

FINANCING A FARMING & RANCHING OPERATION



Women Managing the Farm Conference | February 10, 2022

TODAY'S PANEL DISCUSSION

- **Janet Mercer**, Denison State Bank, Vice President
 - Community Banking
- **Anna Young**, American AgCredit, Vice President-Lending
 - Farm Credit Associations of Kansas
- **Joshua Ridder**, Kansas Farm Service Agency (FSA), Farm Loan Chief



THE 5 C'S OF CREDIT

The five C's of credit is a system used by lenders to gauge a borrower's creditworthiness.

- 1 Character
- 2 Capacity
- 3 Capital
- 4 Collateral
- 5 Conditions

FINANCIAL MEASURES

Liquidity Measures

The Farm Financial Standards Council recommends 3 methods for measuring liquidity:

- Current Ratio
- Working Capital
- Working Capital/Gross Revenues

Solvency Measures

And 3 measures for solvency:

- Debt/Asset ratio
- Equity/Asset ratio
- Debt/Equity ratio



CASH FLOW & NET FARM INCOME STATEMENTS

Cash Flow Statement - Projected Year					
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Cash Inflows					
Cash Receipts					
Livestock	25000	25000	25000	25000	100000
Crops	25000	8000	5000	5000	84000
Government Payments		4200			4200
Custom Work	2400	1400	1300	2000	7100
Non-Farm Revenue	5200	5200	5200	5200	20800
Capital Sales					0
New Term Borrowing					0
Total Cash Inflows	61600	43800	32500	87200	225100
Cash Outflows					
Cash Expenses					
Chemicals	600	600	400	300	1900
Feed	10000	8000	8000	10000	42000
Fertilizer	17500	2100	400	1800	21800
Gas, Fuel, Oil	600	2000	600	2100	5400
Insurance		2500	2500	5000	10000
Head Labor	3000	4000	2500	5000	14500
Rent	3000				3000
Repairs & Maintenance	500	2000	1000	1500	5000
Seeds	42000				42000
Supplies	850	850	850	850	3400
Property Taxes	5700		5700		11400
Utilities	500	500	500	500	2000
Vet & Medicine	250	250	250	250	1000
Machine Hire		1250		1400	2650
Other	500	500	500	500	2000
Family Living	8000	8000	8000	9000	33000
Income Taxes		4000			4000
Capital Purchases					0
Term Debt Interest Payments		11700		10600	22300
Term Debt Principal Payments		17700		17900	35600
Total Cash Outflows	58200	66050	28700	66500	219450
Net Cash Flow Surplus (Deficit)	\$ 3,400	\$ (22,250)	\$ 3,800	\$ 20,700	\$ 5,850
Beginning Cash Balance	\$ 1,800	\$ 5,200	\$ 1,000	\$ 1,000	\$ 1,800
Unadjusted Cash Balance	\$ 5,200	\$ (17,050)	\$ 4,800	\$ 21,700	\$ 7,450
Minimum Cash Balance Desired	1000	1000	1000	1000	1000
Operating Loan Needed		18050			18050
Cumulative Operating Loan		18050	18050	13442	18050
Repayment of Operating Loan			3800	13442	18050
Accrued Interest on Operating Loan		451	808	112	1371
Interest Paid on Operating Loan			808	112	920
Ending Cash Balance	\$ 5,200	1000	1000	\$ 7,146	6643

Net Farm Income Statement			
Name	Year	Beginning	Ending
Income			
Cash Income (IRS Sched F)			
Sales of Livestock bought for resale			
Sales of raised livestock, grain, etc.			
Cooperative distributions paid			
Agricultural program payments			
Crop insurance proceeds			
Custom hire income			
Other cash income			
Sales of breeding stock			
a. Total Cash Income			
Income Adjustments			
Crops held for sale or feed			
Market Livestock			
Accounts Receivable			
Liquid co-op distributions			
Breeding Livestock			
Subtotal of adjustments			
b. Net adjustment (beginning - ending)			
c. Gross Farm Revenue (a - b)			
Expenses			
Cash Expenses (IRS Sched F)			
Car & truck expenses			
Chemicals			
Conservation expenses			
Custom hire			
Employee benefits			
Feed purchased			
Fertilizer & lime			
Freight, trucking			
Gasoline, fuel, oil			
Insurance			
Interest Paid			
Labor hired			
Pension & profit-share plans			
Repairs, maintenance			
Seeds, plants			
Storage, warehousing			
Supplies purchased			
Taxes (farm)			
Utilities			
Vet fees, medicine, breeding			
Other cash expenses			
Livestock purchased			
d. Total Cash Expenses			
Expense Adjustments (paid in ad			
Investment in growing crops			
Commercial feed on hand			
Prepaid expenses			
Supplies on hand			
Subtotal of adjustments			
e. Net adjustment (beginning - ending)			
Expense Adjustments (due)			
Accounts payable			
Farm taxes due			
Accrued interest			
Subtotal of adjustments			
f. Net adjustment (ending - beginning)			
g. Depreciation			
h. Gross Farm Expenses (d+e+f+g)			
i. Net Farm Income from Operations (c-h)			
Taxes (farm)			
Sales of farmland			
Cost value of land sold			
Capital gains or losses (j-k)			
m. Net Farm Income (accrual) (i+l)			
Livestock purchased			
Value of Farm Production			
(c-feed purchased-livestock purchased)			
Net Farm Income (cash) (a-d)			

