

# IMPACT OF LEASING ON AG LENDING DECISIONS AND TRENDS

Agricultural Lending in a  
Community Bank

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# Areas of Emphasis

- Community Banks vs. “The Others”
- Leasing Analysis
- Risk Management
- Role of Leasing
- Future Expectations

# Perspective is Important

*everyone's is different*

- Community Bank
- Large Commercial Bank
- Farm Credit System
- Farm Service Agency
- Supplier Creditors
- Insurance Companies and State Agencies
- Regulators

# Community Bank Basics

- Funds mostly locally sourced
- Regulated by FDIC, State of Iowa and the Federal Reserve
- Loan policy set by loan committee and approved by Board of Directors
- Loans priced according to risk
- Lending limits are placed on borrowers
- Competition is EVERYONE

# Bank Products

- Operating Loans
- Feeder & Breeding Livestock Loans
- Machinery & Equipment Loans
- Real Estate Loans – Purchase & Refinance
- Buildings and Improvements
- Beginning Farmer Loans (all types)
- Consumer Loans & Commercial Loans
- Deposit Products & Trust Services

# Leasing Analysis

*-ascertain the strength of the plan*

- Is It Fair?
- Does It Cash Flow?
- Capacity to farm and manage
- Trends for yields, prices, interest
- Ability to control or manage risk
- Trends for cash rents and farmland values

# www.extension.iastate.edu/agdm

## Whole Farm Decisions - Leasing

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Rental Rate Surveys

Leasing Forms

Lease Agreement

Cash Leases

Share Leases

Many of the Information Files listed below are accompanied by companion tools such as Decision Tools , Teaching Activities  and Voiced Media Presentations 

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### Rental Rate Surveys

#### Information Files

- Iowa Farmland Rental Rates (USDA) -- C2-09
- Farmland Cash Rental Rate Survey (Iowa State University) -- C2-10
- Historic County Cropland Rental Rates -- C2-11
- Iowa Farm Building Rental Rate Survey -- C2-17

Decision  
Tools (xls)

Teaching  
Activities (doc)

Voiced  
Media



#### Newsletter Articles

- Farmland rental rates show continued strength in 2012 -- March 2012
- Farmland rental rates increase sharply for 2011 -- May 2011
- Farmland rental rates stable for 2010 -- June 2010

# Anhydrous Price Trends

- 2004 \$363/ton
- 2005 \$412/ton
- 2006 \$460/ton
- 2007 \$455/ton
- 2008 \$560/ton
- 2009 \$1,080/ton
- 2010 \$ 495/ton
- 2011 \$750/ton
- 2012 \$825/ton



