

THE PULSE OF AGRICULTURE AND AGRICULTURAL LENDING



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

October 2, 2025

1

Quick Agricultural Economic Update

- Grain and row crops – “bearish”
- Livestock, diversified, value added – “bullish”
- Export market watchlist
- Tariffs, sanctions & currency valuation
- Profit, liquidity, cash flow vs. going broke

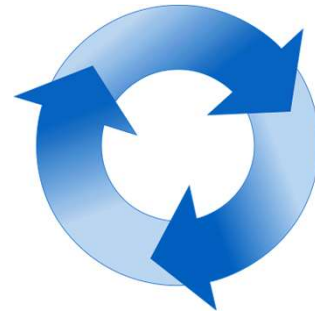


2

2

Duration of the Cycle

- Export markets – trade sanctions, tariffs, “counter tariffs”
- Weather globally
- Fiscal policy
 - \$2 trillion deficit
 - Cost of long term money
 - \$37 trillion federal debt
- Competition from Global South



3

3

What Economic Wins Look Like Now for Row Crops/Grains

- Breakeven without government checks or ad-hoc payments
- Marketing and risk management plans to support breakeven or capitalize on profit windows
- Protect your backup reserves (working capital)
 - Level of losses, timeline of burning through reserves
 - Refinance: life & amount of new debt obligation
- Financial sensitivity analysis: scenario planning for profit, production, price, cost & debt service



4

4

What Economic Wins Look Like Now for Livestock, Diversified, Value Added, Beef, Etc.

- 60-30-10 Rule
- Working capital plan to build reserves
- True liquidity: quickness to cash
 - Matching CA to CL: 30, 60, 90, 120 days
- Spend \$1.00 to save \$0.20 to minimize taxes
 - Profit or working capital obligation
 - Additional debt service obligation
- Disorganization & complacency are business financial killers



5

5

Winning Strategies for the Economic Cycles

- You can't out earn disorganization
- Ownership of the numbers
- Three point winning strategy:
 - Stay informed of economic trends
 - Manage the controllables in the operation
 - Manage around the uncontrollables in markets & the economic environment



6

6

Quick Global Economic Assessment (1)

■ China

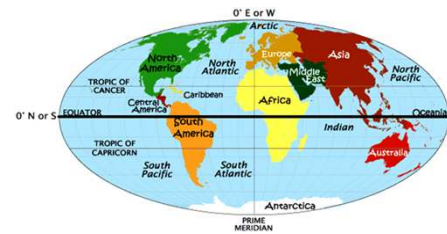
- Demographics
- Stock market value decline
- Real estate decline
- Silk Road Initiative global influence
- Taiwan?

■ India

- Russian oil
- Farm policy protectionism
 - Rice, wheat & sugar

■ European Union & Great Britain

- United front economy
- Tourism still strong
- More military spending
- China, U.S.A. exports critical



7

7

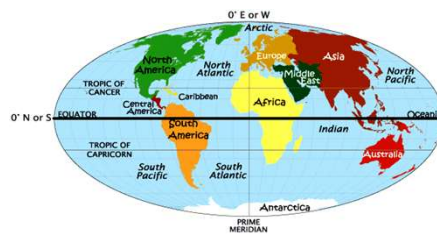
Quick Global Economic Assessment (2)

■ Mexico/Canada

- Mexican cartels
- Trading alliances outside U.S.A.
- Export & import status

■ Southern Hemisphere

- Africa- new Brazil?
- Competitive pressures
- Increased acreage
- Currency infrastructure
- New common currency



8

8

Largest Extraregional Trading Partners, by Total Value of Goods Traded



9

9

U.S.A. Economy Snapshot: ALICE

- ALICE- Asset Limited, Income Constrained, fully Employed
- Less than 5% spending
- Stimulus checks during & post pandemic
- Consumer credit card debt buildup
- Credit card debt \$1.3 trillion
- Delinquency rate on credit cards & auto loans is highest since 2012

10

10

U.S.A. Economy Snapshot: HENRY

- HENRY- High Earners, Not Rich Yet
- \$100,000 - \$500,000 household earnings
- High level of graduate school debt
- Priced out of housing market
- Lack of stock & real estate appreciation
- High levels of consumer spending & buying experiences
- Very vulnerable for job layoff and AI replacement

11

11

U.S.A. Economy Snapshot: HERMAN

- HERMAN: High Earners, Rich, Mobile, Appreciated Net Worth
- 10% of population, 49% of consumer spending from 36%
- Household or business wealth, paper wealth accumulation \$1 million to \$10 to 25 million
- Older demographic, frequently above 60 years of age
- Spent 58% more in the last 4 years vs. 21% inflation increase
- HERMANs account for one third of gross national product
- Top 20% of earners, net worth has increased \$35 trillion or 45% since 2019
- Increased \$14 trillion for the bottom 80%

12

12

Dr. Dave's Economic Watchlist

- Unemployment
- Consumer sentiment
- Housing issues
- 10 & 30 year rates, bonds, treasuries
- Stock market
- Other



13

13

Interest Rates Fall 2025 & Winter 2026

- Two cuts of 25 basis points by end of the year
- Inflation wild cards
 - Tariffs lag effect
 - Sector dependent
 - Insurance & medical costs
 - Energy & A.I.
 - Federal Reserve
- Currency valuation
- Funding of debt



14

14

Fiscal and Monetary Trainwreck?

