

Integrating Crop Insurance and Farm Cash Flow Analysis

Frayne Olson, PhD

*Crop Economist/Marketing Specialist
Director – Burdick Center for Cooperatives
frayne.olson@ndsu.edu 701-231-7377 (o) 701-715-3673 (c)*

NDSU Extension
N.D. Agricultural Experiment Station
Dept. of Agribusiness & Applied Economics

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Today's Topics

- Projected crop profitability for 2020.
- Outlook for whole farm cash flows in 2020.
- Cash flow vs Collateral.
 - Crop insurance as a source of collateral
- Potential crop insurance issues for 2020.



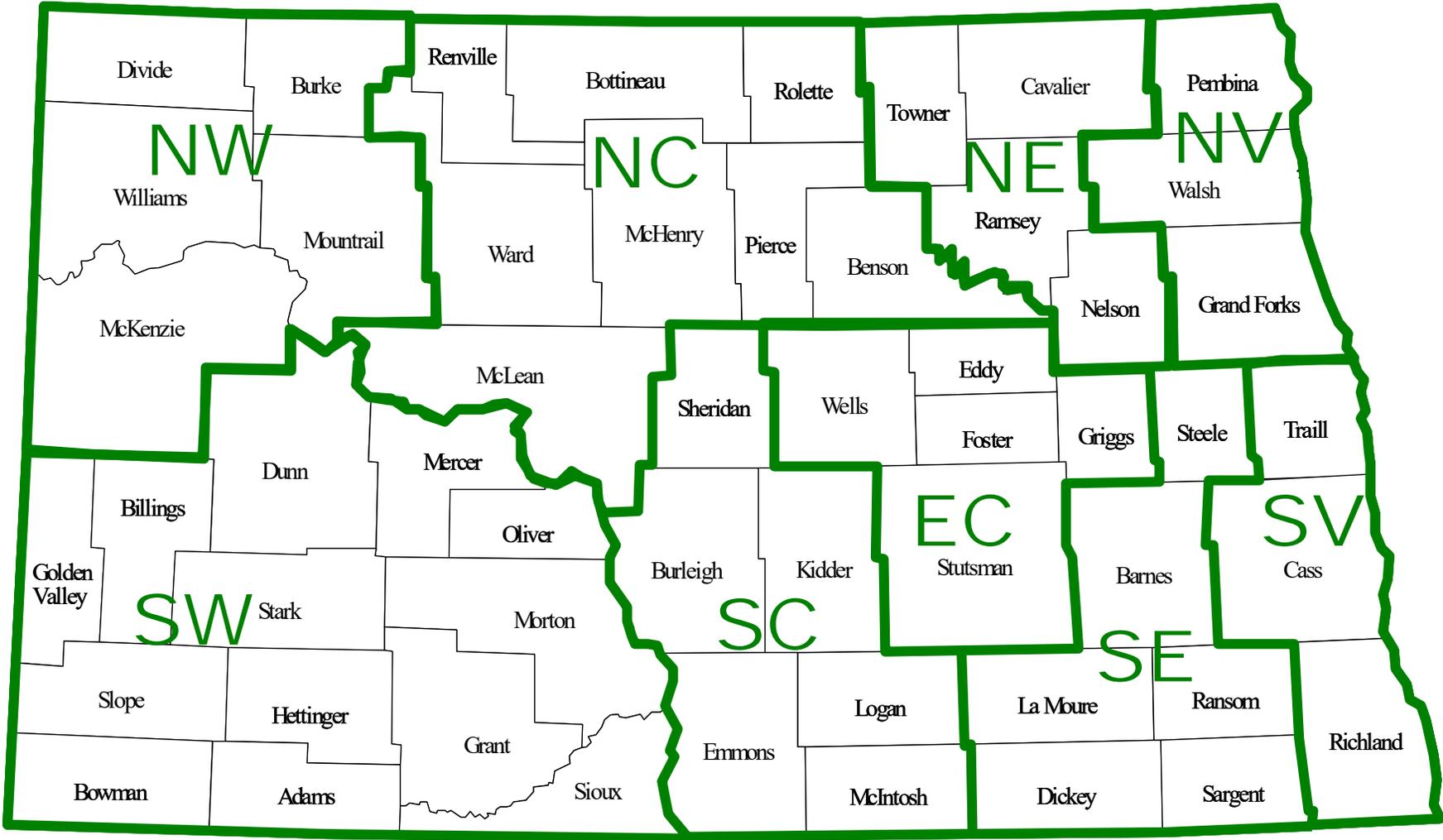
Source of Crop Budget Information

- NDSU Projected Crop Budgets
- <https://www.ag.ndsu.edu/farmmanagement/crop-budget-archive>
- Search “NDSU Crop Budgets”
- PDF or Excel versions

