

FINANCING IN AN EVOLVING AGRICULTURE DOWNTURN

Federal Reserve Bank of Chicago
November 29, 2016
Paul E. Anderson EVP- CCO



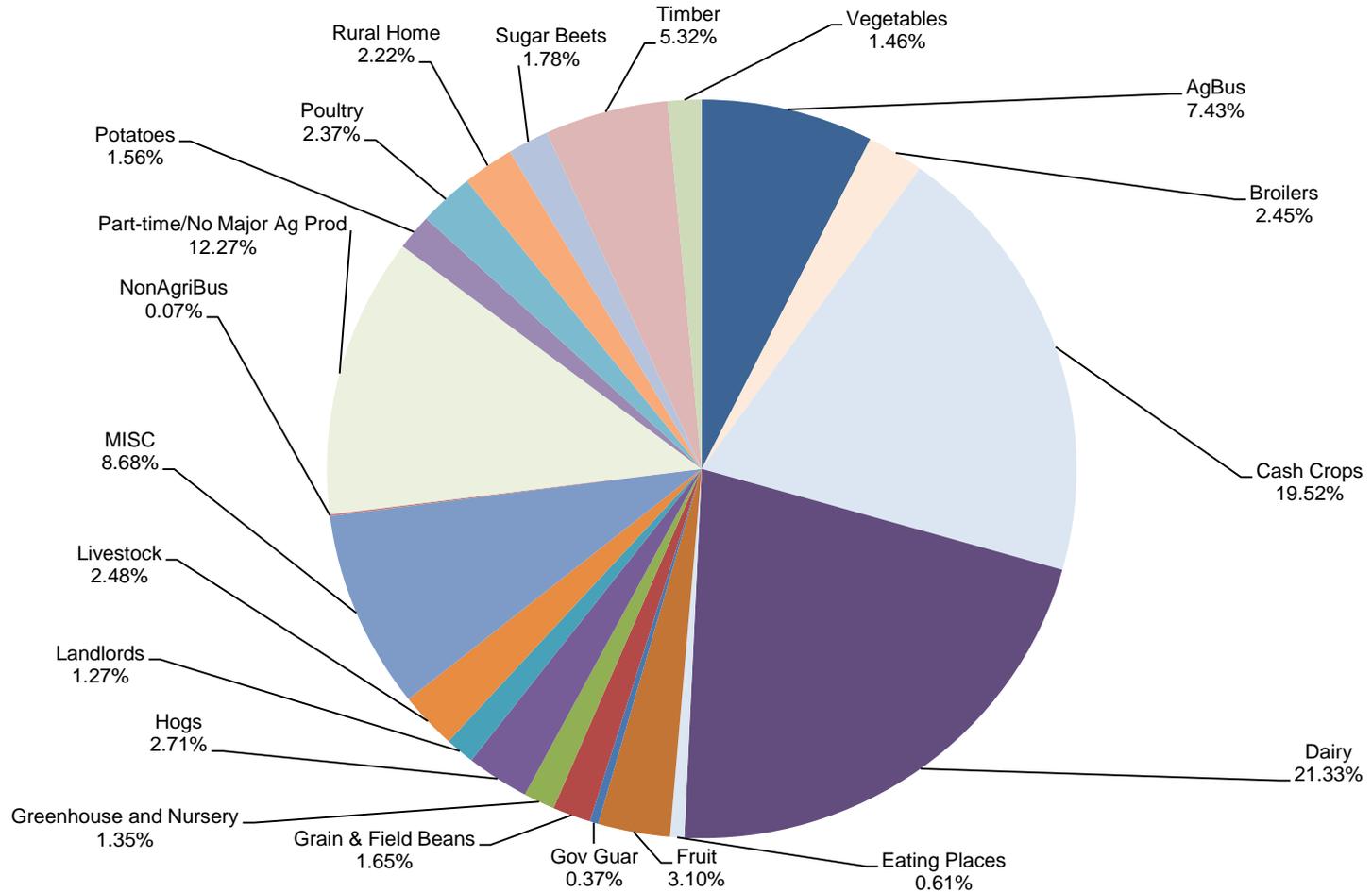
GreenStone

- ❖ \$8.0 billion in assets
- ❖ 24,000 members
- ❖ 36 branch offices
- ❖ 510 employees
- ❖ Diversified Portfolio
 - Traditional Ag
 - Rural Lifestyle
 - Capital Markets