CAPITAL DEBT REPAYMENT CAPACITY

Gross Farm Income	\$ 750,000
Operating Expenses	\$ 580,000
Operating Interest	\$ 22,000
Term Debt Interest	\$ 35,000
Depreciation	<u>\$ 65,000</u>
Total Expenses	\$ 702,000
Net Farm Income	\$ 48,000
+ Non Farm Income	\$ 40,000
+ Term Debt Interest	\$ 35,000
+ Depreciation	\$ 65,000
- Family Living Draws	\$ 80,000
- Income Taxes	<u>\$ 30,000</u>
Capital Debt Repayment Capacity	\$ 78,000
Annual Debt Service Requirements	
Land Payment	\$ 25,000
Tractor Payment	\$ 18,815
Combine Payment	\$ 15,000
Pickup Payment	<u>\$ 10,200</u>
Total Annual Debt Service Requirements	\$ 69,015
Capital Debt Repayment Capacity	\$ 78,000
Total Annual Debt Service Requirements	<u>\$ 69,015</u>
Capital Debt Repayment Margin	\$ 8,985
Coverage Ratio (\$78,000/\$69,015)	1.13

CONTACT INFORMATION

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Learn more by visiting our website at www.dsbks.com



FARM CREDIT ASSOCIATIONS OF KANSAS



SNAPSHOT

Four Associations

- American AgCredit
 - *Regional Headquarters, Wichita, KS*
- Farm Credit of Western Kansas
 - *Headquarters, Colby, KS*
- Frontier Farm Credit
 - *Regional Headquarters, Manhattan, KS*
- High Plains Farm Credit
 - *Headquarters, Larned, KS*



Farm Credit Facts – Kansas Associations

- \$5.6 Billion Loan Volume
- 14,246 Stockholders
- \$44.9 Million Patronage Returned to Stockholders in 2021

10

WHO WE ARE

Serving all of Agriculture

We are a leading provider of financing, insurance, treasury management and mission-driven program solutions, each customized to the unique needs of farmers and ranchers.

- We are a **cooperative** that supports agriculture with reliable, consistent credit and financial services for all segments of agriculture.
- We have a **unique funding model** that allows us to structure loans with terms designed to match your operation's needs and cash flow.
- We maintain a diversified portfolio of commodities in order to:
 - Withstand market pressure on any particular commodity and stick with customers through tough times
 - Ensure we are in a position to pay out competitive cash patronage distributions

11

FARM CREDIT SYSTEM FUNDING SOURCE

- The System's loan portfolio is funded by Debt Securities (Bonds) issued by the Federal Farm Credit Banks Funding Corporation (FCFC)
- FCFC Debt is rated AAA/P-1 by Moody's, AAA/F1+ by Fitch, and AA+/A-1+ by S&P
- The Farm Credit System is well capitalized, with a 17.3% permanent capital ratio (regulatory minimum is 7.0%)
- Collectively the System provides credit and related services to more than half a million Member Borrowers

What this means:

Our funding is provided by the issuance of bonds and is not tied to deposits, as with a traditional bank. This means we are able to offer extremely flexible solutions and long-term debt options with interest rates you won't find elsewhere.



12



OUR LOAN OPTIONS

Our flexible lending programs ensure we have a financial solution designed to help your business grow.

- Real estate purchases
- Vineyard and orchard development
- Packing and storage facilities
- Debt refinancing
- Livestock purchases and feed
- Production and processing equipment purchases
- Building repairs and improvements
- Water development, irrigation projects
- Operating expenses

Loan solutions tailored to your operation:

From mortgage products designed for land purchase to revolving lines of credit to cover the running of your business, we have loan solutions for every need.

