



# NDBA Ag Credit Conference

**October 2-3, 2024**

Hilton Garden Inn | Fargo ND  
and Virtual



NORTH DAKOTA  
**BankERS**  
ASSOCIATION

# 2024 NDBA Ag Credit Conference

## Hilton Garden Inn | Fargo ND



## Agenda

### Wednesday, October 2

- 7:15–8:00 am** Registration and Continental Breakfast
- 8:00 am** Welcome by Emcee Dan Michaels
- 8:05–9:15 am** Credit Decisions in Tough Times | *Dr. David Kohl, Professor Emeritus, Virginia Tech University*
- 9:25–9:55 am** When Ag Borrowers Struggle: Panel Discussion  
*Moderated by Dr. Kohl with Tracy Kennedy, Jim Leier and Holly Heimark*
- 10:00–10:50 am** High Impact Meteorology and Changes in Predictive Science | *Eric Snodgrass, Nutrien Ag Solutions*
- 11:00 am–Noon** A Look at Today's Markets | *Delaney Howell, AgCulture Marketing*
- 12:00–12:50 pm** Lunch
- 12:55 pm** Buses Depart for Grand Farm in Casselton
- 1:30–2:15 pm Grand Farm Welcome and Panel of Innovation Projects
- 2:15–3:00 pm Land and Equipment Update | Scott Steffes, Steffes Group
- 3:00–3:45 pm Federal Agricultural Banking Policy Update | Ed Elfmann, American Bankers Association
- 3:45–4:30 pm Tours
- 4:30 pm Buses return to hotel for Networking Reception
- 5:00–6:15 pm** Networking Reception at the Hilton Garden Inn

### Thursday, October 3

- 7:00–7:45 am** Buffet Breakfast
- 7:45–8:35 am** Succession Planning: Leading with Intention in Ag | *Rena Striegel, Transition Point Business Advisors*
- 8:35–9:35 am** Current Issues in Agricultural Law and Taxation | *Roger McEowen, Washburn University School of Law*
- 9:35–10:05 am** Real Talk with the Professionals | *Discussion with Rena Striegel and Roger McEowen*
- 10:10–11:00 am** Concurrent Sessions
- Soybean Plant Update: Bill McBee, North Dakota Soybean Processors
  - Managing Farm Stress - Sean Brotherson, NDSU
  - Credit Analysis for Beginning Ag Lenders - Tom Capouch, First State Bank, Portland
  - Ag Marketing Conversation - Ben Hawkins and Elizabeth Waletich, Hurley & Associates
- 11:00–11:55 am** Closing Keynote: A Different Kind of Career: Under Cover in the CIA | *James Olson*
- 11:55 am** Wrap up and Adjourn

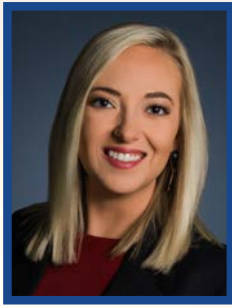
## Sponsors



"Extraordinary Leadership for North Dakota Banks"



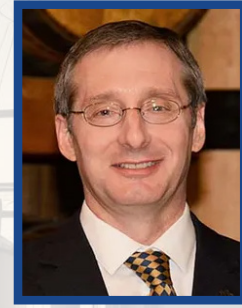
# 2024 NDBA Ag Credit Conference Featured Speakers



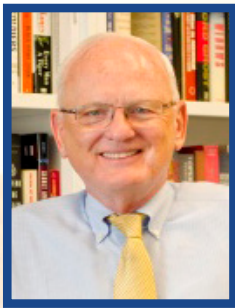
**Delaney Howell**  
AgCulture Marketing



**Dr. David Kohl**  
Professor Emeritus  
Virginia Tech University



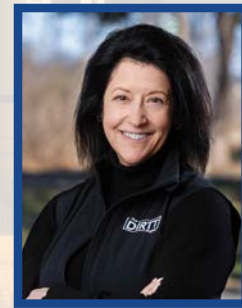
**Roger McEowen**  
Washburn University School of Law



**James Olson**  
Former CIA



**Eric Snodgrass**  
Nutrien Ag Solutions



**Rena Striegel**  
Transition Point Business Advisors

**Wednesday, October 2**

## A Unique Conference Experience! An Afternoon at Grand Farm

Explore and experience the Grand Farm Innovation Campus. Located 20 miles west of Fargo, Grand Farm stands as fertile ground where growers, startups, corporations, students, researchers, and government converge to forge innovative solutions and explore the high points of agricultural technology.

