

The Farm Financial Situation

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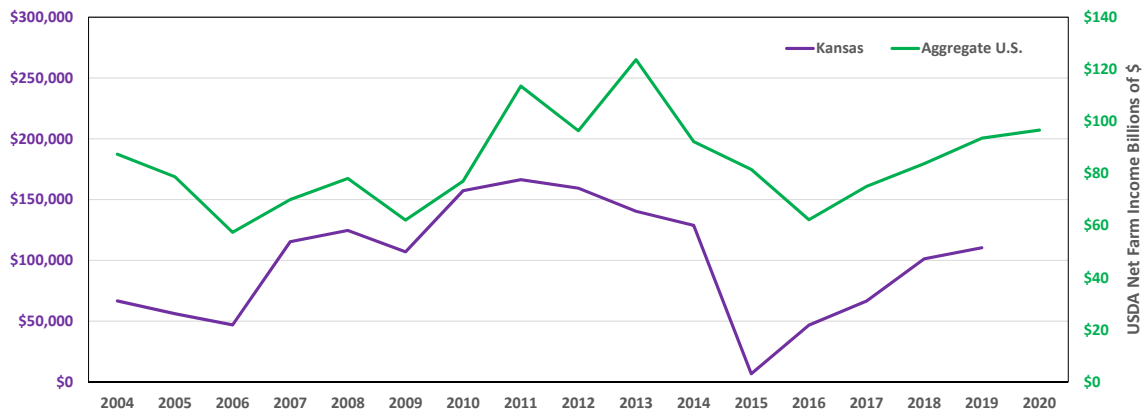
Introduction

- ❖ An Improving Farm Economy through the end of 2019
- ❖ Net farm income and government program payments
- ❖ Examination of 518 KFMA farms with continuous data 2014 through 2019
 - ❖ Probability of Default
 - ❖ Debt to Asset Ratio
 - ❖ Debt at Risk
 - ❖ Working Capital Position
 - ❖ Capital Debt Repayment Capacity
- ❖ Shifting crop mix
- ❖ The Lenders Perspective



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Net Farm Income – Kansas Farm Management and Aggregate U.S.



KFMA Average Net Farm Income and Government Payments

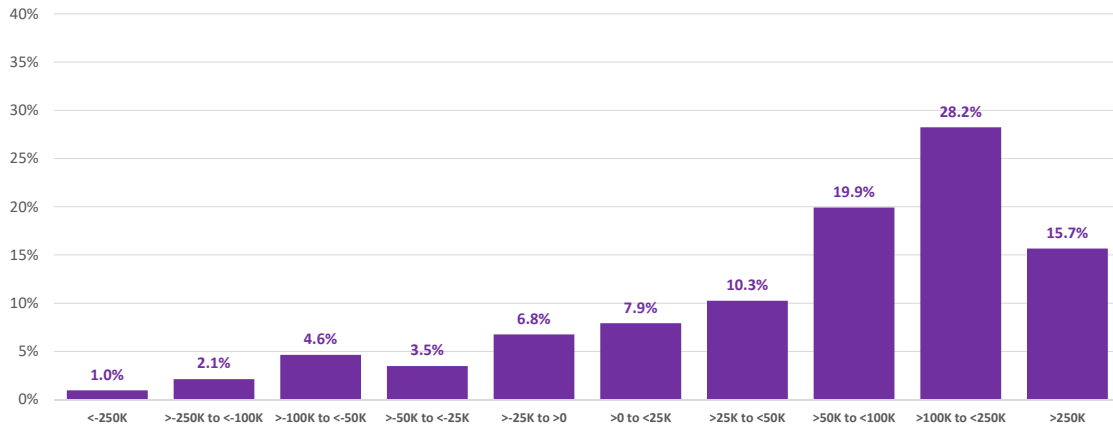
	2014	2015	2016	2017	2018	2019
Net Farm Income	\$137,508	\$13,788	\$58,412	\$74,040	\$109,443	\$120,479
Government Payments	\$28,373	\$20,615	\$26,047	\$27,541	\$41,384	\$90,543
Government Payments as a Percent of Income	20.6%	149.5%	44.6%	37.2%	37.8%	75.2%

Sample size is 518 farms with 2014 to 2019 continuous data

Government Payments are important as a percentage of income for farms

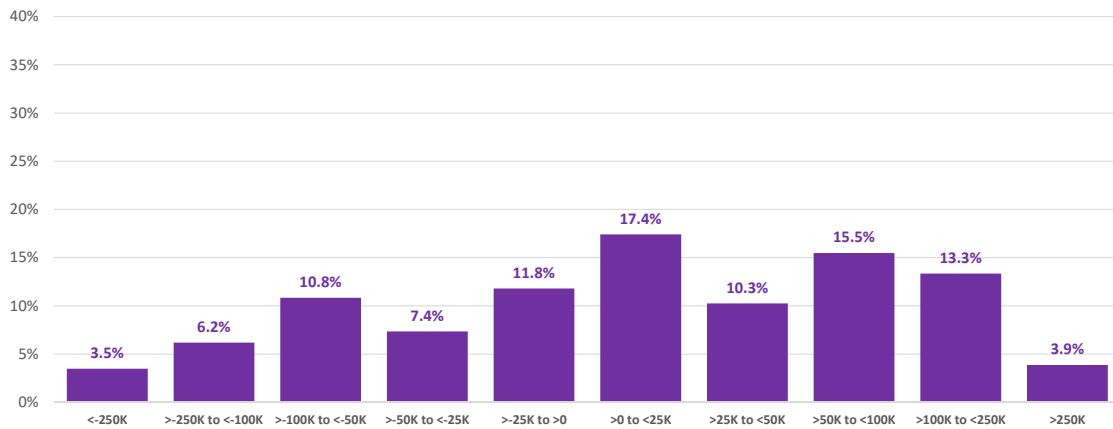


Distribution of 2014 Net Farm Income



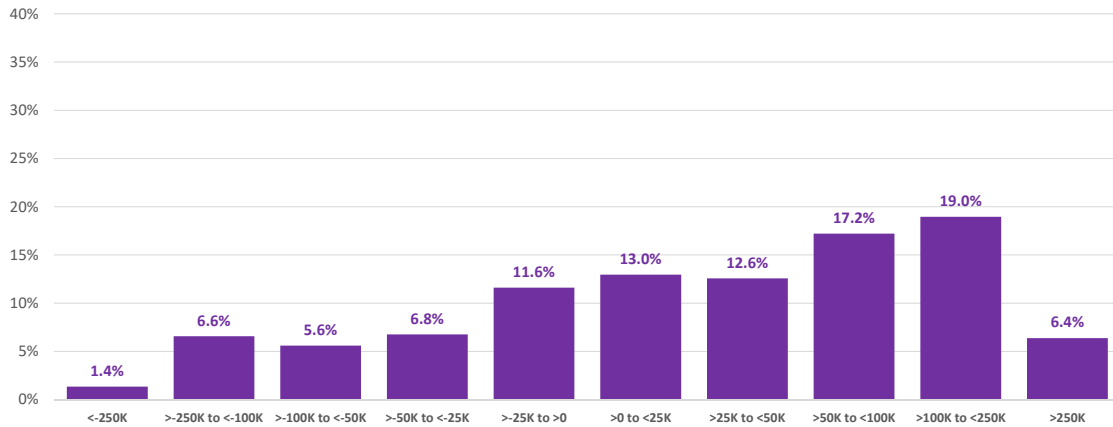
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Distribution of 2015 Net Farm Income



