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3 C's of Superior Ag Banking

- Be Conservative in the good times.
 - Guards against Complacency
- Be Courageous in the bad times.
 - Who are the survivors?
 - Opportunities
- Be Consistent all the time.
 - Dependability
 - Not viewed as Hot & Cold in the marketplace



5 C's of Credit

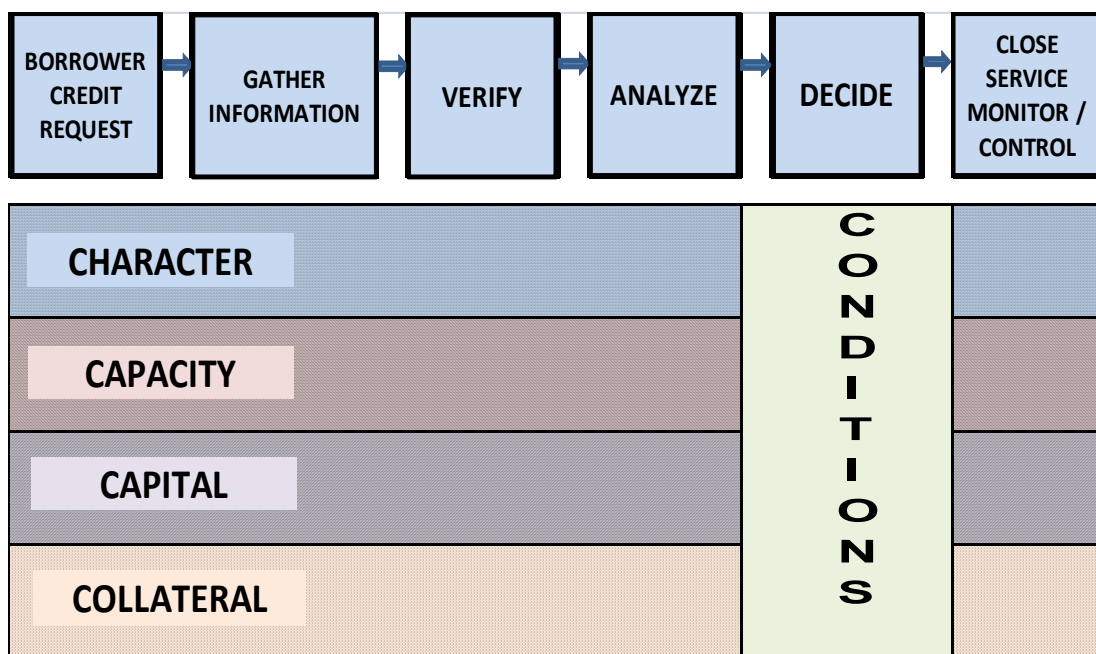
- Character
 - Cranium (the 6th C)
- Capital
- Capacity
- Collateral
- Conditions



A “**Sound Loan**” is one made to a responsible individual or entity of established integrity who has a respectable operating and financial record or equivalent characteristics of a new business, in an amount sufficient to accomplish a useful purpose. It should be made in an amount and under terms and conditions that will reasonably ensure repayment, usually, without adversely affecting the borrower’s financial position. The loan should be supported by sufficient equity or collateral or both, to afford the lender reasonable protection against loss if adverse conditions occur.



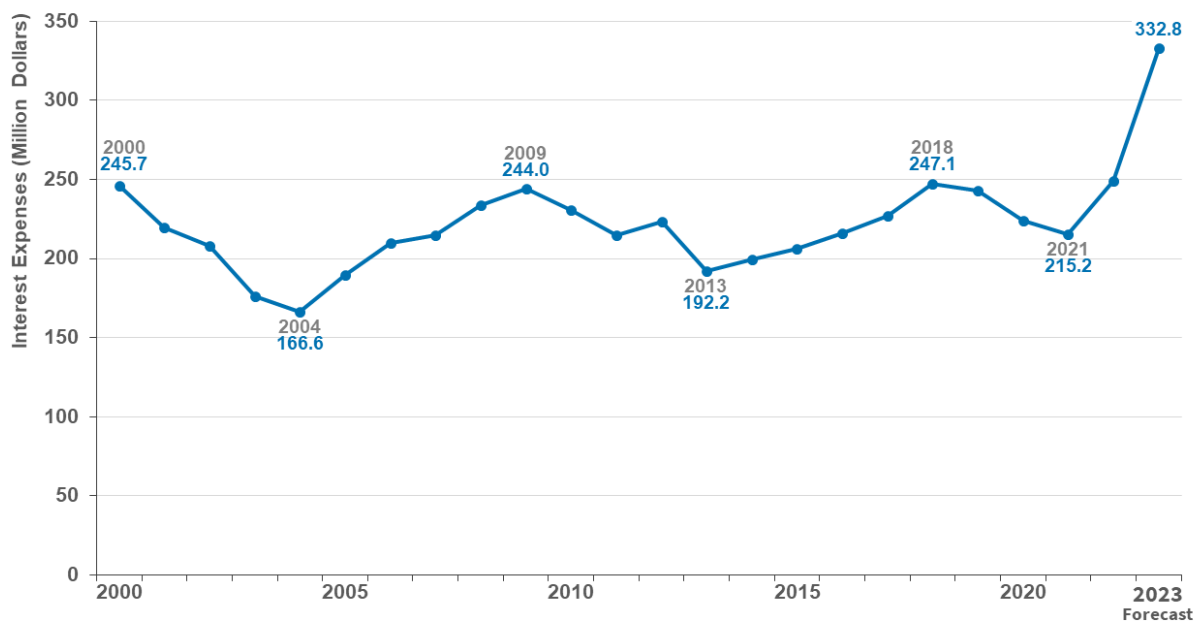
The 5 Credit Factors and the Credit Decision