- Will use East Central region example



NDSU Crop Budget Regions



Price Forecasts for Budgets

Crop	2020 Price Forecast
Soybean	8.20/bu.
Spring Wheat	5.00/bu.
Corn	3.30/bu.
Canola	16.50/cwt.
Durum	5.50/bu.
Dry Beans	27.00/cwt.
Malt Barley	3.30/bu.
Oil Sunflower	17.50/cwt



Relative Crop Profitability

Crop	North Central	North East	North Valley
Soybean	28.36	-6.55	13.82
Spring Wheat	-1.36	11.25	-16.96
Corn	-4.03	-8.45	-1.59
Canola	31.40	22.68	-25.09
Durum	-7.73	2.78	-5.67
Dry Beans	129.53	129.53	103.56
Malt Barley	-12.21	-18.60	-54.05
Oil Sunflower	22.44	14.92	-17.76

Return to Labor and Management

Relative Crop Profitability

Crop	South Central	East Central	South East	South Valley
Soybean	8.95	23.76	37.18	16.58
Spring Wheat	-16.66	-4.14	-10.87	-34.86
Corn	-20.86	24.42	33.21	1.38
Canola	2.15	-26.47	-49.59	-
Durum	14.29	6.79	-18.01	-64.38
Dry Beans	97.75	124.71	138.16	126.02
Malt Barley	-20.04	-29.25	-45.16	-
Oil Sunflower	30.60	31.94	-25.13	10.34

Return to Labor and Management

Whole Farm Cash Flow Example



Re-amortizing Losses is More Difficult

- “Re-amortizing” means creating a new term loan, with multi-year repayment, to cover current year losses.
 - Can combine existing term loans and current year losses into new loan with longer repayment period.
- Improves cash flow conditions, but increases overall debt levels.
- If asset values are falling and debt levels are increasing, overall financial conditions change quickly!



Measuring Credit Worthiness

- Every commercial lender develops loan policies for their company.
 - Increases consistency across loan officers.
 - Provides standards for risk rating (setting interest rates on loans).
- 5 “C”s of Credit are often used as base
 - Character
 - Capacity
 - Capital
 - Collateral
 - Conditions



Measuring Credit Worthiness

- **Character** – borrowers history of managing credit and communications.
- **Capacity** – ability to repay a loan (focus on cash flows and repayment margins).
- **Capital** – the amount of down payment or remaining equity.



Measuring Credit Worthiness

- **Collateral** – value of assets pledged to secure the loan.
 - Ex. Second mortgages take a subordinate role to the first mortgage.
- **Conditions** – what is the purpose of the loan and the economic environment surrounding the loan.
 - Ex. Extend operating loan repayment to allow more time for marketing.



Loan Review Process

- Farmer/Rancher provides historical information and a business plan to loan officer.
- Loan officer reviews documentation and plan, scores financial risks and makes recommendation to loan committee.
- Loan committee reviews loan officer recommendations makes final decision regarding loan.
 - Are there any written “exceptions” to loan policy?



Market Value vs. Collateral Value

- The *Balance Sheet* lists all of the assets controlled by the farm business, lenders use an estimated “market value”.
 - **Inventories:** Current market value, less selling costs.
 - **Machinery:** Appraisals, advertisements and/or auction sales.
 - **Breeding Livestock:** Assigned value and/or average auction sales.
 - **Land:** Assigned value, appraisals and/or comparable sales.
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Market Value vs. Collateral Value

- Commercial lenders will use “collateral value” of assets when evaluating a new loan or loan renewal.
- Collateral value is an estimate of the asset value if the lender were to take possession and sell the asset in a timely manner to repay the loan.



Market Value vs. Collateral Value

- Current Collateral Values:
 - **Inventories:** Typically the same as estimated “market value”.
 - **Machinery:** 70% is typically upper limit
 - **Breeding Livestock:** Often 75% of assigned value
 - **Land:** 65% is typically upper limit
 - **What is collateral value of unharvested crop?**
 - 50% of crop insurance appraisal
 - 75% of crop insurance indemnity if no appraisal

Potential Crop Insurance Issues

- Increase crop insurance coverage levels to increase collateral value for operating loan?
 - Enterprise vs. Optional Units.
- Increase coverage levels on units with high probability of Prevent Plant?
 - Ex. Move from 75% coverage to 85% level coverage on Prevent Plant units?
- Should Prevent Plant acres be included in 2020 farm plan for lender?
- Will “Corn on Corn” be allowed for Prevent Plant?
- Will market prices increase to provide incentive for planting rather than Prevent Plant?



March CBOT Corn Futures



Questions?