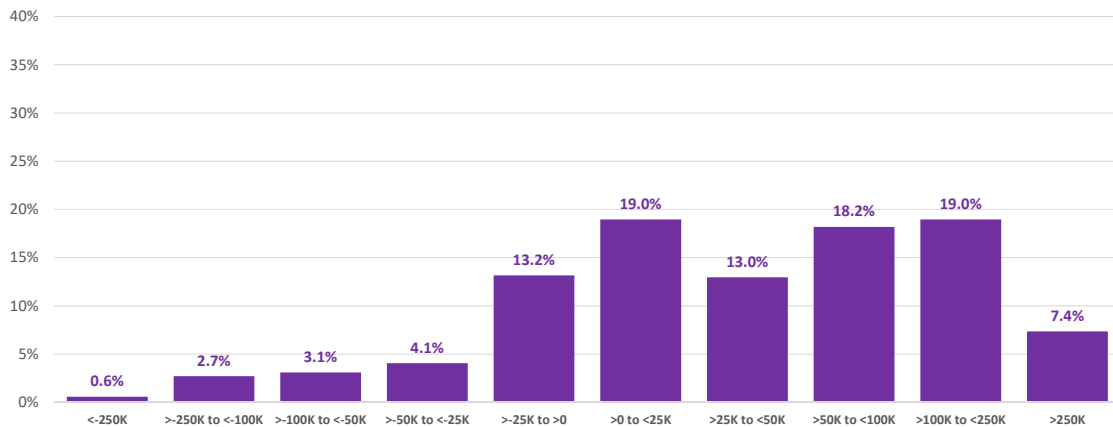
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Distribution of 2016 Net Farm Income



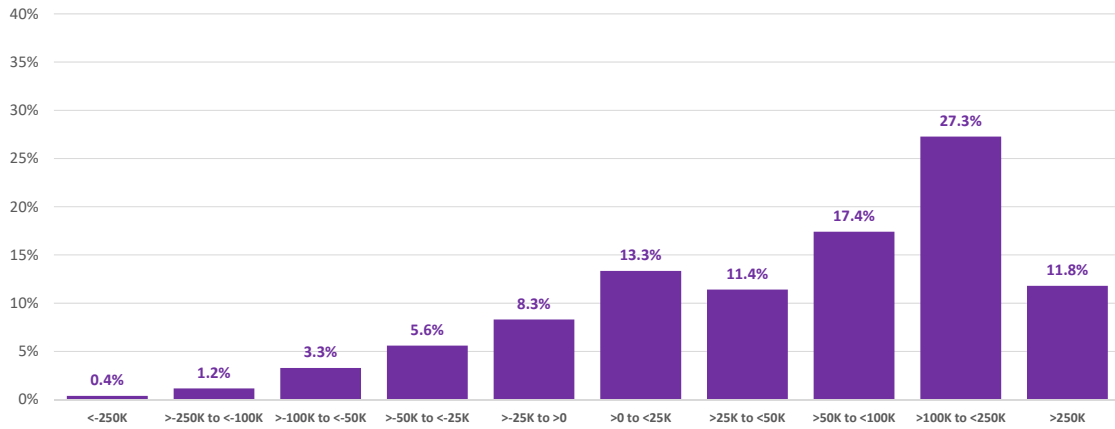
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Distribution of 2017 Net Farm Income



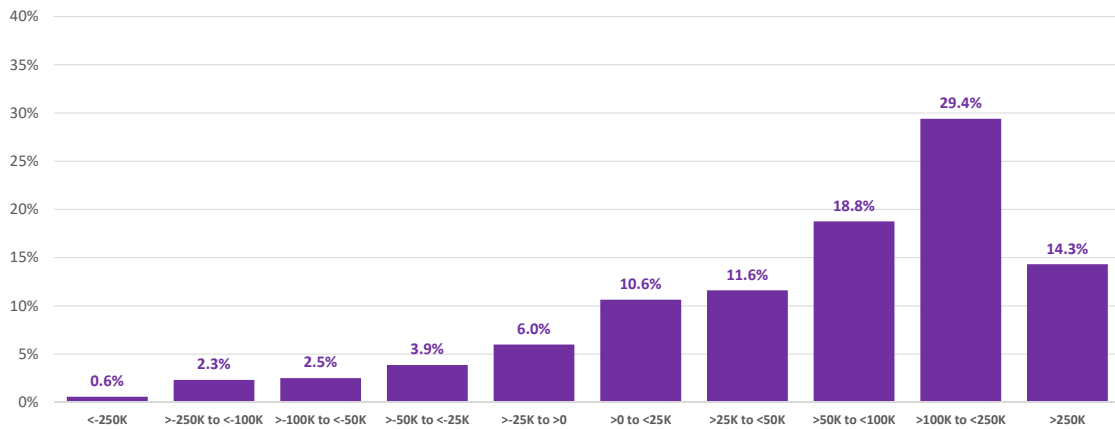
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Distribution of 2018 Net Farm Income



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Distribution of 2019 Net Farm Income



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Distribution of KFMA Net Farm Income

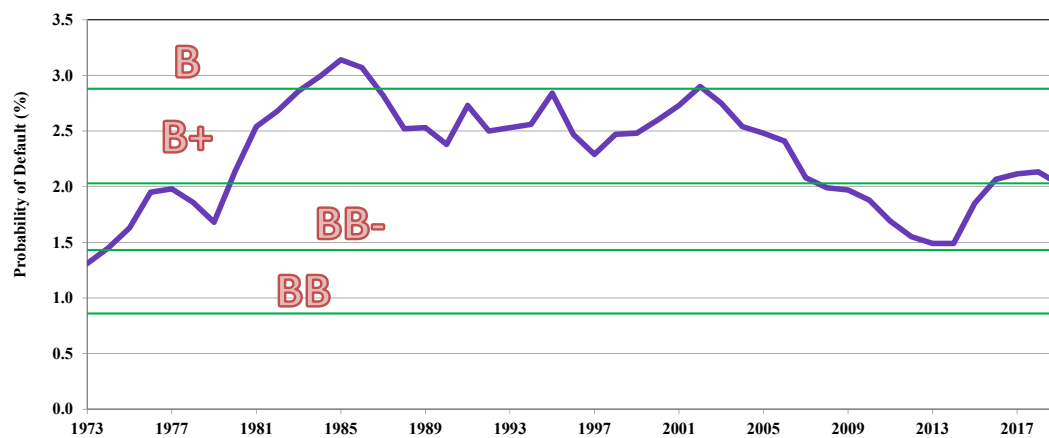
Farms with	2014	2015	2016	2017	2018	2019
Negative Net Farm Income	18.0%	39.7%	31.9%	23.6%	18.8%	15.3%
Net Farm Income Less than \$50,000	36.2%	67.3%	57.4%	55.5%	43.5%	37.5%

Farms with negative income each year from 2014 – 2.3%

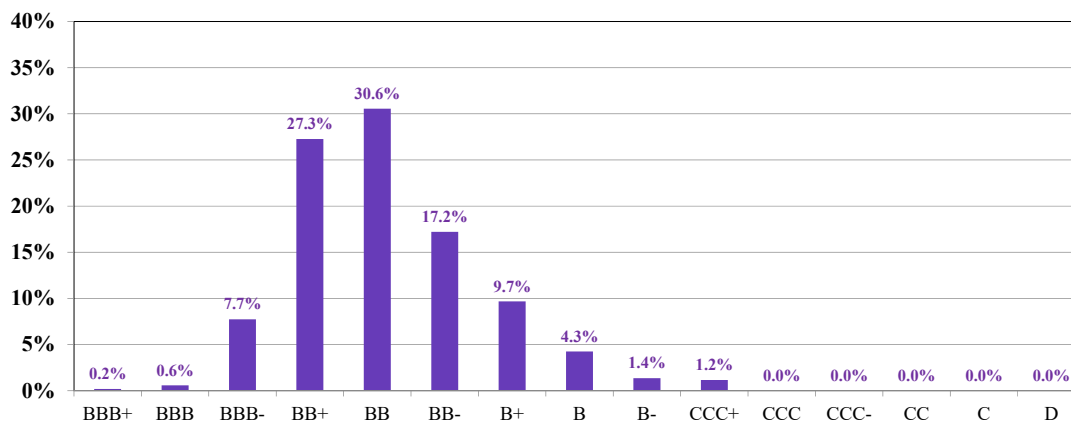
Farms with positive income each year from 2014 – 30.6%