- 1:30–2:15 pm Grand Farm Welcome and Panel of Innovation Projects
- 2:15–3:00 pm Land and Equipment Update | Scott Steffes, Steffes Group
- 3:00–3:45 pm Federal Agricultural Banking Policy Update | Ed Elfmann, American Bankers Association
- 3:45–4:30 pm Tours
- 4:30 pm Buses return to hotel for Networking Reception



Ed Elfmann



Scott Steffes

**Questions during the conference?**  
Call NDBA's SVP of Education Dorothy Lick at 701.391.5303



**Dr. David Kohl**, Professor Emeritus, Virginia Tech University

# CREDIT DECISIONS IN TOUGH TIMES



## Dr. David M. Kohl

Professor Emeritus, Agricultural and Applied Economics  
Member of Academic Hall of Fame, College of Agriculture & Life Sciences  
Virginia Tech, Blacksburg, VA  
Email: [sullylabvt@gmail.com](mailto:sullylabvt@gmail.com)

October 2, 2024

## Super Global Trend Disruptors: Evolution Accelerators

- One half of the world's population will experience a major election
- \$68 trillion of wealth will transfer from 2025 to 2040
- 1/3 of wealth owned by females in 2025 & 2/3 of wealth owned by females by 2040
- Stages of diffusion of innovation for green energy/AI
  - Infatuation: 2022-2024
  - Disillusionment: 2024-2027
  - Reorientation: 2027 & beyond
- Globalization, deglobalization
- Black swans vs. grey rhinos
- Dollar vs. new digital currency



This Photo by Unknown Author is licensed under CC BY-NC-ND

## Pulse of the Agricultural & Rural Economy Challenges

- Margin compression, resilient, inflated cost, lower commodity prices
- Higher interest rates
  - Impact on operating money
  - Possible impact on long term rates- “resets”
- Shrinking working capital and cash positions
- Storage of grain commodities with declining prices
- Protein sector, dairy, poultry & pork margin compressions
- Beef & livestock industries continue to be economically strong
- Land values
  - Reduced number of buyers in some areas
  - Solid demand in other areas
  - Cash rents: resiliently high



This Photo by Unknown Author is licensed under CC BY-NC-ND

3

## Duration of the Economic Down Cycle in Agriculture

- Export markets – trade bill sanctions, tariffs
- Economic health of the Big Three Trading Partners
- Economic health of U.S. economy
- Weather globally
- Strength of U.S. dollar
- Monetary/fiscal policy
- Competition from Global South

