



Farm Credit Services
of America



FRONTIER
FARM CREDIT

MIDWEST AGRICULTURE – WHERE ARE WE HEADED?

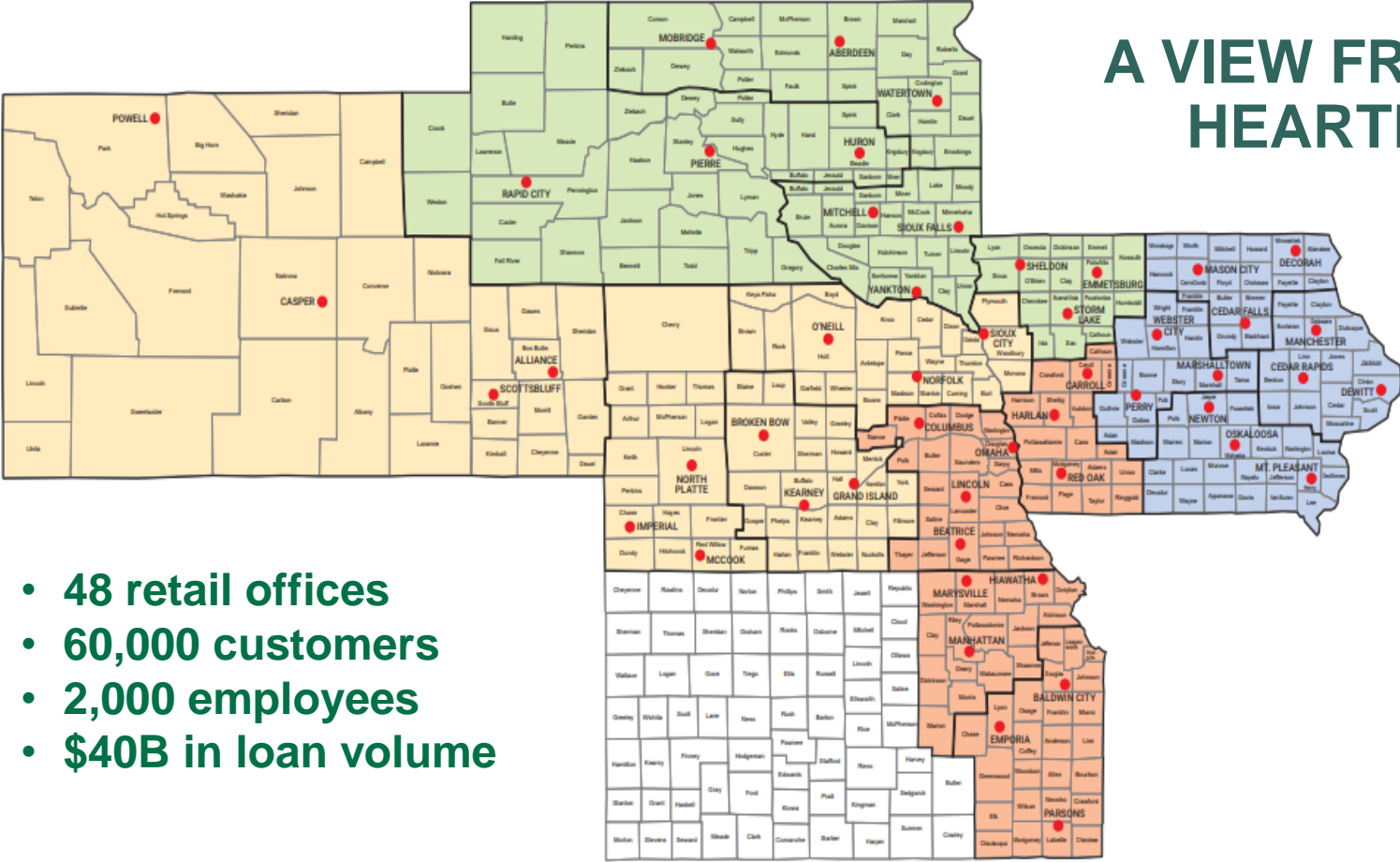
A LENDER'S VIEW

Chad Gent

Senior Vice President - Credit



A VIEW FROM THE HEARTLAND



- 48 retail offices
- 60,000 customers
- 2,000 employees
- \$40B in loan volume

INDUSTRY CONCENTRATIONS

Portfolio Concentration by Industry