Default Risk for KFMA farms 1973 through 2019

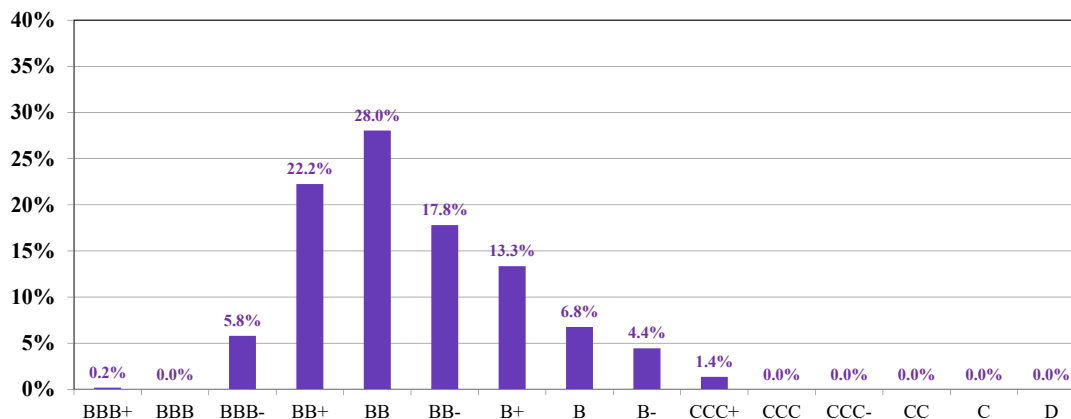


Distribution of Default 2014



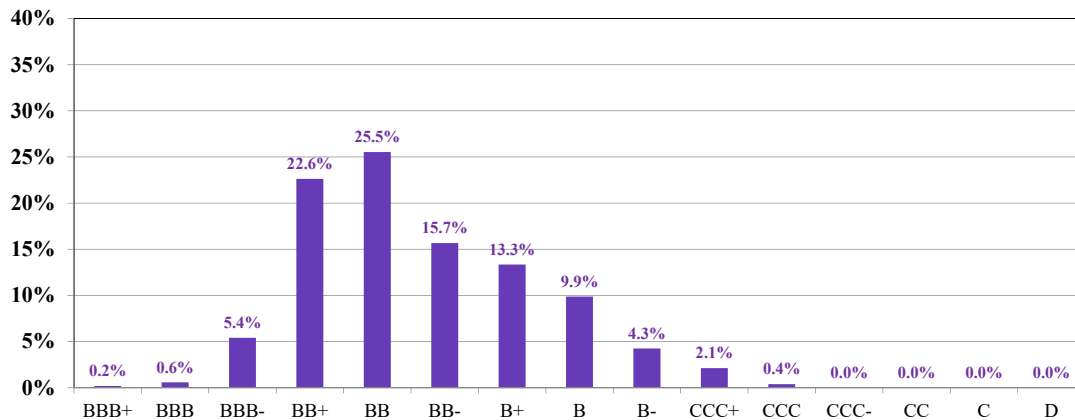
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Distribution of Default 2015

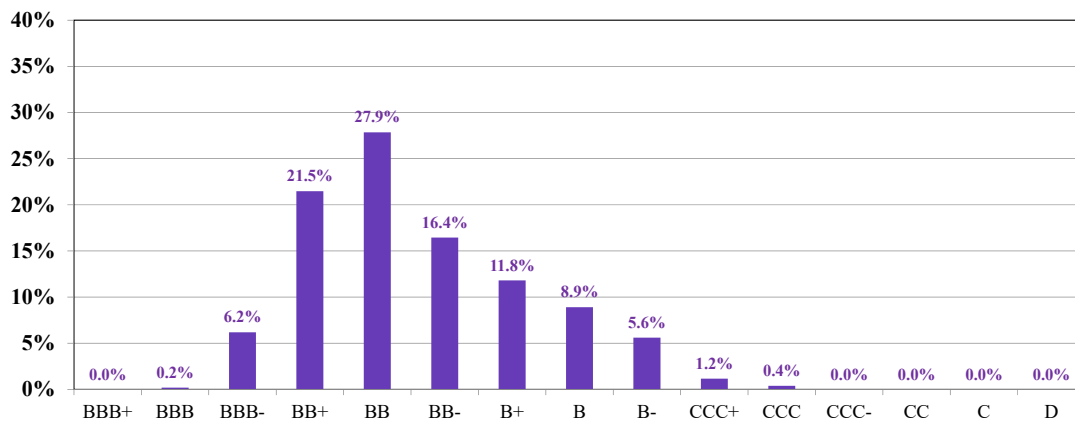


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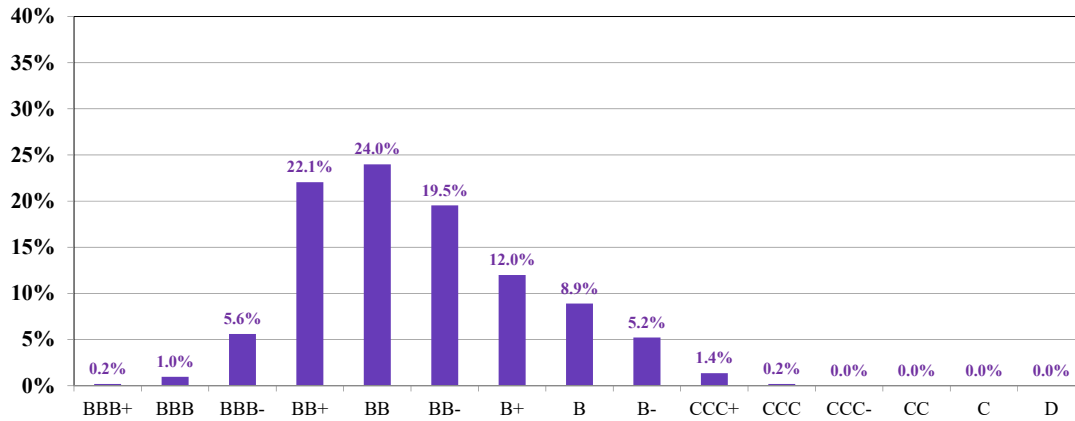
Distribution of Default 2016