TODAY'S TIMES



Figure 3. Inflation Adjusted Interest Expenses from 2000 through 2023



ILLINOIS

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics data product. Data as of August 31, 2023

farmdocDAILY



Figure 5. Times Interest Earned Ratio for 2023 Forecast Shows Slightly Elevated Level of Stress Compared to Recent Years

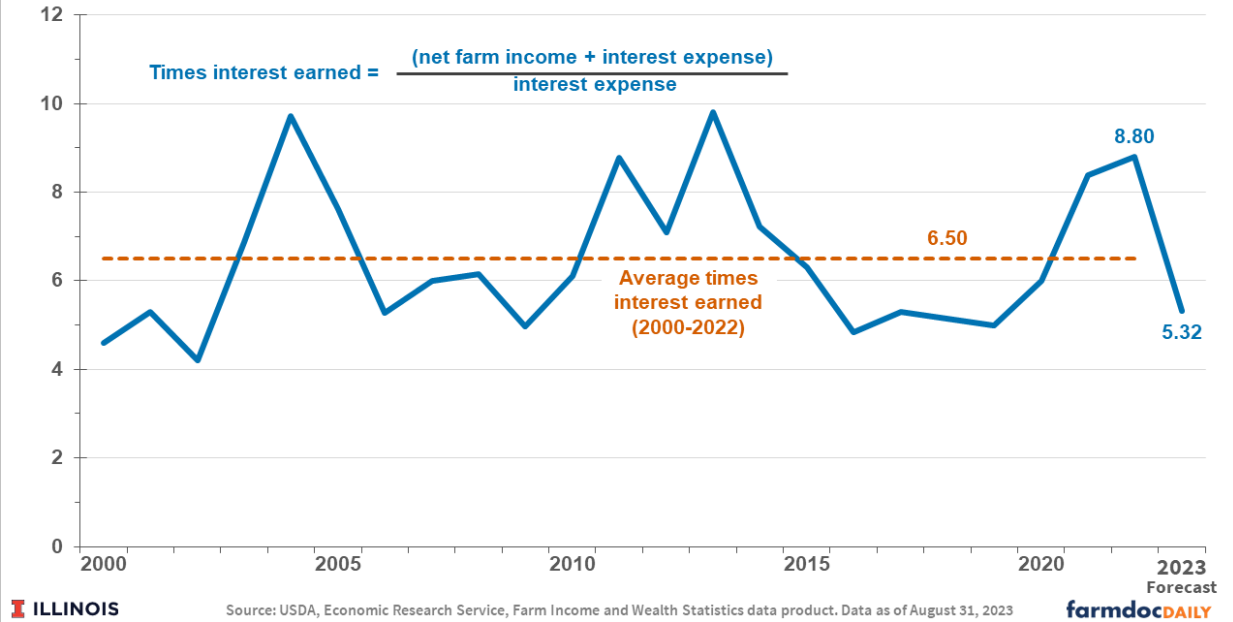


Figure 1. Average Total Overhead Costs Since 2000 Corn, Central Illinois - High Productivity