Book Amount as of December 31, 2022

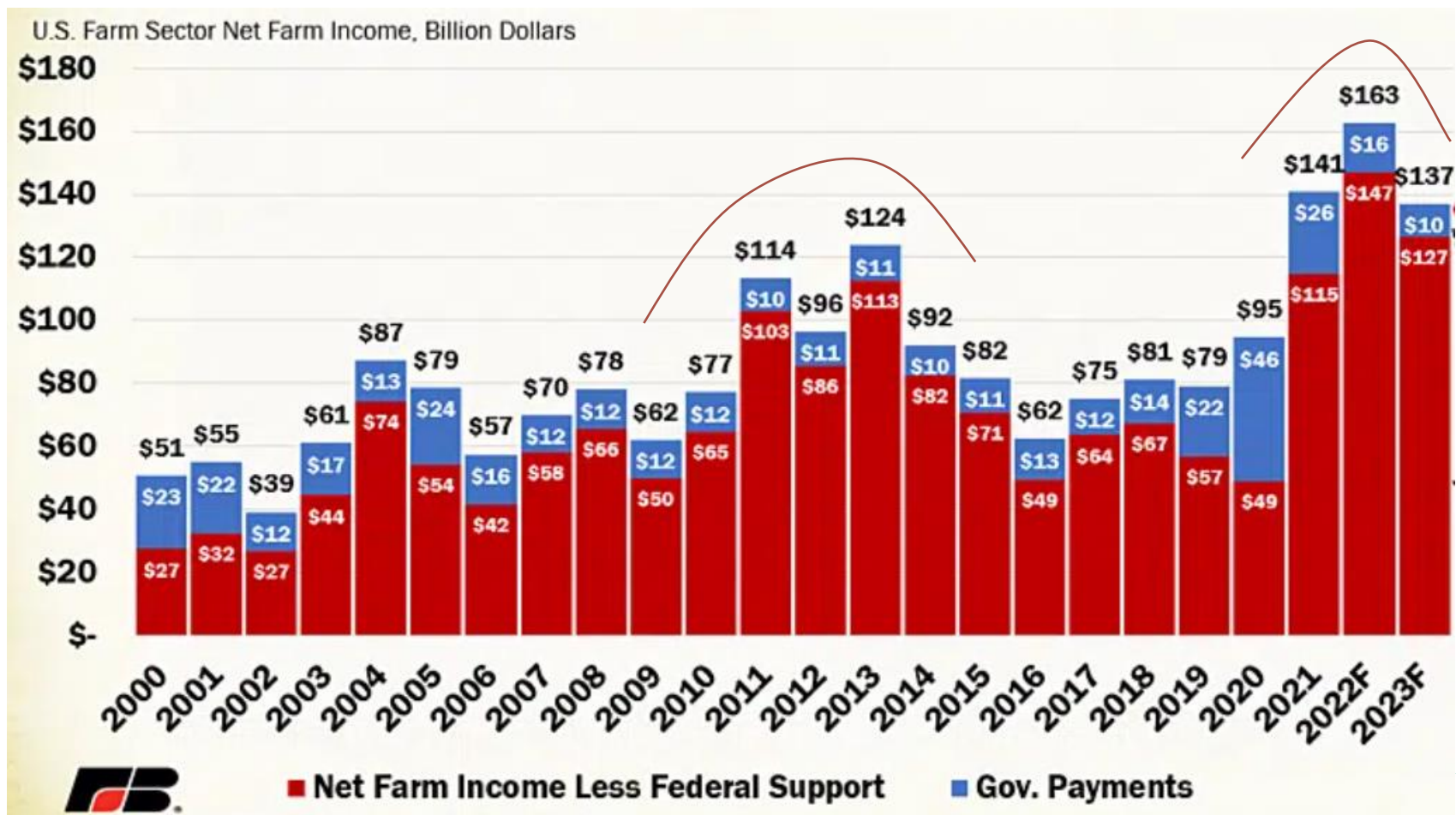


Industry Group	Net Book Value (millions)
Grain	\$15,294.00
Landlords/Investors	\$4,598.09
Beef Feedlot	\$3,587.78
Swine	\$2,854.28
Cow/Calf	\$2,627.25
Dairy	\$1,546.45
Forest Products	\$942.11
Fruits/Vegetables	\$708.07
Meat/Proteins-Processing	\$681.94
Poultry	\$635.95
Other	\$8,015.12
Total	\$41,491.04