Distribution of Default 2017

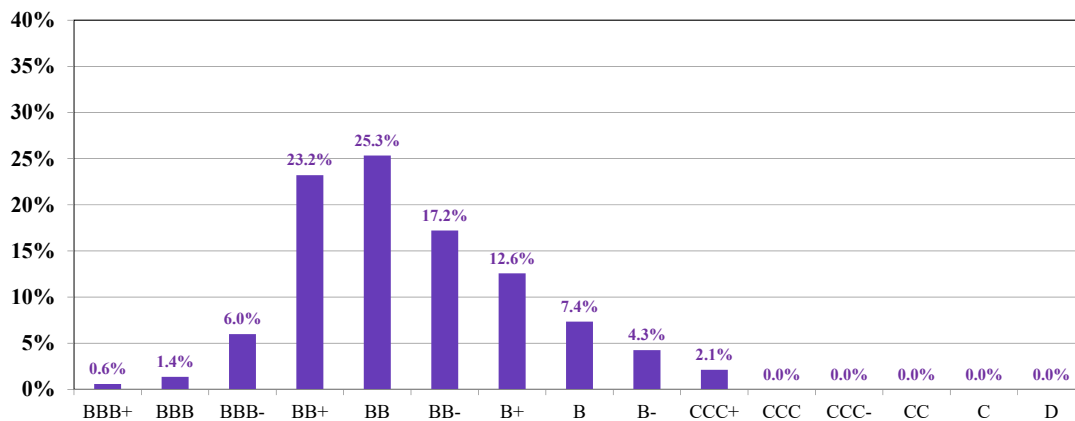


Distribution of Default 2018



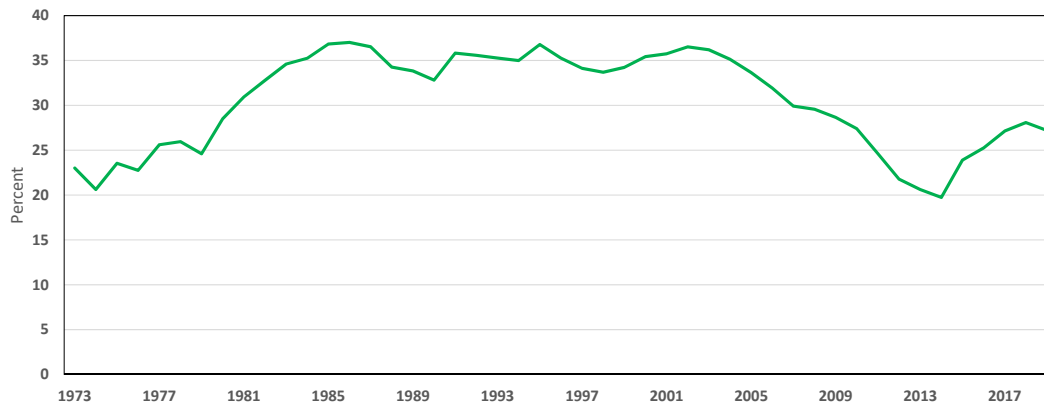
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Distribution of Default 2019

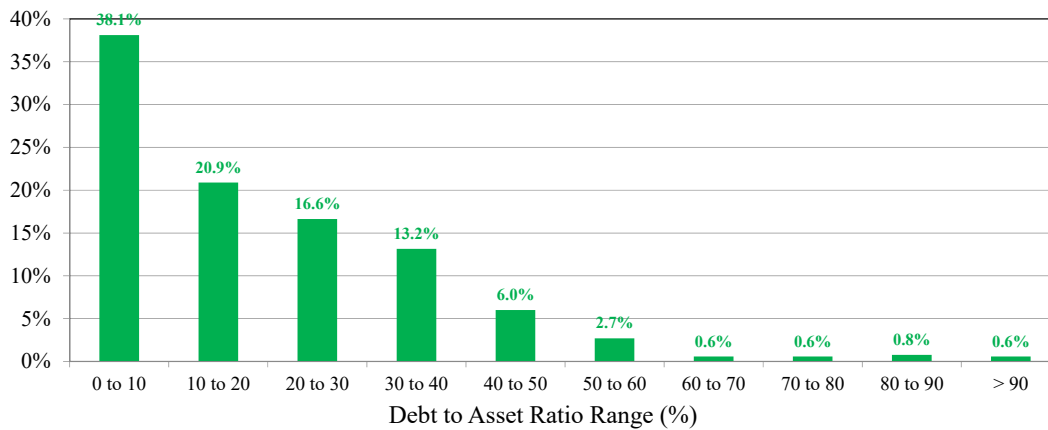


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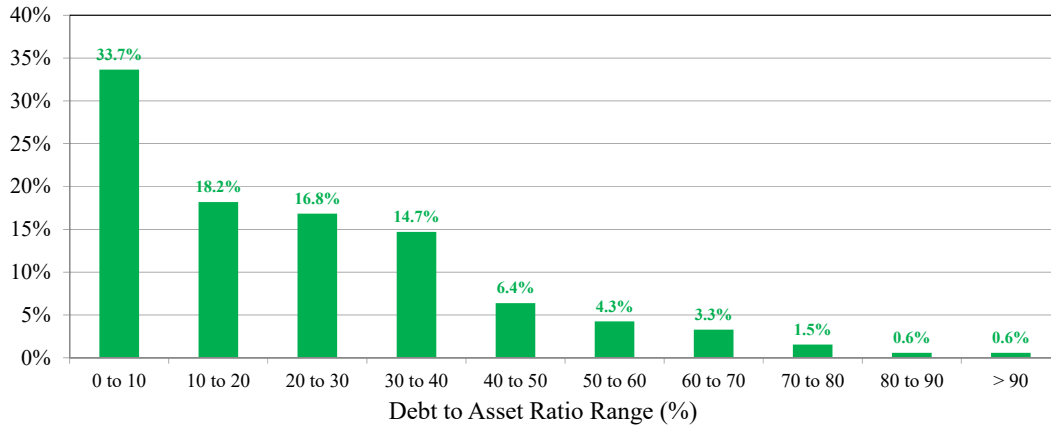
KFMA Farms Debt to Asset Ratio



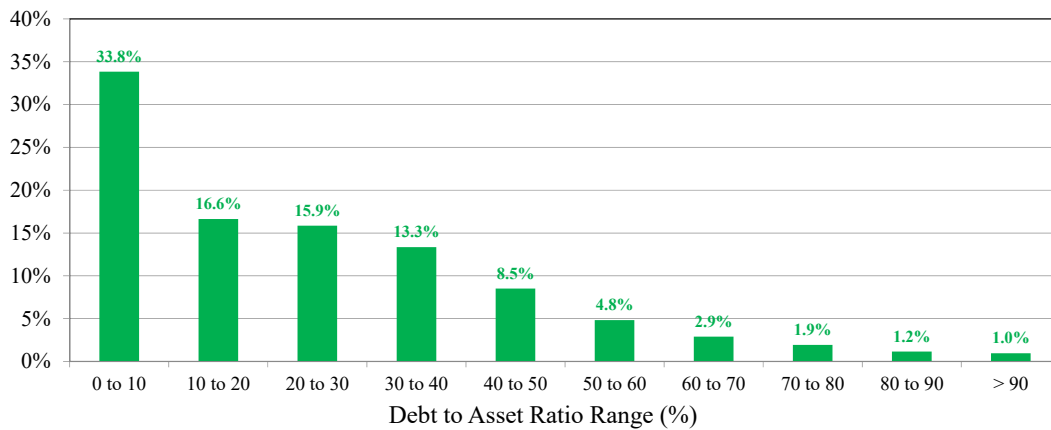
Debt to Asset Ratio Distribution (2014)



