FIRST TRUST AND SAVINGS BANK
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The First Trust and Savings Bank was built on a foundation of agriculture. Since the early 1900s First Trust has been committed to the most important industry in the area. We have remained strong and maintained relationships with agricultural customers through the changing agricultural economic environment. Your goals are our goals. Together, by assembling a team of knowledgeable and dedicated professionals, we formulate a plan that meets your needs and desires.

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10 Predictions for Farmers in 2019

This could be another rough year - or it could be the turnaround we need. Let's get out the crystal ball.

By Betsy Freese, Executive Editor, Meredith Agrimedia

1. More Corn, Fewer Beans

About 3 million acres of crop production in the U.S. will shift to corn in 2019, with a 15-billion-bushel corn crop and record-setting corn production worldwide. "This big-crop phenomena is set for years, and it's not just here in the U.S.," says Chad Hart, crop marketing specialist at Iowa State University. While the U.S. continues to be number one in corn worldwide, we will lose our number one position in soybeans to Brazil in 2019, due to tariffs. "We're going to pull back in acreage, and they're going to add, so they will be the dominant producer for the world," says Hart. "It's a pattern that has been building for some time.

2. More Spring Wheat

Nearly 7 million acres will come out of soybean production in 2019. That loss will happen mainly in the Dakotas, Nebraska, and Minnesota. Some land will switch to corn, but expect a jump in spring wheat and a return to fallow in parts of the Dakotas. Overall, the USDA is projecting we'll have 1 million less acres in row-crop production. North Dakota will transform, says Hart. The state expanded in soybeans rapidly the past 10 years, but all those beans were going to China. "They could catch a train west and find that great big market. Now, that great big market is shut down," he explains. "We're going back to what is more traditionally grown in the Great Plains after an incredible run in the soybean market."

3. Corn Prices Ticking Up

Corn prices should improve in 2019 to around $3.90 a bushel due to three years in a row of strong international demand, says Hart. "What's driving this is the meat side of the equation. You import corn when you have something to feed. The light at the end of the tunnel is the global demand for meat." On the domestic side, the demand for corn is not growing as fast. "Livestock producers are very efficient now," says Hart. "I'd love for them to use a bit more corn. Same thing with ethanol plants. They're getting more efficient." We are starting to put in a few new ethanol plants due to international demand, he says. "India is a player now for our ethanol exports. We're finding those new markets."

4. More Storage

Two years ago, a pie chart of our soybean exports looked like Pac-Man, with China gobbling up everyone else. Since then, we've seen a half-billion-bushel drop to China due to retaliatory tariffs. We have found a new home for about 45% of those beans, says Hart. "Eventually, we'll find a home for almost all of them, but it takes time. Until then, it's hard for prices to move much. That's why we're seeing soybean stock levels build dramatically." Producers are storing soybeans and waiting for a seasonal rally. "Traditionally, we do get one," says Hart, "but I'm worried about the quality of the crop. 2018 was a slow year getting the crop out. Rain makes grain until that grain is made." The trade dispute just reinforces it."

5. Trading Partners Shifting

We've doubled sales to Mexico and the European Union in the past year, and they are now our top two soybean export markets. Number three is Argentina, which used to import zero. "When the tariffs went into place, China turned to South American and bought beans as fast as and as hard as it could," explains Hart. "That caught the soybean crushing industry in Argentina off guard. It went out on the world market and said, 'Who's got some cheap beans for sale?' We did."

6. Trade Wars Get Worse. Or Better.

Who's our customer in agriculture? The world. "Everybody on this planet is our potential customer," says Hart. "If you're going to feed them, you've got to trade with them. Half of our soybean crop and 21% of our corn leaves the country. The tariff's impact will overhang the market until we get an agreement." There is good news. "Just as quickly as we got into this mess, it's possible to get out again," he says. "That's what farmers are waiting on."

7. Costs Flat, Profits Flat

What do we expect on the production cost side compared with 2018? Fuel and fertilizer prices will be a little higher, says Hart, but cash rents will be down a little. "In the end, the 2018 number of $3.60 production costs for corn is not a bad number to use for 2019. That's positive news. For soybeans, it is more like $9.50." As for profits, "It looks like 2019 will be a replay of 2018, which was a replay of 2017, which was a replay of 2016, which was a replay of 2015," says Hart.