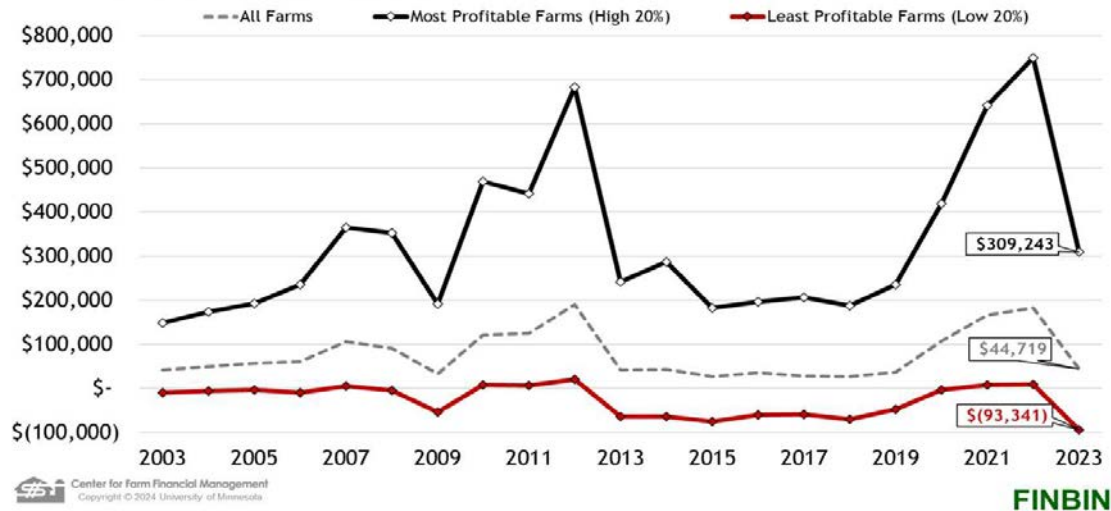


4



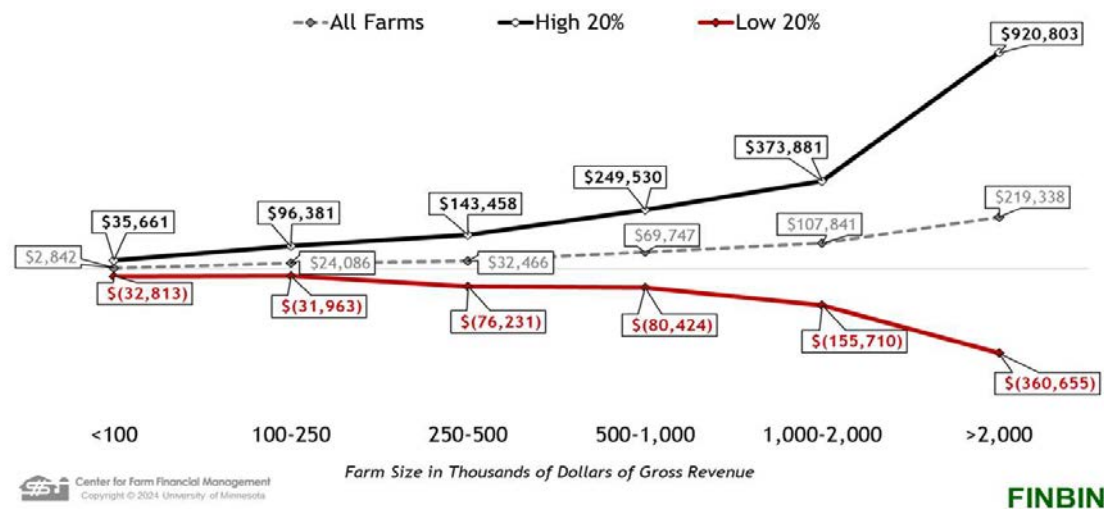
## Median Net Farm Income by Profit Group

Data: Minnesota, Sorted by Profitability Group



## 2023 Median Net Farm Income by Farm Size

Data: Minnesota, All farms, Farm size measured by gross revenue in thousands of dollars



## Quote for the Quarter Century

“The opportunity for business and personal prosperity is not about the size, the enterprise or the next big thing. It is about being a ‘five-percenter,’ meaning being a little better in many components of production, operational efficiency, marketing, risk management, finance, human resources and in the focus on your values and goals.”



7

## Quick Global Economic Assessment

- China
  - Demographic
  - Housing value decline
  - Stock market value decline
  - Sanction/tariffs/trade
- India
  - Farm policy protectionism
- Europe
  - Tourism
  - Greenwave/backlash
- Mexico/Canada
  - New leader, same policy
  - Canada: slow economy
- Southern Hemisphere
  - Belt & Road Initiative
  - Currency challenges



8



## U.S. Economy Snapshot

- ALICE (asset-limited, income-constrained, employed)
- Government debt \$1 Trillion increase every 100 days
- Credit card debt = \$1.3 Trillion
- LEI, PMI, Consumer Sentiment, Inverted Yield Curve
- Delinquency on credit card debt & auto loans highest level since 2012
- Government money driving A.I. (artificial intelligence) & green energy



9

## Watch List for Potential Recession

- High income earners
- Paper wealth devalues:
  - Stocks, investments
  - Homes, real estate
  - Other
- A.I. (Artificial Intelligence) vulnerability, geographic, mobility constrained
- Corporate restructuring
- Curtailed discretionary spending



10

## Fiscal and Monetary Trainwreck?

▪ Government revenues	\$4.4 Trillion
▪ Government outlays	\$6.3 Trillion
▪ Govt. Deficit '24 (Projected)	≈ \$2.0 Trillion
▪ Net Interest on Public Debt	\$870 Billion
▪ Military spending	\$753 Billion
▪ Deficit in 2023	\$2.0 Trillion

**Sources:** Congressional Budget Office, see link below.

[https://www.wsj.com/opinion/u-s-budget-deficit-government-spending-congressional-budget-office-report-d2c07021?mod=Searchresults\\_pos1&page=1](https://www.wsj.com/opinion/u-s-budget-deficit-government-spending-congressional-budget-office-report-d2c07021?mod=Searchresults_pos1&page=1)

11

## Global Indebtedness Tsunami

- \$307.4 trillion global debt Q4 2023
- Average debt GDP risen to 336% in 2024
- Average debt GDP was 110% in 2012
- Debt globally increased \$100 trillion in one decade
- 80% of global debt increase in U.S., Great Britain, Canada & Japan
- Brazil, China, India had the largest increases in debt



Economist, Arthur Laffer Jr. says "A slow fiscal death awaits some countries in this decade of debt".