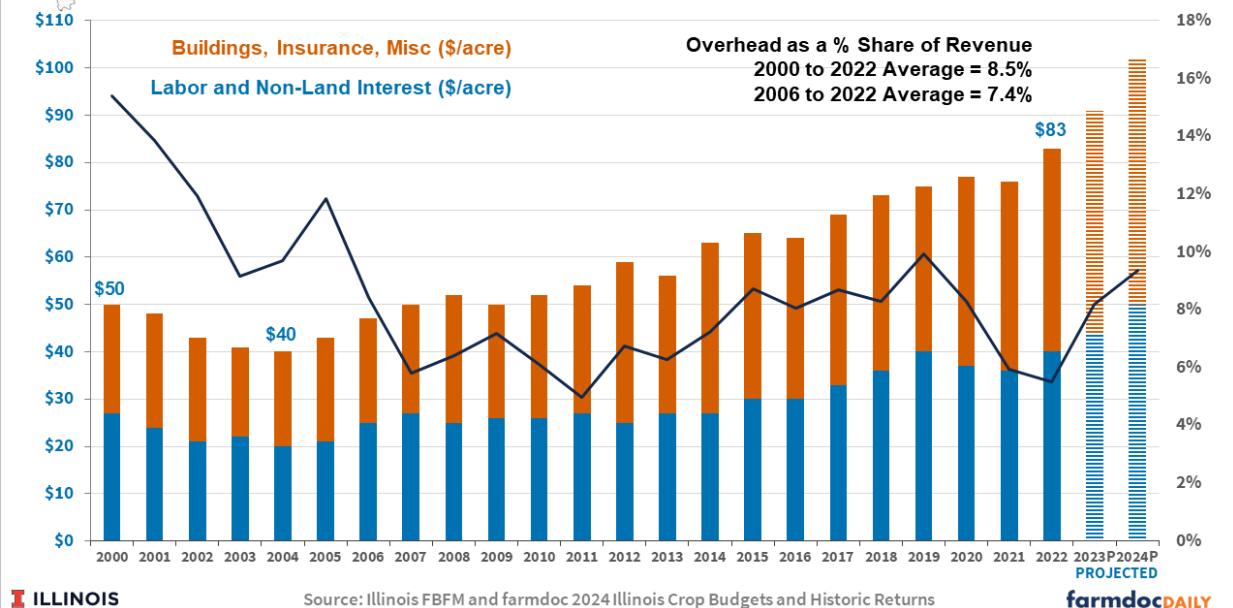
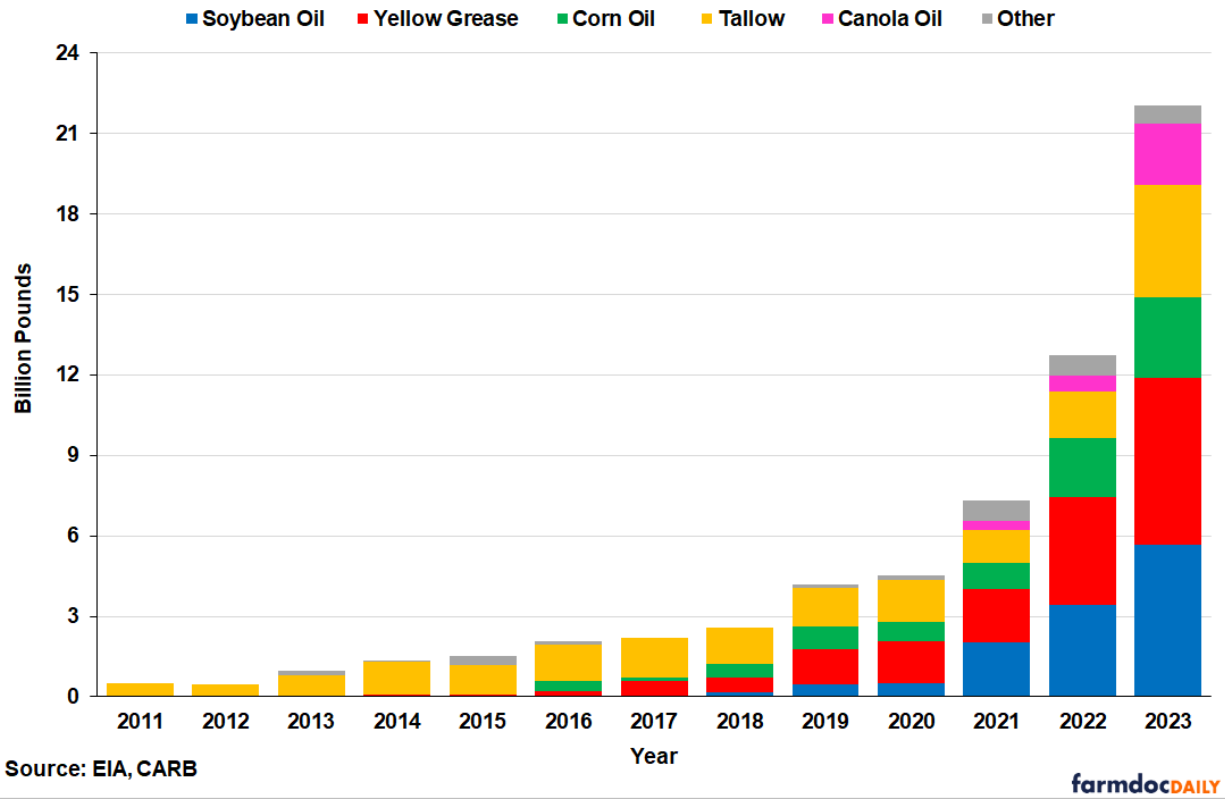
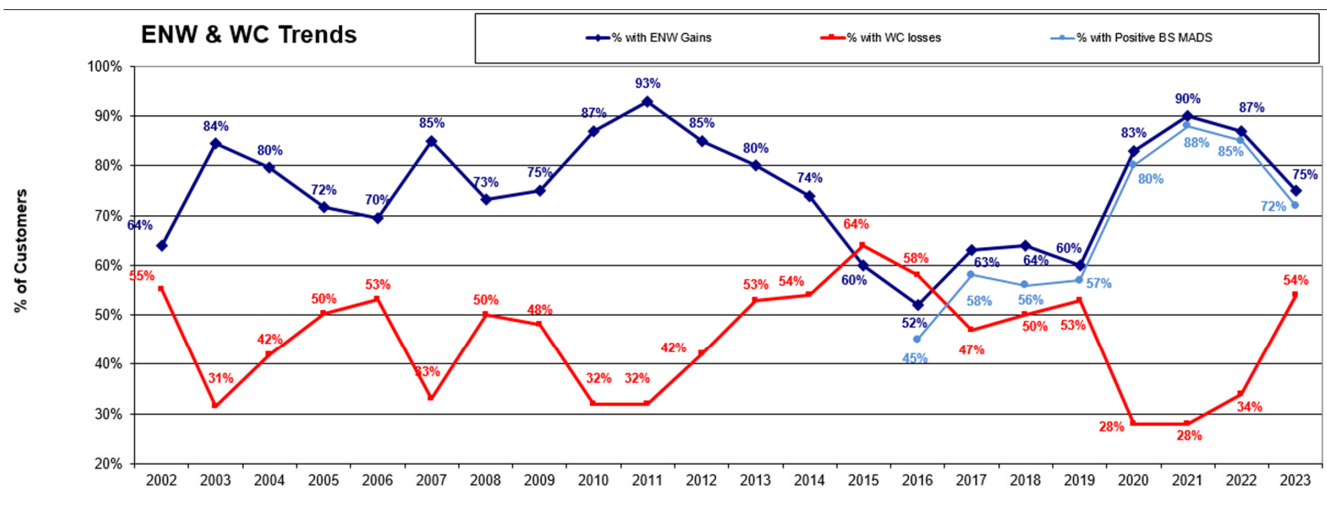


Figure 3. Composition of Feedstock Usage for Annual Production of U.S. Renewable Diesel by Volume and Major Feedstock Type, 2011 - 2023



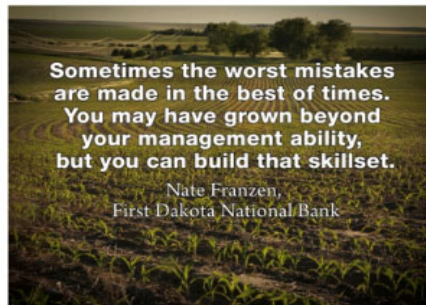
First Dakota Client Performance



Take Control of Farm Financials

April 9, 2019 08:35 AM

 Like 53  Share  Tweet



Management quote from Nate Franzen
© Lori Hays



'How did you go bankrupt?' Bill asked. 'Two ways,' Mike said. 'Gradually and then suddenly.' This passage from Ernest Hemingway, in "The Sun Also Rises" could be used to describe the financial challenges farmers are facing today.