■ Government revenues	\$4.4 Trillion
■ Government outlays	\$6.3 Trillion
■ Net Interest on Public Debt	\$870 Billion
■ Military spending	\$753 Billion
■ Deficit in 2023	\$1.7 Trillion
■ Deficit in 2024	\$1.8 Trillion
■ Deficit through July 2025 YTD	\$1.3 Trillion

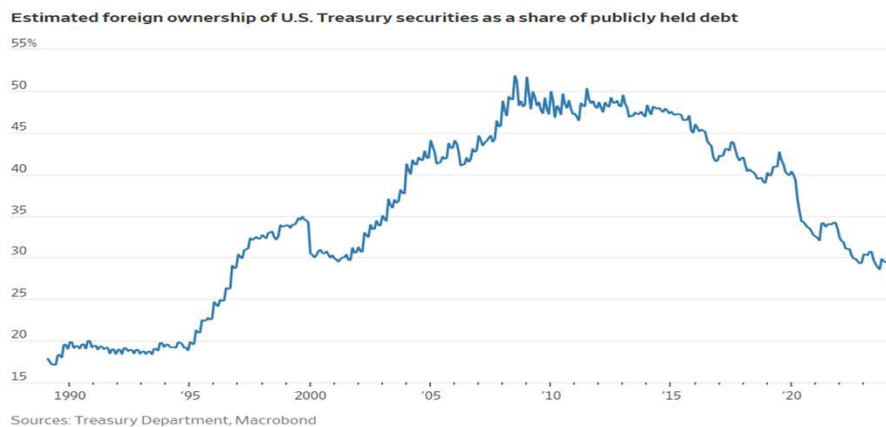
Sources: Congressional Budget Office, see link below.

https://www.wsj.com/opinion/u-s-budget-deficit-government-spending-congressional-budget-office-report-d2c07021?mod=Searchresults_pos1&page=1

15

15

Estimated Foreign Ownership of U.S. Treasury Securities as a Share of Publicly Held Debt



Source: Wall Street Journal, April 20, 2025

16

16

Excessive Public Debt – Ferguson's Law

- Great powers of the globe that spend more on debt service than defense risk ceasing to be a great power.
- How much debt is too much debt?
 - Debt service (interest and principal) > defense spending
 - In 2024:
 - Defense spending \$1.107 trillion
 - Interest on payments \$1.12 trillion
 - Compounded by a welfare system
 - Lower birth rates
 - High social welfare system

17

17

Invisible Fence

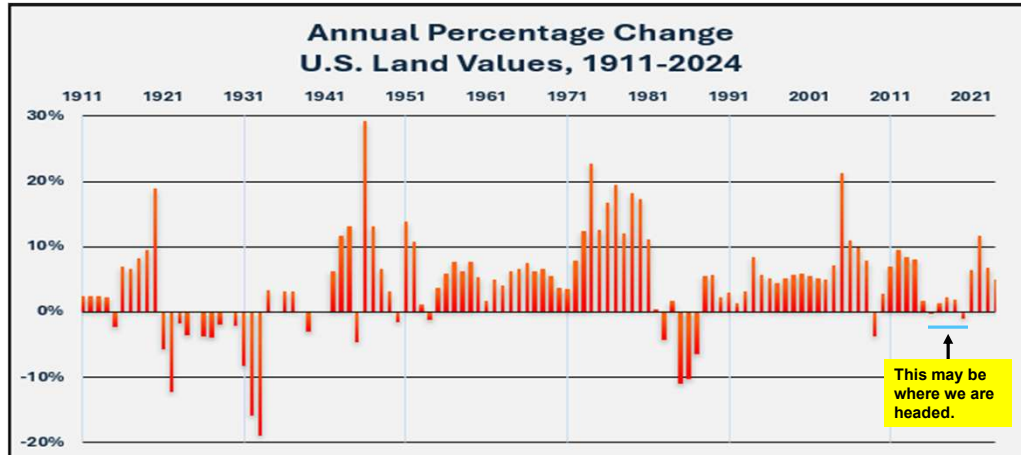
- Interest on Federal debt exceeding military budget
- Dollar trade becomes less than 50% global trade
- A.I. replaces jobs in white collar sector
- Housing market decline
 - 30% longer term
- Stock market decline
 - 30% longer term