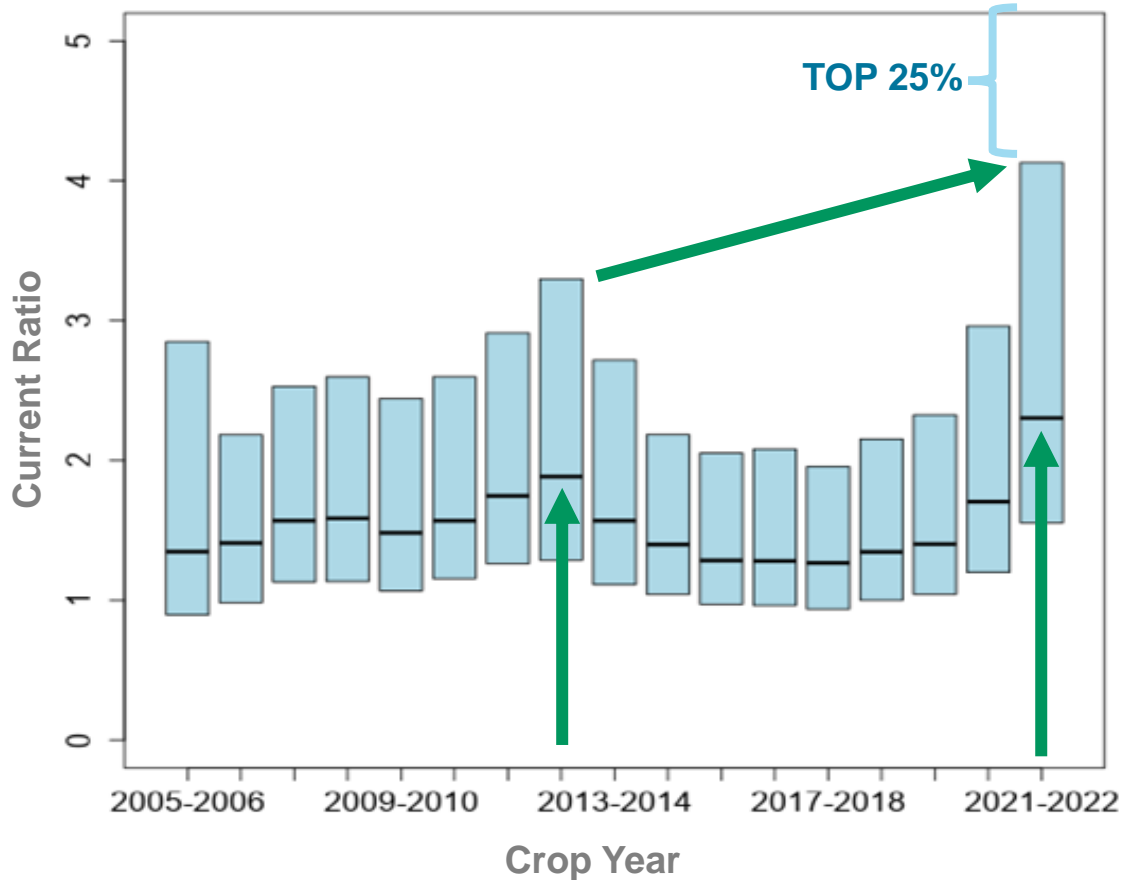
THE VIEW FROM THE PEAK



NET FARM INCOME



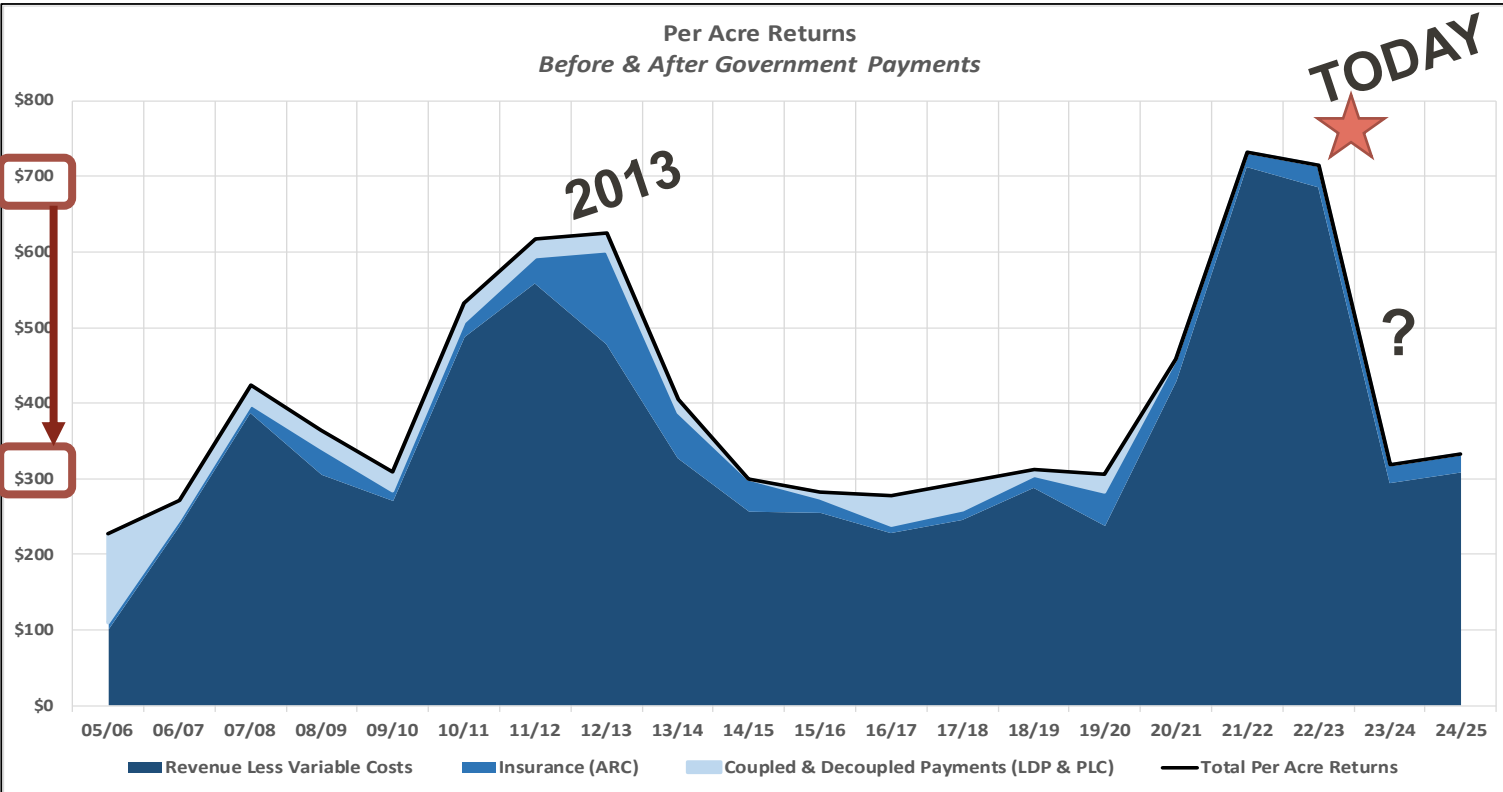
THE BEST NEWS: UNPRECEDENTED WORKING CAPITAL – '13 VS '22



MIDPOINT LEVELS

75% PERCENTILE LEVELS

THE BEST IT HAS EVER BEEN – MARGIN/ACRE





PRODUCTION AG BUSINESS CYCLE



HERE WE GO AGAIN!

- | | | | |
|----------|---|----------|---|
| 1 | DEMAND SHIFT CREATES STRONG PROFITS | 4 | VARIABLE EXPENSES DECLINE |
| 2 | COST STRUCTURE RISES AND ACRES EXPAND | 5 | FIXED EXPENSES DECLINE |
| 3 | EXPANDED PRODUCTION MATCHING/
EXCEEDING DEMAND | 6 | PRODUCTION COSTS AND
COMMODITY PRICES MODERATE |

**We have been down this
road before..**



WHAT IS DIFFERENT THIS TIME?