EXPERIENCING THE CYCLES





BEEF Daily
By Amanda Radke



Seasoned ranchers share how they survived the 80s

Volatile markets, extreme weather conditions, rising input costs and record-high debt loads are placing pressure on young producers. Want to weather this economic downturn? Listen to the advice of these seasoned ranchers.



Amanda Radke | Apr 23, 2019

Headlines

FARMER SENTENCED

Farmer sentenced, insurance fraud

Kevin Murphy For Agri-View May 5, 2017

[Stamp Farms Employee Sentenced for Conspiracy](#)

[Stamp Farms Employees Indicted on Fraud Charges](#)

Meet Mike Stamp, Top Producer of the Year Finalist

In less than a decade, this 37-year-old Michigan farmer grew his operation from a single semi to 40,000 acres.

Fields of Debt

Falling prices, borrowing binge haunt Midwest 'go-go farmers'



SD feedlot's financial collapse leaves investors feeling betrayed

By Mikkel Pates / Agweek Staff Writer on May 27, 2019 at 5:31 a.m.



CORSICA, S.D. — The Blom cattle fiasco of 2019 in Douglas County, S.D., will affect farm families for decades and generations to come, victims say.

A bank is foreclosing on feedlot operator Robert Lee "Bob" Blom, who they say overdrew his bank account by \$1 million and owes the bank some \$6.8 million.

Documents filed in the case show that Blom may have sold the same cattle multiple times, complicating matters for those looking to get paid by Blom.

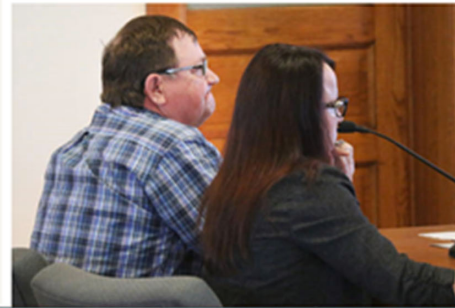
Left on the hook are "interested party defendants" — 53 individuals in some 14 cattle-related entities in South Dakota, North Dakota and Montana. The meltdown could involve 30,000 head of "missing" or phantom cattle valued at more than \$30 million.

Clint Sargent, a lawyer in Sioux Falls, S.D., representing one of the families involved, says the "scope and size of this case is remarkable for anybody in South Dakota."



On the individual level, the results are devastating.

"He ruined 30-plus lives here," says Curt Plamp, 55, a fourth-generation farmer at Stickney, S.D., who says he's personally lost \$1 million in the deal. He and his son, Chad, 32, raise corn, soybeans, cattle and hogs. Plamp wonders why Blom isn't in jail. Blom's wife, Becky, is a sister to Plamp's ex-wife, Cindy.



The Daily Republic A3 White Lake man charged with illegally selling cattle

By The Daily Republic
WHITE LAKE — A White Lake man faces seven felony charges for allegedly selling cattle that were placed under a lien from an area bank.

Edward Mohnen, 70, was charged with illegally selling more than \$80,000 worth of cattle over the past year without the consent of a bank that had a security interest in them, court documents state.

A lien was allegedly placed on the cattle by Farmers and Merchants State Bank of White Lake, court papers state. Mohnen allegedly sold the livestock without the bank's consent and failed to pay interest to the bank after the sales.

According to court documents, Mohnen sold the cows at a sale barn in Platte, and Mohnen allegedly made threatening comments, saying if the bank came for his land "there would be bullets flying." Mohnen allegedly received more than \$88,000 for the cattle on seven dates from Feb. 17, 2016, to March 8, 2017, receiving checks written to three other people.

Authorities interviewed two of those people, who said they did not give Mohnen permission to sell the cows in their names, but they did cash the checks he received from the sale barn and gave the money back to Mohnen, court documents state.

Mohnen is charged with seven counts of disposal of personal property subject to security interest. Class 6 felonies, each punishable upon conviction by up to two years in prison and a \$4,000 fine. Bond was set at \$10,000.



Charles Mix County
AUCTION
Wednesday, June 12 -- 10 a.m.

LOCATED: Springfield Community Center, Springfield, SD

UP FOR PUBLIC AUCTION Wednesday, June 12 will be 120 +/- acres of southern Charles Mix County land. This auction will be held at the Springfield Community Center at 10 a.m. This tract consists of a mixture of tillable farm ground and pasture with Choteau Creek running along its southern border. Surety Agridata Inc. shows the tract to hold approximately 51 +/- acres of tillable ground yielding impressive productivity indexes of 84 up to 95, with the balance being pasture. This parcel contains a large variation in topography making it an absolutely beautiful potential recreational or hunting property. Investors, sportsmen, and outdoor enthusiasts, this tract of land is ideal for food plots, paired with one of the largest natural populations of deer, turkeys, and other wildlife in all of South Dakota. Do not miss this rare opportunity to purchase this highly unique piece of South Dakota real estate.

LEGAL DESCRIPTION: Lot B of Lot 1073, Lot C of Lot 4, Lot E of Lot 3, Lot 1073 except Lot B, Lot 2, The East 425 feet of Lot 1094, All located in Section 14, T93N, R62W of the 5th P.M. Charles Mix County, South Dakota

TERMS & CONDITIONS: 15% nonrefundable down payment due day of auction with the balance due at closing which will be on or before July 12, 2019. Title insurance and closing costs will be split 50/50 between buyer and seller. Possession will be granted after receipt of final payment. Announcements day of the auction will take precedence over promotional material. Peterson Auctioneers is representing the seller.