# Robert Wisner Projections

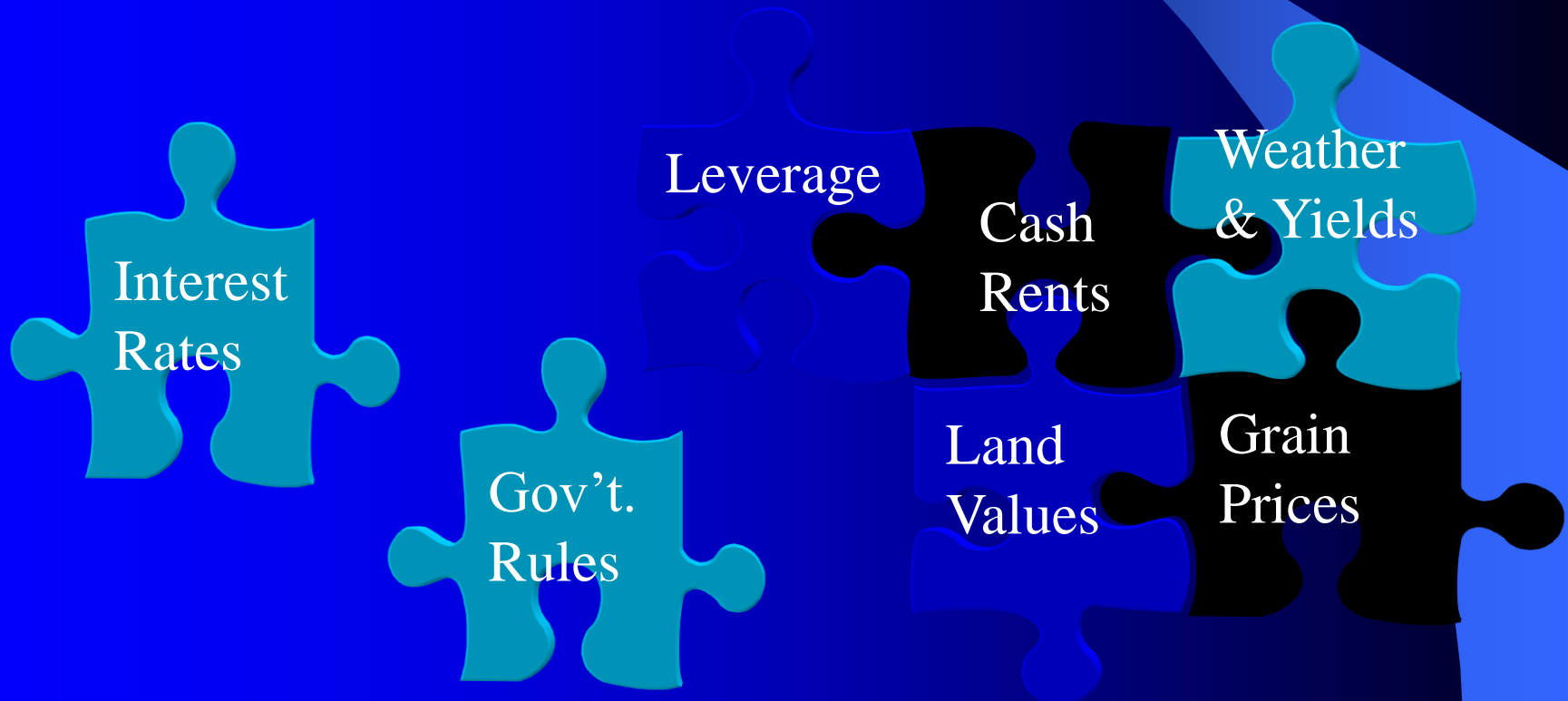
- Corn estimates for 2013 show an 84% chance of harvest prices in the \$4.85 to \$4.60 area and average Iowa prices of \$5.20 - \$4.90
- Soybeans estimates show an 83% chance of harvest prices in the \$11.90 to \$10.70 area and an average price of \$12.40 to \$11.15

# Crop Insurance & Options Don't Provide All the Answers

- Wide basis can limit the effectiveness of crop insurance and options
- Both are increasingly expensive to use
- 2012 indemnities started at \$5.68 on corn and \$12.55 on beans
- Don't get over confident because of insurance – you will substitute market risk with production risk

# Risk Management is Crucial

*You must take all variables into consideration*



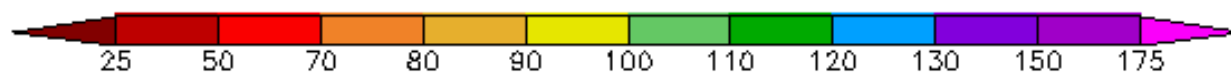
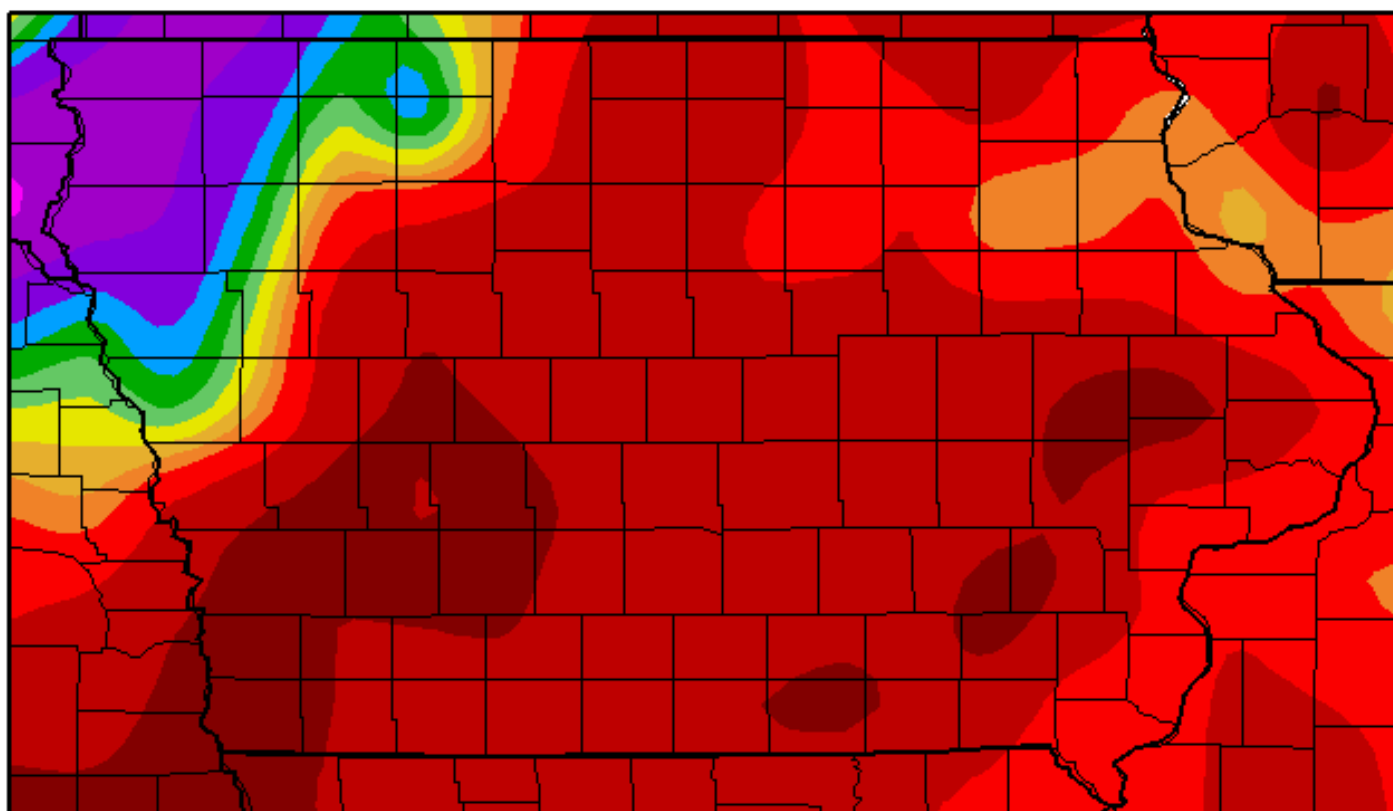






