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Progressive FARMER

Plot a Course For OPPORTUNITY

Technology and innovation are opening new pathways to financial success in farming.

SOLID MARKETING STRATEGIES BOOST PROFIT POTENTIAL

STACK THE DECK FOR SUCCESS IN LENDER NEGOTIATIONS

DIVERSIFY CROP PORTFOLIO TO EASE MARKET VOLATILITY

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Plot a Course For OPPORTUNITY

The path to success is marked by a drive for diversification and making the most of an operation's unique advantages.

BY *Victoria G. Myers*

Corn

HAL MAGGIORE

CHRIS NELSON

"We work every day to find ways to cash-flow a crop, but this season, it's been more about staying afloat."

HOLDREGE, NEBRASKA. It's clear Chris Nelson isn't afraid to make the tough calls. This year, the third-generation farmer took a lot of unusual steps to rein in costs on his 1,800-acre corn crop. None of them easy.

"We made a lot of little cuts. One was on our insurance. We looked for cheaper inputs, price-shopping everything. We took our chemical program back a step, spraying earlier so we could skip using the more-expensive late-season herbicides. On equipment, we didn't trade combines this year."

Nelson says they normally trade about every four years, but he hopes to get through 2020 without trading. "It's the same story on our corn header. We're rebuilding that instead of trading it," he adds. And, he's cut fertilizer costs about 30% by spreading out the application over the year.

On the positive side, the producer got his crop in mostly on time. He's not expecting record yields, but he's continuing to see success with a high-seeding, 20-inch row-planting system that has him dropping 38,000 to 43,000 seed per acre. The previous no-till and strip-till producer says he believes the 20-inch system has helped boost corn yields by around 10%.

Nelson wishes there were more crop options in his area but says he is largely locked into corn and soybeans. "For us, it becomes a race every year to figure out how to outgrow what we did the year before. Along with that, you have to be conservative, because you simply can't count on a record crop every year to keep you going."

Before 2019 harvest, Nelson says December futures gave him the chance to lock in some corn at $4.25 to $4.60. Those are numbers he can work with, but he adds that he was afraid to sell too much at that price.

"There's so much volatility in the market, you could really regret a decision like that," he says. "This market has been hard to predict. I think the key for 2020 is to focus on controlling your side of the equation to the extent you can. There are hard choices to make, but you have to constantly adapt to survive."

HAL MAGGIORE

Corn

JIM PATRICO

ANGELO ERICKSON

"I think, moving forward, there is a good chance we'll see corn prices improve."

TARKIO, MISSOURI. White corn is considered a niche market in U.S. agriculture, but it's a focal point on the Ericksons' family farm.

With only 751,000 acres of this crop produced domestically each year, buyers are demanding more direct delivery methods to reduce contamination risks. That has the ring of opportunity for Angelo Erickson.

"It's what we're investing in, and it's where we believe our future lies," he says. "We are working with a company now hoping to supply them with non-GMO white corn. A key part of that is the ability to take that risk of contamination out of the equation."

About half of U.S. white corn is produced under contract to buyers or end users, most requiring the corn be identity-preserved to maintain value in end uses. This adds to production costs but also yields price premiums. Recent estimates put an average premium at 30 to 60 cents per bushel. The Ericksons have seen as much as $1.50 premium in past years.

Domestic use of white corn has shown modest growth, accounting for about 50% of U.S. production today. Exports account for the other 50%, and Erickson believes tariffs are stifling growth in this area.

"On the whole, we are very optimistic about the future of farming. I wouldn't be doing this if I weren't. ›

JIM PATRICO

Corn Outlook 2020

› RECOVERY FROM A ROCKY START

The final story has yet to be told for the 2019 crop. After corn growers saw some of the worst planting conditions in the modern era for the 2019 season, it remains difficult for the industry to know just how big the U.S. corn crop is as the season wraps up. Immature corn and wet harvest conditions have been part of this fall's challenges and could put new-crop ending stocks somewhere between 1.6 and 1.9 billion bushels.

› BEARISH NEWS

In early 2020, a bearish factor for U.S. corn prices comes in the form of increased competition from South America. Larger 2019 corn crops for both Brazil and Argentina increased their total corn-export projection levels by more than a billion bushels compared to the previous season. This increased competition has already taken a toll on U.S. corn exports for the 2019–20 season and will make it difficult for exports to reach USDA's projection of 2.05 billion bushels.

› WEATHER OPPORTUNITY

South American weather problems early in 2020 are one of the few scenarios that might allow July 2020 corn to trade above $4.25 by late May, when the next wave of South American crops start to ship.

DTN Analyst Todd Hultman

"On the whole, we are very optimistic about the future of farming. I wouldn't be doing this if I weren't." **–Angelo Erickson**

But the tariff situation has me concerned," he notes.