GreenStone Portfolio Diversification

GreenStone Farm Credit Services
Volume by Enterprise as of Sept 30, 2016



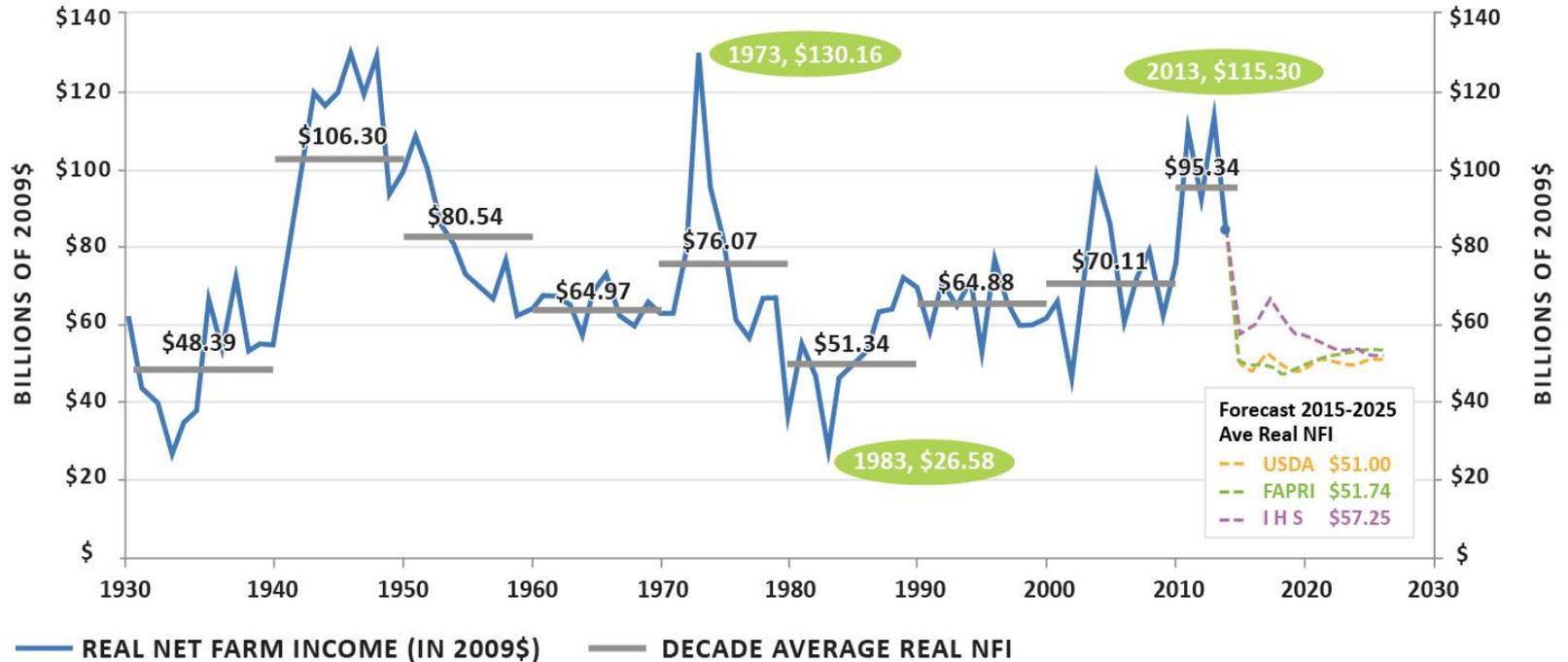
HOW DID WE GET TO 2016?

