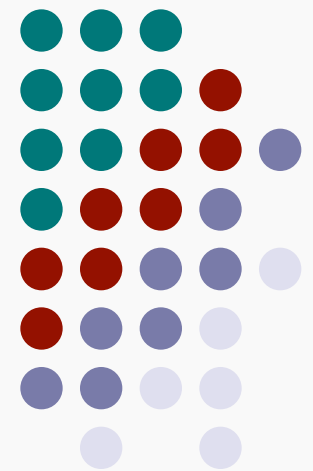


DTN Presentation

Lender and Credit Expectations for High-Growth Farms

Dr. Danny Klinefelter
Allen Lash



It's All a Matter of Perspective



Seas of Opportunities



Oceans of Risk





General Capital Concepts

Up to 10,000 acres Producer Concepts

10,000 acres+ Producer Concepts

Three Types of Credit/Capital Sources



- Regulated
- Unregulated
- Capital Markets
(Equity and/or Credit)

Capital



Assets	Liabilities
Current	Current
Cash	Accounts Payable
Accounts Receivable	Payroll Taxes
Inventory	Notes Receivable (current position)
Total Assets	Total Current Liabilities
Fixed Assets	Term Debt
Equipment	Notes Payable
Vehicles	Contracts Payable
Land	Total Term Liabilities
Total Fixed Assets	Total Liabilities
	Equity
	Contributed Equity
	Earned Equity
	Market Appreciation - Equipment
	Total Equity
Total Assets	Total Liabilities and Equity

(Always....Always Equal)

Blue area is always capital, either borrowed capital, your equity capital, or other people's equity capital

First, understand Capital



Capital has no loyalty. It seeks the individual or entity that can provide the highest risk-adjusted return.

Capital (Debt or Equity) has only one purpose



To create and/or purchase assets

Create Assets

Growing crops

Crop Inventory

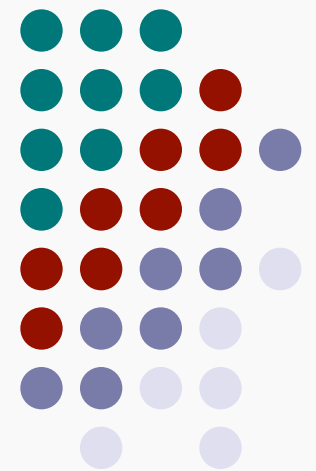
Purchase Assets

Equipment

Land

Etc.

Dr. Danny Klinefelter





Regulated Credit

Regulated Credit



- Commercial Banks
- Farm Credit Associations
- Remember we're talking about high growth farms 4,000 – 10,000 acres, not the average or typical farm business
- Not all commercial banks or Farm Credit Associations are alike

Regulated Credit (cont.)



- Lending institutions, like farms, vary significantly in terms of:
 - Interest in serving the high growth segment of the market. Heavily influenced by the make-up of the board of directors
 - Expertise and experience in terms of their ability to analyze and deal with complex operations, business practices and business arrangements/structures that are different from what they are used to
 - Understanding of new and sophisticated risk management tools

Regulated Credit (cont.)



- Risk results from uncertainty, and uncertainty results from not knowing or not understanding
- Regulatory agencies (OCC, FDIC, State Banking Commissions, FCA) are always more reactive than proactive, but their actions drive how lenders operate
- As a result of the financial crisis, regulators are aggressively working to ensure that lenders recognize and mitigate risks

Regulated Credit (cont.)



- Borrowing requirements larger than a lending institution's legal lending limit or maximum hold position make it critical to know how committed and dependable the other participants really are – loans requiring participations or syndications are facing higher underwriting standards and fewer alternatives

Regulated Credit (cont.)



Factors of increased importance on larger, more complex credits:

- Borrower's demonstrated risk management ability
- Strength of the overall management team, not just the principal operator
- Management succession plans and readiness
- Counter party risks
- Working capital
- Accrual adjusted income (FFSC), not just cash basis
- Debt repayment capacity
- Change in earned, not just market value, net worth

Regulated Credit (cont.)



There are six questions that high growth borrowers need to be prepared to answer and document:

Regulated Credit (cont.)



1. Are your projections reasonable and supported by documented historical information?
 - Too many producers still do not have the production, marketing and financial records to demonstrate their track record and support their numbers

Regulated Credit (cont.)



