Wisconsin
A few statistics

• Average age of a US farmer is 59, and 70% are over age 55
• Thirty percent of beginning farmers were 35 or under, but 10% were over 65
• 2/3 of beginning farmers had income under $10,000/year

Data source: USDA Economic Research Service
Farm income declining

• Income peaked in 2012, now running near long-run, inflation-adjusted averages
• From 2012 to 2017, largest % drop in net income since 1970s
• 40% of net farm income in 2019 projected to come from government subsidies and crop insurance

Sources: USDA-ERS and American Farm Bureau Federation
Government farm program payments to farm producers, 2009-19F

Note: F = forecast.
1/ All other payments include supplemental and ad hoc disaster assistance, tobacco transition, Cotton Ginning Cost Share, dairy, and miscellaneous programs (such as the Market Facilitation Program).
2/ Includes Price Loss Coverage (PLC), Agriculture Risk Coverage (ARC), counter-cyclical payments (CCP), Average Crop Revenue Election (ACRE) payments, loan deficiency payments (excluding grazeout payments), marketing loan gains, and certificate exchange gains. CCP and ACRE were not continued in the 2014 Farm Bill. PLC and ARC payments began in 2015.
3/ Includes direct fixed payments portion of Direct and Counter-Cyclical Program (DCP) and Cotton Transition Assistance Program (CTAP) payments (in 2014/15).
Data as of August 30, 2019.
Farm debt rising, repayment stretching longer

- Total farm sector debt is approaching levels of late 70s/early 80s
- Farmland values have stalled out, debt-to-asset ratios rising
- Low interest rates have muted the impacts to some extent
- 85-90% of farms are not considered to be under financial stress
- Most likely to be stressed: larger farms

Source: USDA-ERS
Debt And Working Capital

Source: USDA-ERS data via agricultural economic insights (aei)
2019…

- Trade wars with major export markets
- Glut of milk in conventional and organic markets
- Fuel, fertilizer, seed costs down
- Terrible weather conditions in spring and fall
- Farmers are very discouraged

Source: The Van Trump Report 11-5-19
2019 in lending…

- Some large banks reducing their ag portfolios
- Many lenders reducing loan:value ratios and discounting collateral
- Short-term debt rolling into longer term debt
- USDA-FSA funding has been pretty good
- Some farms in serious financial trouble but majority are still okay
When access to commercial credit starts to dry up...

**LOANME, INC. SMALL BUSINESS LOAN**

<table>
<thead>
<tr>
<th>Loan No.:</th>
<th>1968350</th>
<th>Date of Note:</th>
<th>July 31, 2017</th>
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<tbody>
<tr>
<td>Expected Funding Date:</td>
<td></td>
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<td>July 31, 2017</td>
</tr>
<tr>
<td>Lender:</td>
<td>LoanMe, Inc.</td>
<td>Borrower:</td>
<td>[Redacted]</td>
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<tr>
<td></td>
<td></td>
<td>DBA:</td>
<td>[Redacted]</td>
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<tr>
<td>Guarantor:</td>
<td></td>
<td>Address:</td>
<td>1900 S. State College Boulevard Suite 300, Anaheim, CA 92806</td>
</tr>
<tr>
<td></td>
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</tbody>
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**Promise to Pay.** For value received, the undersigned ("Borrower" or "you") promises to pay to the order of LoanMe, Inc., or any subsequent holder (the "Lender" or "we") of this Promissory Note (the "Note"), the sum of $53,500.00 (the "Principal"), together with interest calculated at rate of 9.00% per annum and any outstanding charges or late fees, until the full amount of this Note is paid. The Principal consists of $48,150.00 given directly to Borrower and a $5,350.00 origination fee.

**Loan Purpose.** Borrower represents and warrants to Lender that the proceeds of this Loan will be used solely for business and commercial purposes and not for any agricultural, personal, family or household purpose.

**Payment Terms.** Borrower agrees to pay sums under this Note as follows. Borrower will make one payment of $4,331.03 on September 01, 2017. Borrower will make 118 monthly payments of $4,191.33 beginning on October 01, 2017. The entire amount of unpaid Principal under this Note, together with any unpaid interest and unpaid fees, is due and payable on August 01, 2027 (the "Maturity Date").

**Payments and Interest.** Unless otherwise required by applicable law, Lender may apply payments to interest, outstanding fees, and principal in any order that Lender deems appropriate. Interest is calculated on a 360/360 simple interest basis. If any amount under this Note remains outstanding on the Maturity Date, interest will continue to accrue on that amount at the interest rate disclosed above.
Figure 2. Total Chapter 12 Farm Bankruptcies by State
July 2018 to June 2019
Source: U.S. Courts, Farm Bureau Calculations
Well, that was quite a bummer. What’s next?
Short run – next one to two years

- Net farm income likely to decline further; highly dependent on weather and politics
- Even with relatively low rates, total interest expense will be a bigger burden
- Land values are holding so far, but could drop if stressed farms have to sell
- If farm economy is pushing farmers out, non-farm economy is pulling them too
This isn’t the 1980s
Why I’m optimistic about the future

• Tough times spark creativity and innovation

Founded in 1988 as Coulee Region Organic Produce Pool (CROPP).
Why I’m optimistic about the future

• Many farms still have positive cash flow even if they are unprofitable
• Farmers recognize that climate change is real, even if they don’t call it that
  ▪ Adoption rate of cover cropping
  ▪ Interest in improving soil health

• Greater interest in organic grain production
• Farmers have been minimizing capital purchases and cutting operating expenses
Why I’m optimistic about the future

- Consumers are increasingly concerned about food production methods and are willing to pay more for food that fits their values
- A new generation of farmers who understand the consumer above
- Millions of acres will change hands in the next twenty years
- Tons of interest—and money—around “regenerative agriculture”
Some unknowns
Your thoughts?