

JUNE 2026

REFINANCING DILEMMA: LENDER & BORROWER

In my travels this year across more than 25 states and through discussions with lenders and borrowers, a common question continues to surface: Is the current economic stress, particularly in the grain, row-crop, and specialty-crop sectors, **cyclical or structural**? Some have suggested that certain segments of agriculture may be experiencing an economic paradigm shift like the one the U.S. automobile industry faced in the 1970s, when increased global competition from Japan and Europe altered the competitive landscape, created financial stress, and ultimately required bailouts and debt restructurings.

For the remainder of the decade, borrowers and lenders will likely need to address difficult questions and make challenging decisions regarding competitiveness. Often, the chokepoint or weak link will be a lack of financial liquidity resulting from lack of profitability and cash flow losses. As farms and ranches become larger and more consolidated, losses can grow exponentially if not monitored regularly, placing both the borrower and lender at risk.

Financial liquidity, in the form of working capital, can be built by borrowers through business profits, supplemental cash flow, or capital infusions. Lenders, on the other hand, can replenish a borrower's working capital by restructuring operating debt into term debt as a quick solution, often utilizing land as collateral. However, this approach is **becoming more difficult for producers who operate primarily through the control of assets rather than ownership**, as they are renting and leasing most of their assets and have limited land equity available as collateral. This situation frequently occurs among **young and beginning producers, but it is also becoming more common among businesses that are scaling up and expanding rapidly.**

REFINANCING DILEMMA

Are there still situations where refinancing makes sense?

I learned of one good example from this past winter. A banker indicated that he refinanced a producer in his 70s who had considerable land equity and a debt-to-asset ratio below 25%, yet was unable to pay down his operating loan. In this situation, the producer wanted to continue farming despite losing money and being only marginally competitive. Fully realizing that he was depleting his wealth, he still wanted to farm because it provided enjoyment and purpose in his remaining years. This approach was acceptable to both the banker and the producer's spouse. However, if a younger producer had been involved in the business, this strategy would have been highly questionable without major adjustments to ensure future sustainability.

In refinancing situations, due diligence is essential. One must determine how often losses have occurred and how severe they have been. Refinancing once or twice in a decade may be acceptable, as events such as adverse weather, market disruptions, or medical or personal issues can quickly erode profitability and cash flow.

In other situations, farmers and ranchers may attempt to scale up or expand too rapidly. Cost overruns or management flaws can then result in financial liquidity challenges. In these cases, replenishing working capital through refinancing can provide a bridge that allows the business time to make and monitor the necessary adjustments needed to restore profitability and positive cash flow.

QUESTIONS TO ASK

A major question for both borrowers and lenders is: How will the additional debt service resulting from operating losses impact the future cost of production and breakeven levels over the life of the loan? This is particularly important given that most refinanced operating notes are typically structured over a five- to ten-year period.

From 1982 to 2020, only about 10% of refinancings occurred at higher interest rates. Approximately 50% were refinanced at rates that were 150 basis points lower, while another 40% were refinanced at rates that were 100 to 150 basis points lower.¹ As a result, the sticker shock associated with substantially higher interest rates may become the new normal in the years ahead.

Lenders and borrowers should also consider how term loans at higher rates can affect competitiveness. Is the loss truly cyclical, driven by market prices or costs, or is it structural in nature? Will there be sufficient recovery time to rebuild and maintain financial liquidity before the next adverse event or downturn, when another refinancing may be required? Ultimately, how could this new era of higher interest rates impact the long-term competitiveness of the business?

REASONS TO “TAP THE BRAKES”

Decades of experience and wisdom provide a valuable vantage point for recognizing when both the borrower and lender should tap the brakes on a refinance bailout or temporary reprieve.

- **The borrower wants the lender to solve the cash flow and profitability problem with a quick, overnight infusion of working capital, yet has no written plan for improving profitability.** Often, the borrower becomes very emotional and may threaten to take his or her business elsewhere or contact supervisors, senior management, or board members. In some cases, borrowers become upset when additional collateral, such as land, is required, or they balk at the additional financial documentation and transparency needed for the refinancing request. This drama frequently consumes valuable time that could otherwise be devoted to profitable customers. There is an old saying that it takes four times the amount of time, money, and effort to manage a stressed credit than it does a performing one.
- **Be cautious of situations in which the borrower is reluctant to invest the time, effort, and objectivity necessary to resolve the issue and improve the financial situation.** Remember, the borrower should want to be successful just as much as the lender wants them to succeed.
- **A common issue is the improper use of operating funds.** This can range from purchasing capital assets such as machinery, equipment, facilities, land, or buildings using proceeds from an operating loan without communicating with the lender. This behavior often reflects a financial character flaw that tends to repeat itself.
- **The use of operating funds for nonproductive assets is another concern.** In some cases, this includes expensive vehicles, recreational assets such as boats, second homes, or even aircraft. This behavior often occurs during favorable economic times or following a windfall or other nonrecurring profit event.

- **Split lines of credit, where the producer robs Peter to pay Paul, are becoming an increasing concern.** This issue has been exacerbated by the availability of quick and convenient credit cards and access to private capital. A common rule of thumb is that having more than five to seven different sources of credit, whether traditional or nontraditional, is typically a red flag that warrants further investigation.

The aforementioned situations can quickly increase debt while reducing profitability, cash flow, and overall business competitiveness. Over the next four years, businesses with a strong financial mindset and proven, actionable character are likely to distinguish themselves and thrive through adversity.