1. INFLATION

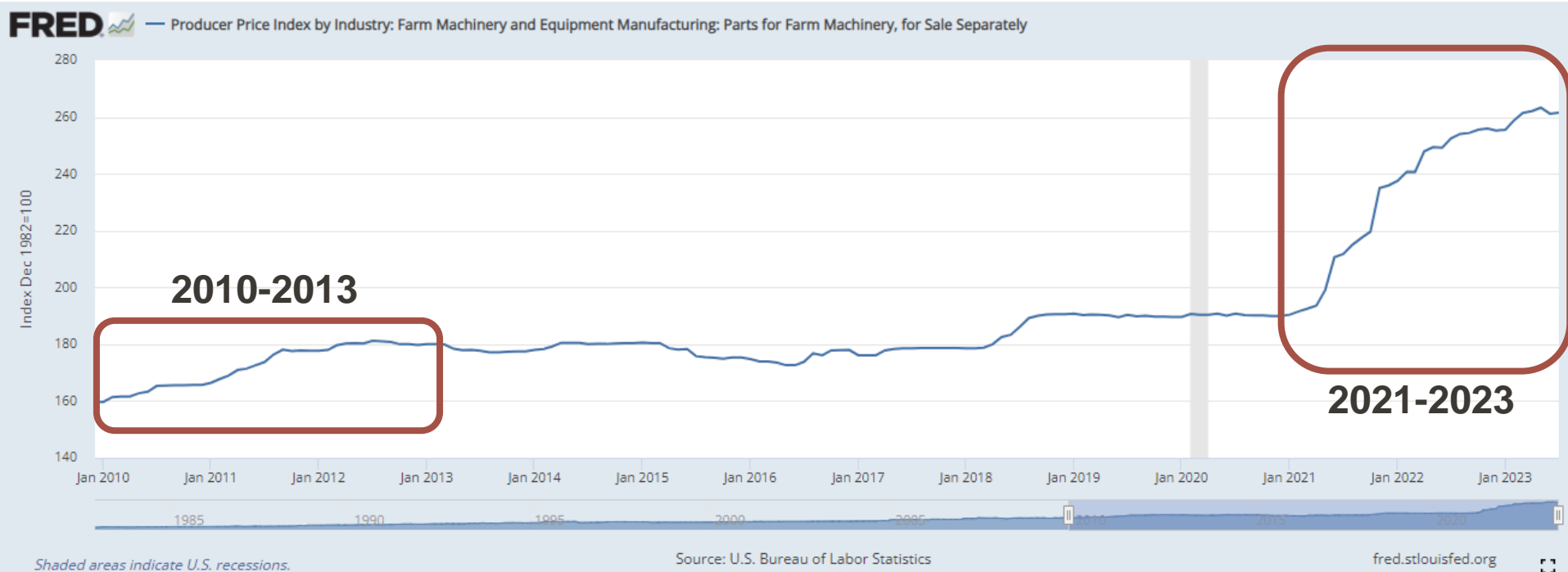


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FARM EQUIPMENT INFLATION – PPI 2010-2023



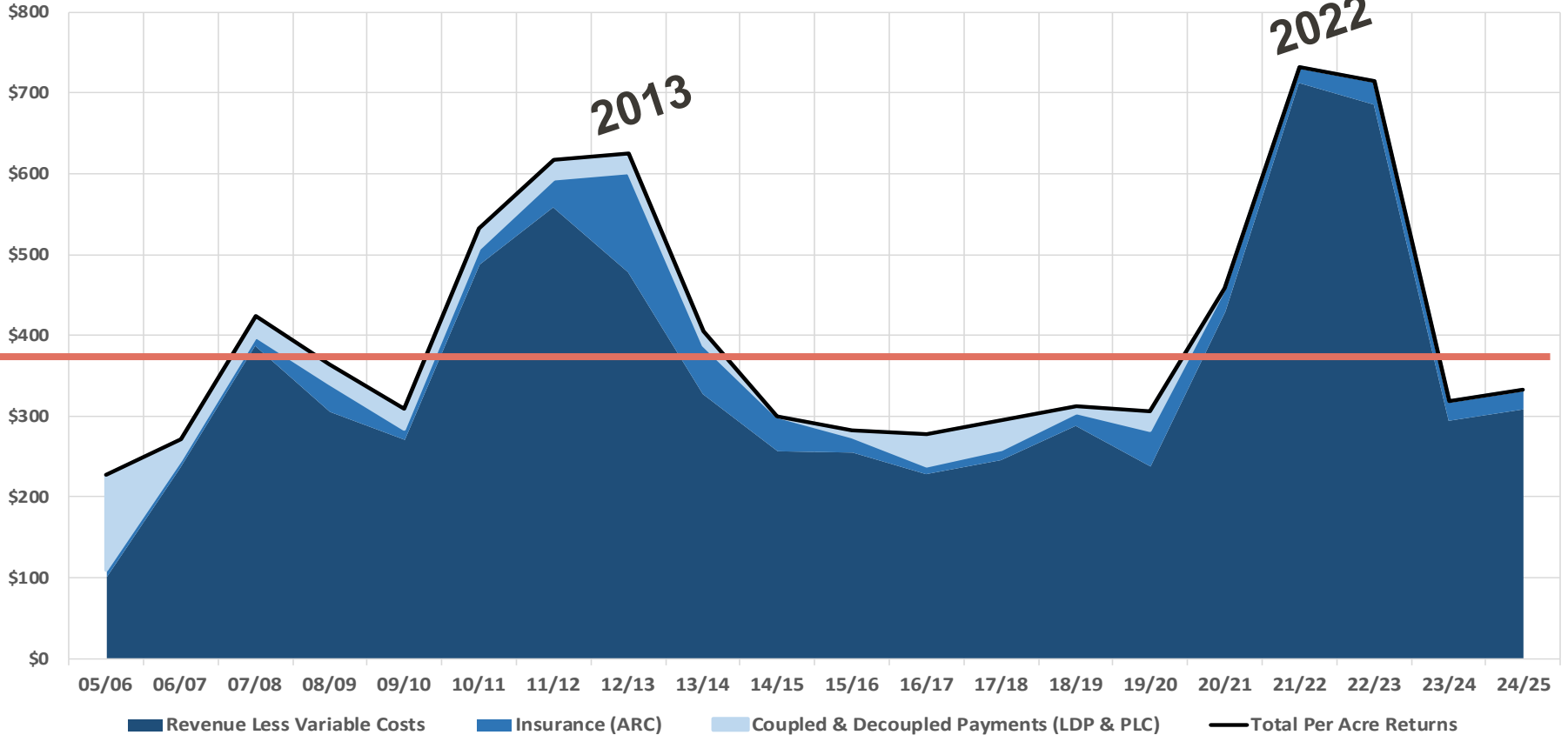
WHAT IS DIFFERENT THIS TIME?

