



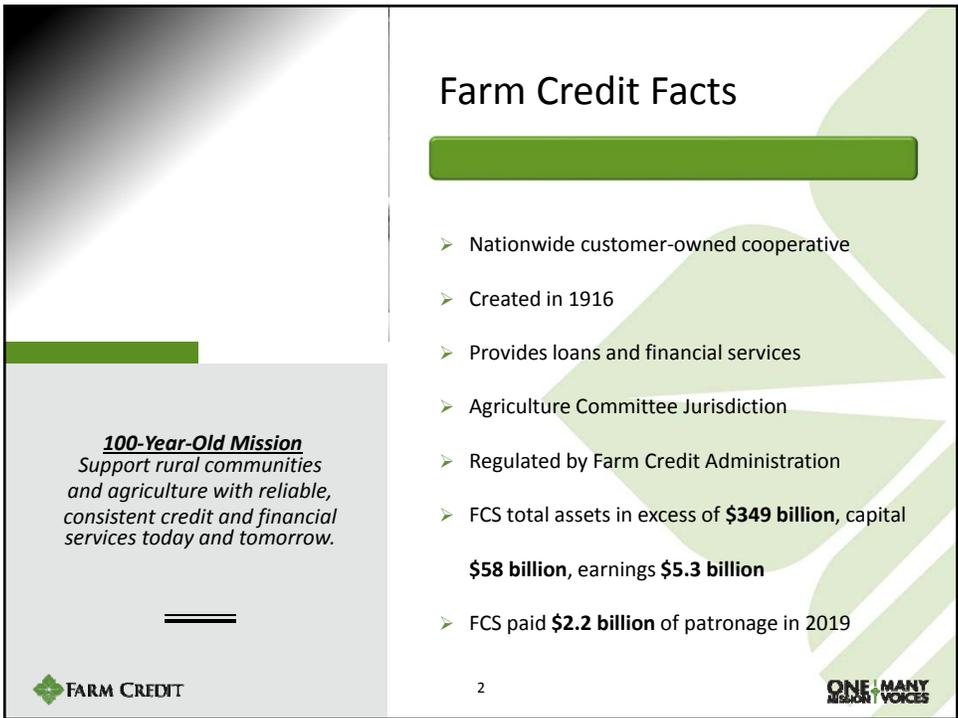
## 6<sup>th</sup> Annual Mid-South Agricultural and Environmental Law Conference

Greg Cole, President & CEO  
AgHeritage Farm Credit Services

FARM CREDIT

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ONE | MANY  
MISSION | VOICES



## Farm Credit Facts

- Nationwide customer-owned cooperative
- Created in 1916
- Provides loans and financial services
- Agriculture Committee Jurisdiction
- Regulated by Farm Credit Administration
- FCS total assets in excess of **\$349 billion**, capital **\$58 billion**, earnings **\$5.3 billion**
- FCS paid **\$2.2 billion** of patronage in 2019

**100-Year-Old Mission**  
*Support rural communities and agriculture with reliable, consistent credit and financial services today and tomorrow.*

FARM CREDIT

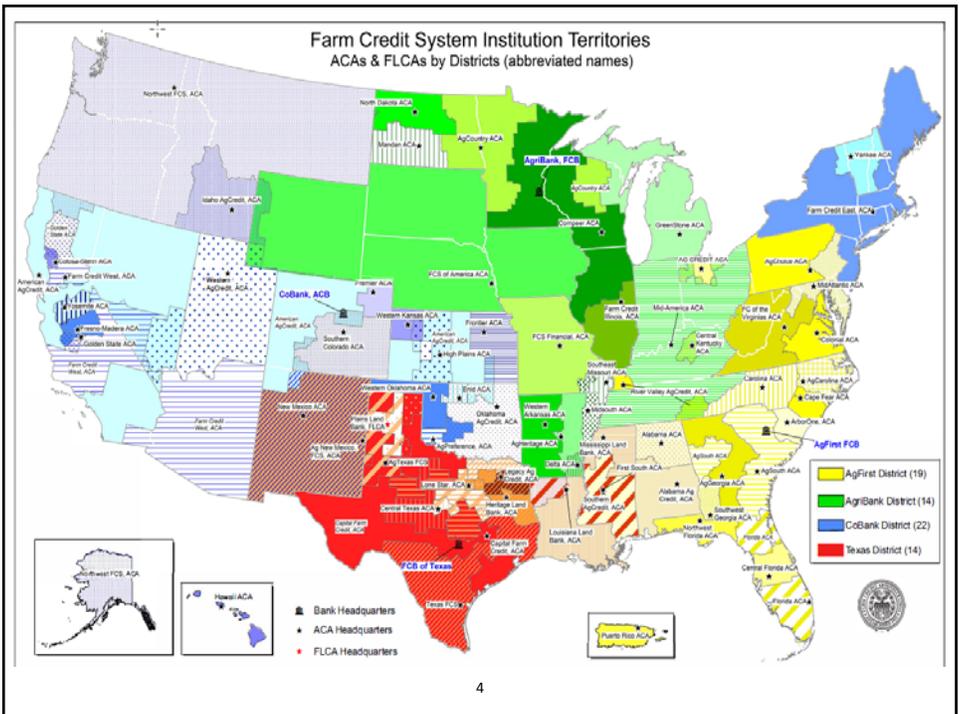
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ONE | MANY  
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# Farm Credit Facts