2. How will alternative possible outcomes affect your repayment ability?
 - Should reflect historical performance as well as current forecasts
 - Projections should address “what if” scenarios
3. How will you repay the loan if the first repayment plan fails?
 - Contingency planning is critical
 - Every entry plan should have an exit plan

Regulated Credit (cont.)



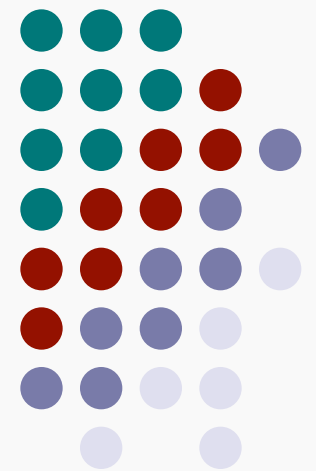
4. How much can you afford to lose and still maintain a viable operation?
 - Viable net worth is not just a positive figure
 - At what level will guarantees or an equity infusion be required?
 - Consideration of both possible operating losses and declines in asset values

Regulated Credit (cont.)



5. What risk management measures have been or are to be implemented?
 - Formal tools
 - Management strategies
6. What have been the trends in the business's key financial position?
 - Question 1 – Do you know?
 - Question 2 – If the trends are adverse, what are your short and long term plans for turning things around?

Allen Lash



Ask to Address the Capital Issues for Operations



10,000 plus acres

Current

Future

Common Mistakes

The Belief that the:

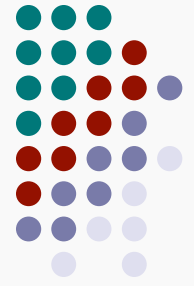


1. Same lender can or will continue to meet your needs
2. Same financial information will be satisfactory
3. Current accounting personnel and systems are adequate for 10,000 plus acres
4. Same credit criteria will continue to be satisfactory
5. Capital costs are the same or less

Capital Issues are Completely Different



- Different Sources of Capital
 - Capital Markets
 - Unregulated Credit
- Different Information Requirements
- Different Heritage Concepts
- Different Management and Structure Issues



Different Sources of Capital

Unregulated Credit

Unregulated Credit



- Not Government regulated, no Government audit or oversight. Internal Corporate Audits
- Build their own credit criteria and pricing (more flexibility)
- Supply Chain may often be a source
 - They can service credit more cheaply
 - They control source of repayment
- Can be extremely competitive
 - Large amounts of credit
 - Lower costs

Traditional Unregulated



CNH Capital

Pioneer

Cargill

Deere (Farm Plan)

Input Suppliers

There will be others; as interest rates decrease or remain low, there could be several.

Be careful



Poor financial management and performance, a lack of appropriate systems and/or financial understanding and these organizations can and may own you.

Farm-market suppliers could ensure timely access to capital in these volatile times.



- Cargill offers four different financing packages, says Becraft. Each has a different start date and payment date. Interest rates will vary, depending on the year and the program.

*Excerpt from Corn & Soybean Digest
August 2008*



Capital Markets

(also Unregulated)

Capital Market Sources



Money Center Firms

Equity Investor Groups

Debt Investor Groups (Debt Funds)

Private Investors (Debt or Equity)



Different Information Requirements

Capital Markets



Information Requirements

1. Annual Audit
2. Periodic financial reporting (monthly/quarterly)
3. Multi-year budgets
4. The ability to understand what the financials tell the lender.
5. The ability to communicate strengths and ways to overcome weaknesses
6. Social Responsibility Issues



Different Heritage Concepts



Lender Heritage Issues

1. Historically has wanted backup (secondary) collateral in the form of land, 15 – 20% of total land farmed
2. Ag Lenders not accustomed to lending like manufacturers
3. Not accustomed to the rate of growth
4. Revolving Lines of Credit do not work well for producers over 10,000 acres



Producer Heritage Issues

1. See 5 Common Mistakes

1. Same lender can or will continue to meet your needs
2. Same financial information will be satisfactory
3. Current accounting personnel and systems are adequate for 10,000 plus acres
4. Same credit criteria will continue to be satisfactory
5. Capital costs are the same or less

2. Loan Covenants will become a major negotiation and credit management component



Different Management and Structure Issues



Management Issues

1. Must manage to ensure Organization success. Without Organization success, at this size you will not be successful long-term. **It is impossible**
2. Staffing for more sophisticated organization
3. Higher levels of financial information
4. Managing to budget performance
5. Ability to communicate with Capital Sources