8. More Meat

Livestock production has been growing in the U.S. for five years and won't stop this year. "We expect continued expansion," says livestock economist Lee Schulz, Iowa State University. He predicts record production of beef in 2019. Beef exports are the primary reason why prices are as strong as they are, he says. We export almost 12% of our beef and about 23% of our pork on a carcass weight basis. Schulz predicts hog prices to be about $7/cwt higher than 2018. "We're at record hog inventory, so it's pretty remarkable that prices are where they are," he says. "That is a bullish sign for the hog industry." He is projecting about $5 above breakeven for 2019 compared with $5 below breakeven in 2018. "Some producers lost a significant amount of money in 2018, but it won't alter many expansion plans already in place." There's been incredible investment in coordinated ownership throughout the supply chain, he explains. The pork industry has increased slaughter capacity almost 10% over the last four years. "They're going to keep investing in this system. This is a well-oiled machine." The demand for hog manure as fertilizer and the desire to diversify row-crop operations has helped fuel the expansion, says Schulz.

Tariffs are troublesome, but not a game changer, he says. "We're picking fights with the major market for pork variety meats – China. South Korea is our best friend right now. We have increasing exports to that country." The diverse portfolio of markets and our competitive cost of production have helped insulate the pork industry from a much larger impact from the retaliatory tariffs, he says. "It's difficult for competitors to overcome our cost-of-production advantage. On the world market, we're going to remain very competitive even with some of these tariff rates that have been invoked."

As for sheep and lamb, 2019 looks to be a rebound from the much softer prices we saw in 2018, says Schulz.

9. Dairy Markets Improve

Because they can't get worse, says Schulz. "Prices can't go much lower, so we're likely to see an improvement in 2019. Unfortunately, a 5% gain does not offset the large losses we've seen over the last several years. The dairy industry has been in tremendously tough times."

10. More Farmers Selling Assets, Retiring, Filing Bankruptcy

Charles Brown, farm management specialist with Iowa State University, gives this example of a crop farmer he has worked with for four years: In 2015, Joe had a net worth of $2.6 million and $272,000 in working capital. "Any lender would have liked to

Upon your death, all your heirs should be able to see clearly what you intended to do, and did, with your entire estate.

By contrast, it would be a big mistake to maintain a "side account" for one child outside of your trust. When the others discover this (and they will), you will sow suspicion: The others may think the one child in some way manipulated you and your accounts to get something extra.

Within your legal documents, who have you appointed to be responsible for the proper handling of your financial affairs if you become disabled, and then to carry out the estate division and disposition when you die? Have you made the best choices, knowing what you know about your children?

A good estate plan will appoint a Disability Trustee to manage your assets, maximize your income, and pay your bills if and while you are disabled. The Disability Trustee must oversee everything for your benefit and never for his or her own advantage. This person must be able to competently manage everything you currently manage and maintain clear records to show he or she has done so. Those records will be available to all your heirs upon your death. Have you named the right person as Disability Trustee?

Similarly, your plan will appoint a Death Trustee to assume control of everything upon death. This person must collect your income, appraise all assets, pay all creditors, account and pay taxes to the IRS, and faithfully divide your estate as you directed. This responsibility will last for many months, sometimes years. The Death Trustee must also be able to keep records and work closely with professional advisers. All heirs will be looking over his or her shoulder. Have you named the right person for the task?

Maybe you think appointing all children as co-trustees would be a solution. Unless they get along extremely well, they might have to retain separate attorneys to advise them!

What about the division of your estate? Will children with very different interests become co-owners of real estate or equipment? Try to think of ways to avoid that. If a farming heir will have the option of renting or buying land from others, are the terms clear and fair? Any restrictions on the sale or ability to spend the inheritance should be precise and understandable, and explained by you to your heirs. No one should be allowed to wonder whether another child talked you into something.

Estate planning is not merely writing simple standard legal forms. It takes your effort and honesty about your circumstances. When your time comes, don't have any regrets about how thoroughly you planned to leave everything you have to the people you love.

Ferguson is an attorney who owns The Estate Planning Center in Salem, Ill. Learn more at thefarmersestateplanningattorneys.com.

Repayment Capacity

Repayment capacity measures include capital debt repayment capacity, capital debt repayment margin, and replacement margin. Capital debt repayment capacity and capital debt repayment margin address a farm's ability to repay operating loans and to cover the current portion of principal and interest due on noncurrent loans such as a machinery, building, or land loan. The replacement margin enables borrowers and lenders to evaluate whether a farm has sufficient funds to repay term debt and replace assets. For a farm to grow, it is essential that the replacement margin be large enough to repay term debt, replace assets, and purchase new assets. For this to occur, the long-run average replacement margin has to be positive. Langemeier (farmdoc daily, September 20, 2018) further discusses the relationship between repayment capacity and farm growth potential.