2. INTEREST RATES AND REAL ESTATE DEBT



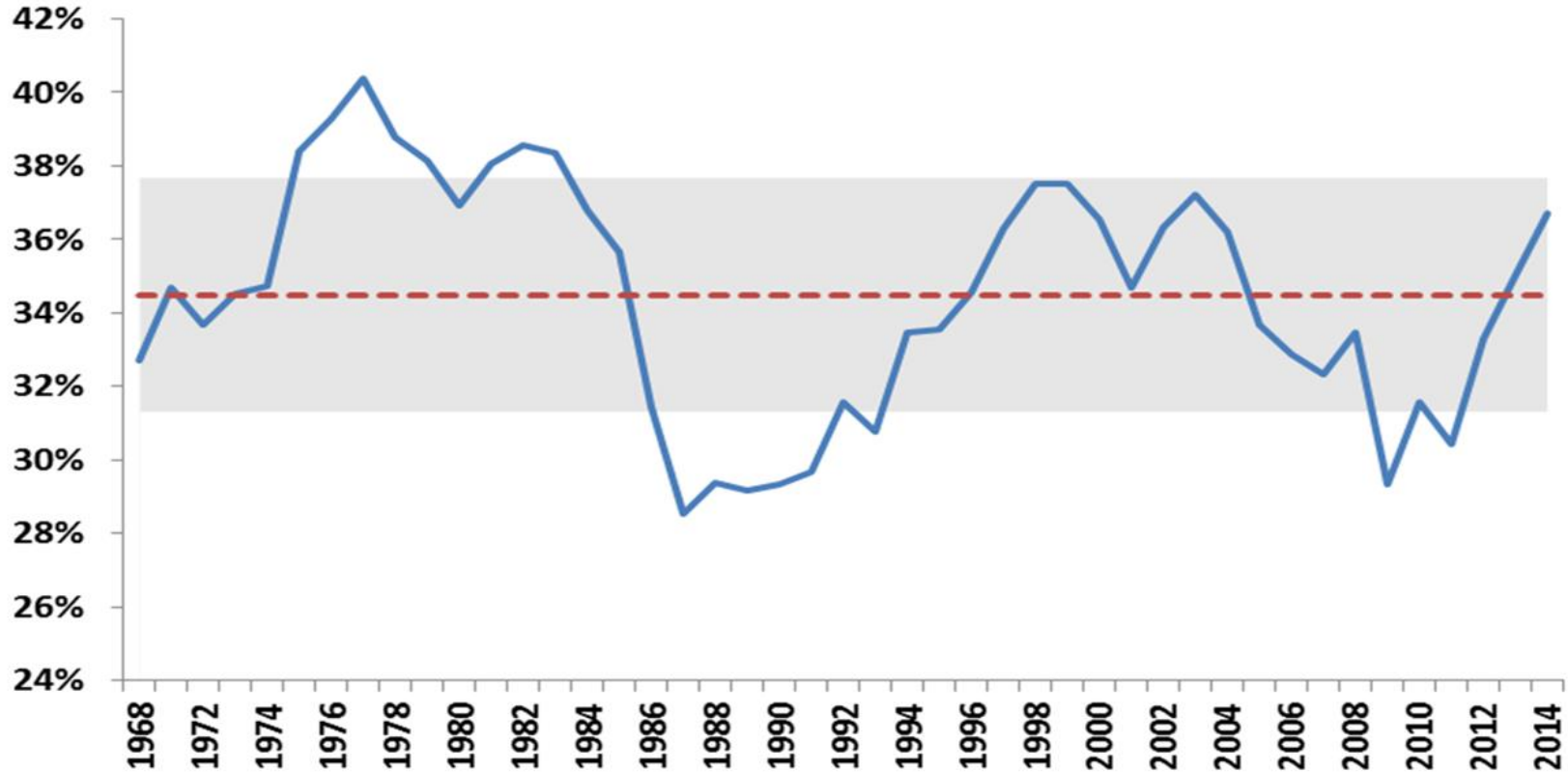
A RETURN TO NORMAL MARGINS (GRAIN)