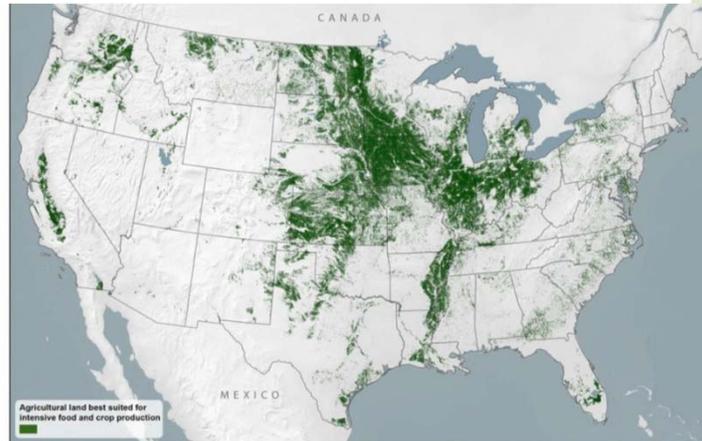
- 69 Associations, 4 District Banks, Farm Credit Funding Corporation
- No government funding
- Funding source – sell Farm Credit bonds on Wall Street
- GSE status
- Largest single lender to agriculture

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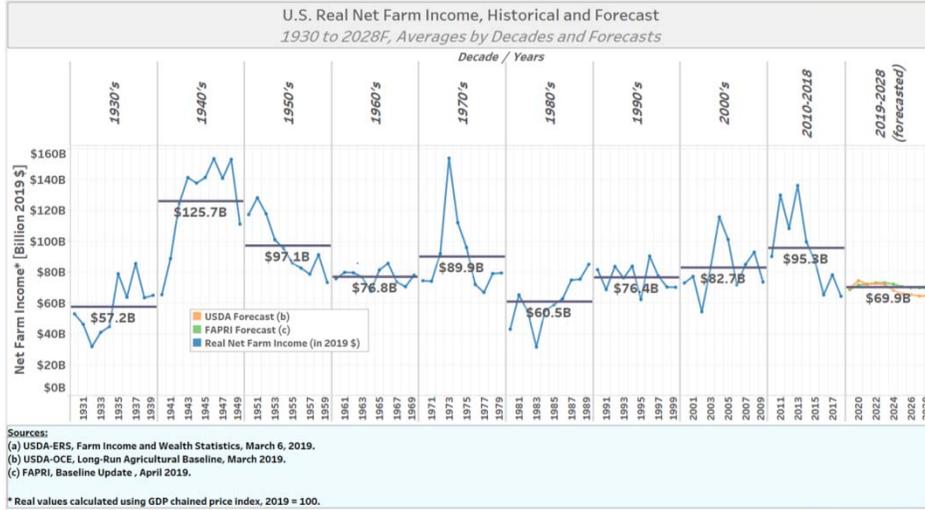
## Farm Credit Loans by State

States	(in Billions)	States	(in Billions)	States	(in Billions)
California	\$ 27.5	South Dakota	\$ 6.6	Virginia	\$ 4.6
Texas	\$ 21.0	North Carolina	\$ 6.5	<b>Arkansas</b>	\$ <b>4.6</b>
Iowa	\$ 14.0	Missouri	\$ 6.5	Idaho	\$ 4.1
Illinois	\$ 13.0	New York	\$ 6.1	Oregon	\$ 3.7
Minnesota	\$ 12.7	Georgia	\$ 6.0	Pennsylvania	\$ 4.6
Nebraska	\$ 10.0	North Dakota	\$ 5.7	Oklahoma	\$ 3.3
Ohio	\$ 9.5	Washington	\$ 5.6	Alabama	\$ 3.5
Wisconsin	\$ 7.8	Florida	\$ 5.4	Mississippi	\$ 3.3
Kansas	\$ 7.7	Colorado	\$ 5.1	Maryland	\$ 2.7
Indiana	\$ 7.7	Tennessee	\$ 4.9	South Carolina	\$ 2.6
<b>Michigan</b>	\$ <b>7.0</b>	Kentucky	\$ 4.8	All other states	\$ 25.6



Best agricultural land for intensive food and crop production in 2012. Source: AFT, Farms Under Threat.