TR5-29-2c

First Dakota National Bank, Owner

Peterson Auctioneers

Glen Peterson, RE #234
605-369-2638 - Springfield, SD
www.petersonauctioneers.com
Lee Wittmeier - Tyndall, SD
Cody Peterson - Avon, SD

To view property, or for more
information contact **Cody Peterson**
at 605-682-1652

Not Responsible for Accidents



Kruml Law
Office P.C., L.L.O.



Thomas S. Kruml
Attorney at Law

1501 M Street • P.O. Box 347 • Ord, Nebraska 68862-0347 • (308) 728-5088 • Fax (308) 728-5089 • tkruml@ordlegal.com

April 27, 2017

USDA Farm Service Agency
2519 Heritage Dr.
Broken Bow, NE 68822

First Dakota National Bank
225 Cedar Street
PO Box 495
Yankton, SD 57078

First Dakota National Bank
225 Cedar Street
PO Box 156
Yankton, SD 57078

RE: [REDACTED]

Greetings:

I am contacting you on behalf of my client, [REDACTED] as it relates to their dealing with [REDACTED] as crop input customers. For this purpose I am enclosing an Authorization for Release of Information that has been signed by both [REDACTED]

Pursuant to this letter I am requesting payoff information associated with all debts and obligations due and owing by [REDACTED] to your company. In particular, my client [REDACTED] is interested in negotiating a purchase and assignment of your lien and loan position.

Please forward the payoff information for each particular note, including a breakdown of all principle, interest, and fees or costs if any associated with each note or loan instrument between your company and [REDACTED]. Please send that information by email or U.S. mail to my office at your earliest convenience. My email address is tkruml@ordlegal.com. Thank you.

Sincerely,

Tom
Thomas S. Kruml
tkruml@ordlegal.com



AUTHORIZATION FOR RELEASE OF INFORMATION

RE:

COMES NOW, the undersigned and hereby authorizes the release of all account and financial information requested by [REDACTED] for credit analysis and decision making purposes concerning the undersigned.

This authorization is unconditional, and shall be given full force and effect until such time as same is revoked by undersigned in writing. A recipient hereof, is entitled to rely upon the validity of this authorization, regardless of whether this authorization shall be an original executed document, photocopy or facsimile copy.

The information shall be provided to [REDACTED] namely Kruml Law Office, P.C., L.L.O., Thomas S. Kruml, 1501 M St., PO Box 347, Ord, NE 68862, (308) 728-5088, tkruml@ordlegal.com.

Dated:



Alternative Financing Options

- ARM (Ag Resource Management)
- FBN (Farm Business Network)
- Farm Op Capital
- Conterra
- Producers Livestock
- Trade Credit (John Deere, Case-IH, etc.)
- Input Suppliers (Co-op, Pioneer, etc.)
- Others



Credit Analysis

- Balance sheet analysis
- Earnings/profitability
- Cash flow



Credit Analysis

What makes ag different?



What makes ag different?

- Market value balance sheets
- Cash accounting
- Timing



What makes ag different?

- In a perfect world
 - Financial Soundness
 - Balance sheets with cost and market values
 - Financial Performance
 - Accrual income statement



What makes ag different?

- In the real world
 - Financial Soundness
 - Balance sheets at mixed market/cost values
 - Financial Performance
 - Schedule F tax statement

How can we measure financial performance in the real world?



BALANCE SHEET & WORKING CAPITAL ANALYSIS



Balance Sheet

A snapshot of:

- **Assets**
- **Liabilities**
- **Net worth (owner's equity)**

- At a specific point in time



Balance sheet

- Foundation upon which the business stands



Balance Sheet

A- CURRENT ASSETS										B- CURRENT LIABILITIES									
1A. Cash and Equivalents				\$ Value		2A. Accounts Payable		\$ Amount											
1B. Marketable Bonds and Securities																			
1C. Accounts Receivable						2B. Income Taxes Payable													
1D. Crop Inventory				1E. Measure	1F. # Units	1G. \$/Unit	\$ Value				2C. Real Estate Taxes Payable								
Notes Payable Due Within 12 Months										2D. Creditor		2E. Purpose							
											2F. Interest Rate	2G. Accrued Interest	2H. Payment Amount	2I. Next Payment Date	2J. Principal Balance				
								(1)											
1H. Growing Crops				1I. # Acres	1J. Cost/Acre	\$ Value													
								(2)											
								(3)											

Balance Sheet

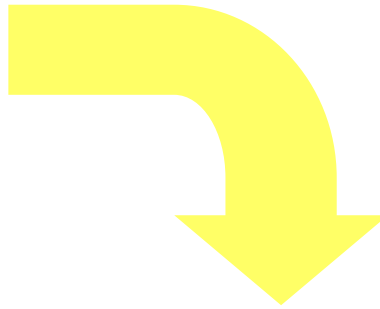
Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long term (> 10 years)	Long term
	Total liabilities
	Net worth
Total assets	Total Liabs + Net worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long term (> 10 years)	Long term
Personal	Personal
	Total liabilities
	Net worth
Total assets	Total Liabs + Net worth

Balance Sheets: When?

- When is the most useful time to complete balance sheets?
- End of the business's fiscal/tax year.