Per Acre Returns
Before & After Government Payments



WHAT IS NORMAL? - 34.5% @ BREAK-EVEN

Real Estate's Share of Total Costs



Source: Iowa State Cost of Production

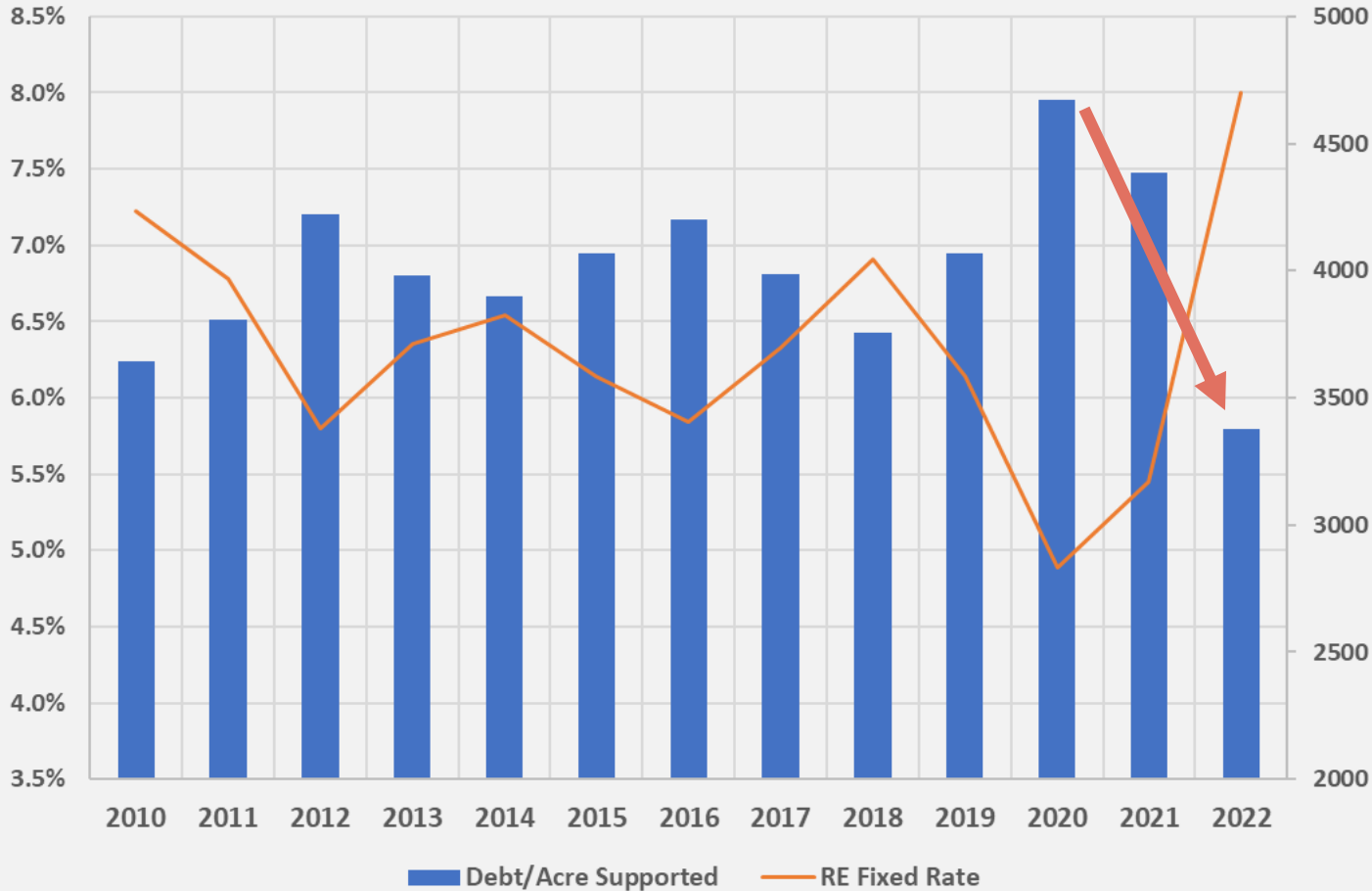
TAKEAWAYS:

- Cash Rental Rates are short-term decisions
- Land Payments are long-term decisions
 - **What is your cost of land debt per owned acre?**

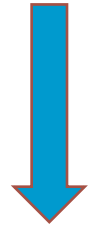
THE SPOILER: INTEREST RATES..