Today's Ag Crop Producer

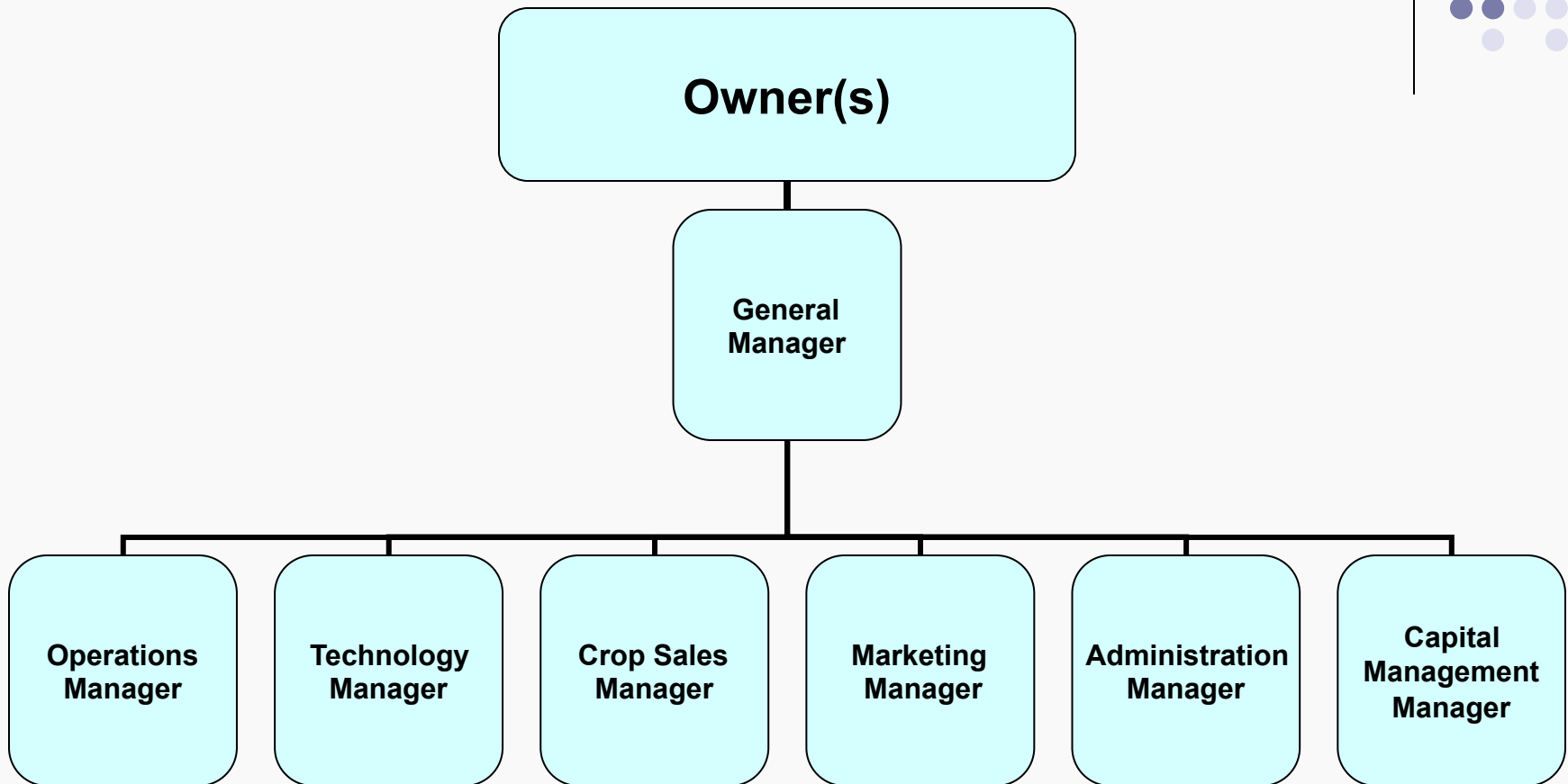


WORKER

OR

Manager of Workers

Future Staffing Requirement





Structure Issues

1. Multiple Entities
2. Operating Entities (have few Fixed Assets)
3. Capital Entities (different Fixed Assets)
4. Entity consolidation is a requirement
5. Coordination of entity activities is a requirement
(lenders, FSA, accountants, auditors, attorney, and crop insurance)



Questions?