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
## Whole Farm Decisions - Leasing

### 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

#### 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

### 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.
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

- Interest Rates
- Gov't. Rules
- Leverage
- Cash Rents
- Land Values
- Weather & Yields
- Grain Prices
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
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
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.econ.iastate.edu/faculty/hart/
  - http://www.agweb.com
  - http://www.extension.iastate.edu/weather.htm

- Email me at agbanker@issbank.com