Source: USDA



U.S. Real Net Farm Income

Real U.S. Net Farm Income from Farming, 1930 to 2014 (actual) and USDA Forecast from 2015 to 2025

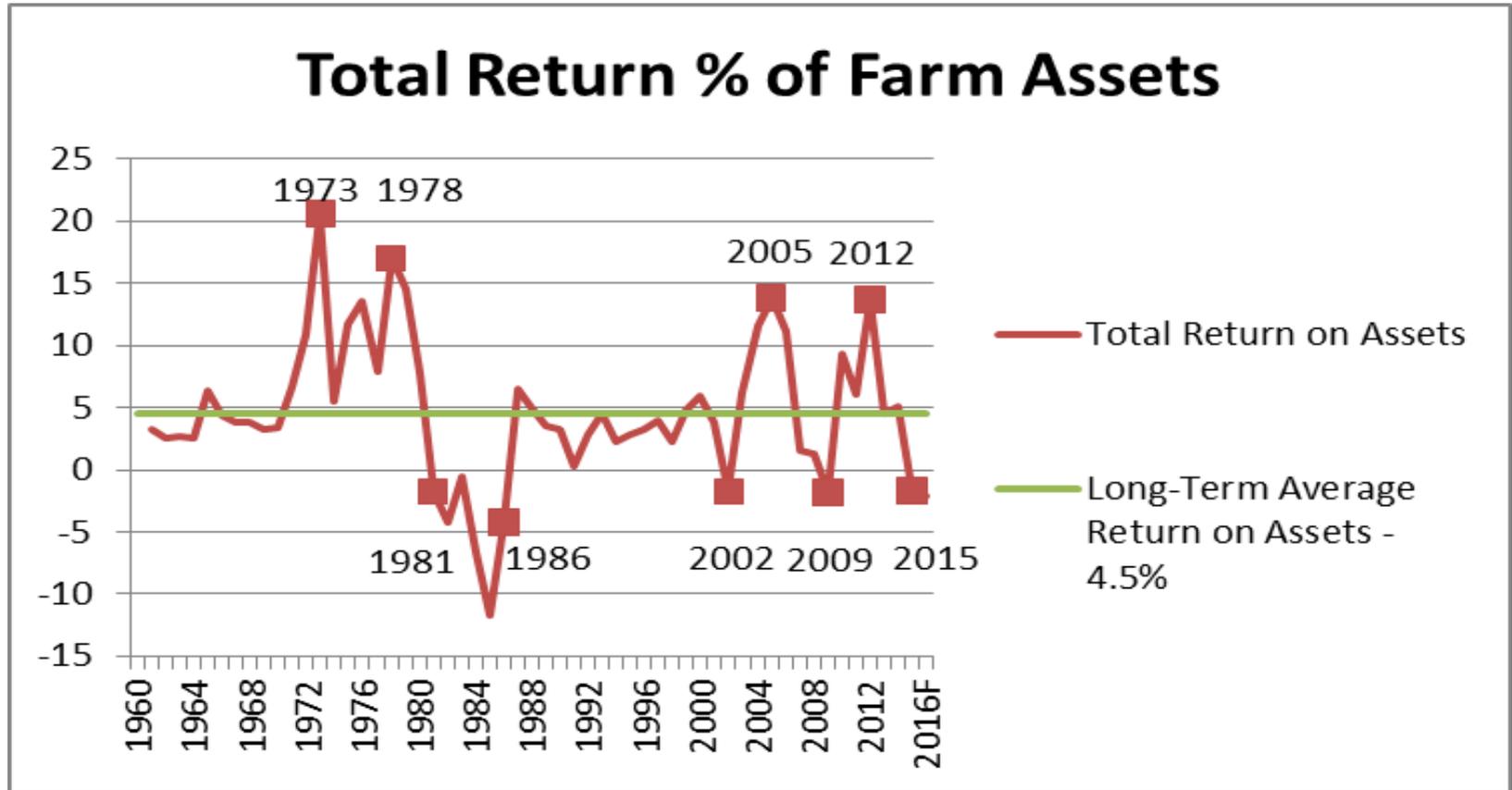


Source: USDA-ERS, February 2016 Farm Income and Finances Update
 Note: Real values calculated using GDP chained price index, 2009 = 100, U.S. Bureau of Economic Analysis.

Forecast Sources: USDA-OCE, Long-Run Agricultural Baseline, February 2016;
 FAPRI, 2016 Baseline Briefing Book, March 2016; IHS Global Insight, Q1-2016 Ag Executive Summary, February 2016.