18

18

U.S. Farm Real Estate Values



Source: Dr. Steve Isaacs, University of Kentucky

19

19

The Rise & Fall of Farm Land Values 1

1970S RISE

- Global export markets
- Farm debt tripled
- Land: the inflation hedge
- Transition acceleration
 - Great Depression to WWII Generation to Baby Boomers
- Farm loans: character/collateral
- Weak dollar

1980S DECLINE

- Loss of export markets
- Tightening of credit
 - Regulators
 - Lenders
- Rapid rise of interest rates
- Higher rates of return on CDs and money market accounts
- Financial liquidity crunch

20

20

The Rise & Fall of Farm Land Values 2

21ST CENTURY RISE

- China & Great Commodity Supercycle
- Zero bound interest rates
- Ethanol
- Value of outside agricultural returns
 - Water & minerals
 - Green energy
 - 1031 exchanges
 - Development
- Baby boomer producers – in the power age zone of investment

2025 & BEYOND- MARKERS FOR DECLINE

- Doubling interest rates
- Bearish commodity markets
- Tightening of credit
 - Regulators
 - Lenders
- Resistant plane markers
 - Crop/livestock insurance
 - TINA/Baby Boomers
- Water & minerals
- Development

21

21

Where Credit Losses Occur

- Fraudulent activities
- Non-transparent financial systems
- No ownership of financials
- Liquidity versus equity crunch
- Non-financial factors- “Deadly D’s”
- Lifestyle creep
- Lenders’ cultures



22

22

Sign Post of Opportunities

- Young, beginning farmers & ranchers, high business financial IQ - “alignment”
- Profitable farms, ranches & businesses in “growth mode”
- Accelerated transition in agriculture - “be at the table”
- Selected refinancing – “planning, execution, & monitoring”
- Value added – “agri-entrepreneurship mentality”
- Risk management programs – “mitigation”
 - Crop/livestock insurances
 - FSA, SBA guarantees



This Photo by Unknown Author is licensed under CC BY-SA

23

23



Lenders & Borrowers: What is Headed Your Way?

