National Grain & Feed Association

March 13, 2011

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Farm Credit Services of America

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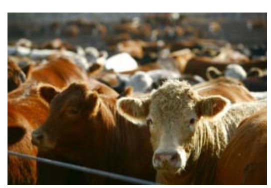


Journey in Uncharted Waters

The Environment

- **Commodity prices – Inputs & outputs**
- **Emerging economies**
- **Biofuel demand**
- **Weather – Global/US supplies**
- **Monetary policy – Interest rates, quantitative easing, value of the dollar**
- **Biotech – Increasing yield trends**

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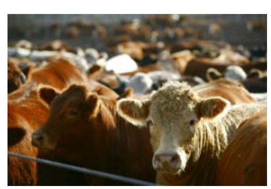


Journey in Uncharted Waters

Predicting the outcome on Ag producers

- Food price issues
- Energy prices
- Biofuel policy (Namely ethanol)
- Public and political opinion - Sheila Bair, FDIC, farmland asset bubble
- Impossible to forecast the outcome
- Volatility is a certainty
- A perfect storm?

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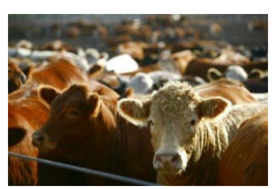
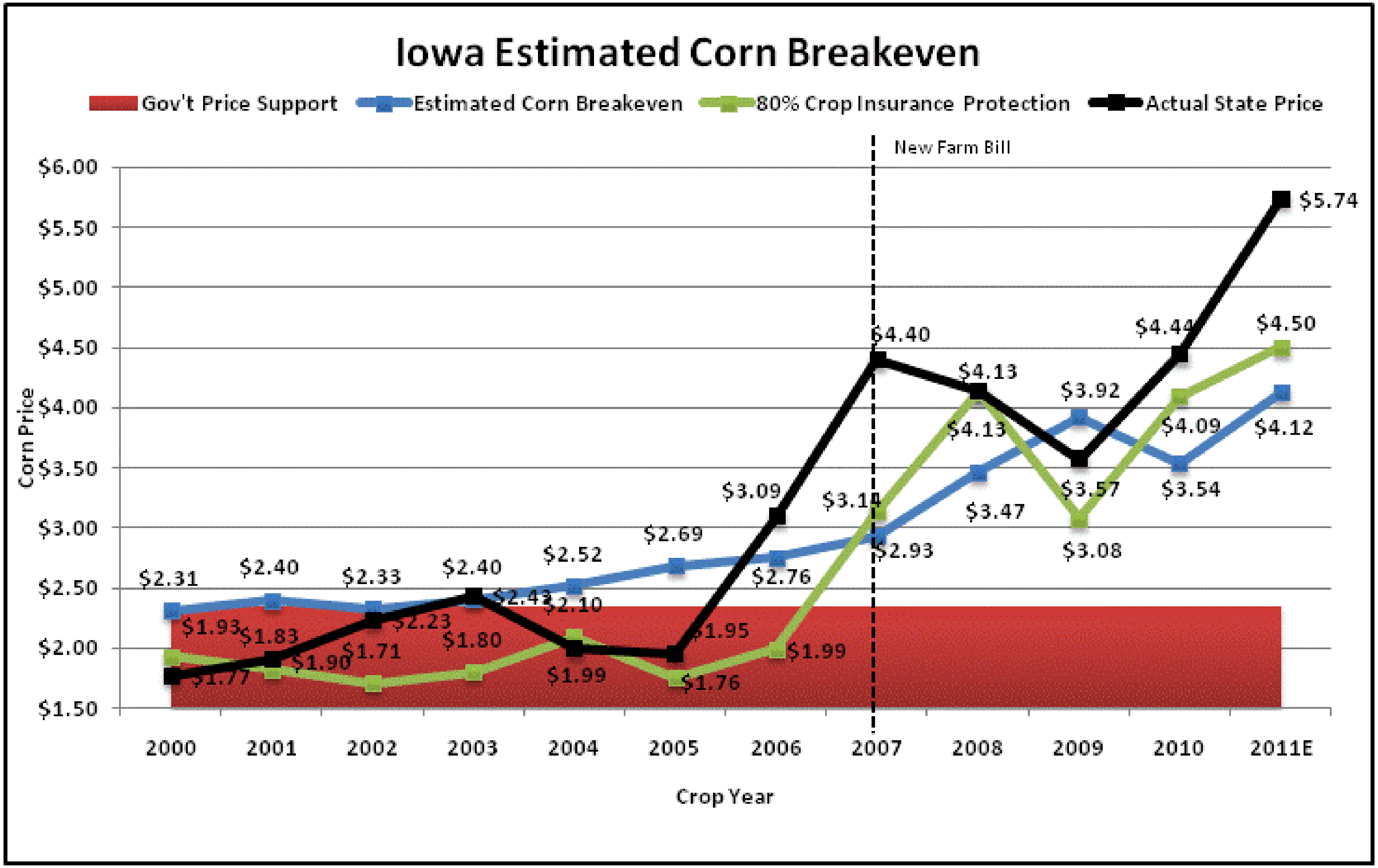



The Changing Environment
Margin Management Impacts



The Changing Environment
Capital Requirements (4X!)