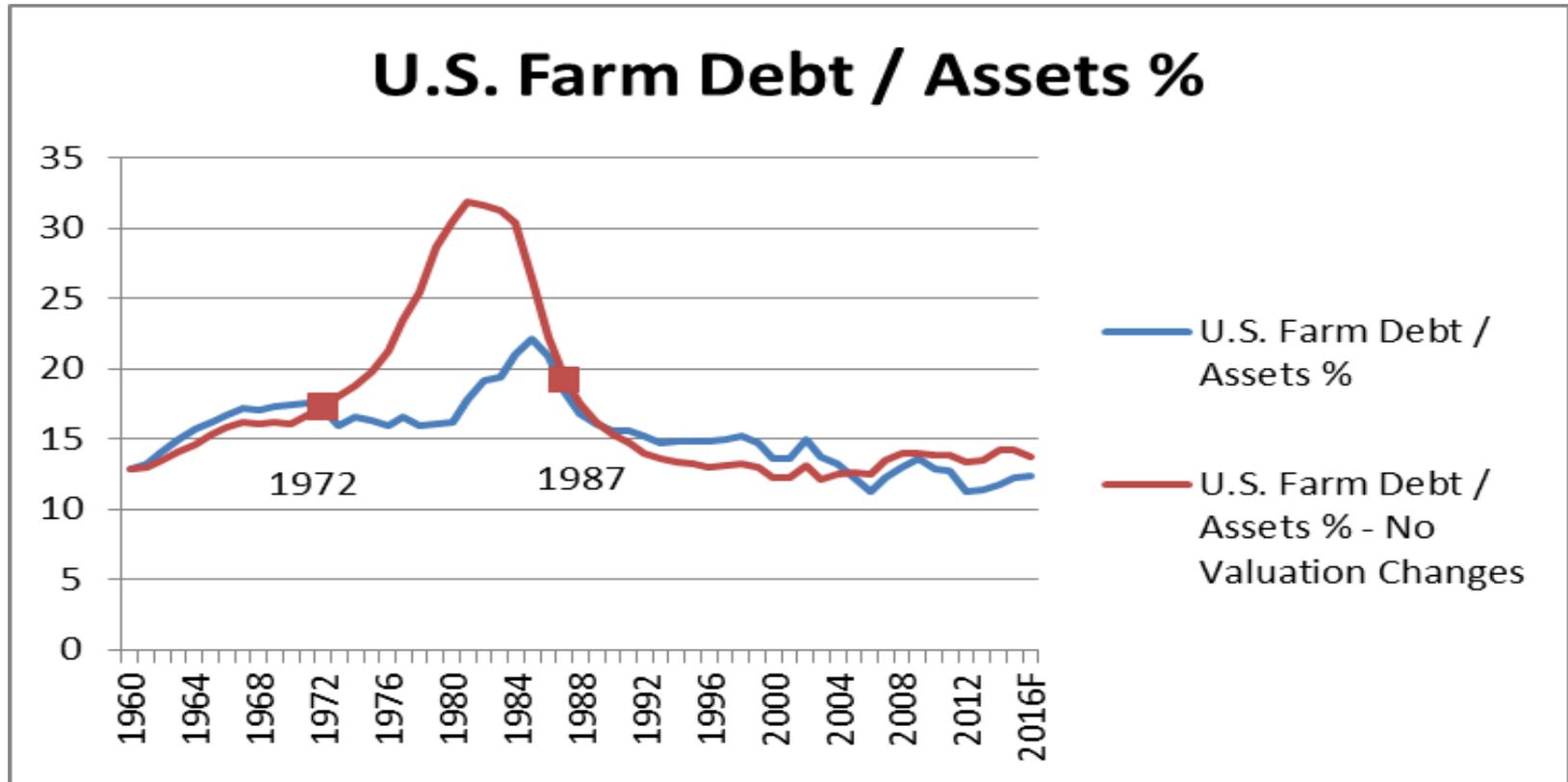
Proper Context



- ◆ Good news, we have been through the cycles before. Bad news, we are in the correction portion of the cycle.....