## U.S. Net Farm Income (2019\$)



## Ag Economics 101 – Commodity Business

**"The function of a competitive market is to drive the economic return to the average producer to breakeven through supply and demand in both input and output markets.**

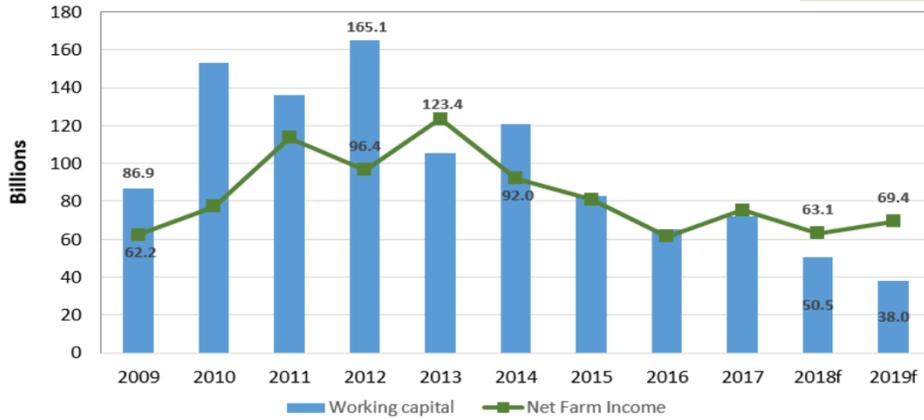
***In equilibrium, the top end are profitable and growing, the average are hanging in there, and the bottom end are losing money and exiting the industry.***

**Business success and survival depend on continuous improvement at a pace necessary to stay in the front half of the pack."**

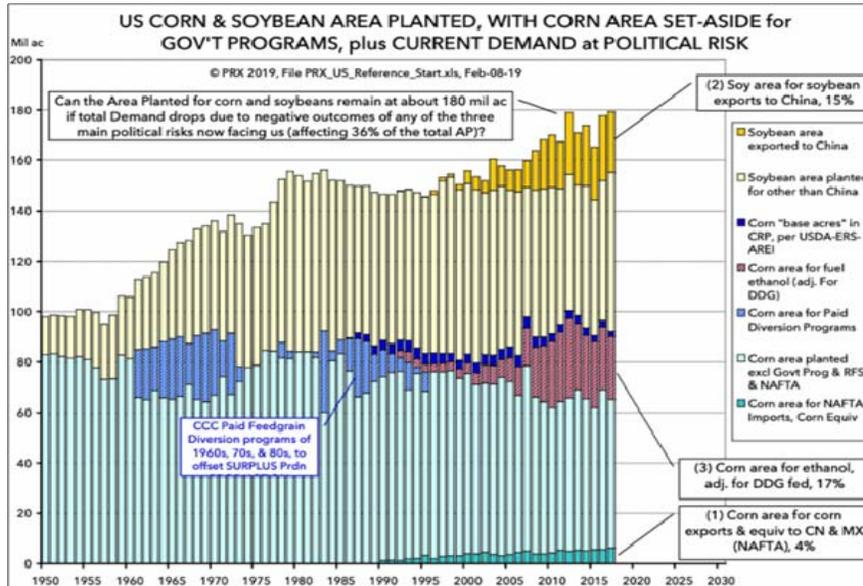
**-- Professor Danny Klinefelter, Texas A & M University**