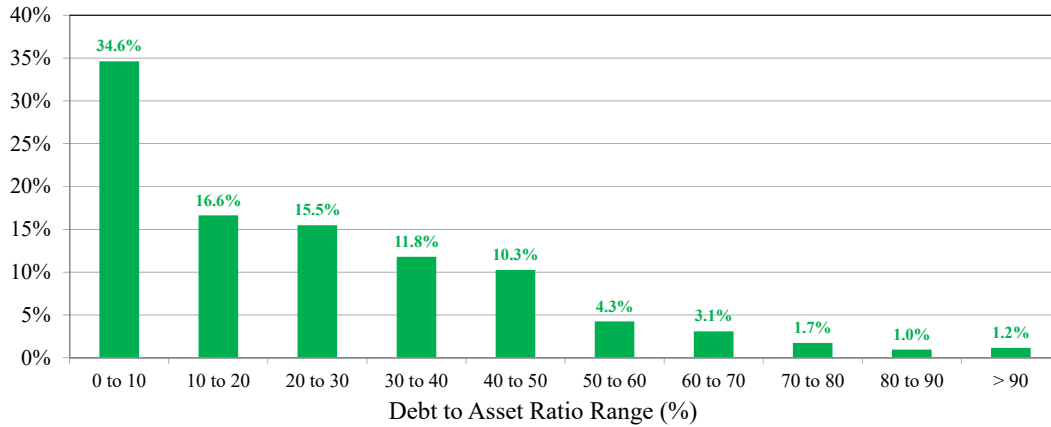
Debt to Asset Ratio Distribution (2015)



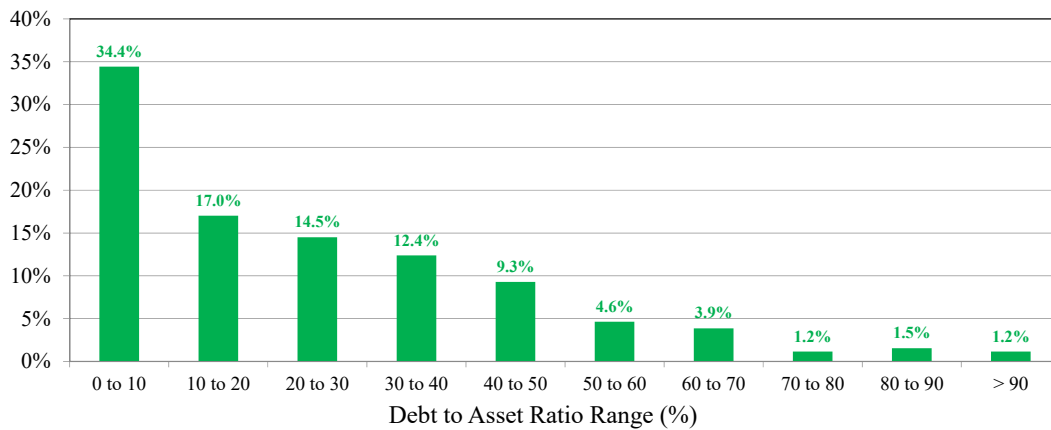
Debt to Asset Ratio Distribution (2016)



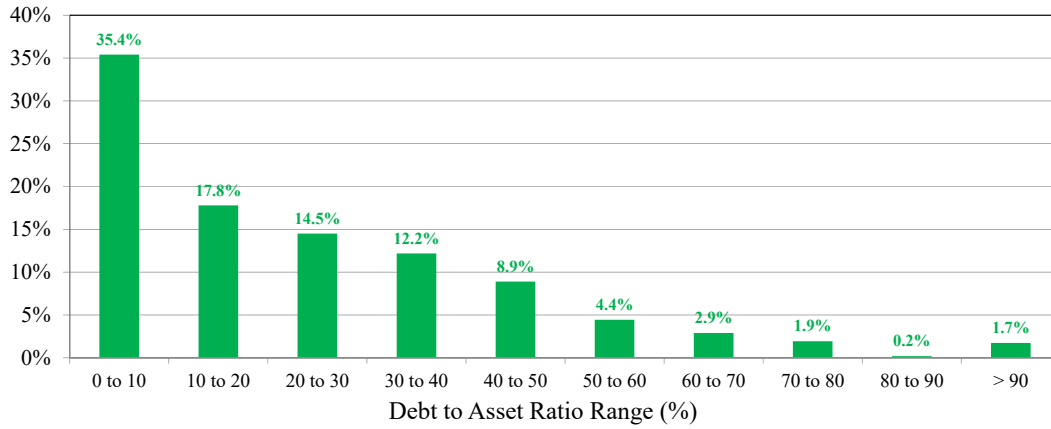
Debt to Asset Ratio Distribution (2017)



Debt to Asset Ratio Distribution (2018)



Debt to Asset Ratio Distribution (2019)



Lower Tail of the Debt to Asset Ratio

Farms with	2014	2015	2016	2017	2018	2019
Debt > 40%	11.2%	16.6%	20.3%	21.5%	21.7%	20.1%
Debt > 70%	1.9%	2.7%	4.1%	3.9%	3.9%	3.9%

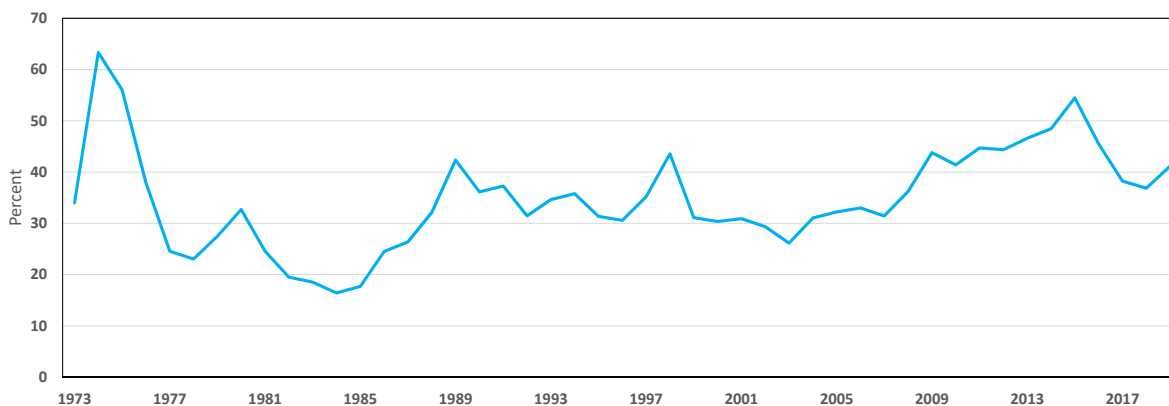


Debt at Risk for KFMA farms

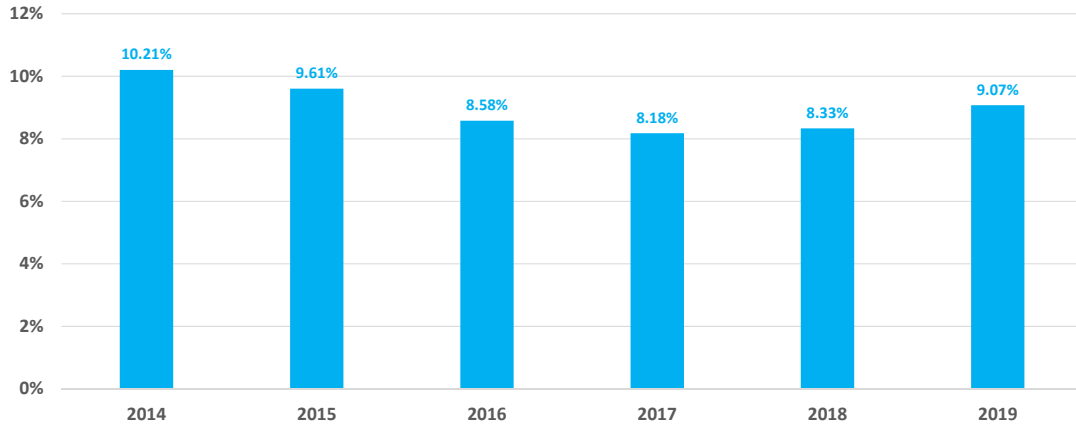
Year	Average	Minimum	Maximum
2014	\$9,405	\$0	\$171,724
2015	\$12,929	\$0	\$187,237
2016	\$13,619	\$0	\$241,476
2017	\$13,914	\$0	\$229,774
2018	\$15,070	\$0	\$249,796
2019	\$14,873	\$0	\$260,725



