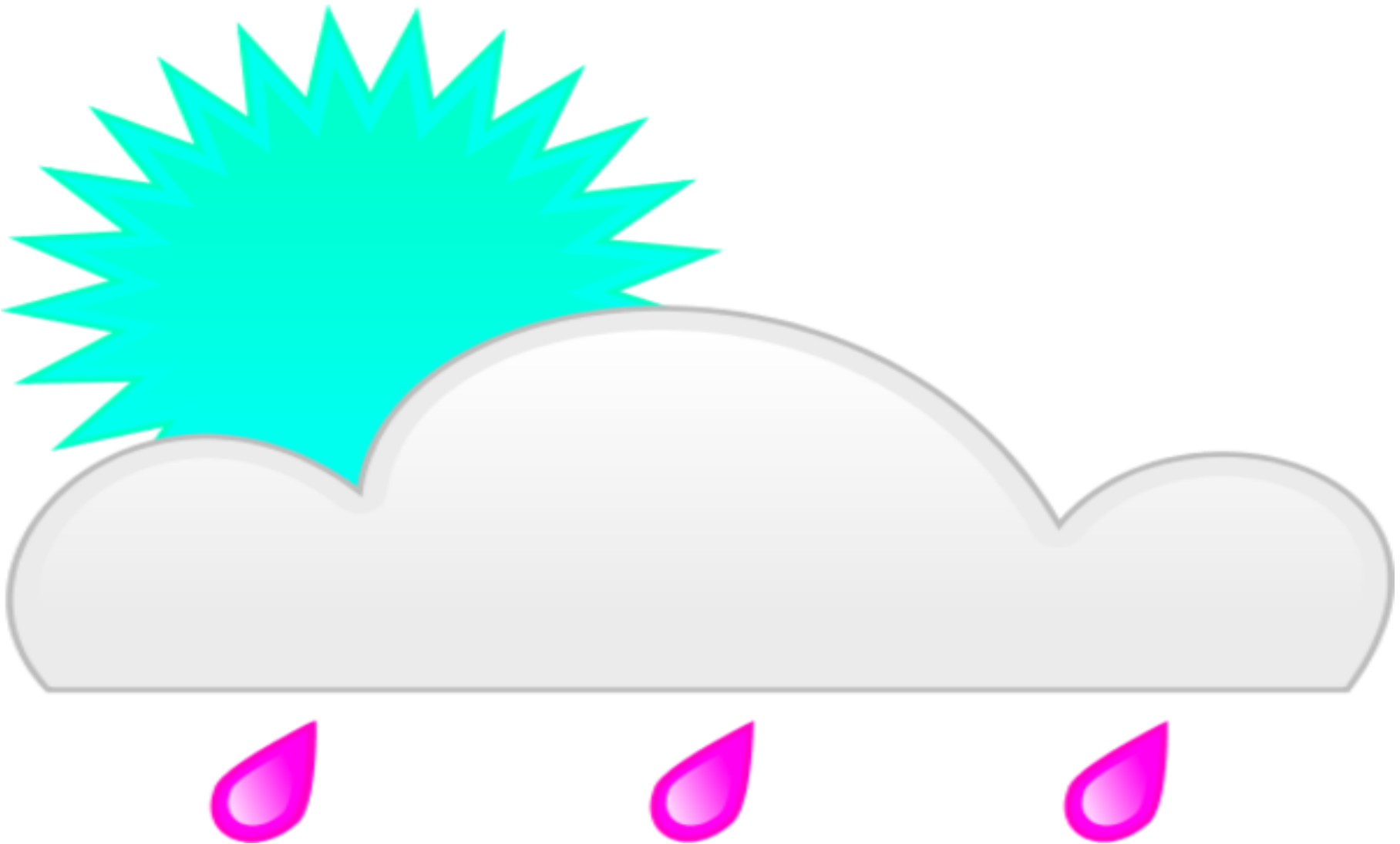




# 2016 Financial Outlook





# Interest Rates

Will go up or down or remain about the same  
Higher probability of going up than down

Assume a borrower quality scale of 1 – 9 Acceptable

1 – 4 Investment grade only \$100MM +

5 – 9 Local/Regional Producers/Agribusinesses

Quality 5 – 7                      Range Prime -1 to +1

Quality 8 – 9                      Range Prime +1 to +4



# Who's in Agriculture?

Farmers and Ranchers

Lifestylers

A return to the country

Investors

Professionals

Flippers

Equity Funds

TIMO

REIT



# Advance Rates

# Loan Terms

	Farm Credit	Advances	Competitors	Advances
Operating	1 - 3 Years	80%	1 - 3 Years	≤ 100%
Livestock	≤ 5 Years	80%	≤ 5 Years	≤ 100%
Equipment	≤ 7 Years	80% - 100%	≤ 7 Years	≤ 100%
Real Estate			≤ 5 Years	≤ 100%
Real Estate	≤ 10 Years	80%	≤ 10 Years	≤ 100%
Real Estate	≤ 15 Years	75%	≤ 15 Years	≤ 100%
Real Estate	≤ 20 Years	65%-70%	≤ 30 Years	≤ 65%

