August 2023

The Farmer's "Market"

American Farm Mortgage & Financial Services
a subsidiary of Legence Bank

What's Inside:

Message from the President

ALAN HOSKINS

We are now in the time of year when the vast majority of corn and soybeans have been planted. Some have been in the ground for over sixty days. In my region of the country, I have observed a number of fields that have been replanted in full, while others have areas that have been "spotted-in" due to less than ideal stands stemming from too much moisture and cool conditions early-on. Recently, dry conditions and higher than typical temperatures have begun to result in corn "rolling" or "twisting" during the late morning and afternoon.

In addition, commodity prices have also moved in a downward manner. As I write this article, yesterday's per bushel closing price for soybeans delivered from September through November was $11.74. That was a $1.61 per bushel, or 12.06%, decrease from the March 31, 2023 figure of $13.35. Fall corn prices have also moved in a similar direction.

I am not saying the crop condition and pricing trends experienced thus far, will result in this being a lower than anticipated profit year. We can't predict what's to come in the yield or price arena. In fact, many of you may have taken advantage of the various risk management tools available to capture higher 2023 crop year profit opportunities in the pricing segment that were available last year and earlier this year.

I have long been an advocate of ensuring marketing plans are not "one and done" items, but rather tools that continue to be reviewed and updated as needed. The same is true of profit and loss projections. A significant portion of the expense section of the income statement should now be a more known quantity. Changes in actual planted crop types versus original intentions may also be poised to affect the bottom line. For those who have exposure to variable rate loans, the result of upward interest rate movements can now be more readily quantified.

As I have mentioned in previous articles, I recognize there are few, if any, producers whose favorite part of farming is the "numbers" area. However, ignoring potential profitability headwinds does not diminish their presence. I find the most successful operators typically view their relationships with bankers, crop insurance agents, grain merchandisers, etc., as an integral part of their team. These farmers make the ultimate decisions, but they require, not request, input and assistance from the service providers they employ through the utilization of their products or skills. The individuals in these industries are equipped with the expertise and, if you have been doing business with them for multiple years, the data necessary to help you further understand the opportunities going forward. Challenging times, while never enjoyable, offer us the chance to improve relationships.

As a 30 plus year banker, whose primary focus has been agriculture, helping farmers work through challenges is one of my most enjoyable daily activities. However, to provide true assistance, two-way communication is essential. A good banker is there to listen first, and then provide possible solutions for your consideration. Your success is also their goal, and it is best to be fully honest about the issues you view as problematic. In addition, ask their thoughts on what they may view as potential challenges for your operation. Remember, resolutions are typically much easier to find when multiple individuals are working toward a common goal.

CUSTOMER SPOTLIGHT

Homeland Creamery: Producing the Area's Finest Milk

Homeland Creamery is family owned and operated by the Bowmans. They are six and seventh generation farmers who have been raising and milking cows on the same homestead since the 1930's when their grandfathers' family started selling "barnyard milk" from a half-dozen dairy cows that were milked by hand. Homeland Creamery, LLC is located in southeast Guilford County, in the delightful town of Julian, NC. Homeland Creamery supplies the local area with dairy products of the highest quality, freshness, and great taste!

It's comforting to know where your food comes from. Their milk comes from their own well-fed Holsteins and Jerseys. They practice sustainable farming procedures to make sure there is no harm to our environment and that their workers are safe and their cows healthy and happy. The cows are milked on site in their milk parlor and the milk is processed and bottled in their own processing plant right on their farm. The milk never leaves the farm until it is ready to be delivered to their customers. That gives them total control over the quality and guarantees the freshest milk for you. Give their fresh, delicious milk a try. It's good for you! If you are in the Julian area, stop by their Creamery Store for a tasty treat or see how the creamery runs first hand by taking their Dairy Farm Tour!

WWW.HOMELANDCREAMERY.COM

Are We Reliving The 1980s? Maybe. Survival Advice For Young Farmers

By Bill Biedermann
Ag Web

The economic environment that we are in today is very similar to the 1970s and into the mid-80s. During that time many farmers went broke and, in the process, learned two lessons.