Proper Context



- ❖ Unlike the 1970's and 1980's, recent debt to asset ratios look good even when looking at deflated asset values



FAPRI Projections – August 2016

	2014	2016	2021
Fed Funds Rate	0.1%	0.4%	3.0%
Corn Farm Price \$ / bu.	3.70	3.19	3.87
Soybean Farm Price \$ / bu.	10.10	9.29	9.99
5-area Fed Cattle \$ / cwt.	155	126	113
Lean Hogs \$ / cwt.	76	48	55
All Milk \$ / cwt.	24	16	18

❖ Food and Agricultural Policy Research
Institute – University of Missouri



Our Outlook for Agriculture

- ❖ After a decade of record profitability ending in 2014, “back to average”
- ❖ Currently, excess supply all commodities
- ❖ Current correction period *below trend line*, followed by *prolonged period of “average”* prices
- ❖ “Efficiency Cycle”: Low cost producers with solid balance sheets will be the winners, all other things being equal
- ❖ High cost, low equity borrowers are vulnerable



GREENSTONE'S APPROACH



Lessons Learned - How Have We Evolved?

❖ Quality Information

- Portfolio Information – treat our customers differentially
- Benchmarking - Peer groups
 - Low vs high cost producers
 - Balance sheet leverage
- Industry Outlook – staying power
 - Liquidity burn rate forecasts
 - Residual borrowing capacity



Lessons Learned - How Have We Evolved

- ❖ Identify Causation of the Problem
 - Don't treat the symptoms, deal with the challenge
- ❖ Quality Conversations
 - GreenStone's "At-Risk" Customer Approach
 - Customer and staff *awareness*
 - Create a *sense of urgency*
 - Quality communications internally and externally
 - Staff focus on "Crucial Conversations"
- ❖ Monitor the Execution of the Plan



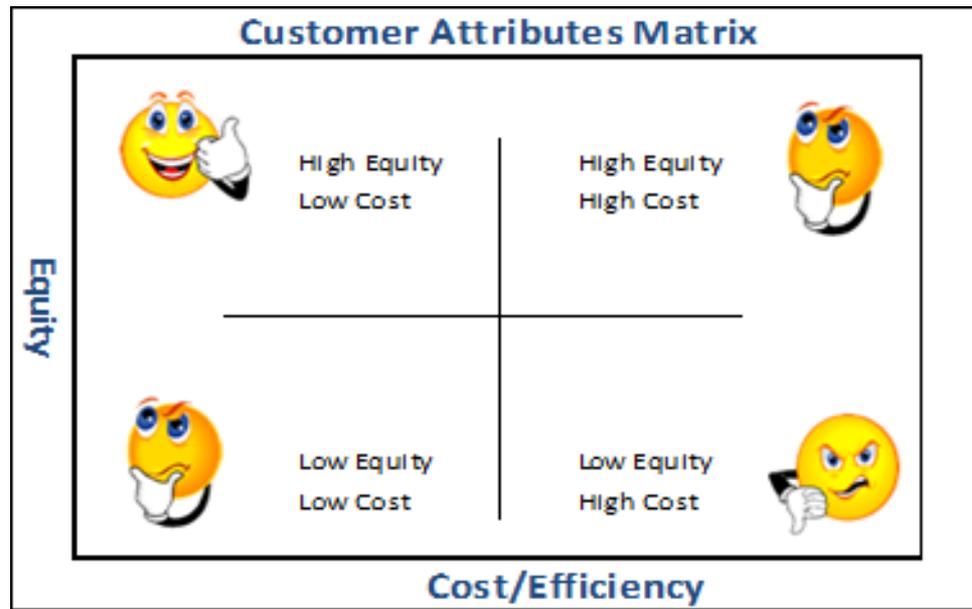
GreenStone's Goals

- ❖ Build on reputation as the preferred Ag lender
 - Past, current and future generations
- ❖ Be proactive in everything we do
 - Internally and externally
 - Anticipate & address cash flow shortages
 - Be forward looking, multi-year horizon
- ❖ Get customer through the cycles
 - Viable plans and shared solutions
 - Be realistic & transparent
 - Be timely with decisions