<https://www.cnn.com/2024/02/07/debt-crisis-is-in-the-making-and-it-wont-end-well-for-the-world-economist-warns.html>

12

## Factors for Interest Rate Decline

- Issue of Federal Reserve creditability!
- Core inflation <2.5% instead of 2.0%
- Unemployment false reading!
- Retail/consumer sales decline
- Interest rates globally



13

## Long Term Interest Rates

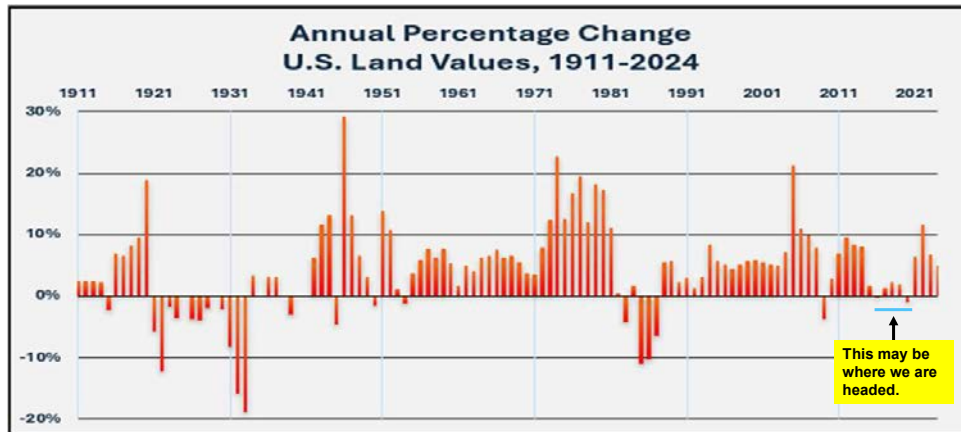
- Federal Reserve Rate 2.25% - 3.25%
- Prime Rate 5.25% - 6.25%
- Business/individual interest rates generally 1 - 4% above Prime
  - Size of the loan
  - Risk
  - Market perception of risk
- Other



14



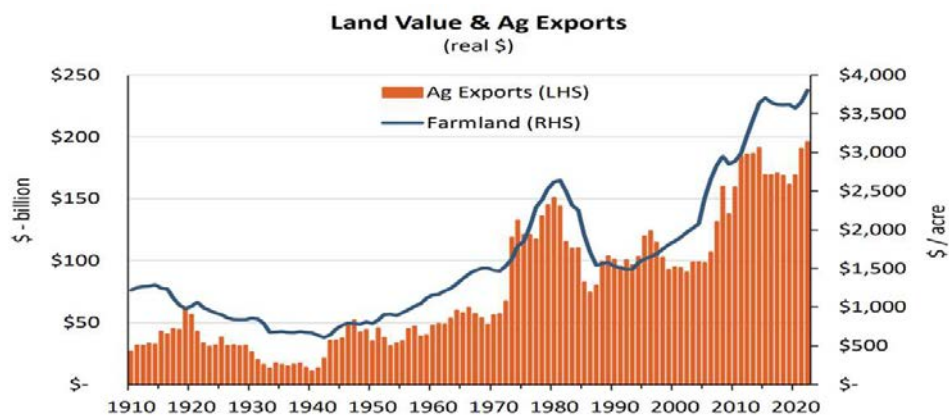
## U.S. Farm Real Estate Values



Source: Dr. Steve Isaacs, University of Kentucky

15

## Tied at the hip?



Source: Farmer Mac 2024



## Lenders: What is Headed Your Way?

17

### Lenders: What is Headed Your Way? Lower Coverage Ratios

- Operating losses
- Refinances at higher rates
- Substantially higher living costs
- Low 20% negative ratios



18

## How Do Farms Stack Up Historically? 2013 - 2023

### Historical information for Southwest, South Central & Southeast Minnesota

The source of the green, yellow, and red credit risk rating is from "Weighing the Variables" by David M. Kohl. He considers the six (6) color coded factors below to be key indicators of financial credit quality.