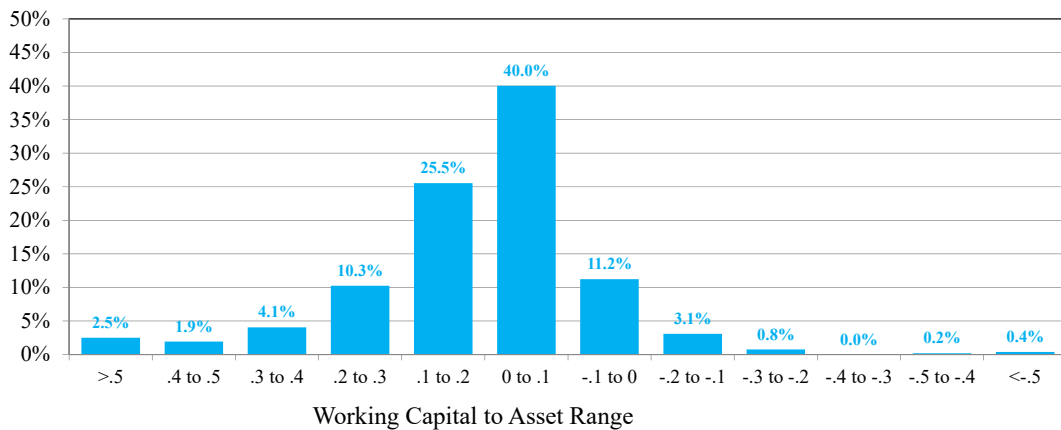
KFMA Farms Working Capital to Income



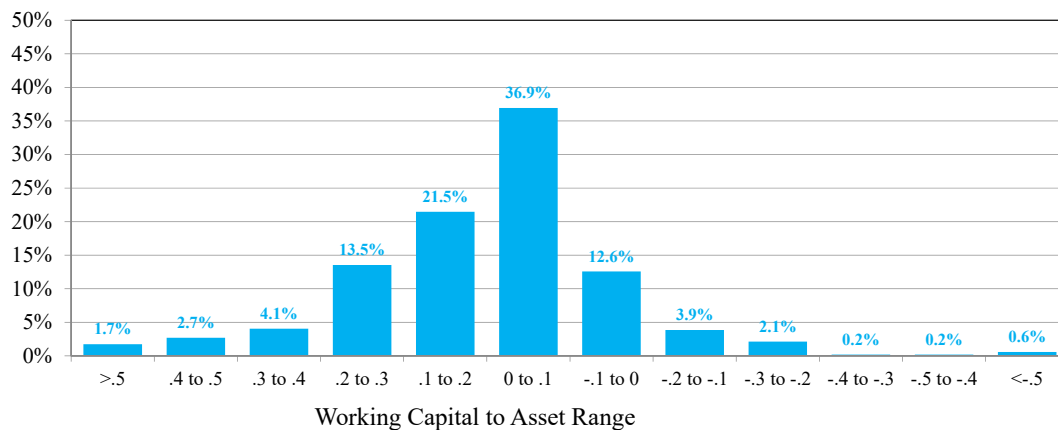
KFMA Farms Working Capital to Asset Ratio



Working Capital to Assets 2014

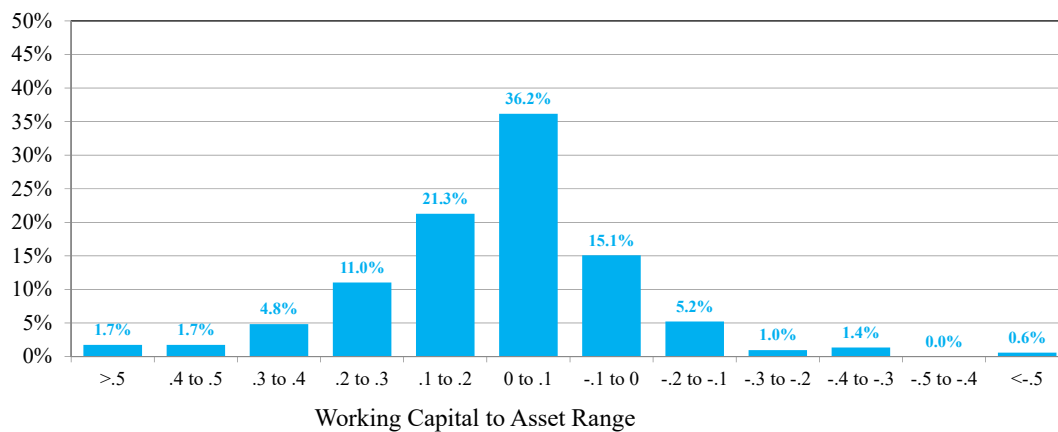


Working Capital to Assets 2015



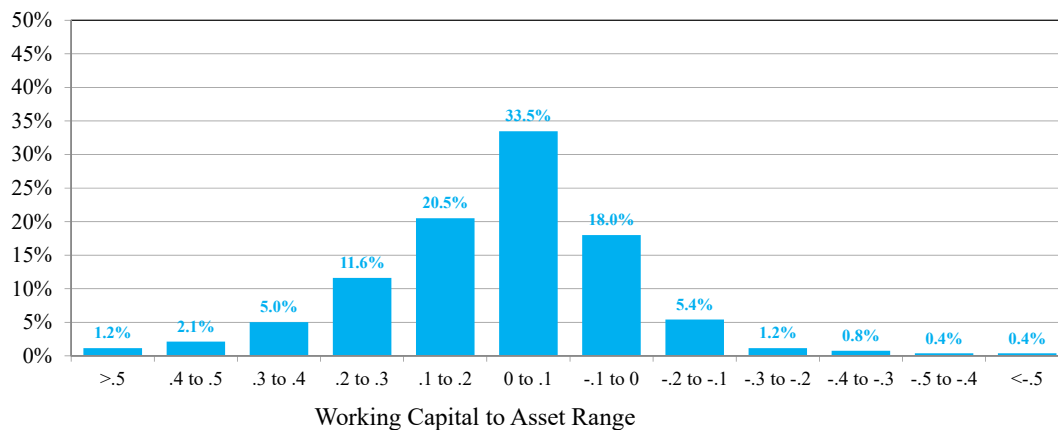
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Working Capital to Assets 2016