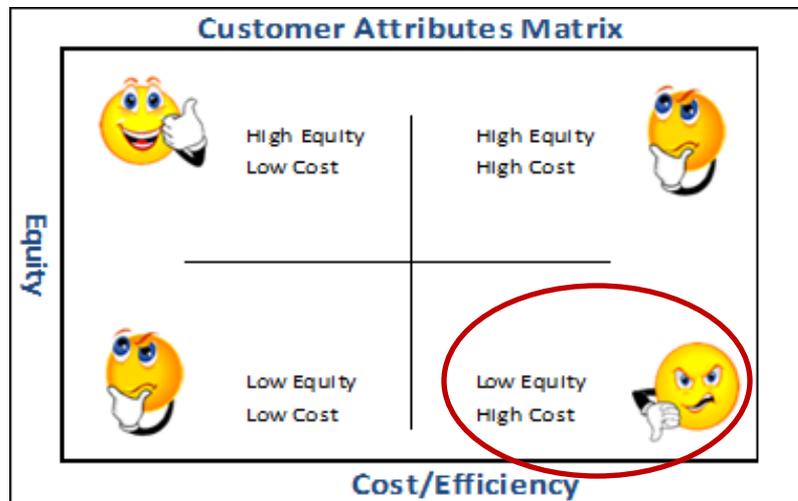
GreenStone's Philosophy

- ❖ Agriculture is cyclical, we have been through this before no material changes to our approach
- ❖ Customer Segmentation – treat our customers differentially



GreenStone's Philosophy

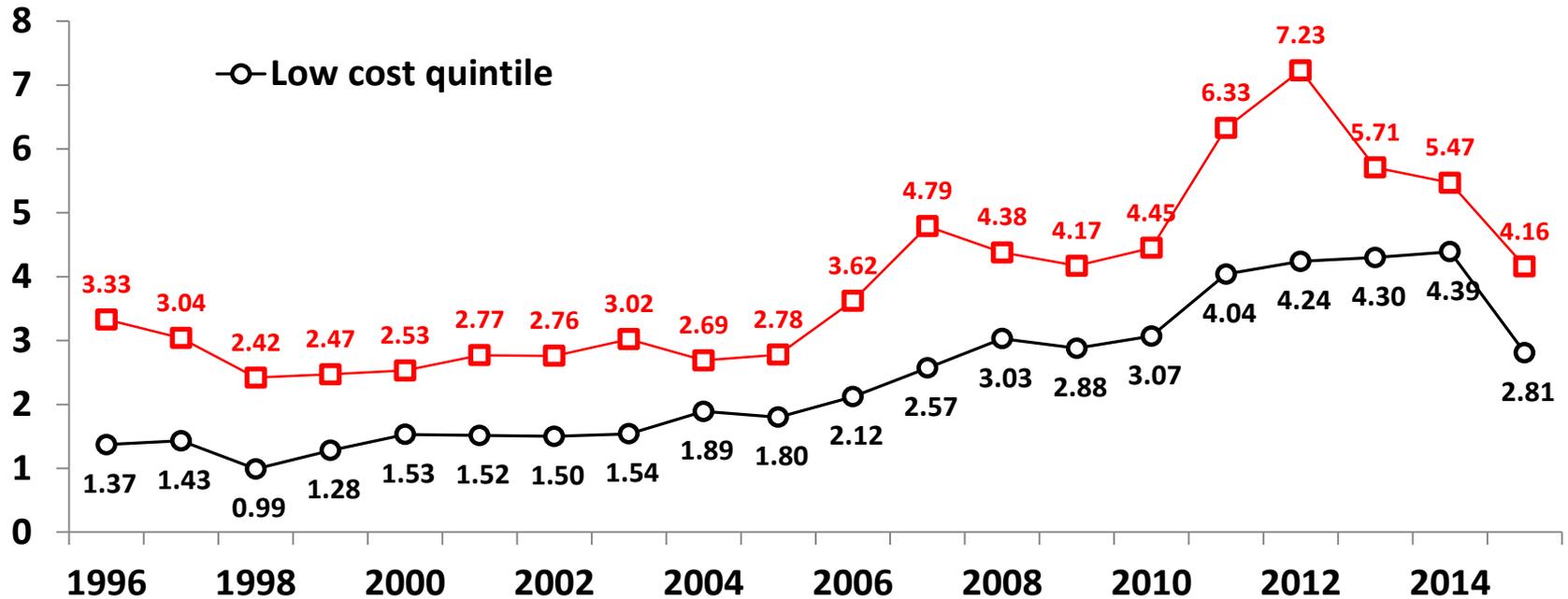
- ❖ Portfolio Selection... we will treat our customers differentially based on their financial position
 - Top Quartile ... Volatility = Opportunity to grow
 - Middle Half ... Opportunity to improve, limited term debt growth
 - Bottom Quartile business is *"At Risk"*, our area of focus starting in 2015