Asset Valuation

- Market Valuation
 - assets valued at estimated fair market value
- Cost Valuation
 - assets valued at original cost less depreciation



“Market Value” Balance Sheets

- Current assets
 - Crop and livestock inventories – market
 - Prepays, supplies – cost
 - Growing crops – cost
- Intermediate assets
 - Breeding livestock – market
 - Machinery – mixed
- Long term assets
 - Real estate – conservative market



Cost Value Balance Sheets

- Current assets
 - Crop and livestock inventories – market
 - Prepays, supplies – cost
 - Growing crops – cost
- Intermediate assets
 - Breeding livestock – base value
 - Machinery – depreciated value
- Long term assets
 - Land – original cost
 - Buildings – depreciated value



Valuation of depreciable assets

- Economic depreciation

A common method is to depreciate a percentage of the value each year

Beginning value

+ Purchases

- Sales

—Machinery: 10% per year

—Buildings: 5% per year



Example Market Value Balance Sheet

	20x0	20x1
Current assets	736,991	695,991
Intermediate assets	465,537	508,835
Long term assets	1,108,280	1,345,390
Total assets	2,310,808	2,550,216
Current liabilities	675,125	489,000
Intermediate liabs	130,055	173,874
Long term liabilities	366,508	622,456
Total liabilities	1,171,688	1,285,330
Net worth	1,139,120	1,264,886
Net worth change		125,766

Balance Sheet Analysis

- Liquidity
- Solvency
- Financial structure
- Net worth change



Balance Sheet Analysis

- **Liquidity**
 - How easily can assets can be converted into cash
 - Current ratio
 - Working capital
- Solvency
- Balance sheet structure
- Net worth change

Current Assets				Value	Current Liabilities				Balance	
Cash and checking (Schd A)				76,500	Accrued interest				32,658	
Prepaid exp. & suppl. (Schd B)				114,438	Accounts payable and other accrued expenses				-	
Growing crops				-						
Accounts receivable				-						
Hedging accounts (Schd E)				5,650						
Other current assets				-						
Crops (Schd G)	Quantity	Value/Unit			Int	P & I	Principal			
Corn	100,841	3.26/bu.	328,742		Rate	Due	Balance			
Corn Silage	959	25.00/ton	23,975		5thNB-Operating	6.00	-	87,863		
Alfalfa Hay	40	90.00/ton	3,600		5thNB-Cattle	6.375	-	364,951		
Soybeans	18,947	9.50/bu.	179,997							
Mkt Ivst (Schd H)	No.	Value/Unit			Principal due within 12 months on term liabilities				69,288	
Finish Beef	550	183.00/cwt.	780,038							
Total Current Assets				1,512,939	Total Current Liabilities				554,760	
Intermediate Assets					Intermediate Liabilities (Schd V)					
				Market	Int	Principal	P & I	Principal	Intermed	
				Value	Rate	Balance	Due	Due	Balance	
Breeding livestock				-	Loan					
Machinery (Schd J)				989,986	John Deere Credit-332E	3.25	7,199	7,260	7,004	195
Titled vehicles (Schd K)				112,159	5thNB-Mach.	4.50	102,320	23,348	18,499	83,821
Other intermediate assets				-						
Total Intermediate Assets				1,102,145	Total Intermediate Liabilities				84,016	

How Do You Grow Working Capital?

- Make money
- Don't spend all of it



Ways to Build Working Capital

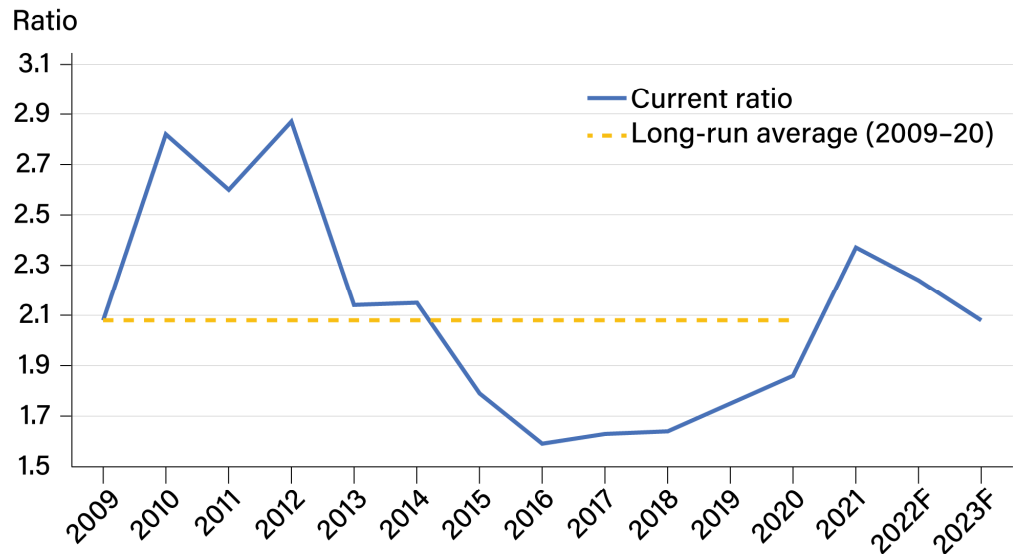
- Make money
- Don't spend all of it
- Refinance / restructure debt



Digging Into the U.S. Farm Balance Sheet

created by: The ERS Farm Income Team

Current ratio for 2023 is forecast to be marginally worse than the 12-year average



Note: F= forecast. Data as of February 7, 2023.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics data product.