# Farm Sector Financial Trends

## Working Capital and Net Farm Income Trends

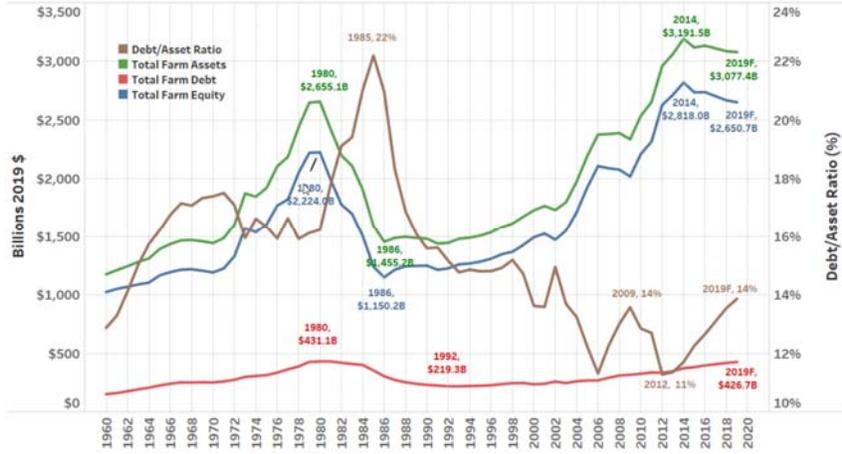


Source: USDA/ERS, Farm Income and Wealth Statistics, March 6, 2019 forecast, nominal dollars



## U.S. Farm Sector Debt-Asset Ratio (2012 Lowest Level in at least 50 years)

U.S. Real Aggregate Farm Balance Sheet, 1960 to 2019F

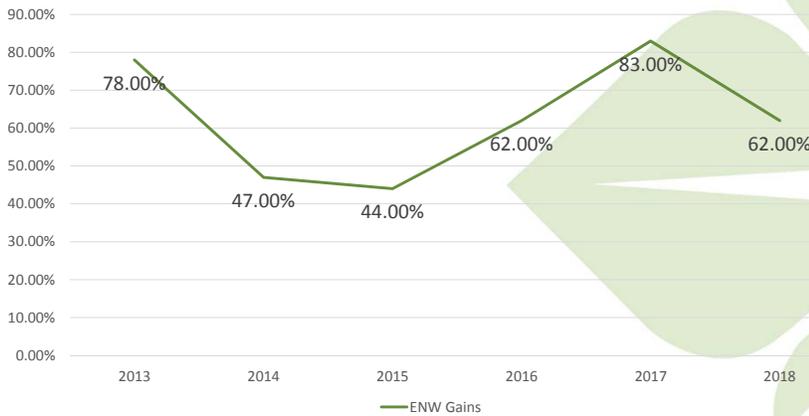


Source: USDA-ERS, Data as of 3/6/2019.



## Customer Profitability Trends % of operating customers with gains

Producer Profits



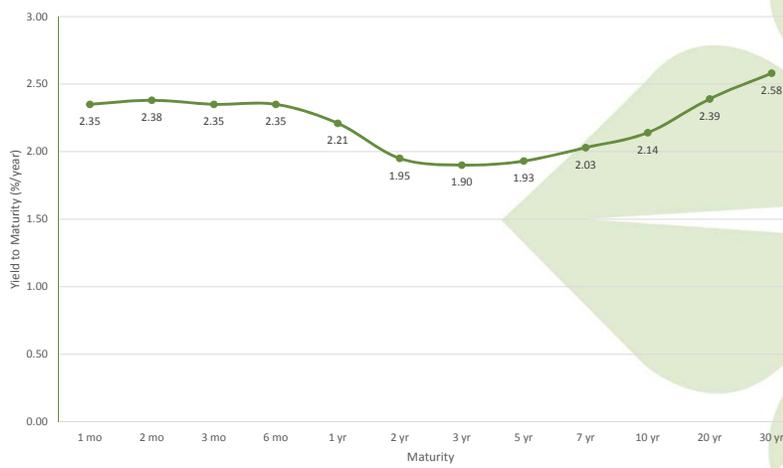
## Bank Prime Loan Rate through March 2019



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## U.S. Treasury Yield Curve



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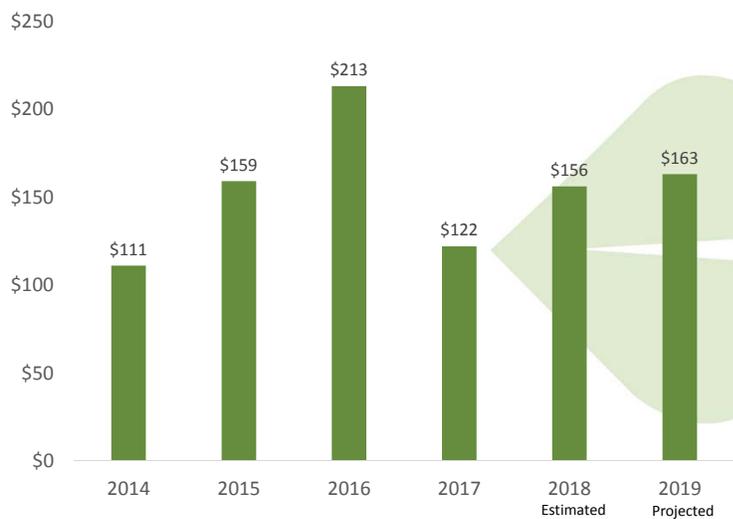