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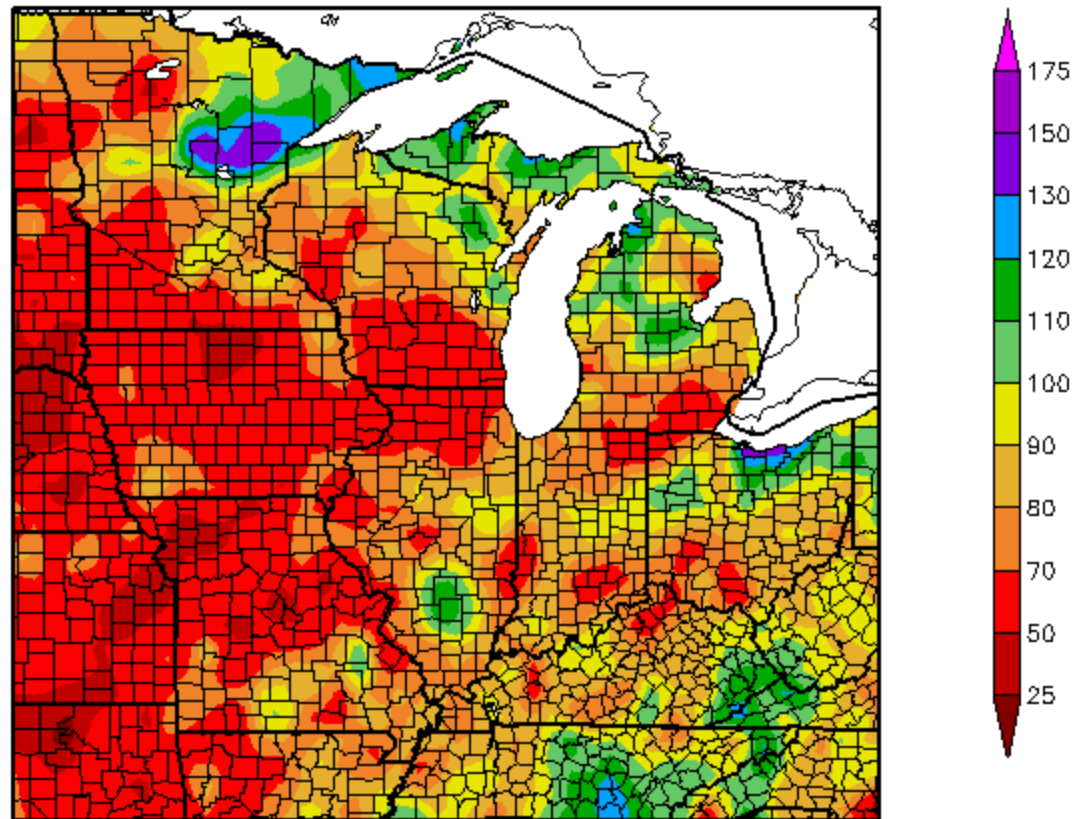
Percent of Normal Precipitation (%)  
5/7/2012 – 6/5/2012



Generated 6/6/2012 at HPRCC using provisional data.

