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Crop Insurance - Impact to Ag Finance

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Farm Credit Services of America & Frontier Farm Credit
Combined Service Area Overview

- Serve all of Iowa, Nebraska, South Dakota, Wyoming, and the eastern portion (41 counties) of Kansas
- More than 57,000 customers
- Own/service nearly $28 billion in loans
- 48 retail offices
- Approximately 1,700 employees

Note: Information is as-of 12/31/16
Impact of Grain production

Portfolio Concentration (Industry Group Top 10)
As of December 31, 2015

- Grain: 45.8%
- Other: 12.1%
- Landlords/Investors: 9.8%
- Beef Feedlot: 9.5%
- Cow/Calf: 7.7%
- Swine: 6.3%
- Dairy: 4.0%
- General Livestock: 1.7%
- Forest Products: 1.3%
- Poultry: 1.6%
Crop Insurance Portfolio – December 31, 2016

• Approximately 12,000 Grain industry customers – 95% carry crop insurance
  - 100% Grain industry operating lines

• Acres Insured = 8.7 million
  - Corn 53%
  - Soybeans 36%

• Total customers = 16,396

• Total Premium = $341 million

• Market share = 15.2%
Lenders Perspective –
Crop Insurance as a Risk Management Tool

- Catastrophic Risk
- Collateral Margin
- Cash flow
Crop Insurance Program

• National Statistics
  – 290 Million acres insured in 2016
  – Total Premium - $9.1 Billion ~ $31.40 per acre insured

• 1989-2016 Loss Statistics
  Average Loss per Acre: $19.71
  Minimum Annual Loss: $5.45 (1997 Crop Year)
  Maximum Annual Loss: $61.63 (2012 Crop Year)
Crop Insurance Program

Average Loss Per Acre

- National
- Iowa

Average Loss Per Acre

$0 $10 $20 $30 $40 $50 $60 $70 $80 $90 $100

Crop Insurance Program

Average Loss Per Acre

- National
- Iowa
- Carroll County, Iowa


Average Loss Per Acre:
- $0
- $50
- $100
- $150
- $200
- $250
- $300

Farm Credit Services of America
Frontier Farm Credit
Three consecutive years with profit margins averaging over $2/bu. or over $350/A
Crop Insurance Supports Forward Planning & Marketing

Average of December Corn Futures Monthly High Prices, 1976-2015

Seasonally strong price period

Insurance guarantee discovery month

Insurance harvest price discovery month
Incremental Borrower Liquidity Cost

Example: 1000 acres farm, 180 bu APH

1000 acres x 180 bu x $3.50 corn = $630,000

70% advance rate = $441,000 or $441/Acre

45% advance rate = $315,000 or $283/Acre

Incremental Liquidity Needed: $158,000 or $158/acre

Average estimated customer impact: $100,000 additional liquidity needed or $1.2 billion total
Catastrophic Risk

- Concern for any business
- More so for financing ag – weather risk is uncontrollable

Foundation to mitigate this risk for an ag lender:

1. Capital
2. Crop Insurance
Ag Banks: Hold agricultural production loans plus loans secured by farm real estate greater than 20% of total assets
Summary

• Financing ag has unique catastrophic risk

• Nation-wide – portfolio vs. individual borrower risk

• Crop insurance provides the stability for producers to be successful

• Lenders will be willing to provide capital to finance the industry – if the returns and risk are in balance