Agriculture & Ag Lending in a Black Swan Environment
Featuring Dr. David Kohl

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**Life From Business Side of Agriculture**

- no travel in 4 months, first since 1959
- monitoring cash flows monthly
- documenting any government support for business model post government payments
- evolving business plan as markets shift
- upgrading technology, utilizing AI real-time data
- ice cream and home delivery surges
- major shifts in personnel, right people on the bus
- preparing a business model to operate at 90% economy

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**Black Swan Progression - Dirty Bird**

**Dirty Bird or Phase I – Splash**
(March 1 to May 1, 2020)

- job losses
- preventative health
- consumer shutdown, back to the basics
- 40% consumer based economy
  - 0-25% of sales
- global economy on life support

**Needs:**
- time to absorb information
- reality check

**Business & Personal:**
- shock
- numbness
- anxiety
**Black Swan Progression - Angry Bird**

**Angry Bird or Phase II – Ripple**  
(May 1 to December 31, 2020)  
- recovery plan nationally/globally  
- realization of job loss  
- business failures  
- systems of health surveillance  
- deglobalization discussions  
- trade issues  
- volatility based on headlines

**Personal/Society/Government:**  
- revenge  
- blame  
- confusion  
- frustration

**Needs:**  
- support  
- okay to feel a loss  
- collaboration  
- critical thinking  
- unintended consequences

**Black Swan Progression - Phoenix “Mythical Bird”**

**Phoenix or Phase III – Ripple**  
(January 1, 2021 - 2022 & Beyond)  
- commitment to move forward driven by young leadership  
- new business models  
- question of consolidation:  
  - big business vs. small business  
- accelerated deglobalization  
- AI & privacy balance  
- accelerated innovation in health systems  
- TSA all the time

**Personal:**  
- more energy  
- commitment to move forward  
- adjustment & focus

**Needs:**  
- creative leadership  
- innovation  
- adaptation  
- new models for success

More baby black swans?
Poll #1

- How has the COVID-19 pandemic changed your outlook for the farm economy in the long run, from 2021-2023?
  a) more optimistic
  b) more pessimistic
  c) uncertain
  d) unchanged

Globalization Vs. Localization

Disruptor

- globalization - seven decades
  - one in five dollars of net farm income
- deglobalization/regionalization/localization
  - drivers of change
  - government/society
  - business
  - consumer

Impact

- extreme volatility
- trade agreement uncertainty
- analysis critical for supply marketing chains
Diffusion Index of Agriculture

Importance of Ag Export Markets
Export Share of US Production, 2017/18

Economic Growth Projections: 2020-2021

International Monetary Fund (IMF) Projections:
- U.S. (5.9%)
- Europe (7.5%)
- China 1.2%
- global trade down 10-15%
**Demand Destruction Disruptor**

- disjointed - back to normal
- 90% economy
- 50-75% economy
  - schools, universities, sports, entertainment, hotels & travel
- 125% economy - Amazon, buy on-line, etc.
- ethanol, fracking, solar & wind energy vs. Russia/OPEC

**Impact:**
- alignment of industry segments with consumer shifts
- quick supply/demand shifts
- seesaw consumption

**COVID Disruptors**

- trade agreement uncertainty
  - Australia & China
  - Europe, Canada, U.S. & China
  - deglobalization/regionlization
  - Northern Europe/Southern Europe
- government monetary/fiscal support
  - non-reoccurring income
  - short run cure for household & businesses
  - comes with a price for longer term
- relationships - virtual
  - webinars & virtual meetings
  - virtual classes
  - work remote
**Poll #2**

Have you read Dave’s GPS?

- a) yes
- b) no

Dave’s GPS


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**Crop & Livestock/Protein Sector**

**Key Factors on the Radar Screen**

- ethanol, fracking
- weather
  - U.S.
  - globally
- economic health of export trading partners
- strength of the dollar
- competitive products
  - plant-based meat alternatives
  - non-dairy alternatives
**Compare & Contrast 2008-09 to 2020**

**2020 Pandemic**
- sudden impact/shock disruption
- economic behavioral changes/basics
- no pattern corrective action- health
- three D’s: Depth, Diffusion & Duration
- Nike swoosh shaped recession with a jagged tail “w”
  - size 6 or size 14-18?
- longer term wealth destruction
- loss of purchasing power
- re emerging bio shocks / cyber attacks
- southern hemisphere bio shocks

**Disconnect Between Stock Market and the Economy**
- sugar high with stimulus and unemployment
  - historical top 10% price to earnings ratio
  - low 10% earnings
- investor
  - high risk takers backed by central banks/government
    - central bank stimulus
    - government stimulus
- large swings in the marketplace
  - institutional investors
  - day traders
- low interest rate environment
- Warren Buffett moves to cash
## Economic Indicators Dashboard