Regional Climate Centers

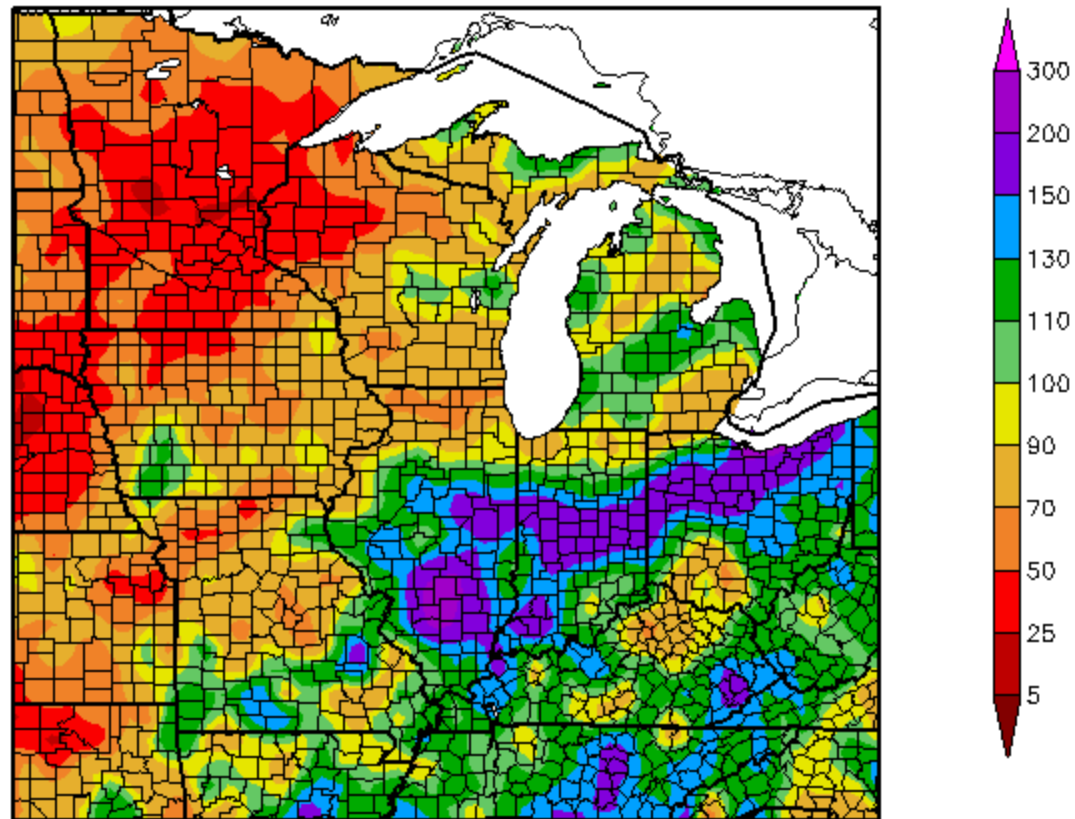
Percent of Normal Precipitation (%)  
5/19/2012 – 11/18/2012



Generated 11/19/2012 at HPRCC using provisional data.

Regional Climate Centers

Percent of Normal Precipitation (%)  
8/1/2012 – 10/31/2012



Generated 11/11/2012 at HPRCC using provisional data.

Regional Climate Centers



# Documents for Loan Decisions

- Current Financial Statements
- Cash Flow Projections
- Historic Financial Statements
- Historic Income Statements or Tax Returns
- Record of Past Production
- Crop Insurance Availability
- Copies of Rental Agreements

# Role of Leasing

- Expansion without LT Debt
- Control more assets with less capital
- Does not impact lending limits like a land purchase will
- ISU studies have shown most efficient unit is about 1/3 owned to 2/3 leased.
- Does not allow a farmer to increase net worth from land value inflation