Working Capital Burn Rate

FINBIN Database

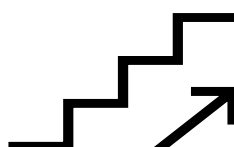
	WC Beginning 2013	WC Beginning 2019	Change	Percent Change
Crop producers	544,000	270,000	(274,000)	(50%)
Dairy producers	272,000	128,000	(144,000)	(53%)
Hog producers	903,000	412,000	(491,000)	(54%)
Beef producers	318,000	147,000	(171,000)	(54%)



Working Capital Rebound

FINBIN Database

	WC Beginning 2019	WC Ending 2022	Change	Percent Change	WC Chg in 2023
Crop producers	270,000	710,000	440,000	+163%	-119,000
Dairy producers	128,000	494,000	366,000	+286%	-94,000
Hog producers	412,000	1,359,000	947,000	+230%	-423,000
Beef producers	147,000	487,000	340,000	+231%	+26,000



Working Capital Burn Rate

FINBIN Database, Farms in the Bottom 40% in Beg. 2013

	WC Beginning 2013	WC Beginning 2019	Change	Percent Change
Crop producers	192,000	97,000	(95,000)	(49%)
Dairy producers	111,000	59,000	(52,000)	(47%)
Beef producers	95,000	74,000	(21,000)	(22%)

* Not enough hog farms to track information.

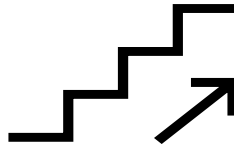


Working Capital Rebound

FINBIN Database, Farms in the Bottom 40% in Beg. 2013

	WC Beginning 2019	WC Ending 2022	Change	Percent Change	WC Chg in 2023
Crop producers	97,000	476,000	379,000	+390%	-114,000
Dairy producers	59,000	313,000	254,000	+431%	-62,000
Beef producers	74,000	339,000	265,000	+358%	-25,000

* Not enough hog farms to track information.



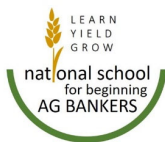
Balance Sheet Analysis

- Liquidity
- **Solvency**
 - Overall financial risk position of the business
 - Future borrowing capacity
- Balance sheet structure
- Net worth change

Balance Sheet Analysis

- Measures of solvency

- Net worth
- Debt to asset ratio
- Equity to asset ratio
- Debt to equity



Solvency

- Profitable use of debt multiplies returns in profitable businesses
- Too much debt:
 - Adds to financial risk
 - Chokes cash flow
 - Multiplies losses in unprofitable years
 - Limits opportunities!!!



Balance Sheet Analysis

- Liquidity
- Solvency
- **Balance sheet structure**
 - Where is the equity
 - Are assets matched with liabilities
 - No right or wrong answer
- Net worth change



Financing 101

- Match financing to expected life of the asset



Example Farm Balance Sheet Structure

	Assets	Liabilities
Current	1,473,655	1,245,559
Intermediate	1,065,537	430,055
Long term	1,108,280	366,508



Example Farm Balance Sheet Structure

	Assets	Liabilities
Current	1,473,655	645,559
Intermediate	1,065,537	1,030,055
Long term	1,108,280	366,508



Example Farm Balance Sheet Structure

	Assets	Liabilities
Current	1,473,655	645,559
Intermediate	1,065,537	430,055
Long term	1,108,280	966,508



Balance Sheet Structure

- High current debt to current assets
 - Liquidity/cash flow problems
- High intermediate debt to intermediate assets
 - Capital replacement problems
- High long term debt to long term assets
 - Limited expansion capacity



Balance Sheet Analysis

- Liquidity
- Solvency
- Balance sheet structure
- **Net worth change**
 - Measures overall progress
 - Net worth growth can only happen if:
 - Earnings exceed consumption
 - or
 - Market values are increased



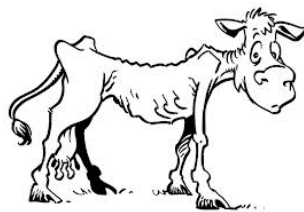
BALANCE SHEET & WORKING CAPITAL ANALYSIS



Capital –

Verifying & Documenting the Balance Sheet

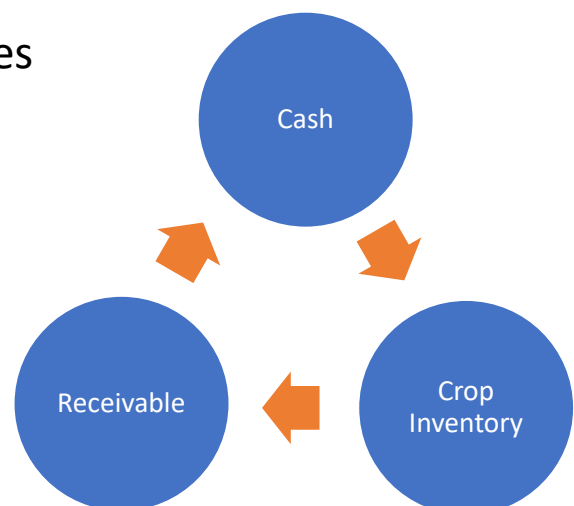
- Have you inspected the property to verify the condition – does BS value make sense compared to what you observed? (shedded vs. hard-used equipment, thin vs. well-conditioned cows, etc). Make adjustments as needed.
- Is any M&E shared with another individual?
- Are there any leases of M&E, livestock, etc.
- Statement copies of large cash/investment accounts.
- Understanding real estate legal descriptions