24

24

Lenders & Borrowers: What is Headed Your Way? Lower Coverage Ratios

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

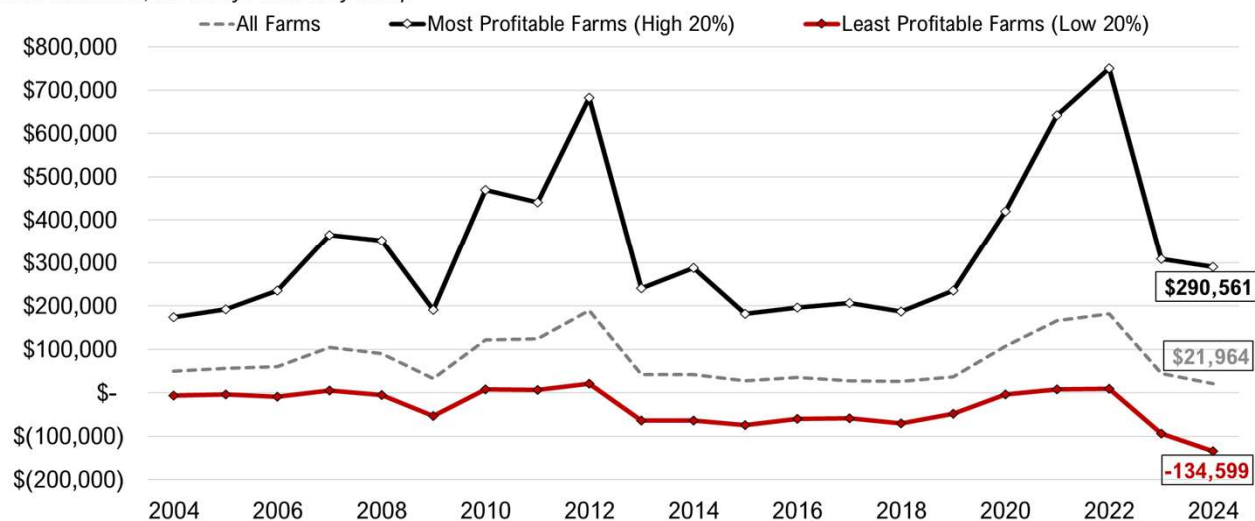


25

25

Median Net Farm Income by Profit Group

Data: Minnesota, Sorted by Profitability Group



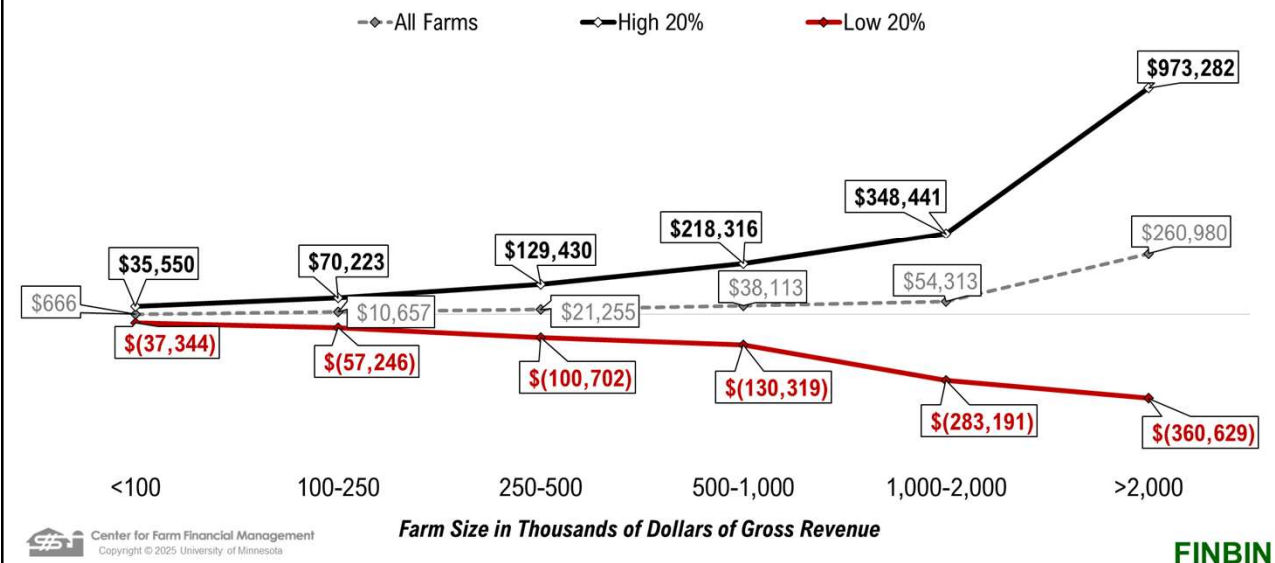
Center for Farm Financial Management
Copyright © 2025 University of Minnesota

FINBIN

26

Median Net Farm Income by Farm Size in 2024

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



27

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.”



28

28

Lenders & Borrowers: 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



29

29

Lenders & Borrowers: 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

30

30

Lenders & Borrowers: 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

31

31

Five Losses: Business Indicators

- Financial & business disorganization
- No operating plan to back up profit and loss or cash flows
- Passive management dependent on land equity outside income
- Personal lifestyle creep & personal/family drama
- Quick fix or the “Next Big Thing” syndrome

32

32

Five Losses: Personal Indicators

- Life setbacks
- Financial & investment failures
- Family and/or business disputes
- Emotional imbalance
- Mental disorders

33

33

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.

34

34

Bridge & Pier Concept

- Are you building a bridge or a pier?

The more you go down the pier, the deeper the water. This increases the need for a higher level of expertise, and there are fewer options.



35

35

Conditions that Drive the Customer to End of Pier

- Non-responsive customer/lender
- Lack of execution
- Got the equity, give me the refinance without a written plan that's monitored
- Unreasonable expectations to breakeven
- Focus on swamp issues
- Surprises, hidden debt, timing of processes

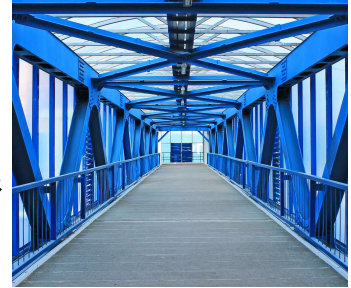


36

36

Conditions that Build the Bridge to Success

- Plan in writing by the customer/consultant not the lender
- Mini victories by monitoring, monitoring & monitoring
- Frequent communications: relationship officer/credit analyst & loan committee/customer
- Willingness to develop cash flow, balance sheet & Business IQ
- Transparent no surprises by borrower & lender



37

37

Profile of a Customer with Favorable Odds

- Strong financial business managers: R.E.M.
- Minimum of three to six sources of revenue
- Character: fix the problem & be accountable
- Organized, accurate & timely records
- Accrual-adjusted income statements
- Detailed contingency plan with written actions & dates
- Strong risk management plan
- Respectful communications between borrower & lender

38

38

Six Cs of Agricultural Lending

BANK/ASSOCIATION

- Conservative in good times
- Courageous in tough times
- Consistent in all times

TEAM MEMBERS

- Calculate & Connect the Dots:
(Art & Science of Lending)
- Critical thinking
- Communication



39

39



Q&A with Dr. Kohl

40

40

Dr. David Kohl's Contact Information:

Office:

(540) 961-2094

Alicia Morris

Scheduling:

(540) 493-2724

Angela Meadows

Email:

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/>