Rampant inflation in the 70s into the early 1980s occurred. CPI rose from 4.2% going into 1970 to 12.3% (+129%) in 1974 to 14.4% in 1980 (+242%) according to the Bureau of Labor Statistics. CPI has risen from 0.1% in 2020 to 9.1% in 2022 (+91%). Take a look at these other indicators:

Following that era, the Federal Reserve Bank reversed policy to bring inflation under control and primarily used higher interest rates to accomplish this. This caused the housing market to slow (sound familiar?). Fed policy eventually cause corporate earnings to shrink, and layoffs were announced. That has already happened, and these announcements should begin to show up in the July or August statistics. Eventually, consumer spending peaked, and trading funds bought T Bills and bonds instead of speculative inflation-based food and fuel positions. That is happening in today's market also. These reactions to Fed policy combined with bigger agricultural production in 1984+ and stabilizing ending stocks, caused farm prices to fall. That could happen in 2023-24. As a result of investor money headed to the T Bill market and farm purchasing power shrinking, collateral:loan and revenue:loan ratios collapsed and caused an agricultural banking crisis. Land prices fell 43.2% from the 1982 peak to the 1987 low. The agricultural collapse of the '80s was the worst agricultural economic era since the great depression.

During that time, many of your fathers and grandfathers went broke, might have been forced to sell some land in order to survive, or simply pushed through it and got to the other side. A few were able to take advantage of the collapse and turn adversity into opportunity.

NOW…The Two Lessons Learned:

Although a lot of the above sounds potentially familiar, we are not expecting anything close to the 1980s collapse. However, the lessons and opportunities to gain from a milder version of the 1980s are, in my opinion, just as important as the story itself.

Lesson One: Watch your leverage. The likelihood of some form of history repeating itself is very high. Check your debt ratios. Make sure you are collateral-strong. Make sure you are cash strong and not leveraged. If you are, maybe you need to get those bins cleaned out. Also, look at your risk management practice. Do you have enough of your 2023 crop hedged off in order to protect your input payments regardless of where prices end up? You can do that and STILL get higher income of prices rally as long as you use a flexible price program. Our company has been preaching this for a long time and has even looked at the 2024 crop. In doing this, you will protect your revenue:loan ratios.

Lesson Two: Getting yourself in a position to gain from someone else's adversity always pays off. This does not mean you have to bury your neighbor and run around claiming victory. It is the opposite - if your neighbor gets into trouble for various reasons, you might be able to expand your land ownership and/or your operation. Getting land bought on a price sell-off is probably the biggest regret I have as a businessman and former farmer. Getting land bought at a younger age is also a major regret of mine. I believe that God is not going to make any more land and thus in the long run, it is the best place to position yourself. Taking over land, and/or bringing in a neighbor who fell on hard times is a win-win. You could have an experienced man out in the field for you and he still gets to do what he loves most. You get someone you can depend on, and he is still tractor-jockeyin' and wrenching without all the stress of expenses.

I strongly encourage everyone 45 and under to talk to their dads and granddads. Find out how they survived the 1980s. What would they have done differently? What did they learn from that era? What did they do right? Then when you lay in bed at night dreaming about your future, think about how you can position yourself in the coming decade to reach all those dreams. If you are not in a position to take advantage of adversity, then you are subject to adversity. Agriculture is the industry to be in. The larger our world population gets the more important, respected, and rewarded as a producer or as a landowner you will be.

Begining Farmers Identify Three Barriers

By Lauren Manning
Successful Farming

In recent years, consumers have taken a stronger interest in agriculture and knowing where their food comes from. For some folks, watching a Netflix special or shopping at a local farmers market wasn't enough. Many individuals are eschewing urban life and their 9-to-5 desk jobs in favor of rural living, purchasing homesteads, and diving head first into launching a farm business. Many of these folks soon discover, however, that making the farm dream a reality is a lot more challenging than anticipated, especially when it comes to finding available and affordable farmland. Even for multigeneration aspiring young farmers, getting into farming can be an uphill climb. According to USDA data, the average age of a principle operator has steadily increased over the last three decades, rising from 50.3 years in 1978 to 58.3 years in 2012. This suggests that farmers are waiting longer to retire, which, in turn, forces many second- or third-generation farm kids to go out on their own until their parents are ready to hand over the reins of the business.

In 2016, I cofounded a chapter of the National Young Farmers Coalition (NYFC) in Arkansas, a national advocacy network of young farmers developing new policies, building networks, and providing business services to ensure all young farmers have the chance to succeed. As a continuing board member, I routinely see young farmers, which the USDA officially defines as anyone who has been farming for 10 years or less, from every background finding it difficult to start a farm or to grow their existing operations. While there are a number of diverse barriers to entry that new farmers are facing, these are the three most common challenges that I hear about.