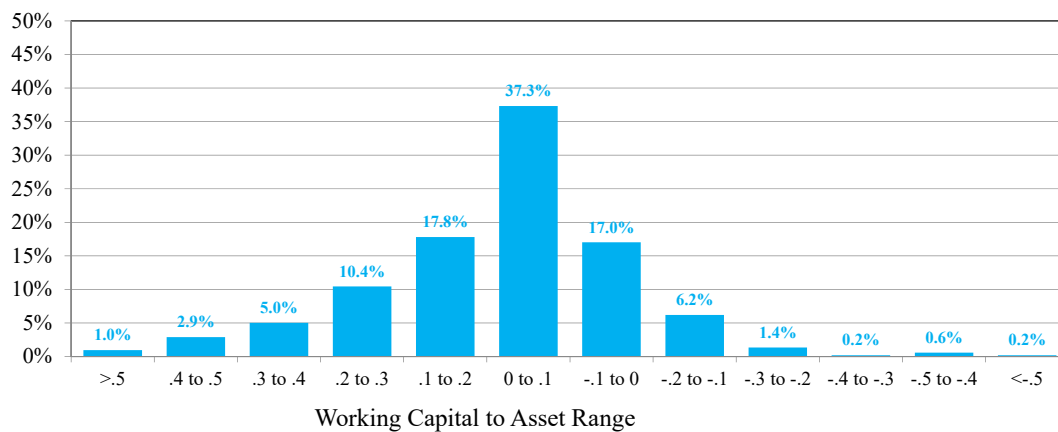


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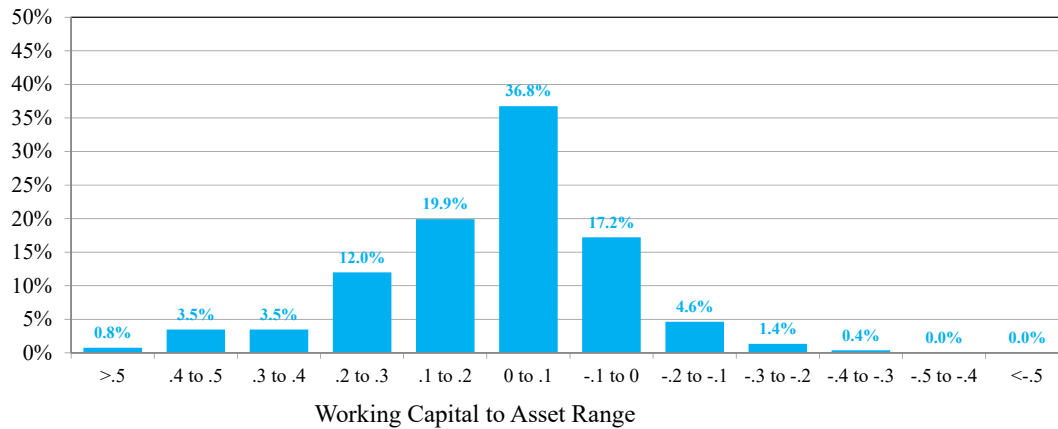
Working Capital to Assets 2017



Working Capital to Assets 2018



Working Capital to Assets 2019



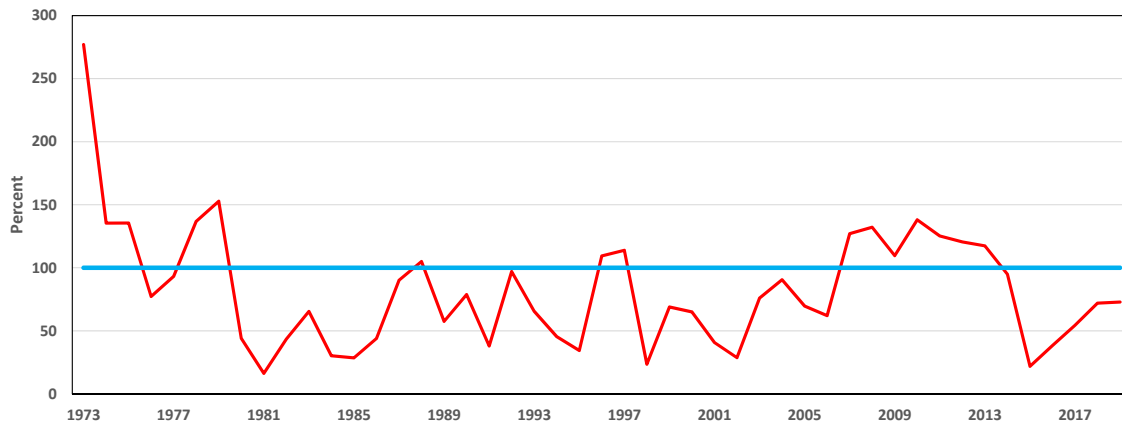
Tails of the Working Capital to Asset Ratio

Farms with	2014	2015	2016	2017	2018	2019
Ratio < 0	15.7%	19.5%	23.2%	26.1%	25.5%	23.6%
Ratio > 20%	18.8%	22.1%	19.3%	19.9%	19.3%	19.7%

Working Capital to Asset Ratio has improved but is has not reach 2014 levels

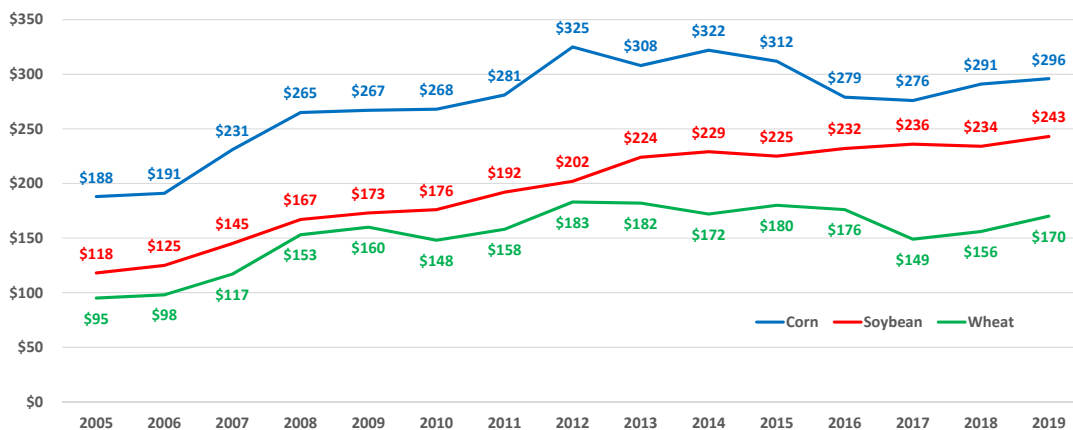


KFMA Farms Repayment Capacity



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KFMA Enterprise Non-Irrigated Variable Cost of Production per Acre



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2019 Enterprise Information – Crop Mix Shift?

- **Kansas Corn – 2019 Yield 7% below the previous 5 year average**
 - Revenue - \$395 per acre
 - Variable Cost - \$296 per acre
 - Total Cost - \$411 per acre
- **Kansas Soybeans – 2019 Yield 6% above previous 5 year average**
 - Revenue - \$396 per acre
 - Variable Cost - \$243 per acre
 - Total Cost - \$355 per acre
- **Kansas Wheat – 2019 Yield 21% above the previous 5 year average**
 - Revenue - \$250 per acre
 - Variable Cost - \$170 per acre
 - Total Cost - \$248 per acre
- **Kansas Sorghum – 2019 Yield 10% above the previous 5 year average**
 - Revenue - \$313 per acre
 - Variable Cost - \$205 per acre
 - Total Cost - \$295 per acre



Shifting Crop Mix

Crop	2015	2016	2017	2018	2019	2020	5-Year % Change
Acres Harvested (Thousand)							
Corn	3,920	4,920	5,200	4,980	6,020	5,750	47%
Sorghum	3,200	2,950	2,360	2,650	2,450	2,550	-20%
Soybean	3,860	4,010	5,110	4,690	4,490	5,250	36%
Wheat	8,700	8,200	6,950	7,300	6,500	6,400	-26%
Total	19,680	20,080	19,620	19,760	19,460	19,950	1.4%

Increase in soybean and sorghum acres in 2020 and a decrease in corn and wheat acres



