



Message From the President/CEO

The increasing age of those owning agricultural real estate has been well documented. An agriculture.com article on August 6, 2013, by author Jeff Caldwell quotes Iowa State University Extension farm management specialist Mike Duffy as stating, in 2012, “over half, 56%, of the farmland in Iowa is owned by someone over the age of 65”.



Alan Hoskins
President/CEO

Further, the increased value of land over the last decade has led to a significant increase in the market value net worth shown on many operator’s balance sheets. When this is viewed in conjunction with the increasing age of those owning farmland, it explains many landowners enacting estate planning methods to facilitate how agricultural land ownership will be transferred to the upcoming generation of farmers and ranchers.

I commend those of you taking this action for being proactive in attempting to ensure a smooth transition to your operation’s next owners. However, prior to transferring ownership of your land to any corporations, LLCs or other similar vehicles, I would urge you to speak with all your “team members” of accountants, attorneys, bankers, etc. to ensure you experience no unintended consequences of enacting your individual estate planning measures. For example, a guarantee on an existing Farm Service Agency guaranteed real estate loan could potentially become invalid if the ownership of the land pledged as collateral is transferred from the current owners name to an LLC.

Planning ahead for how your farm or ranch ownership will transfer to its future owners is one of the greatest gifts you can give them. While this is not the most pleasant of subjects to consider, a discussion with your accountant, attorney, banker and other team members prior to beginning any process should help minimize the potential negative impacts on your heirs. Farming and ranching is a fantastic way of life and your operation’s future owners will greatly appreciate your advance efforts in ensuring a smooth transition. The increasing age of those owning agricultural real estate has been well documented. An agriculture.com article on August 6, 2013 by author Jeff Caldwell quotes Iowa State University Extension farm management specialist Mike Duffy as stating, in 2012, “over half, 56%, of the farmland in Iowa is owned by someone over the age of 65”.

Source: Alan Hoskins, President/CEO

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Less Uncertainty About Future Corn Prices Highlights Liquidity

A high probability of lower corn prices in 2014 is leading to prospects of lower incomes for U.S. corn producers. Despite near-record farm income in 2013, markets appear more convinced that corn prices are unlikely to match the levels of the past few years. The variability of expected harvest prices mirrors that of a decade ago as diminishing ethanol growth has curbed demand potential.

Expectations of lower corn prices and reduced profitability for 2014 corn production underscore the importance of liquidity. Liquidity allows producers to combat potential short-term risks of significantly weaker, or even negative, profit margins. Overall, farmers have greatly improved their cash position in the last several years, suggesting that a crisis in 2014 is unlikely. However, some less-liquid operations may be more exposed to short-term risks than others and weaker profitability could intensify challenges beyond 2014.

Limited Potential for High Corn Prices

Whether U.S. corn producers' incomes will be lower in 2014 critically depends on the level of uncertainty about future corn prices. Following a rebound in production in 2013, corn prices have plummeted from \$7.50 per bushel in March 2013 to just over \$4.00 per bushel in December. Although future incomes will also depend on how much production costs adjust alongside lower crop prices, the USDA has projected that net returns per acre of corn production could fall by 38 percent from 2013 to 2014.

One measure of future uncertainty about corn prices is implied volatility, calculated from options markets. Broadly, implied volatility can be interpreted as the market's expectation of uncertainty at a specific time in the future. For corn, December futures and options contracts are considered to best reflect information associated with the fall harvest. Implied volatility associated with the December 2014 contract, then, can be used as a forward-looking measure of uncertainty about harvest prices.

The implied volatility of the December 2014 options contract averaged 22 percent during the first three weeks of December 2013. This number suggests 2014 harvest prices are statistically likely to range only 22 percent above or below the underlying futures price. In contrast, implied volatility in December 2008 was 42.8 percent, nearly double this year's measure, but very similar to the average from 1997 to 2005. Since 2008, implied volatility one year before harvest has steadily declined.

Liquidity Is Key

A high probability that 2014 profit margins will be weaker underscores the importance of short-term liquidity. Strong income from corn production in recent years has strengthened farmers' balance sheets and improved their overall liquidity. However, farm businesses with limited equity and lower levels of working capital, may be more exposed to short-term difficulties.

Liquidity is a crucial first line of defense against short-term setbacks. High levels of liquidity allow

producers to pay bills as they come due and signal creditworthiness to lending institutions. Maintaining sufficient liquidity should be a priority for any business, but particularly those facing a high probability of short-term downside risks to profitability.