1. WHOSE GOT LAND ANYWAY?

The first thing that any beginning farmer needs to get started also happens to be the biggest barrier to entry: land.
According to the National Young Farmer Coalition's 2017 survey, 61% of beginning famers reported that access to land was their biggest challenge. This includes not being able to find affordable land as well as not being able to earn enough income from the farm business to support the purchase of the land. As a result, many beginning farmers are forced to lease land to get started. Although this can create an affordable entryway into agriculture, leases lack stability and certainty. Banks may not be willing to finance a burgeoning operation without a guaranteed land base for at least the beginning of the loan period. With a short-term lease, there are disincentives to setting up the necessary infrastructure and improvements on leased acreage without any guarantee of recouping set-up costs.
The best way to combat the land-access situation is to seek the longest-term lease possible and to cultivate a strong rapport with the landlord. Working with landlords can be challenging, especially if the landlord does not understand agriculture or doubts a young farmer's acumen. It is crucial to always get a lease arrangement in writing and to include terms that will protect the tenant like when and how the lease can be terminated and which farming practices will be explicitly allowed. There are several online resources that provide example farm-lease contracts that hopeful tenants can modify to their specific needs.

Networking can help open doors to lease opportunities that are not advertised on public forums. Many aging farmers are seeking beginners to help manage their property as they shift towards retirement or face prohibitive health problems.

2. STUDENT LOAN DEBT CAN MAKE FINANCING IMPOSSIBLE.

Next to land access, student loan debt puts a massive financial obstacle between aspiring farmers and setting up their operations. Forbes reported in January 2018 that there are roughly 44 million student borrowers in the U.S. who owe a collective $1.5 trillion in debt, or an average of $30,000 to $40,000. This can make it difficult to obtain financing, or it can discourage someone from leaving a steady paycheck to make a living as a producer.

Although the USDA offers beginning farmer loan programs that provide preferential treatment and favorable terms for beginning farmers like down-payment assistance, an applicant with substantial student loan debt may be turned away. Most loan programs use debt-to-income ratios to determine whether you will be able to afford additional debt. With some beginning farmers facing student loan payments as high as $1,000 per month, there isn't much room leftover to add a monthly mortgage payment.

Over the last several years, NYFC has advocated for legislation that would include full-time farming in the Public Service Loan Forgiveness Program. The program provides government workers, nonprofit employees, and other types of public-oriented workers with loan forgiveness if they stay employed in that capacity for 10 years. Although the legislation gained some support on Capitol Hill, NYFC has been unable to get it passed.

For those saddled with student debt, this leaves little recourse. Paying down debt is the only way that most beginning farmers facing this obstacle will be able to afford land or receive financing to start their operations. Understanding the USDA beginning farmer loan programs and their criteria can help debt-ridden beginning farmers develop a strategy for positioning themselves to receive financing. Setting up a meeting with local Farm Credit and FSA representatives is also a good way to start figuring out what steps you need to take to qualify for any available programs.

3. NOT EVERYONE UNDERSTANDS HOW TO RUN A PROFITABLE BUSINESS.

Finally, even if a beginning farmer finds a land opportunity, it can be a struggle to run a profitable farm business. The excitement and thrill of launching your own farm operation can distract from the necessity of keeping thorough balance sheets and making sure that the operation can support itself. Even if beginning farmers are aware of the need to create a business plan, they may not have the training or background to put one together unassisted. Producers located near urban centers or in areas with a strong food-oriented culture should take advantage of farmers markets, local food-focused restaurants, food hubs, and other direct-marketing channels.

The 2017 NYFC survey indicated that many new farmers wish there were business-planning workshops and support tools available to help them make sure that their new venture will pencil out. This can include everything from finding the right market to understanding which enterprises bring home the most income.
Gary Matteson, a small farmer for many years and now with Farm Credit Council, says, "Let's face it, beginning farmers don't go start farm operations in order to learn how to be accountants. What they need to know is how to interpret good financial records and that it is OK to get help to set up and maintain a good record-keeping system."

There are many online resources geared toward general business planning and free trainings hosted by a variety of sources that can be found through basic internet searches. The USDA's Make a Farm Business Plan features a multistep guide to creating a plan, while the agency's National Agricultural Library maintains a list of other online outlets for business planning including Extension publications. Some business schools also offer free business support services hosted by students as part of community outreach programs.

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Understanding Your Business... From The Ground Up

MOVING IRON PODCAST

Alan Hoskins, President & National Sales Director of American Farm Mortgage, shares about the Strength of the American Ag Producer.

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