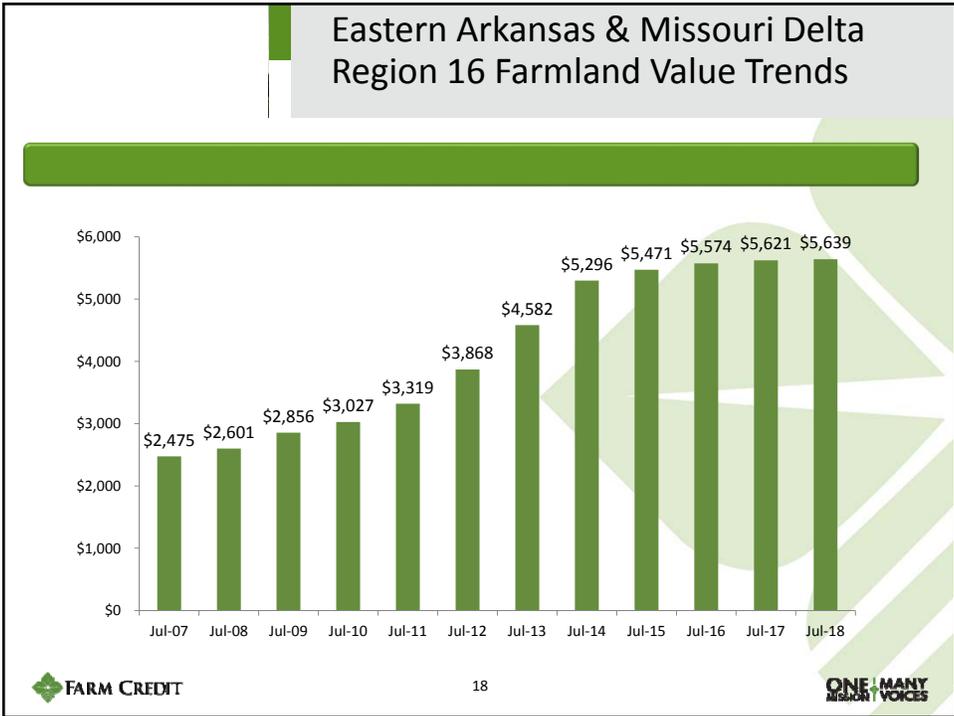
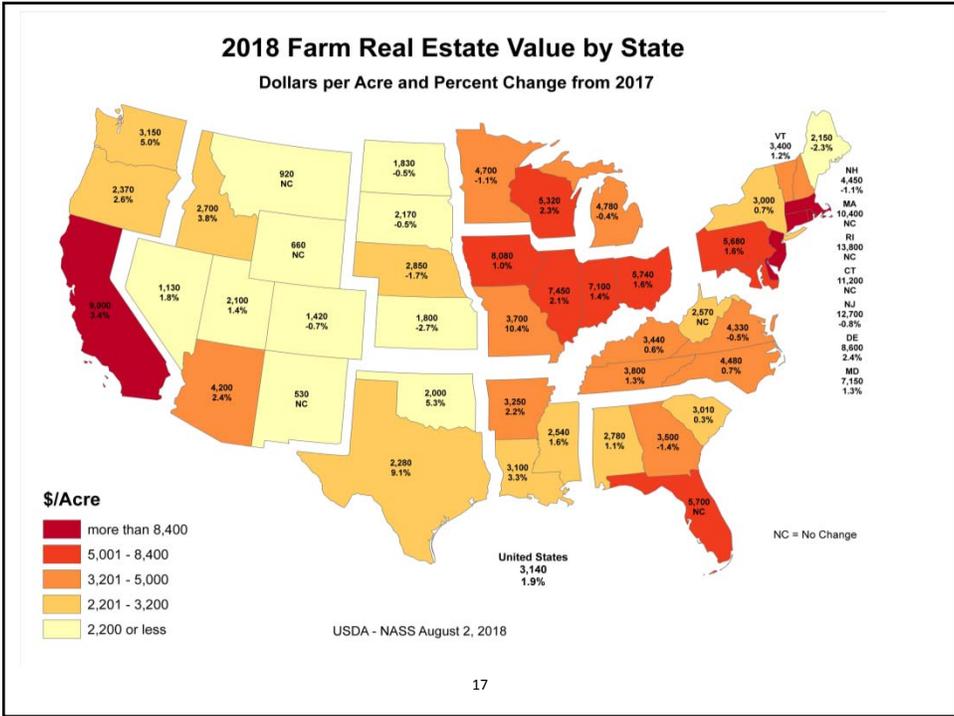
## Current Agricultural Environment

