Assisting Farmers Through Creative Financing Solutions

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Industry:
Agriculture is a major industry in the United States with over two million farms encompassing 922 million acres and contributing 5.4% or $1.05 trillion to US GDP. During 2019 through 2020, agricultural commodity markets were impacted by several unprecedented incidents and uncommonly severe conditions including trade wars, African swine fever, erratic weather, and the coronavirus pandemic. As macro, political, health, and climate risks continue to make their mark on agricultural commodity markets, producers, processors, traders, and retailers need to prepare.

Baseline forecasts point to continued margin pressure for producers over the coming decade. Agricultural economics are likely to force a shift from a conventional practice of farming to a more strategic business requiring a long-term perspective. Enhanced technology and proper lending relationships will be vital for farmers in the years ahead. Farm sector assets total roughly $3.0 trillion with approximately $400 billion of sector debt. The industry is dominated by full-service commercial lenders which supply approximately 90% of the agricultural debt market further evidencing the opportunity for additional creative financing in the market.

One of Ag Capital Advisors' goals is to assist agricultural producers through creative finance solutions. ACA provides credit and consulting services across a broad producer spectrum including those needing help "bridging" their business back to conventional financing. ACA is consultative in their approach creating opportunities for farmers to enhance their finances and rebuild their balance sheet structure. ACA has secured proven funding sources and a team of experienced agricultural professionals.

The agricultural credit industry is controlled by traditional full-service lenders who cannot always meet the demands of a dynamic farming landscape. Current incumbent players in the industry include the Farm Credit System, Rabobank, Commercial Banks, and Life Insurance companies. These institutions generally service the highest quality borrowers and provide modest leverage at competitive rates. Rates are commensurate with perceived borrower risk and these lenders operate under restrictive and regulated lending parameters which eliminate tier two borrowers. This confluence of factors has led to increased demand for flexible capital in the agricultural lending segment.

Conventional agricultural credit is abundant, competitive, and historically without material defaults as well as exceptionally low credit losses. General credit criteria for traditional conventional debt placement are "scored boxed" as follows:

Current Ratio = 1.25x
Owner's Equity (D/A) 50%
Debt Service Coverage 1.25x based on positive documented historical income
Real Estate Collateral Loan to Value < 65%
FICO Scores above 680
No adverse history of Bankruptcy or credit default

Today there are funding sources available for "just missed" producers. These sources are willing to accept investment opportunities within the low pass to OAEM credit categories. The key point is many agricultural producers are historically viable with a well-defined path to return to the traditional credit delivery channel in the short to intermediate term.

Bridge capital can be reasonably priced and structured with terms to help borrowers improve their balance sheet so they can eventually return to the conventional loan market.

Two case studies are illustrated below:

Case Overview "A"

- Upper Midwest Region — Longtime row crop and livestock producer operating 1,460 acres of which he owns 460 acres.
- Situation — Accumulated negative working capital due to successive years of operating losses caused by adverse weather placing pressure to downsize operation.
- Financial solvency considered reasonable, supporting 35% owner's equity, primarily in real estate assets. Good repayment history until weather events, resulting in borrower placed in special assets department with primary lender.
- Resolution — New Capital injection of $1,500,000 raised through an exclusive five-year "sale-leaseback" of 400 acres (68% of AV) at cash rental rates and a reasonable predetermined option price.

Case Overview "B"

- Midwest Region — Family farm operating 11,200 acres producing soybeans, wheat, and barley.
- Situation — Borrower filed bankruptcy to obtain time to secure $2,000,000 to purchase his redemption rights and paydown pyramiding indebtedness.
- Resolution — New Capital of $2,000,000 (61% of AV) generated through structuring a sale of 2,500 acres with a five-year cash lease agreement and a "contract for deed" repurchase agreement.

These two separate five-year capital structures enable the producers to maintain control of their operation while establishing positive historical performance with flexibility to buy back the subject real estate. While times have been challenging for farmers, industry observers believe the bottom of the cycle is nearing and that conditions will improve as trade normalizes and as the US dollar weakens.

AG CAPITAL ADVISORS (ACA) provides owners of agricultural real estate, including farmers and investors, flexible capital solutions. ACA collaborates with a referral network of bank and non-bank lenders to assist borrowers in identifying the best options for financing their farmland including Conventional Financing and Structured Capital Solutions. Please contact Joseph Herrmann by emailing Joseph@AgCapitalAdvisors.com with any questions regarding the current agricultural financing market or to inquire about available financial solutions.