Producer Summary

- At the end of 2019, Kansas has experienced four years of increasing net farm income on average
 - Farms with negative net income fell from 39.7% of farms to 15.3% of farms
 - Much of that improvement was due to increasing government payments
- The probability of default improved in 2019
- The debt to asset ratio improved in 2019
 - 20.1% of KFMA farms had a debt to asset ratio of greater than 40%, down from 21.7% in 2018
 - 3.9% of KFMA farms had a debt to asset ratio of greater than 70%, roughly the same as in 2018
 - Debt at risk decreased from 2018
- The working capital to asset ratio increased for the 2nd year in a row in 2019
- The capital debt repayment capacity increased for the 4th year in a row in 2019
- Farmers continue to shift crop mix in Kansas
 - Shift to Soybean and Sorghum in 2019 away from Corn and Wheat

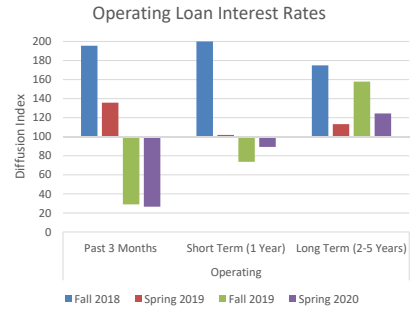
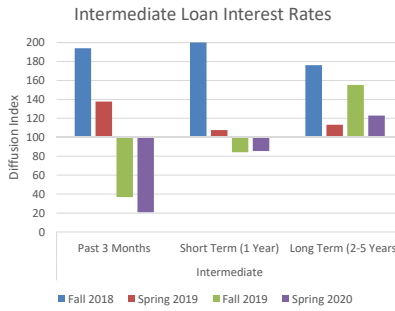
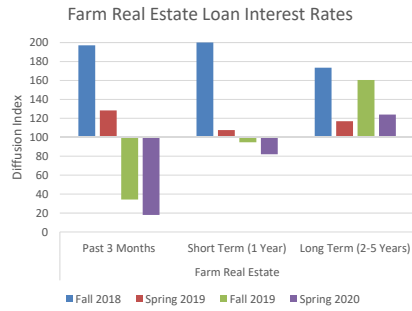


Lender Survey

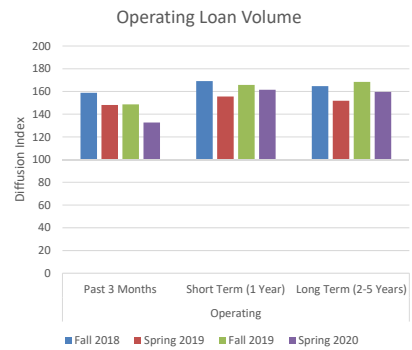
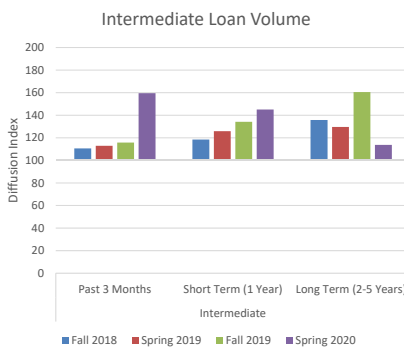
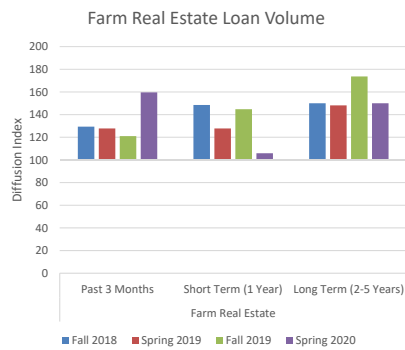
- Survey completed in May 2020
- Lender Comments
 - This year will be the least profitable year in the last 1-2 decades for all categories of producers in our area, corn/soybean, cattle feeding and hogs. There will be major adjustments for many producers if prices do not improve within the next 6-12 months.
 - At the present time, most enterprises in our area are operating at below breakeven levels. Without money from the government, there would be even more stress in the ag economy. Biofuels industry is in trouble which impacts the price of corn. Long term trading partnerships have been damaged. Not sure what is going to move the markets to return to profitable levels.
 - We are starting to see farmers in our area transition to organic crop production. This is generating another \$200 net income per acre compared to conventional farmers. We are also watching numerous children coming back to the farm from college and starting organic crop production. They are able to make net income per acre. We have been contacted by numerous landowners and farm managers seeking good young tenants. We have organic farmers in our area averaging above 200 bu corn at \$9.00 plus per bu, and 60 bu soybeans at \$18.00 plus per bu.



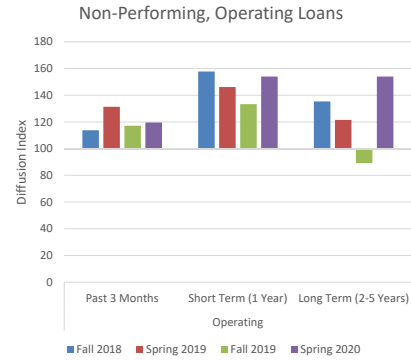
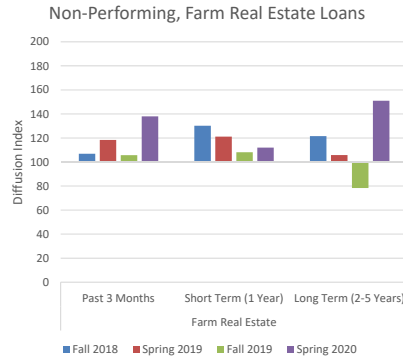
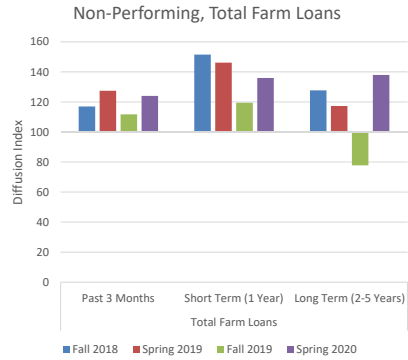
Interest Rate Expectations



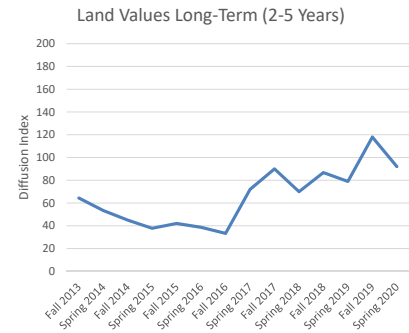
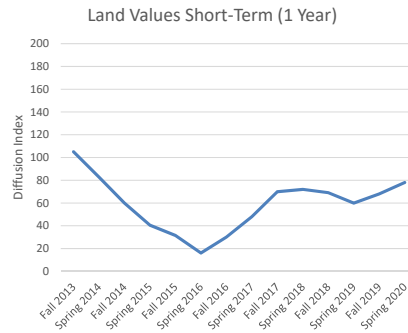
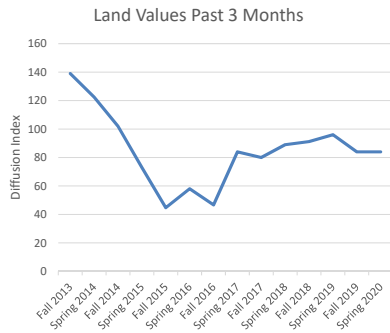
Loan Volume Expectations



Nonperforming Loans



Land Value Expectations



Lenders Summary May 2020

- Lower expectations for increased interest rates in the one to five year time frame
- Slightly lower expectations for an increase in loan volume in the one to five year time frame
- Increased expectations for nonperforming loans in the one to five year time frame
- Some sentiment for weakening land values in the two to five year time period
- Generally a movement from cautious optimism at the end of Fall 2019 to mild pessimism
- Much concern regarding 2020 and 2021 regarding production agriculture profitability