Transitioned to new farm bill structure in 2014, fundamental structure continues in the 2018 farm bill

- Philosophy has changed, you only get help when things aren't good
- PLC & ARC-CO
- PLC Payment on rice has provided a **strong safety net**

## PLC Payment on Rice

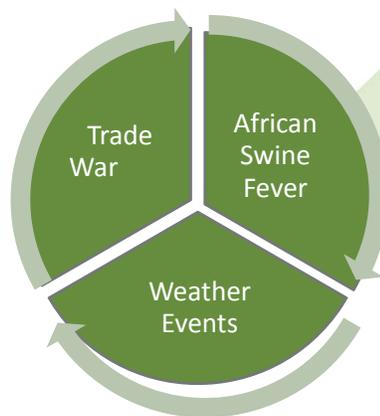




## Producer Profile

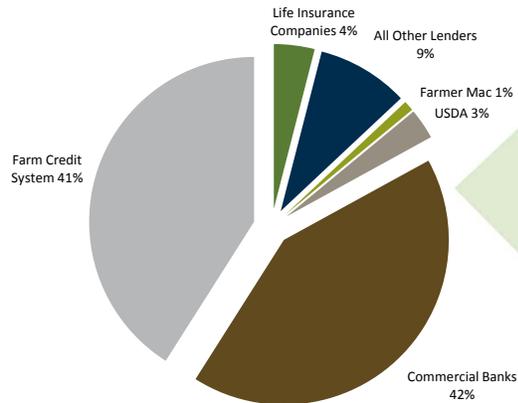
Highly Stressed	Less Stressed
Rents most of their land	Owns high percentage of their land
Unfavorable rent structure	Favorable rent structure
High variable, fixed and living costs	Lower variable, fixed and living costs
High off farm spending	Modest off farm spending
Less efficient (>80%)	More efficient (<80%)
Highly leveraged (<50%)	Less leveraged (>50%)
Low or no liquidity (<15%)	Strong liquidity (>15-25%)
Lost money or broke even in the most recent good times	Made money in the most recent good times
Less rice base – PLC's	More rice base – PLC's
Less willing to make changes	Willingness to make changes
Weak management skills (production, marketing, finance and risk management)	Strong management skills (production, marketing, finance and risk management)
<b>View farming as a lifestyle</b>	<b>View farming as a business</b>

## Factors to Watch



## Who Supplies Agricultural Debt?

### Market Share of Total U.S. Farm Debt



Source: USDA/ERS



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## Agricultural Credit Markets

Mid-South enjoys a very healthy and competitive ag credit market

Who are the players? How have they reacted to the cycle and what are the keys to the game going forward?

- Farm Credit System
- Commercial Banks
- Dealer Financing
- Supplier Financing
- Insurance Companies
- International Banks
- Non-traditional lenders



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## Agricultural Credit Markets

Lots of credit counseling and rebalancing of debt over the last 5 years

Credit quality has declined and delinquencies have edged higher but are at historically low levels

Some increase in A/R issues, collections, mediation cases and bankruptcies but not material

Still an average number of equipment auctions

Keys to obtaining financing

- Producers that have good financial records, balance sheets (liquidity and equity) and business plans that can demonstrate their ability to manage their risk

## Final Thoughts

This cycle is not expected to be as bad as the 80's; however, we haven't seen this level of stress since that time period

Farm program safety net is working in the Mid-South so far but it won't save all producers in a continued stressed environment

Current fundamentals suggest a continued bearish outlook for net farm income in the near term; we need some positive game changing events

Who are the producers and lenders that will make the future?