Green	The farm business enjoys a competitive position
Early Yellow	The farm business has some early caution signs
Late Yellow	The farm business has some major caution signs
Red	The farm business could face some major obstacles

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Current Ratio</b>											
Top 10 Percent	2.37	2.12	2.28	2.30	2.34	2.32	2.36	2.39	2.32	2.40	2.27
High 20 Percent	2.40	2.24	2.31	2.31	2.11	2.30	2.30	2.38	2.33	2.38	2.11
Average Farms	2.03	1.79	1.64	1.62	1.87	1.51	1.51	1.88	2.02	2.03	2.31
Low 20 Percent	1.40	1.28	1.14	1.14	1.14	1.14	1.14	1.14	1.78	1.76	1.62
<b>Farm Debt to Asset Ratio (Market)</b>											
Top 10 Percent	35%	42%	38%	39%	40%	36%	40%	40%	41%	38%	37%
High 20 Percent	38%	40%	39%	40%	41%	39%	41%	41%	41%	40%	38%
Average Farms	40%	43%	40%	40%	40%	40%	40%	44%	44%	43%	43%
Low 20 Percent	46%	53%	54%	54%	53%	55%	54%	51%	51%	53%	49%
<b>Rate of Return on Farm Assets - Rent/Lease Majority of Assets (Cost)</b>											
Top 10 Percent	7.8%	12.8%	8.8%	8.8%	8.8%	8.8%	7.8%	12.3%	18.7%	14.4%	7.8%
High 20 Percent	7.4%	12.4%	8.3%	8.3%	8.3%	8.3%	7.2%	11.6%	18.1%	14.1%	8.4%
Average Farms	4.8%	12.4%	8.4%	8.4%	8.4%	8.4%	7.4%	7.8%	11.2%	10.9%	9.1%
Low 20 Percent	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
<b>Term Debt Coverage Ratio</b>											
Top 10 Percent	278%	338%	327%	327%	315%	233%	272%	403%	574%	482%	388%
High 20 Percent	218%	357%	176%	186%	253%	208%	248%	376%	553%	426%	279%
Average Farms	182%	133%	72%	59%	109%	31%	149%	274%	388%	372%	125%
Low 20 Percent	45%	42%	48%	35%	13%	31%	72.8%	108%	108%	108%	30.8%
<b>Operating Expense Ratio</b>											
Top 10 Percent	73.3%	73.3%	73.8%	72.7%	72.9%	72.7%	73.3%	67.4%	62.6%	62.0%	73.3%
High 20 Percent	72.9%	73.8%	74.8%	73.8%	74.2%	74.7%	74.3%	68.4%	62.9%	63.4%	73.9%
Average Farms	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Low 20 Percent	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
<b>Interest Expense Ratio</b>											
Top 10 Percent	3.9%	3.2%	3.0%	3.3%	3.2%	3.9%	3.4%	2.8%	3.0%	3.0%	3.8%
High 20 Percent	3.1%	3.4%	3.3%	3.5%	3.4%	3.8%	3.7%	3.1%	3.2%	3.4%	3.8%
Average Farms	3.9%	3.7%	3.3%	3.8%	3.8%	3.4%	6.2%	2.3%	3.1%	3.8%	4.3%
Low 20 Percent	6.8%	6.1%	5.7%	6.4%	6.1%	6.6%	7.8%	8.2%	8.1%	8.4%	8.8%



Source: Aaron Bruderie, Farm Management Instructor, Minnesota West Community & Technical College

19

## Lenders: What is Headed Your Way? Decline in Working Capital

- Devaluation of inventory
- Operating losses
- Capital expenditure decisions
- Lenders replenish working capital
  - Plan to preserve
  - Burn rate
  - Long term debt obligations



20



## Lenders: What is Headed Your Way? Monitoring Intensity!

- Once a year is not acceptable
- Accounts payable
- Credit card debt buildup
- Numbers decline, acceleration in larger customers
- Producers seeking new lenders
- Split lines of credit

21

## Lenders: What is Headed Your Way? Surprises

- Fraudulent activities
- Bills unpaid & left off payables
- Capital expenditures – deferred payments & maintenance
- Non-collectible accounts receivable
  - Custom work
  - Grain/livestock
- Loans from friends and/or relatives
- Machinery & equipment values decline by 50%
- Divorce, depression & disengagement