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Current</th>
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<tbody>
<tr>
<td>Housing Starts</td>
<td>1,186,000 annually</td>
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<tr>
<td>Interest Rates:</td>
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<tr>
<td>3 month Treasury CMT %</td>
<td>0.16%</td>
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<tr>
<td>10 yr. Treasury CMT %</td>
<td>0.65%</td>
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<tr>
<td>30 yr. Mortgage Rate</td>
<td>2.16%</td>
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<tr>
<td>Unemployment rates:</td>
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<tr>
<td>U-3</td>
<td>11.1%</td>
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<tr>
<td>U-6</td>
<td>18.0%</td>
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<tr>
<td>Index of Consumer Sentiment</td>
<td>73.2</td>
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<tr>
<td>Copper Prices</td>
<td>$2.68/lb.</td>
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</table>

- be careful of lead economic indicators
  - noise & false signals

## Bridging Concept:
*Short or Long Bridge???*

- Government
  - Federal
  - State
  - Local
  - Fiscal
  - Monetary
  - Regulatory
- Ag Lenders/Agribusiness
  - Restructure
  - Interest only
  - Principal deferment
- Producers
  - Plan in writing
  - Monitoring
  - Communications
Poll #3

What specific characteristics are most important to agricultural producers for resiliency & agility? (Select up to 3)

a) know the cost of production
b) execute a marketing & risk management plan
c) strong working capital reserves
d) good communication skills
e) utilizes a team of advisors
f) modest living costs
g) proactive attitude & engagement
h) high percent equity to debt

Lessons Learned

- fragile world economy
- consumer/human behaviors
  - create cycles in extremes
- working capital & liquidity are important
- machine algorithm
  - social media manifests itself
- accelerated social behaviors
Top Elements on Ag Lenders’ Radar Screen

- non-traditional debt
- loss of non-farm income & benefits
- non-reoccurring government payments
- non-responsive customers
- burn rate on working capital if refinance or restructure occurred
- business development opportunities
  - high business IQ
  - strong liquidity
  - market risk management programs
  - equity/capital
- prepare for 2021-2022

Seven C’s of Credit

1. Cashflow / cash backup
2. Collateral / capital
3. Chains- supply & marketing
4. Counter balancing
5. Competitiveness
6. Cranium: commitment & capabilities
7. Character
Fundamentals of Credit & Risk Have Not Changed But Priorities Have Changed

1. Cash Flow/Cash Backup
   - Priority on working capital, liquidity & burn rates on working capital

2. Collateral/Capital
   - Types of equity: moving debt down the balance sheet
     - Borrowing capacity
     - Burn rate on core equity

3. Supply Marketing Chains
   - Certainty of marketing channels for revenue streams/inputs

4. Counter Balance
   - Price/risk management plan executed

5. Competitiveness
   - Cost of production/breakevens

6. Cranium- Capacities & Commitment
   - General high business IQ

7. Character
   - People, priorities & practices

Life After COVID

- government checks are not a reoccurring income source
- post-COVID action plan with a focus on structured business IQ
- importance of working capital
  - timing & cash flow
- importance of broadband internet service
  - profitability & viability of agriculture
- focus on young farmer & rancher programs
- benchmarking
  - trend
  - peers
- advisory team: meetings & monitoring
Poll #4

What is your opinion concerning the future of young people in the agricultural industry at any level?

a) very optimistic
b) optimistic
c) neutral
d) pessimistic
e) very pessimistic

Five Reasons To Be an Ag Lender

- difficult economic times – relationship lending builds a customer for life
- challenging economic times – opportunity to build financial business literacy
- financial statements don’t have the answers but the questions- take the “listening approach”- ask questions about:
  - cash to accrual
  - goals
  - reconciliation of the numbers
- alignment with the proactive/progressive producer - Rule of 4
- three guiding principles of bridging the gap in business acumen/ mental health
  - risk management approach
  - team approach
  - proactive, preparedness approach
Positive Lender Dialogue

- understanding & patience
  - customer
  - lender
- team work (analyst / relationship officer)
- team with government assistance programs
  - FSA
  - agribusinesses
  - others
- value added by lenders
  - curbside service
  - assist with technology
  - assist in planning, strategizing, executing, monitoring

Dr. Dave Unplugged!

- Why has COVID-19 been such a market disruptor seeing travel bans versus swine flu, SARS and Ebola?
- What is your future outlook on oil prices and other commodities, as well as land prices and specifically farm real estate?
- Now that there is more clarity on the political candidates, what will be some of the major talking points in the next election?
- What are your thoughts on education in general, the future of 4-H and FFA or the workplace in general?
**Farm & Ranch Rates – 7.17.2020**

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<th>Products</th>
<th>Term</th>
<th>Amortization</th>
<th>Choice Reset Margin</th>
<th>Standard Rates</th>
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**Thank You!**

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