Capitalism, realities of scale and succession will continue to drive consolidation in agriculture and ag lending (*few & larger*)

Short-term headwinds, long-term tailwinds

# Questions



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## LAW AND LENDING IN A DOWN FARM ECONOMY

Michael O'Neal, Deputy General Counsel



## **An In-House Lawyer's Perspective on Lending in the Down Farm Economy**

- ❖ Greg has given you some great information about the current agricultural environment
- ❖ I'm here to offer up a lawyer's thoughts, insights, observations and experiences in dealing with the law, the legal ramifications and working with borrowers in this environment
- ❖ I will discuss how GreenStone has reacted to this down economy, and the changes it has made

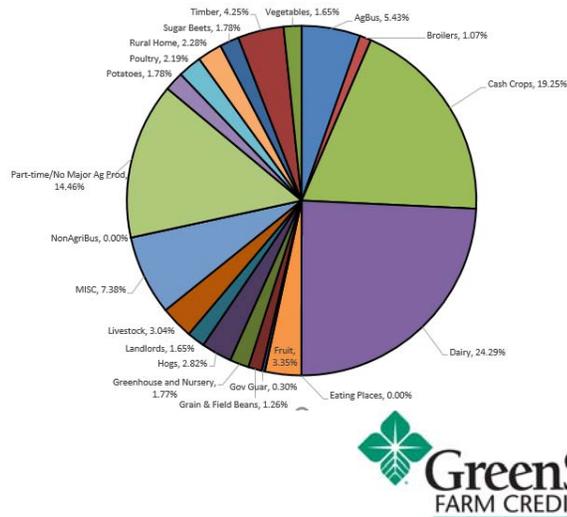


## **GreenStone Farm Credit Services**

- ❖ Headquartered in East Lansing, Michigan
- ❖ Territory covers all of Michigan and Northeast Wisconsin
- ❖ 36 Branches
- ❖ 70% agriculture debt market share
- ❖ 24,000 members
- ❖ Over \$9.5 Billion in assets
- ❖ In the AgriBank district
- ❖ Three attorneys



## GreenStone's Portfolio



## Down Farm Economy – Makes us Work Harder

### ❖ Educating Customers

- We provide a variety of tools and resources to customers looking for information concerning market trends and outlooks, financial metrics and other resources to support their farming operations.
- Information on critical financial metrics has been produced and distributed to customers as a means of helping them look deeper into their financial situation.



## Down Farm Economy – Makes us Work Harder

- Peer-based benchmarks are calculated, allowing customers insight on how they are performing in relation to their peers.
- For our younger customers, we offer a mentorship program pairing new producers with more experienced producers in their region.
- “No Surprise Rule”
  - All customers receive personal communication regarding their financial situation well-before formal tactics are put into play.



## Down Farm Economy – Makes us Work Harder

- ❖ Employee Education
  - Beginning in 2015 GreenStone began providing specific training to the sales and credit teams to better equip them to have critical conversations with customers.
  - Education on servicing options for customers including the involvement of the credit team in the discussion.



## Down Farm Economy – Makes us Work Harder

- Seasoned professionals team up with new professionals to lead difficult customer conversations.
- Working with Michigan State University Extension, provided training to the sales and credit teams to identify people exhibiting signs of depression, stress or other mental illness. Staff were also informed of appropriate responses and resources available when working with distressed customers.



## Down Farm Economy – Makes us Work Harder

- ❖ Accommodating Customers
  - GreenStone works with its customers on an individual basis to find the solutions necessary for them to be sustainable during these difficult times.
  - After evaluating the individual business structure of the farm, we may employ a variety of measures, including loan rebalancing, interest-only payments, loan restructuring, relaxing loan covenants and other options.



## Down Farm Economy – Makes us Work Harder

- In the years of 2017-18 we provided loan rebalancing to 530 customers (of the 3,398 that exhibited some level of risk).
- Total customers financially vulnerable with high level of probability of default: 329. Of those we have rebalanced 73 of them.
- From 2015 to 2018 we have provided an extension of payment and loan maturity dates to 2,956 customers.



## Additional Steps Taken when Loans Get Downgraded

- ❖ Accommodations may not be enough - moving toward legal action
- ❖ We've been much more aware of legal risks and plan accordingly
  - Legal review of loan and collateral files
  - Inspections and asset verifications
  - Pre-RAD consulting
  - Changes to internal communications
  - Different appraisals



## Loan Workouts

- ❖ Increased Focus on Reputation Risk
- ❖ Forbearance Arrangements
  - To provide an exit strategy
  - Success Fees
- ❖ Sale/Leaseback
- ❖ Foreclosures/Auctions
- ❖ Bankruptcies
  - Currently, we have only 30 or (0.3%) farm customers in either bankruptcy, foreclosure or both.