22

# Agricultural Lending Financial Spectrum

## Collateral Lender

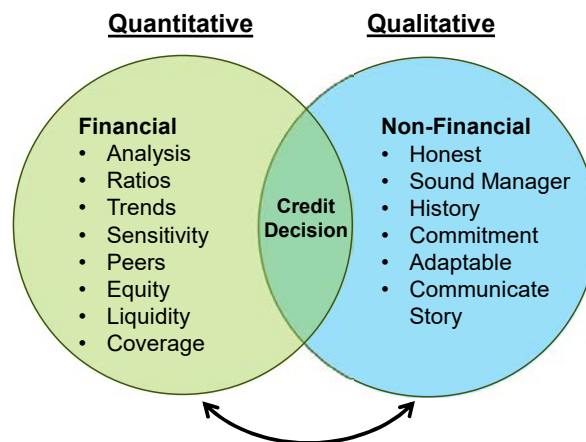
- Don't know cost of production
- Monitor financials once a year for tax reasons, no ownership of the numbers
- Shoot from the hip, marketing & risk management
- Family living cost issues
- Lender develops the statements
- <25% debt to asset ratio with land collateral

## Profit, Cash flow, Sixth C Lender

- Knows cost of production & break evens via enterprise
- Develops & monitors financials & cash flows frequently
- Marketing & risk management plan executed and monitored
- Family living budget separate from the business budget
- Team of advisors
- Aforementioned is critical for producer renting & leasing and > 50% debt to asset ratio.

23

# The Art & Science of Ag Lending



How Do They Link Up? Connect the Dots!

24

## Top Questions



- Is this economic cycle the same as the 1980s cycle?
- What are five positive strategies used for turn arounds in 1980s businesses?
- What are mistakes that lenders are making in the downturn?
- What are the positives of an economic down cycle in ag?

25

## Recent Questions

- What role do you see A.I. (Artificial Intelligence) playing in the next decade in ag lending?
- What would you say is most important to farmers today when seeking an ag lender?
- You have experienced two business turnarounds at your creamery, what are some nuggets as it applies to credit?
- What are your “pet” peeves of credit by borrower/lender?



26





# Q&A with Dr. Kohl

27

## Dr. David Kohl's Contact Information:

### Office:

(540) 961-2094

Alicia Morris

### Scheduling:

(540) 493-2724

Angela Meadows

### Email:

[sullylabvt@gmail.com](mailto:sullylabvt@gmail.com)

## Online Articles:



- Farm Progress Weekly Article:  
<https://www.farmprogress.com/author/david-kohl>
- Ag Trends & Insights Videos  
<https://agwestfc.com/education-and-resources/industry-and-economic-insights/economic-updates/agricultural-trends>
- Dave's GPS & Dashboard Indicators  
<https://www.farmermac.com/news-events/daves-gps/>

28



NORTH DAKOTA  
**Bankers**  
ASSOCIATION

Moderated by Dr. Kohl with Tracy Kennedy, Jim Leier and Holly Heimark



**Eric Snodgrass**, Nutrien Ag Solutions





**Delaney Howell, AgCulture Marketing**

Lined area for notes, overlaid on a background image of a person walking in a field.



Scott Steffes, Steffes Group

A series of horizontal lines for writing, overlaid on a background image of a person walking through a field of tall grain.





**Ed Elfmann, American Bankers Association**



**Rena Striegel**, Transition Point Business Advisors



**Roger McEowen**, Washburn University School of Law





## Discussion with Rena Striegel and Roger McEwen

Lined area for discussion notes, overlaid on a background image of a person walking in a field.

## Soybean Plant Update: Bill McBee, North Dakota Soybean Processors

[illegible]

## Managing Farm Stress - Sean Brotherson, NDSU



## Five Cs of Credit

### Character

- The financial character of the client.
- Do they have the skills, work ethic and training to succeed?
- How have they managed credit in the past?
- How long have they been in the industry?
- Do they have strong integrity?

### Cash Flow

- How will we get repaid?
- How dependable is the payment source?
- What is the Debt Service Coverage Ratio?

### Capital

- What resources does the company have if cash flow is short?
- What resources does the guarantor have to meet shortfalls?
- Are these resources liquid?

### Conditions

- Does the asset mature before the loan?
- Is the debt structure appropriate for the company?
- Are the terms reasonable for the bank?

### Collateral

- How marketable is the collateral?
- What is the liquidation value?