Farm Credit advances made on the lower of cost or appraisal

30 year financing generally from insurance companies

Have seen some graphic mis-matches of purpose to terms



# Generally

## Established Borrowers

Liquidity: Current Ratio 1.25 – 2.50

Solvency: Owner Equity 50% - 75%

Debt Coverage: 1.25X – 2.5X Payments

## Young Borrowers

Liquidity: Current Ratio Less than 1:1

Solvency: Owner Equity 25% - 40%

Debt Coverage: . . . . was 110%

Perilous Times

Covenant Light Silliness



# Farm Bill is Important Again

## **Dependency on Farm Program Payments growing YOY**

- AGI Limit
- Payment Limitations
  - \$125,000 Peanuts
  - \$125,000 Other Crops
- Sequestration
- Reconstitution strategies
- Marketing “gain” on redemption possibility
- Waiting 8 months for a check
  - Don’t know how much till the last minute



# Real Estate Values

## **National analysis says GA declined in 2014**

Irrigation values settled from \$6,000 back to \$5,000

Pecan values still climbing – up to \$7,500 so far

Wooded property very dependent upon timber

Pasture values mostly tied to location (N GA)



# Commodity Outlook 2015

## Enterprise Analysis (Per Acre)

Enterprise	Land Cost	Mach Cost	Irrig Cost	Yield	Price	Profit	FSA Pymts	Overall Profit	If Cttn Base =P/N Base	Overall Profit
Peanuts	230	151	75	5,000	0.21	(12)	190	178	190	368
Cotton	230	165	60	1,250	0.65	(182)	24	(158)	0	(158)
Corn	230	104	80	225	4.40	(71)	92	21	0	21
Soybeans	115	104	50	45	11.50	(44)	7	(37)	0	(37)
Pecans	337	650	35	1,000	2.00	500	0	500	0	500

\*Newly planted pecan trees take 7 - 9 years to reach full production





# Commodity Outlook 2015

Enterprise Analysis									
	Imprv Past	Wntr Grzng	Feed Supp	Pounds	\$ Per	% Calf	Overall	Debt	Overall
Enterprise	Cost/Acre	Cost 3/4 Ac	Cost/Cow	Per Calf	Pound	Crop	Profit/Cow	Exp/Cow	Profit/Cow
Cow/Calf	228	212	170	550	2.40	90%	822	332	490
Backgrnd	0	189	135	750	2.15	98%	206	70	136

\*Cow/Calf takes 3 years to reach full production

Backgrounded above is based on a 350 pound calf being purchased. Backgrounded purchased at 550# is already at breakeven

## Poultry

Avian Flu is not in Georgia – yet. Farm Credit has established protocols regarding an outbreak (contact, financing, etc.)

FSA will finance new facility but is reluctant to provide guarantees for upgrades on old facilities. New lenders moving in providing up to 100% financing for 20 years.

## Swine

Don't have any



# Commodity Outlook 2016

## Timber

- Stable demand over next few years assuming general economy doesn't tank
- Lenders expect management plans and cruises
  - Timber cutting schedule
  - Possible pine straw sales
  - Carbon Credits



# Prospects for 2016?

## **Opportunities**

Lower commodity prices:  
For some – Losses  
For others – Less Profit  
1 or 2 pricing opportunities

We are the only full time all the time, full service agricultural lender in the market. As others exit agriculture we need to stand tall

## **But We Can't Be Stupid!!**

Farmer needs to understand fixed vs. variable expenses and how to calculate break even.

Proper due diligence of new borrowers. Ask for the information needed. Don't be bashful. Get controls and pricing commensurate with the risk.



# Prospects for 2016?

**Mostly Upside!! We have to slightly alter our approach and we can't be stupid**

Remembering who brought us to the dance. Opportunity to display our “Stickability”.

Many of our customers have been borrowing less than 80% of their operating needs. Avoid costly open accounts with farm suppliers, farm plan etc.

We will do everything within safety and soundness to continue our lending relationship. They have to meet us halfway.

Remember risk mitigates, crop insurance, crop insurance assignment, joint checks as operating needs exceed 80% of expenses

We have to be sharp on FSA programs



# Forecast

## **Rain**

Weaker production accounts will be stressed (~\$20MM up \$10 MM)

## **Cloudy w/ Intermittent**

### **Sunshine**

Stronger production accounts will borrow more (~\$20MM – same)

Stronger production accounts will invest in real estate (~\$20MM down \$10 MM)

## **Cloudy w/ Intermittent**

### **Sunshine**

Timber/Pecans stable/expanding (~\$20MM - same)

### **Sunshine**

Investors will have more discretionary income and the inclination to invest (~\$20MM - same)

Lifestyle remains a growth opportunity (~\$20MM - same)