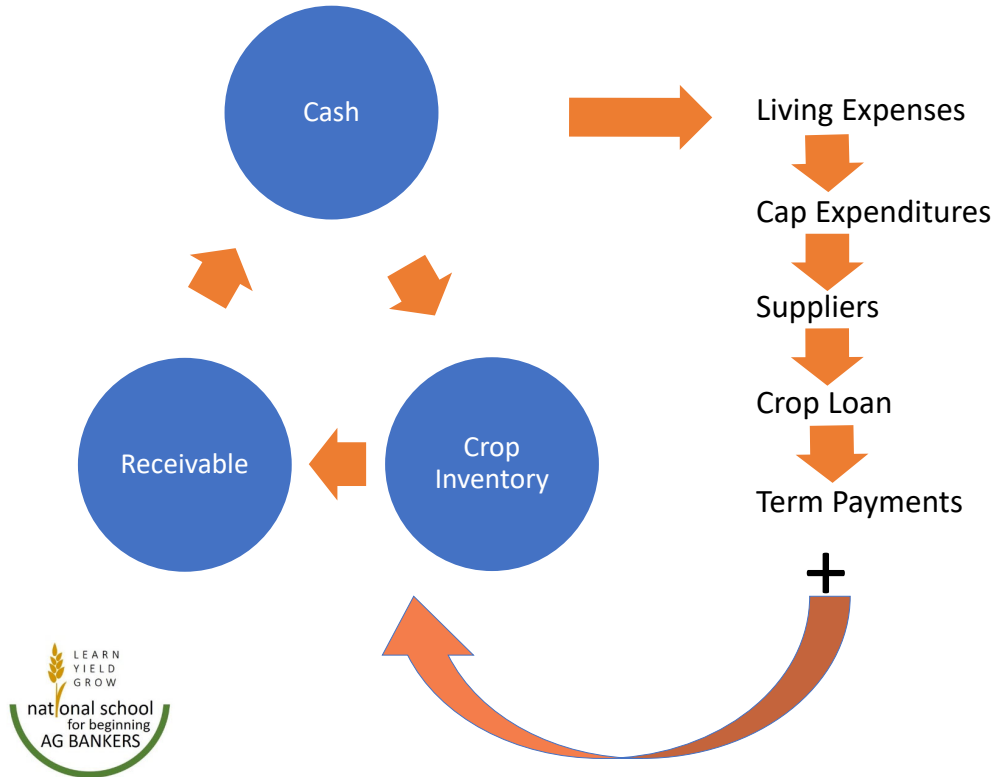
The Best Producers Understand Working Capital and the Need for it

- 1st Defense Against Price Volatility
- Quality as Important as Quantity

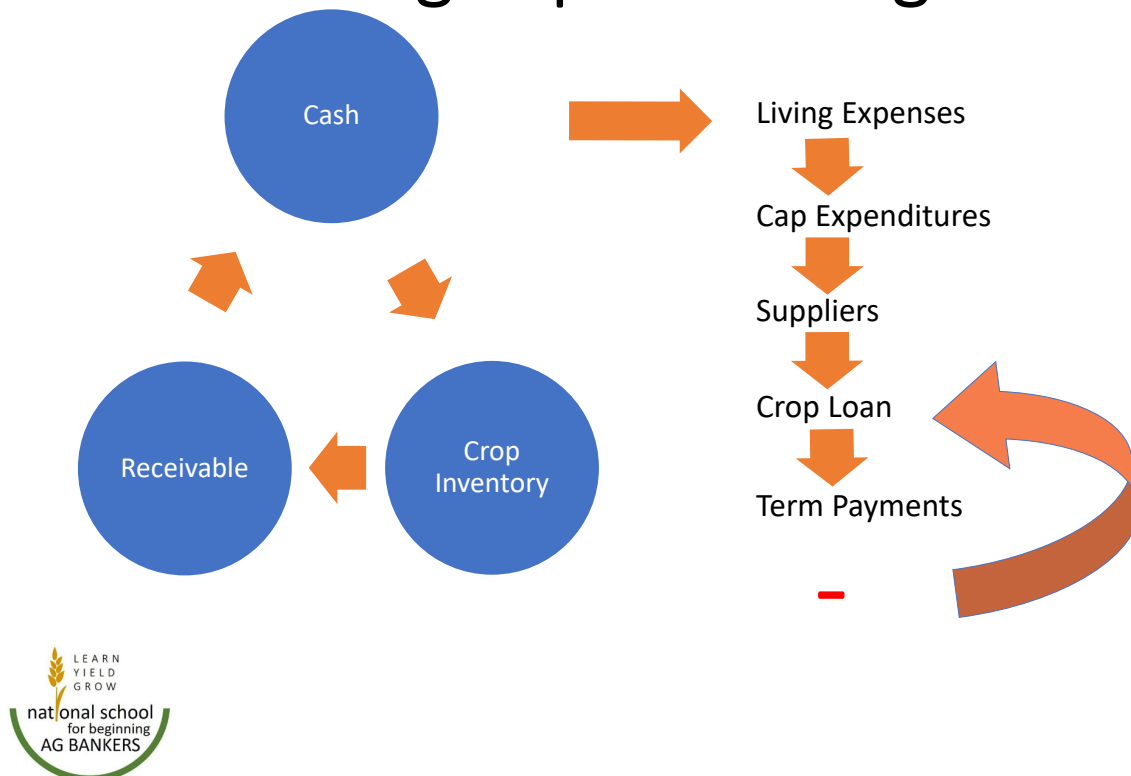
- Real Estate Equity Does Not Pay the Bills
- Biggest Enemies:
 - Tax Law
 - Cap X
 - Family Living



Good Working Capital Management



Bad Working Capital Management



Burn Rate - Working Capital

Current Assets	\$1,000,000
Current Liabilities	<u>\$ 500,000</u>
Net Working Capital	\$ 500,000
Total Revenue	\$2,000,000
Net Income Loss	\$ (200,000)

Net working capital \$500,000 = 2.5 years burn rate

Net Income Loss \$(200,000)



73

COLLATERAL



Collateral

- Collateral: something pledged as security for repayment of a loan, to be forfeited in the event of a default.
- When underwriting any secured loan a lender needs to understand the underlying collateral, its market value, and its liquidation value



Collateral Control

- Gather Information
- Verify and Inspect
- Set the Value
- Document the File



Types of Values

- Balance Sheet Value
- Current Market Value
- Trade-in Value
- Auction Value
- Liquidation Value (Discount Policies)
- Book Value
- Appraised Value



Set the Value

- Sources:
 - Auctions
 - Dealers
 - Newspapers
 - Industry Guides (Machinery Pete)
 - Appraisal
 - SWAG