- 30 yr. loan, \$300/acre pmt., 4.75% interest - **\$4700 debt/acre** supported
- 30 yr. loan, \$300/acre pmt., 8% interest - **\$3400 debt/acre** supported
 - 3.25% increase = \$1300 debt/acre no longer supported

Debt Supported by \$300/acre Margin



\$4700



\$3400

REAL ESTATE VALUES *'AT THE PEAK' ALSO?*



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CURRENT ENVIRONMENT IMPACT ON RE VALUES

- Environment – some economics would predict lower values
 - Decreasing Margins for Grain Producers
 - Increased Interest Rates Increases Effective Cost of Land (if financed)
 - Low Annual Cash Return on Farm Real Estate (cash rent/value)
- Observations – reveal stability in values
 - Continued Low Supply of Productive Farmland for Sale
 - Buyers of Land are Financially Strong
 - Buyer Focus on Long-Term Value (either capital gain or generational assets)

MOVING FORWARD



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WHEN CHALLENGING TIMES RETURN

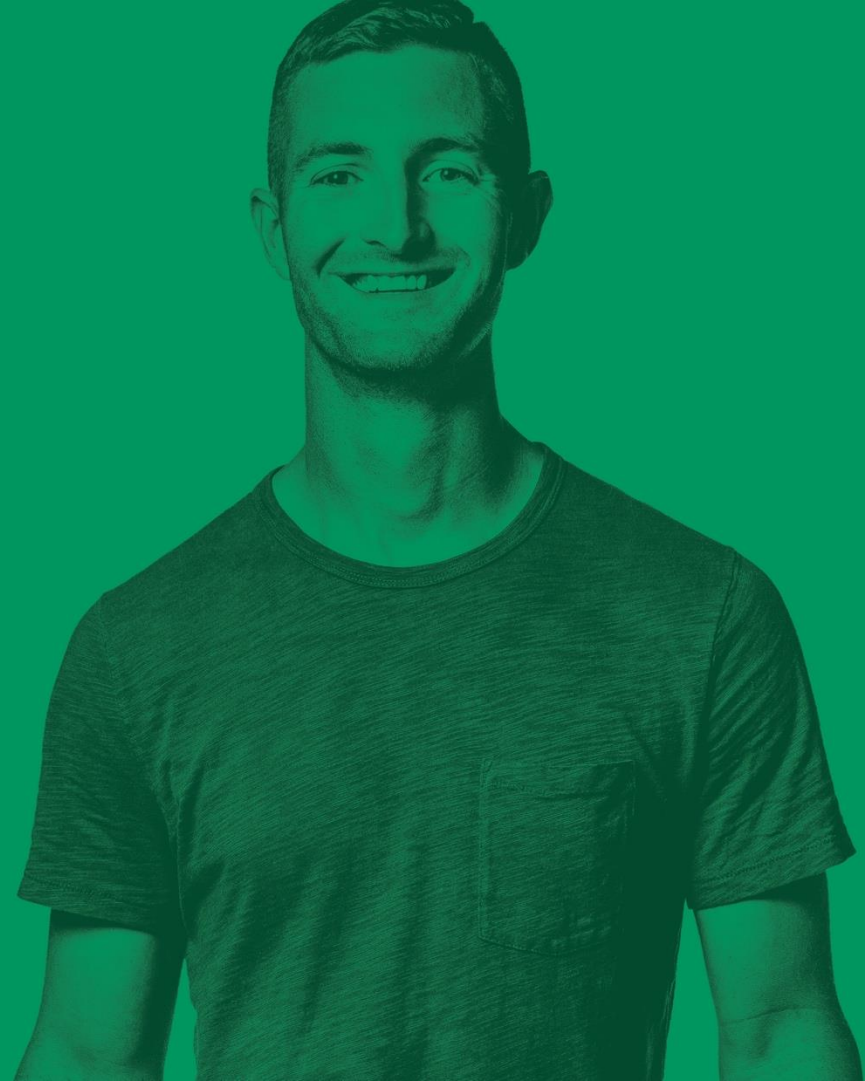
- Working Capital is First Line of Defense
- Higher Interest Rates will Limit Refinance/Restructure Options
- Existing Term Debt and Maturities will Limit Options
- Loss of all Working Capital May Result in Asset Sales

NAVIGATING THE ROAD AHEAD

- Maintain Strong Liquidity as a % of GFI (20% adequate, 50%+ strong)
- Keep Term Debt Payments in Check (use excess cash for downpayments)
- **Don't** Pre-Pay Low Interest Long-Term Loans (generally)

- Cycles Aren't Bad if You are Prepared for Them!
 - Liquidity Keeps You in Charge
 - Excess Liquidity = Opportunities at the Bottom of the Cycle

**OUR PRODUCERS
HAVE NEVER BEEN
IN A BETTER
POSITION TO FACE
THE ROAD AHEAD!**



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QUESTIONS



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