Typical 2,000 acre Midwest Corn Producer

	2005	2010
Yield	170 bu / A	200 bu / A
Cash Rent	$160 / A	$250 / A
Working Capital Req.	$100 / A	$200 / A
Operating Capital	$985,000	$1,400,000
Marketing Capital	$0	$640,000 (2000A x 200 bu x 80% x $2)
Total Operating Capital Needs	$530,000	$2,040,000

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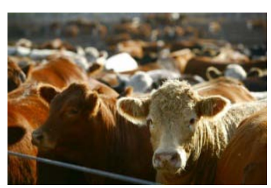


The Changing Environment
Lending Demands

- **Inventory loan**
  - **$900,000 – 2000 ac. x 200bu x 50% carried x $4.50**
- **Current year crop loans**
  - **$980,000 - 2,000 ac x $700/ac. x 70% financed**
- **Commitment for next year's fertilizer, seed, other prepaids**
  - **$440,000 - 2,000 ac.   X   ($120 seed + $100 fertilizer)**
- **$2,320,000 - total lending demands**

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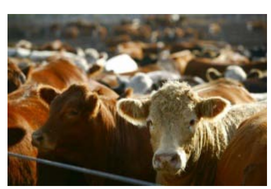


FCSA Marketing Financing Guidelines

Communication is Key

- **The operating lender needs to fully understand a producers marketing strategy to dependably finance it**

Full Scope Operating Relationship

- **Is a requirement – Fragmentation of financing - inputs, marketing/hedging, and inventory management is a bad practice**

Speculation

- **Commodities not produced, inverse positions, or in excess of production are <u>not eligible</u> purposes**

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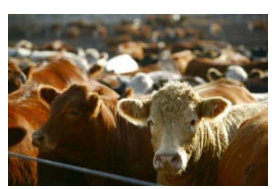


Financing Current Year Marketing Needs

- **Know relationships utilized**
  - **Board positions, options, cash contracts/type, and the broker**
- **Secure the crop and the brokerage account**
  - **Use three way lending agreement (customer, lender, broker)**
- **Net position should not exceed insured production level**
- **Producer/broker to estimate volatility levels and possible credit needs (rarely happens up front)**
  - **Establish commitment and collateral requirements to support a minimum of a 50% price movement**
- **Establish back up plans for excessive volatility**
- **Understand and consider potential counterparty risks**

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Expectations of Lenders

- Expertise
  - Not only a “relationship”
  - Must understand marketing options
  - Experience – must “add value”

- Philosophically Aligned
  - Plan for contingencies
  - Expect volatility, even extremes
  - Don’t blink

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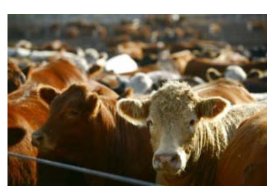


Expectations of Lenders

Capacity

Lenders can run out of capacity – How fast can three small participating lenders respond to an immediate lending limit increase for a 10,000 acre operation --- or can they at all?

<u>Traditional Operating Loan</u>

10,000 x $700 cost x 70% financing = $4,900,000

<u>Marketing Loan</u>

10,000 x 200bu x 80% sold x $250 in margin calls = <u>$4,000,000</u>

Total Potential Needs $8,900,000

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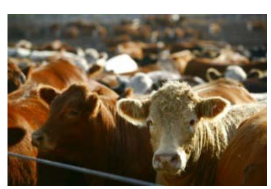


Lending Pitfalls/Lessons learned

- Markets act quickly leaving little time for communication gaps
- Customers can, some will, panic and abandon sound positions
- Producers are sometimes “advised” into strategies they don’t understand
- Producers can run out of capital/collateral
- Multiple crops, complicated strategies, and multiple advisors can result in a hedge morphing into a speculative position:
  - Sell inventory w/o lifting board positions
  - “Sold puts or calls” are randomly re-positioned, chasing methods to “cheapen the cost” of the desired position

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Farmland/Benchmark Trends
(based on 1/1/2011 Values)

State	***6 Month***	***1 Year***	***5 Year***	***10 Year***
Iowa (21)	16.4%	20.3%	77.5%	174.2%
Nebraska (20)	9.7%	12.1%	76.0%	133.9%
South Dakota (23)	4.9%	9.0%	71.2%	231.2%
Wyoming (3)	-1.0%	0.5%	31.1%	95.9%

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Food for Thought

The increase in farm real estate values is differen than the housing bubble & the 80’s.

- **Does not mirror the residential housing marketing**
- **Is being purchased from a position of financial strength**
- **Significant equity (both cash and collateral) going into the purchases**
- **Is an income producing asset**
- **Does not deteriorate / depreciate from abuse and neglect**
- **Supply is constant (relatively); there is no over-building /over-development**

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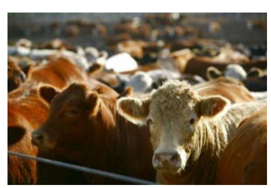

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Serving with purpose.