Flexible term options and payment schedules:

We offer terms from 30 days to 30 years, providing an amortization schedule that suits your business, and repayment schedules that match your cash flow. Choose from monthly, semi-annual and annual payments, depending on what fits your operation.

13



OUR LEASING OPTIONS

Improve your cash flow and possibly obtain tax advantages by leasing:

- Facilities & buildings
- Solar projects
- Processing lines and equipment
- Vehicles (tractors, trailers, forklifts)
- Greenhouse systems
- Fruit bins
- Rolling stock
- Harvest equipment
- Cooling and drying equipment
- Wine barrels

Leasing programs:

- Conditional Sale and True lease structures, providing the option of depreciating the asset or expensing the lease payments
- Tax Pricing, used to buy down the rate on larger projects
- Dealer direct leasing and financing through AgDirect
- Programs ranging from Fleet Pricing to Delayed Payment and Construction Funding can deliver the right leasing option for your business

14



OUR INSURANCE OPTIONS

We have highly experienced agents and customizable insurance policies designed to help manage your risk and protect your operation.

- **Protect your investment** from adverse weather, bird and wildlife damage, diseases and pests, or protect your entire operation from income loss due to low yield, low prices or a combination of both.
- **Manage your risk** with federal insurance products including Whole Farm Revenue Protection (WFRP), livestock risk and gross margin protection, and many Named Peril Policy options.
- **Plan for the continuity** of your operation with term life and disability insurance through FCS Express.
- **Customize your policy** with the help of our licensed risk management specialists who focus solely on insurance.

15



CONTACT INFORMATION

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Learn more by visiting our website at www.FarmCredit.com

16



USDA FARM SERVICE AGENCY

FSA FARM LOAN PROGRAMS

Loan Options

- Operating Loans
- Farm Ownership Loans
- Microloans
- Guaranteed Loans

General Loan Eligibility

- Must have acceptable credit history
- Test for credit applies
 - FSA will evaluate financial strength of applicant
 - Referral from commercial lender may be needed
- Must be the owner and operator of the farm or ranch



OPERATING (OL) LOANS



Loan amount up to \$400,000



Purposes include:

Purchase livestock and/or equipment
Annual operating expenses
Refinance debt
Minor real estate repairs or improvement



Interest rate 2%, Loan term up to 7 years

19



FARM OWNERSHIP (FO) LOANS



Loan amount up to \$600,000



Purposes include:

Purchase farm or ranch real estate
Repair or construct buildings,
capital improvements



Interest rate 3%, Loan term up to 40 years

20



MICROLOANS



Loan amounts of \$50,000 or less

Can be used for authorized OL and FO loan purposes
Simple application process and a quick turnaround



Interest rate same as current OL or FO rate



Term 1-25 years depending on security and loan type

21



GUARANTEED LOANS



FSA may guarantee commercial loans for authorized purposes, up to \$1,825,000

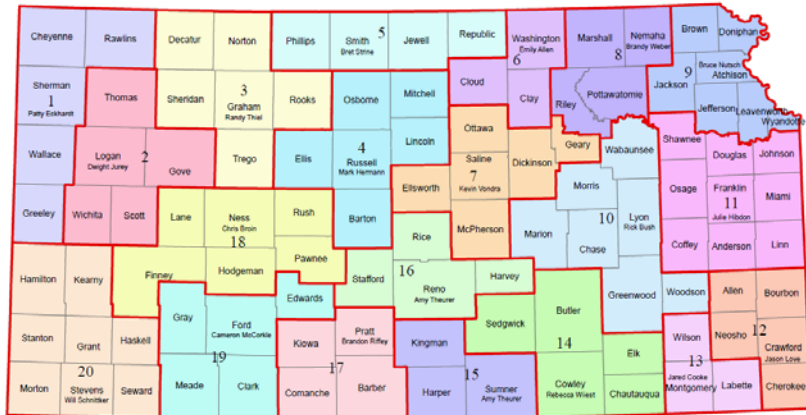


Guarantees assist lenders to make loans they otherwise may not due to:

- Tight repayment margins
- Limited security
- Other credit concerns

22

OFFICE LOCATIONS AND CONTACT INFORMATION



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Learn more by visiting our website at www.fsa.usda.gov



THANK YOU FOR ATTENDING!

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