## Key Questions

1. Does the loan make sense?
2. Where is this relationship going

## Terms

- **CMLTD** – Current Maturity of Long Term Debt (Principal due in one year)
- **DSCR** – Debt Service Coverage Ratio (How many payments does cash flow support)
- **Times Interest Coverage Ratio** – (How many times can company profits pay interest due)  
Earnings before Interest & Tax / Interest Expense
- **Working Capital** – Current Assets minus Current liabilities

## Key Ratios

### Liquidity Ratios

- Current Ratio
  - $\text{Current Assets} / \text{Current Liabilities}$
- Quick Ratio
  - $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$
- Days Inventory Ratio
  - $365 / (\text{Cost of Goods Sold} / \text{Inventory})$
- Days accounts Payable Ratio
  - $365 / (\text{Cost of Goods Sold} / \text{Accounts Payable})$
- Days Accounts Receivable Ratio
  - $365 / (\text{Credit Sales} / \text{Accounts Receivable})$

### Financial Leverage Ratios

- Debt to Equity Ratio
  - $\text{Total Liabilities} / \text{Total Equity}$
- Debt to Asset Ratio
  - $\text{Total Liabilities} / \text{Total Assets}$

### Profitability Ratios

- Return on Sales
  - $(\text{Net Profit} / \text{Sales}) \times 100$
- Return on Assets
  - $(\text{Net Profit} / \text{Total Assets}) \times 100$
- Return on Equity
  - $(\text{Net Profit} / \text{Total Equity}) \times 100$



**HURLEY & ASSOCIATES**  
AGRI-MARKETING CENTERS

## Conversation Starters with the Farm Team

### Harvest Topics

1. Do you have a harvest plan and does it address your cash flow needs?
  - Proactively looking at cash flow needs and planning accordingly helps avoid the trap of being forced to sell when you need cash.
2. For unsold bushels, have you looked at re-ownership on paper vs. storing them at the elevator?
  - This provides cash-flow while maintaining upside in the market.
3. Have you locked in or are you actively looking to maximize market carry on bushels you will be storing?
  - Carry (along with basis improvement) is a primary source of repayment for a bin.
4. How is your harvest basis position and does it need to be reviewed?
  - Basis can be a risk to your cash price (especially at harvest). If basis is better than normal in your given market you might consider locking some in.

### General Discussion Topics

1. With planting mostly completed, do you have an idea where your break-evens are for this crop year?
  - How do you evaluate action areas on where you want to start securing revenue?
2. What are your plans to secure revenue (market plan) for the upcoming crop years?
  - Do you have a plan?
  - Is the plan written down?
  - (How) Do you hold yourself accountable for the execution of the plan?
3. What are you doing to proactively position yourself to capture rallies on new crop?
  - What would be your mentality if corn rallied 50 cents in the next 2 weeks? Would you be in the right mindset to make a good business decision?
4. What are you doing to proactively position your operation for the deferred crop years? (ex. Dec 25' futures are currently 37 cents higher than Dec. 24' futures)
  - Whether a producer (or their lender) is excited about or uncomfortable with their current marketing position, avoiding tunnel vision is critical. Keep a strong focus on planning for next year and securing revenue when opportunity presents itself. In years with adequate supplies, opportunities often lie in the deferred years.