Table 1. Repayment Capacity Measures for White County Farms, 2019

Capital Debt Repayment Capacity and Margin, and Replacement Margin		
Accrual Net Farm Income	1	-$63,843
Off-Farm Income	2	0
Income and Self-Employment Taxes	3	0
Interest Expense on Term Debt	4	58,636
Depreciation	5	172,728
Family Living Expenses	6	90,000
Capital Debt Repayment Capacity {(1+2-3+4+5)-6}	7	**$77,521**
Principal on Term Debts and Capital Leases	8	47,895
Unpaid Operating Debt from Prior Period	9	0
Capital Debt Repayment Margin {7 - (4+8+9)}	10	**-$29,010**
Cash Used for Capital Replacement	11	198,637
Replacement Margin {10-11}	12	**-$227,647**
Term Debt and Capital Lease Coverage Ratio {7 / (4+8+9)}	13	**72.8%**
Replacement Margin Coverage Ratio {7 / (4+8+9+11)}	14	**25.4%**

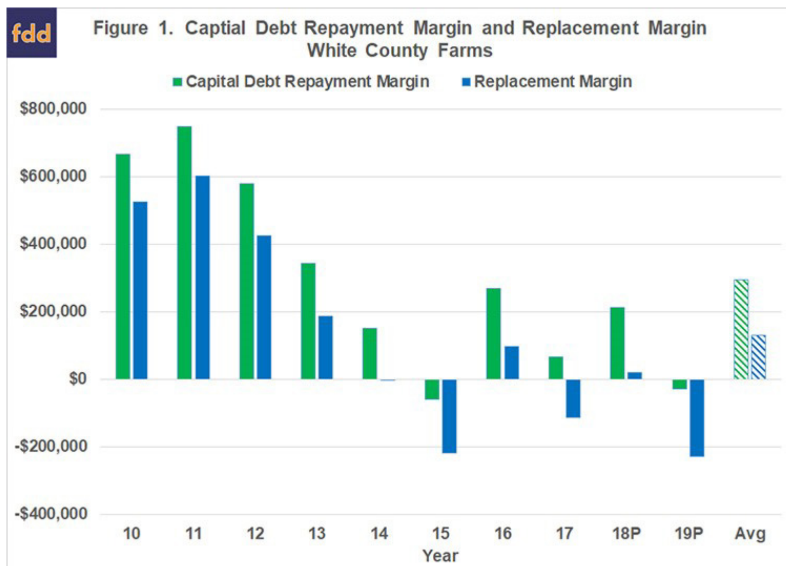

Figure 1. Captial Debt Repayment Margin and Replacement Margin White County Farms

Repayment capacity projections for the case farm in 2019 can be found in Table 1. The projections of accrual net farm income use trend yields and futures prices for next fall adjusted for basis. It appears that the case farm is going to have difficulty repaying loans in 2019. Given this situation, the case farm needs to be cautious when making asset purchase decisions, particularly those requiring additional noncurrent debt.

Figure 1 illustrates the capital debt repayment margin and replacement margin for the case farm since 2010. Though both of these measures appear to be relatively low in 2019, the ten-year averages are positive indicating the case farm has been able to repay debt, replace assets, and expand during the last ten years.

Length of Repayment Period and Interest Rate

The longer the repayment period and the lower the rate of interest, the greater the debt that can be carried by any level of funds available for loan repayment. It is important to compare the life of an asset to the length of the loan used to help finance the asset. If the loan length is substantially less that the life of the asset, repayment capacity diminishes. The case farm has a ten-year note on machinery and a thirty-year note on land. These loan lengths make it easier for the case farm to repay noncurrent loans.

Stability of Income

Income risk varies widely between farms and enterprises. Price, weather, and disease all impact risk levels. When heavy debt loads are necessary, a farm should reduce risks as much as possible. The greater the weather or price risk for the farm's enterprises, the more conservative the amount of loans should be. Where crop and livestock insurance can be used to reduce risk, its use should be considered. Also, the greater the risk, the greater the importance of doing things right. When everything is done well and on time, prospects for success are greatly improved, and risk is reduced.

Effect of Skill and Experience

The value of each operator's skill and experience is important. Superior performance resulting from excellent management may be the most important factor influencing debt carrying capacity. Superior management will cause income prospects to improve and reduce the possibility of losses.

Age and Health of Operators

These factors are, of course, relative ones. Younger, more ambitious operators, who also have the advantage of good health, can expect to meet relatively heavy debt repayment demands compared to anyone lacking in health and vigor. Young operators are often relatively more interested in expansion. When an operation is aggressively expanding, it is imperative to gauge the impact of this expansion on the farm's liquidity, solvency, and repayment capacity positions.

Risk Aversion

Debt is one of the largest sources of risk (i.e., volatility of income). For this reason, among others of course, operators that are averse to risk tend to have lower debt-to-asset ratios. These lower debt-to-asset ratios often reduce the rate of expansion. However, they also may reduce the probability of large losses and the anxiety often associated with high debt levels.