Customer Evaluation: High versus Low Cost Producers

MN Cash Rent Corn Production

Total cost per bushel, **61% variance**. Analysis: Dr. Michael Swanson, Wells Fargo



“AT-RISK” CUSTOMER FOCUS



“At- Risk” Customers

- ❖ Create an *Awareness & Sense of Urgency*
 - Identify and pursue options
 - Time is our enemy
- ❖ *Communication* - Frequent and Detailed
 - Include all stakeholders, owners, creditors, consultants, accountants, legal, etc.
 - Agree on and document future expectations
 - Legal documentation, covenants, entity reviews
 - Monitor and follow up



Awareness – Sense Urgency

- ❖ Financial and Operational Information
 - Another form of communication
 - Verification of financial information and projections to minimize surprises
- ❖ Quality Financial Information
 - Operational trends
 - Peer Group Data - how do they stack up?
 - Set expectations for quality and timeliness



Awareness – Sense of Urgency

- ❖ Industry Outlook
 - Commodity prices
 - Duration of market prices
- ❖ Liquidity Burn Rate - staying power
 - Economic / Typical Year modeling “what if”
 - Reasonable projections
 - Scenario analysis – residual borrowing capacity
 - Another communication tool



With Good Information....

- ❖ Identify and treat the causation of the underlying financial challenges
- ❖ Customer Plan – “*Self-help*”
- ❖ GreenStone’s role is to provide a “helping hand” versus enabling unsustainable behavior
- ❖ Lender – Borrower “Partnership”
 - Are we philosophically aligned on the outlook, options and roles within this partnership
 - GreenStone is a lending cooperative... we do not take equity ownership risk for debt capital rates of return....



Transparent Communications

❖ Goal

- Facilitate their decision making process, Preservation of owner equity
- Proactive versus Reactive – time is a finite and priceless commodity

❖ Fundamental – Critical Planning Focus

- *“Get the room right”*
- Key influencers, stakeholders, trusted advisors
- Everyone hears it at the same time



Transparent Communications

- ❖ Be Prepared & Present Options
- ❖ Be Prepared to Actively Listen
- ❖ Facilitate Decision Making as Much as Possible
- ❖ Clarity and Focus
 - Filtering “We all hear what we want to hear”
 - Teamwork - witness the discussion
 - Confirm the conversation... in writing
- ❖ Customer and other creditors “all-in”



Transparent Communications

- ❖ Set the Table for the Next Conversation
 - Letters Understanding – Post Close Letters
 - Setting expectations – Plan “B” or “C”
 - Action steps, timelines, responsible parties
- ❖ Controls
 - Loan agreements
 - Collateral controls
- ❖ Follow up – “Trust but Verify”



Lender's "Basic Toolbox"

- ❖ Adjust repayment terms to type of asset
- ❖ Limit capital spending and owner withdrawals
- ❖ Have a Plan B and Exit Plan
- ❖ Consider alternative sources of capital
- ❖ Frequent lender/borrower meetings
- ❖ Interest only payments for a period of time
- ❖ Risk-based pricing
- ❖ Monitoring:
 - Monthly or weekly cash flow projections



Summary

- ❖ Most cash flows could be negative for 4 years
- ❖ Assets will lose significant value
- ❖ Debt will be reduced or at least rebalanced
- ❖ Quality financial statements and projections are required for management and bank decisions
- ❖ Decisions should focus on per unit profitability, risk scenario analysis and liquidity
- ❖ Proactive communication, planning & execution
- ❖ “One customer at a time” focus