Likewise, lenders who understand both the science of lending (the numbers) and the art of lending (the nonfinancial factors), and who can integrate the two effectively, can be worth their weight in gold. These skills are likely to be difficult for artificial intelligence to replicate or replace.



LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR ASSESSMENT

JUNE 2026

GLOBAL ECONOMY

The conflict in the Middle East presents considerable tail risk to the global economy. Even if the conflict is resolved, the destruction of infrastructure and the unification of faction groups in Iran could continue to pose risks to global food production and distribution. Approximately 80% of agricultural costs and 60% of overall economic activity are influenced by fuel and energy.² As a result, the era of just-in-time inventory management is increasingly being replaced by a just-in-case approach.

On the global radar screen, pay close attention to oil and energy reserves. China appears better positioned than many other major importers because of its larger oil stockpiles, while India's smaller reserve cushion could leave it more exposed to prolonged disruptions in global fuel supply.

From a Global South perspective, Brazil and Argentina are facing challenges from higher energy costs, slowing demand from economies in the Asian Rim, and increased competition resulting from a weaker U.S. dollar.

Inflation remains elevated in China, Japan, and certain sectors of Europe, dampening economic growth. Also watch for potential jet fuel shortages, which could hinder global business travel and tourism, both of which are particularly important to the European economy.

²Author's estimation

DOMESTIC ECONOMY

The U.S. K-shaped or E-shaped economy is becoming much more apparent in 2026. The top tier, or **HERMANS** (*High Earners, Rich, Mobile, with Appreciated Net Worth*), continue to spend aggressively. This spending is driven by paper wealth gains in the equity markets, particularly among the Magnificent Seven technology stocks, as well as appreciation in housing and real estate. The wealth effect is alive and well and can be observed in airports, hotels, and event venues, where individuals and families are increasingly seeking experiences.

The **ALICE** group (*Asset Limited, Income Constrained, Employed*) continues to struggle. Despite being employed, many have little discretionary income and limited financial flexibility. Of the \$1.3 trillion in credit card debt, this segment holds a significant portion at \$500 billion. Additionally, 42% of auto loans have balances greater than the value of the vehicle, a situation that is often concentrated among the ALICE population.³

The **HENRY** group (*High Earners, Not Rich Yet*) continues to experience layoffs, particularly in the technology sector. However, these job losses are not fully reflected in the unemployment statistics and receive limited attention in mainstream media coverage.

The U.S. economy continues to be fueled by the stock market, supported by positive corporate earnings, expectations of future earnings driven by artificial intelligence, and substantial investment in the technology sector. The question becomes whether this environment is creating a bubble similar to those seen in the past, particularly the dot-com bubble at the turn of the century.

LEADING ECONOMIC INDICATORS

The **Leading Economic Index (LEI)**, which had been relatively flat, is now showing some improvement. This will bear close watching over the summer to determine whether it reaches three to five consecutive months of declines of at least 0.3%, a pattern that has historically been a predictor of recession.

The **Purchasing Managers' Index (PMI)** remains above 50, indicating continued growth in the U.S. economy. This expansion has been fueled in part by the growth of artificial intelligence and the manufacturing sectors that support the AI industry.

Consumer sentiment, as measured by the University of Michigan, recently fell to an all-time low in the upper-40 range. Once again, lower- and middle-income consumers are feeling the effects of persistent inflation.

Housing remains on a relatively steady path, both in terms of housing starts and home sales. However, increased pressure could emerge due to the long-term cost of borrowing. Close attention should be paid to yields on 10-year and 30-year Treasury bonds, as movements in these markets can significantly impact future mortgage rates.

The Federal Reserve's dual mandate of full employment and price stability, measured by both **core and headline inflation**, is likely to continue to challenge the new Federal Reserve Chair. With headline inflation running at 4.2%, core inflation at 2.9%, and employment numbers remaining strong, significant downward movement in short-term interest rates appears unlikely in the near term.

³ Author's estimation. LSU Graduate School of Banking, "Interpreting Economic Change," class co-taught by Dr. David M. Kohl and Dr. Tom Payne. Page 4

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATORS

For the month of June ((Latest data is delayed for some indicators due to the government shutdown)

Indicator	Current	Green	Yellow	Red
Leading Economic Index – LEI	99.3		●	
LEI Diffusion Index	65%	●		
Purchasing Manager Index – PMI	54.0	●		
Housing Starts (millions)	1.177		●	
Factory Capacity Utilization	76.2%		●	
Unemployment Rate	4.3%	●		
Core Inflation	2.9%		●	
Headline Inflation	4.2%		●	
Oil Price (\$/barrel)	\$105.80			●
Yield Curve	0.76		●	

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR BENCHMARKS

Indicator	Green	Yellow	Red
The Conference Board Leading Economic Index® – LEI	Increasing	Flat to Decline	Decline 0.3% for 3 consecutive months and >1% over the period
LEI Diffusion ¹	>60%	40% – 60%	<40%
Purchasing Manager Index – PMI	>50	41.7 – 50	<41.7
Housing Starts (millions)	>1.5	1.0 – 1.5	<1.0
Factory Capacity Utilization	>80%	70% – 80%	<70%
Unemployment Rate	<6%	6% – 8%	>8%
Core Inflation	0% – 2%	2% – 4%	>4% or <0%
Headline Inflation ²	0% – 4%	4% – 5%	>5% or <0%
Oil Price ³ (\$/barrel)	<\$50	\$50 – \$100	>\$100
Yield Curve ⁴	Steep	Flattening	Inverted

¹ Ten indicators make up the LEI – measures % that are increasing;

² Includes food & energy;

³ Consumer's perspective;