Concluding Comments

There are numerous factors impacting a farm's debt holding capacity. It is important to remember that financial leverage or debt directly impacts a farm's growth rate through its effect on expected returns and risk (farmdoc daily, May 4, 2018). As long as a farm's return on assets is larger than the interest rate on borrowed funds, financial leverage will increase the return on equity and the sustainable growth rate. However, financial leverage also increases risk. For this reason, farmer's need to weigh the benefits (in the form of higher returns and farm growth) and the costs (in the form of higher interest costs and increased risk) of financial leverage or debt.

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Transparency Paves Way in Estate Plans

Estate Plan Edge: When your estate is settled, no one should wonder whether your child talked you into something. Thoughtful planning can make all the difference.

Curt Ferguson | Jan 07, 2019

As you reflect on the holiday gatherings of the past few weeks, it may be a good time to consider your estate plan as well. In my experience, an almost-universal goal of estate planning is long-term family harmony. Will your plan achieve the desired results?

Family get-togethers can provide you with important estate planning insights. Do your children get along with one another? Did you notice changes in their interactions this year? Have old grudges reared their ugly heads — maybe with more frequency or intensity? Does any child seem touchy about the fact that he or she isn't involved in the family farm? Maybe a child is preoccupied with money problems?

The clues may be subtle but should not be ignored. As Ronald Reagan said, "Don't be afraid to see what you see." Parents don't like to admit even to themselves that their children aren't perfect. But pretending that friction doesn't exist, will go away, or will not adversely affect the transfer of the family farm is a classic recipe for disaster.

To the heirs, receiving an estate can be a life-changing event. Sadly, many families have been torn apart by the process. Had the parents applied clearer vision, they could have done things differently to minimize the potential for conflict. The estate settlement process could have been a peaceful, even unifying, event. Instead, small wounds were opened and salted.

The Path Forward

So, what are some practical ways to apply your holiday observations to your estate plan? What can you do to build bridges rather than drive wedges?

Start with a comprehensive legal plan that covers all issues in an open, transparent manner. If your living trust directs the division of your estate, all your assets should be addressed in that trust agreement, and all assets should be titled to follow that plan.

have Joe as a client," says Brown. By the end of 2017, Joe's working capital had dropped to $56,000; today, it is zero. "This is common for many farmers. It's not a net worth problem," says Brown. "Working capital is disappearing." Many farmers are refinancing their debt to lengthen out loans and to improve cash flow, but Joe decided to sell assets and retire.

Sullivan Auctioneers in Hamilton, Illinois, has 76 farm auctions the last two months of 2018. "It's not as much fun farming today as it was in 2012," says Brown. "For some farmers, it's better to sell out, take the money, cash-rent the farm out, and look forward to winter."

If you have to improve your cash flow and you don't have the ability to refinance, sell assets. Check the back of your machine shed, make a list of nonproductive assets, and sell those first.

One key tip: Before you sell assets, contact your accountant about the tax consequences. Make arrangements to withhold enough money to pay your taxes. "Don't be stuck giving all the proceeds to the lender with no money left to pay the taxes," says Brown. If you are going to need to file Chapter 7 bankruptcy, do not sell the assets before you take the bankruptcy. "If you sell it before, you are going to incur the income tax liability. If you sell them in the bankruptcy estate, you may pay little or no taxes on the sale of those assets."

How Much Debt Can a Farm Carry?

Michael Langemeier, Center for Commercial Agriculture, Purdue University
January 4, 2019
farmdoc daily (9):3, Dept of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign.

Introduction

A recent article by Schnitkey (farmdoc daily, December 18, 2018) documents the percentage of Illinois FBFM grain farms by debt-to-asset category for the last decade. The percentage of farms with a debt-to-asset ratio of 0.50 or higher was the same in 2017 as it was 2007, the start of the ethanol boom. In light of this, it is natural to think about how much debt a particular farm can carry. Although this question is too general for a specific response, some guidelines can be provided for certain debts where repayment terms are known. Important factors to be considered when estimating the amount of debt that can be repaid and the amount of debt that a farm is comfortable with include current liquidity and solvency positions, repayment capacity, length of repayment period and interest rate, stability of income, skill and experience of each operator, age and health of operators, and an operator's risk aversion level.

A case farm in west central Indiana is used to illustrate liquidity, solvency, and repayment capacity in the discussion below. This case farm utilizes a corn/soybean rotation and operates 3000 acres, 750 of which is owned.

Current Liquidity and Solvency Positions

Farms with solid liquidity and solvency positions have more flexibility regarding increases in debt levels. A farm with a solid liquidity position has sufficient current assets to cover current liabilities as well as a potential increase in current liabilities. A farm with a solid solvency position has sufficient current and noncurrent assets to cover current debt obligations as well as potential increases in debt levels.

The case farm had a current ratio of 5.30 and a solvency ratio of 0.142 at the end of 2018. In general, a current ratio above 2.0 and a solvency ratio below 0.30 are indicative of strong financial positions. Thus, the case farm has strong liquidity and solvency positions.