# NOTES

---

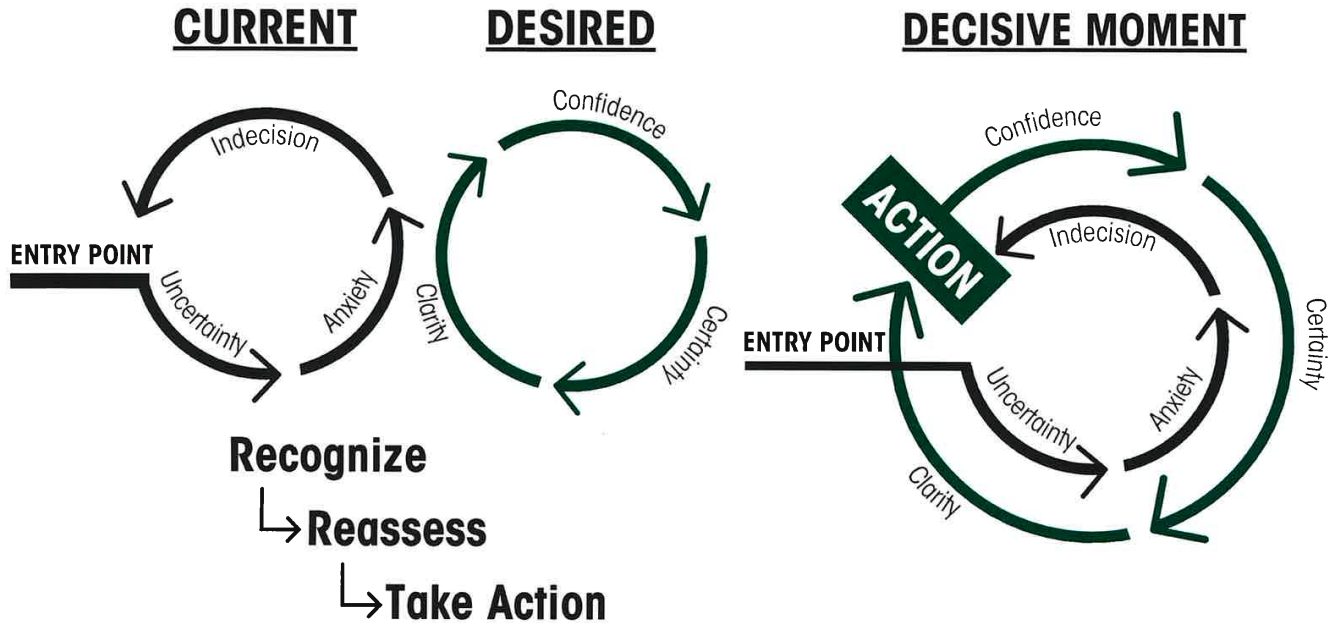
**Key Takeaways:**

**Notes:**

**Actions I Want to Take:**



## OVERCOMING UNCERTAINTY



## HEDGING & THE BALANCE SHEET

Producer grows 100,000 bushels of corn

Dec Futures	\$4.00
Basis	-\$0.50
Cash	\$3.50

We hedge 50,000 bushels (50%) at today's futures price

Cash	\$5,000
Crop Inventory	\$350,000
Hedge Account	
Total Current Assets	\$355,000

Operating LOC	\$200,000
Hedge LOC	
Current Portion Term Debt	\$50,000
Total Current Liabilities	\$250,000
Working Capital	\$105,000

### Lower Prices At Delivery

Dec Futures	\$3.00
Basis	-\$0.50
Cash	\$2.50

Cash	\$5,000
Crop Inventory	\$250,000
Hedge Account	\$50,000
Total Current Assets	\$305,000

Operating LOC	\$200,000
Hedge LOC	
Current Portion Term Debt	\$50,000
Total Current Liabilities	\$250,000
Working Capital	\$55,000

### Higher Prices At Delivery

Dec Futures	\$5.00
Basis	-\$0.50
Cash	\$4.50

Cash	\$5,000
Crop Inventory	\$450,000
Hedge Account	
Total Current Assets	\$455,000

Operating LOC	\$200,000
Hedge LOC	\$50,000
Current Portion Term Debt	\$50,000
Total Current Liabilities	\$300,000
Working Capital	\$155,000

Educational Example Only. Does not include commissions and fees.





*HURLEY & ASSOCIATES*

AGRI-MARKETING CENTERS

## What we DO:

**Create  
individualized  
market plans**



**Provide  
transparency  
through our  
HA Portal**

*\*Ask us for a demo!*



**Implement  
dynamic  
planning**



**Build  
long term  
partnerships**



**Focus  
on producer's  
unique cash  
flow needs**



## What we DON'T do:

**Predict  
the markets**



**Provide  
blanket  
recommendations**



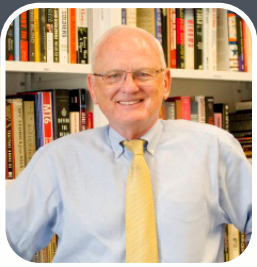
**Chase  
price trends**



**Represent  
a third party**



[www.hurleyandassociates.com](http://www.hurleyandassociates.com)



**James Olson**



# AGRICULTURAL BANKERS CONFERENCE

**November 12–15, 2024**  
Baird Center | Milwaukee, WI

Get strategies to support your institution's future and plan for growth at the nation's premier conference for ag bankers.

We'll look at what's in store for ag this year and beyond, from Farm Bill reauthorization to artificial intelligence and more.

**Register now**

[aba.com/AgConfSA](https://aba.com/AgConfSA)



American  
Bankers  
Association®



NORTH DAKOTA  
**Bankers**  
ASSOCIATION

**North Dakota Bankers Association**

122 E Main Ave., Suite 201  
PO Box 1438  
Bismarck, ND 58502-1438  
701.223.5303  
[www.ndba.com](http://www.ndba.com)