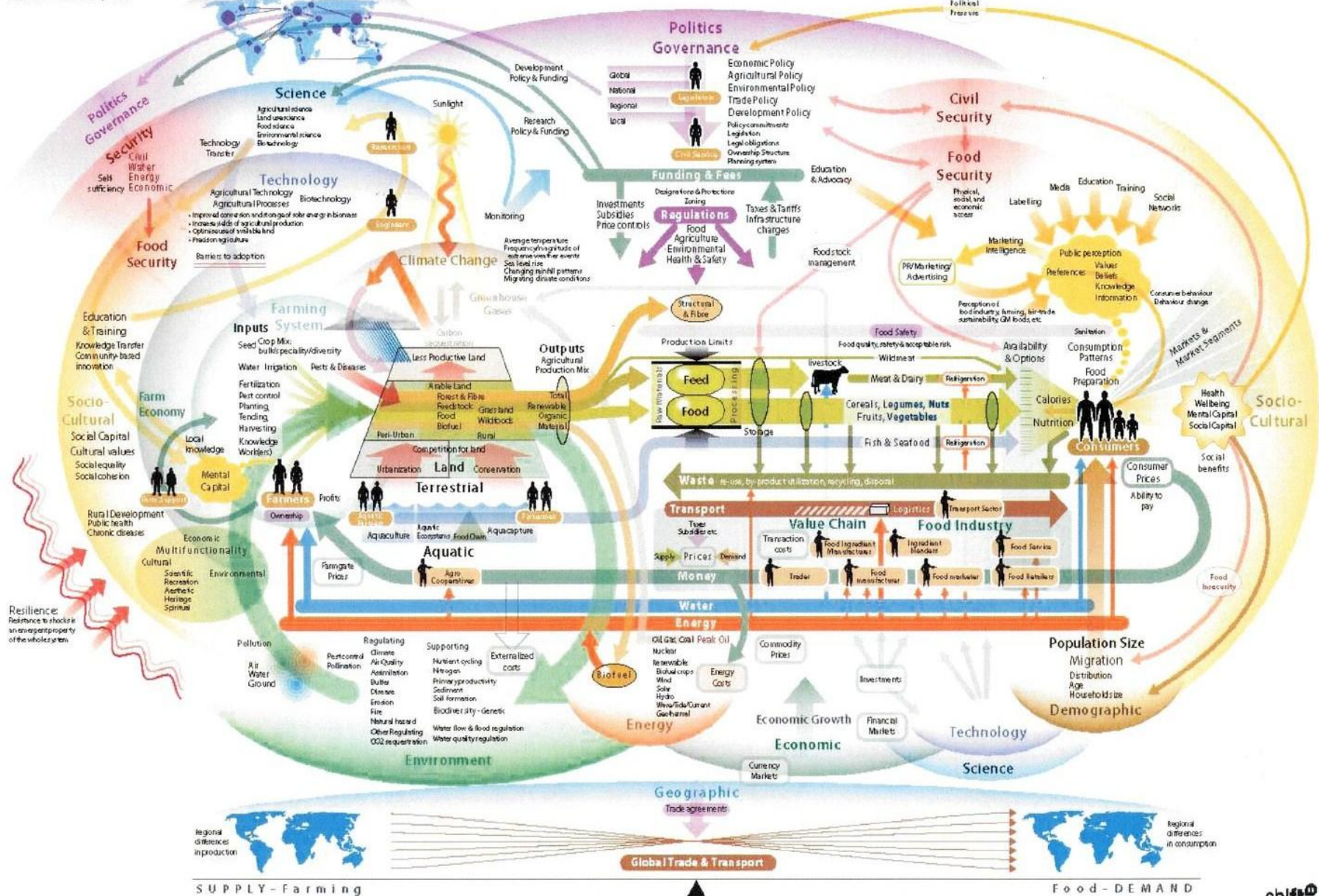
# Return to Basic Lending Principles

- Be careful when financing expansion
- Risk increases rapidly as leverage increases
- Accurately assess probabilities & trends
- Remember to check the plan with various price levels
- Always have a plan B

# The Global Food System

## Food System Map

Version 1.2 March, 2009



# Where I Get More Information

- Attend seminars put on by the ISU Extension Service and the Iowa Bankers Association
- Be sure to checkout electronic sources:
  - <http://www.ffsc.org>
  - <http://www.extension.iastate.edu/>
  - <http://www.extension.iastate.edu/agdm/>
  - <http://www.farmdoc.uiuc.edu/>
  - <http://www.finbin.umn.edu/>
  - <http://www.agrisk.umn.edu/Library/Display.aspx?RecID=2727>
  - <http://www.econ.iastate.edu/faculty/hart/>
  - <http://www.agweb.com>
  - <http://www.extension.iastate.edu/weather.htm>
  - <http://websoilsurvey.nrcs.usda.gov/app/WebSoilSurvey.aspx>
- Email me at [agbanker@issbank.com](mailto:agbanker@issbank.com)