## Increase in Farm Bankruptcy Cases?

- ❖ 2018 saw an 8% decline in Chapter 12 bankruptcy cases.
- ❖ Still, filings for Chapter 12 were 25% higher than they were in 2014.
- ❖ More on the horizon, in my opinion



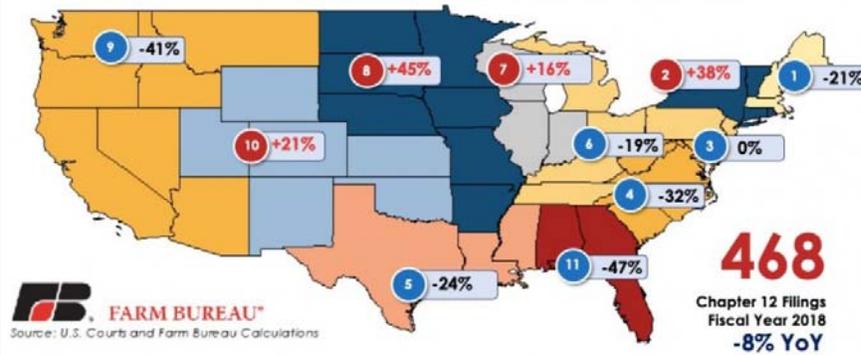
## Chapter 12 Bankruptcy Cases



**FARM BUREAU**

Source: U.S. Courts

## Chapter 12 Bankruptcy Cases



**FARM BUREAU**  
Source: U.S. Courts and Farm Bureau Calculations

Comparing 2018 to 2017



## Chapter 12 Bankruptcies

### ❖ Key Characteristics

- Designed for “family farmers” and “family fisherman”
- Created in 1986
- Modeled after Chapter 13
- Advantages include seasonal repayment schedule, repayment of debts over 3 to 5 years, lower costs relative to other bankruptcies, and a quick and predictable process.
- Creditors do not have to approve of plan



## Chapter 12 Bankruptcies

❖ Under the Bankruptcy Code, “family farmers” fall into two categories: (1) an individual or individual and spouse or (2) a corporation or partnership. Farmers falling into the first category must meet each of the following four criteria:

1. The individual or husband and wife must be engaged in a farming operation or a commercial fishing operation.
2. The total debts (secured and unsecured) of the operation must not exceed \$4,153,150 (if a farming operation) or \$1,924,550 (if a commercial fishing operation).
3. If a family farmer, at least 50%, and if family fisherman at least 80%, of the total debts that are fixed in amount (exclusive of debt for the debtor's home) must be related to the farming or commercial fishing operation.
4. More than 50% of the gross income of the individual or the husband and wife for the preceding tax year (or, for family farmers only, for each of the 2nd and 3rd prior tax years) must have come from the farming or commercial fishing operation.



## Chapter 12 Bankruptcies

❖ In order for a corporation or partnership to fall within the second category of debtors eligible to file as family farmers or family fisherman, the corporation must meet each of the following criteria:

1. More than one-half the outstanding stock or equity in the corporation or partnership must be owned by one family or by one family and its relatives.
2. The family or the family and its relatives must conduct the farming or commercial fishing operation.
3. More than 80% of the value of the corporate or partnership assets must be related to the farming or fishing operation.
4. The total indebtedness of the corporation or partnership must not exceed \$4,153,150 (if a farming operation) or \$1,924,550 (if a commercial fishing operation).
5. At least 50% for a farming operation or 80% for a fishing operation of the corporation's or partnership's total debts which are fixed in amount (exclusive of debt for one home occupied by a shareholder) must be related to the farming or fishing operation.
6. If the corporation issues stock, the stock cannot be publicly traded.



## Chapter 12 Limitations

- ❖ Debt limit cap of \$4.1 million
- ❖ Does not reflect the scale of debt structure for some agricultural producers
- ❖ Farmers with debt levels higher than \$4.1 million must consider less flexible and more expensive bankruptcy options such as Chapter 11 or Chapter 7.
- ❖ There is pending legislation that would raise the Chapter 12 debt cap to \$10 million.



## Chapter 12 Case

### ❖ *In re Perkins*, 581 B.R. 822 (6<sup>th</sup> Cir. BAP 2018)

- Aggregate Debts:
  - Debtor's aggregate debts determined by Debtor's schedules if schedules were prepared in good faith (the cap was not exceeded)
  - Court can determine aggregate debts early in the case before parties expend significant resources pursuing bankruptcy protection; the court did not have to wait until all claims were filed and allowed
  - Chapter 12 eligibility is a gateway to the bankruptcy process, not an ongoing limitation on jurisdiction
- Plan's cramdown rate of prime plus 1% over 20 years was appropriate where (1) Debtor had long history of successful farming; (2) farmland was rich; and (3) creditor was oversecured on an appreciating asset.
- One year delay between confirmation and first payment to secured creditor was appropriate since the loan agreement itself called for yearly payments after harvest



## Questions?