One common measure of liquidity is net working capital, defined as current assets minus current liabilities. Current assets, sometimes referred to as gross working capital, includes cash and other assets that can be quickly converted to cash. Current liabilities are typically interpreted as short-term debt obligations, due in less than one year.

Another useful measure of liquidity is the current ratio. The current ratio, current assets divided by current liabilities, is particularly useful because it allows one to easily compare levels of liquidity across different types and sizes of operations. A ratio of 1:1 (or, equivalently, 1.0) suggests farmers have just enough cash or cash-equivalent assets to meet their short-term debt obligations. Thus, a higher current ratio implies a higher level of liquidity.

Overall, farmers specializing in corn production have improved their liquidity during the recent boom years. According to the USDA, the current ratio for this group of farmers has improved from an average of 2.4 between 1996 and 2006 to 4.5 in 2012, an increase of 188 percent. Although data are not yet available for 2013, it seems likely this measure of liquidity remained high in 2013 alongside near-record farm income.

Source: The Main Street Economist

American Farm Welcomes New Employee

Matt Brombaugh joined the American Farm Mortgage and Financial Services team in November of 2013 as the Business Development Officer for Illinois, Kentucky, Indiana, and Missouri. He is responsible for developing business and assisting current customers in the area.

Matt earned a BA from Eastern Illinois University in Business Administration and has over 10 years of sales and management experience. His prior positions of Branch Manager and Outside Sales Representative with Gerda, a global leader in steel production, fabrication and distribution, instilled a deep understanding of logistical, managerial and operational dynamics crucial for today's business world.

Matt is looking forward to helping you with your financial needs and assisting in a viable farming future.



Matt Brombaugh



Featured Product:

Smart Remote Deposit

No more back-and-forth trips or hiring a carrier to deposit your several outgoing checks. Smart Remote Deposit allows you to simply scan checks, then send them on their way.

An electronic image of the check is stored and can be retrieved at any time for view. Realize funds quicker and save a lot of valuable time and resources in the process by signing up for Smart Remote Deposit today.

Benefits:

- ◆ Deposit checks anytime via a convenient desktop scanner
- ◆ Checks are scanned, then converted to an electronic image
- ◆ File transmission is securely encrypted from your office to the bank
- ◆ Create a retrievable archive of check images and generate reports
- ◆ Faster availability of funds
- ◆ Enjoy a later daily processing deadline
- ◆ Know exactly when deposits are received
- ◆ Save on packaging/postage materials
- ◆ Save valuable time and resources; fewer bank trips necessary

For further information, please contact Olivia Bradley with Legence Bank at 800.360.8044 or by email at obradley@legencebank.com

February is Farm Show Month!

American Farm is proud to be represented at the following Farm Shows:

Southern Farm Show
Raleigh, NC
February 5-7

National Farm Machinery Show
Louisville, KY
February 12-15

New York Farm Show
Syracuse, NY
February 20-22

Understanding Your Business... From The Ground Up

10 Reasons Why a Food, Farm, Jobs Bill is Needed

- 1.** America's farmers, ranchers and producers need certainty about the next five years of U.S. farm policy, to continue the recent momentum of the U.S. agricultural economy and rising farm income.
- 2.** Livestock producers need disaster assistance applied retroactively, in light of a long-term drought that has forced the liquidation of herds to the lowest level in decades.
- 3.** Dairy producers need an effective support system that helps them to stem the decline in the number of U.S. dairy operations.
- 4.** Farmers, landowners and forest owners need streamlined conservation programs that will make a more efficient and effective use of limited conservation funds, while building on record conservation efforts underway today.
- 5.** Organic and specialty crop producers need renewed and expanded access to Farm Bill programs that have fueled the growth of a multibillion dollar industry in direct-to-consumer sales.
- 6.** Researchers and students at Land Grant Universities need support to meet modern challenges in agriculture and carry out the innovation we need to sustainably increase agricultural production. A new, nonprofit research foundation provided by a Food, Farm and Jobs Bill could leverage millions of dollars of private sector funding to provide this assistance.
- 7.** Job seekers in rural America need new and expanded investments in renewable energy, biofuel, and biobased product manufacturing, all of which can create jobs in rural areas.
- 8.** Beginning producers – including a growing number of veterans returning to the land – need technical assistance, credit and affordable crop insurance to get started and keep growing. This is especially important as we seek to reverse the rising average age of America's farm population.
- 9.** Producers and small business owners need a resolution of the Brazil cotton dispute that if left unsolved, threatens hundreds of millions of dollars annually in tariff penalties against U.S. agricultural products and other American-made goods.
- 10.** Anyone who is concerned about the Federal deficit needs a Food, Farm and Jobs Bill.