Production costs are another ongoing challenge. Even with smart planning and economies of scale across an operation of more than 4,000 acres, Erickson says it's impossible to cash-flow today. They need corn in the $4.50- to $4.75-per-bushel range. "It's almost impossible to cut costs anymore," he adds. "You don't want to cut back on fertilizer. So, you try not to buy more machinery and hope what you have lasts through the downturn."

This year, he says no one in his area is expecting record production to offset low prices. As their season neared an end, Erickson anticipated average yields under 200 bushels per acre. Volatile markets, unreliable government market reports and the strain of economic loss in the region concern him moving into the new year. As for Market Facilitation Program payments, he sees those as nothing more than a Band-Aid.

"Here's the thing: Farmers want to farm," he concludes. "We want to produce a crop and get paid a fair price for it. When a government payment means the difference between going out of business and being able to farm, something is wrong."

PHOTOS: JIM PATRICO

Wheat

CODY GOODKNIGHT

"We are trying to build in economic incentives for people to buy more certified wheat seed this year."

PHOTOS: JIM PATRICO

CHATTANOOGA, OKLAHOMA. Wheat was exceptional here as the season came to a close. It offered good grazing for stockers through February and, when harvested, yielded up to 80 bushels per acre in some fields. The marketing side of the wheat business, however, has been more challenging.

The Goodknight operation has a niche market selling certified wheat seed, some years adding up to over 100,000 bushels. Demand is down, leaving Cody Goodknight looking for ways to boost sales.

"It has been a challenge to get people excited to plant wheat in this market," he says. "Seed orders have definitely been slow."

To adapt, Goodknight has lowered the certified seed price to be more competitive with noncertified seed and alternatives like rye or triticale. They've partnered with Indigo to provide multiple seed-treatment options, and they're advertising to widen sales reach. What they aren't going to do is give up on wheat.

"We are sticking with our crop-rotation principles," Goodknight says. "We plant half to wheat, a fourth to cotton and a fourth to soybeans or milo. We also bring in stockers for winter pasturing when we have enough moisture to carry them. And, we raise and sell bred replacements and 2-year-old cow/calf pairs."

The producer believes this level of diversification makes a difference in his family's ability to stick out the hard times.

"We want to take advantage of every market we can so we don't put all of our eggs in any one basket. Diversification helps with that," Goodknight explains. "It is also beneficial to the land, helping with things like weed resistance. When you are thinking long-term, you need to think about a strong mix of income streams."

Wheat Outlook 2020

› BEARISH ELEPHANT IN THE ROOM

The largest part of the U.S. wheat crop is hard red wheat (HRW), which drives the base price for the industry. The big, bearish elephant for 2019 wheat prices is USDA's record-high ending world wheat stocks estimate of 10.5 billion bushels for the 2019–20 season. That is too large of a surplus for the market to ignore.

› EXPORTER ANALYSIS

A more specific indicator of where the wheat market goes is found in ending wheat stocks for the top eight global exporters for the commodity: Argentina, Australia, Canada, the European Union, Kazakhstan, Russia, Ukraine and the U.S. None had large changes in ending stocks, just small adjustments—2.28 billion bushels in 2019–20. This is the lowest in six years by a narrow margin.

› OPPORTUNITY STRONGEST IN SPRING

Bearish factors in this market are well-known and reflected in 2019 fall prices. Seasonally, winter wheat prices tend to trade higher early October to early March as commercial traders raise bids to entice supply during winter. It is reasonable to expect that pattern again in early 2020, but don't look for July 2020 KC wheat futures to trade over $5. Anything over $4.75 is apt to be a good sale.

DTN Analyst Todd Hultman

Cotton

ANDREW MILLER

"Some of today's new technologies are creating efficiencies in our farming and our custom-harvesting operations we didn't have before."

PHOTOS: EDDIE SEAL

ODEM, TEXAS. A custom-harvesting business helped Andrew Miller through the early years of farming. Today, it remains a vital bridge to opportunity through technology.

Miller, who farms cotton and grain sorghum, says it's the custom side of his business that allows him to keep the operation's equipment current. He trades harvesters yearly, tractors and sprayers every two years.

"We believe we are getting increased efficiencies across the board," he says, noting for the new season, he will be using John Deere's signal share system, as well as high-speed planters that will run at 10 mph.

"These could be game changers for us," he says. "If the planter works like they say, it will mean we can go down from three to two units. And, signal share should help us better manage what is going on between fields with our precision technologies."

As Miller wrapped up the 2019 season, he was looking at record yields on grain sorghum and his second-best yields ever on dryland cotton. He continues to tweak production practices across the farm, focusing on technologies that he believes will let them gain in efficiencies.

"The constant challenge is how to farm the same land and do it with less," he says. "It's how we compete in the future."

Market uncertainties, he says, add to the importance of controlling as many variables as possible. "We sold some cotton earlier in the season, and I wish we'd sold more, because the price dropped 15 to 20 cents a pound after," he says. "We have grain sorghum in the bin waiting for the right time to sell. In this environment, you have to try to control what you can. It all comes back to efficiency. That's the game changer."

Cotton Outlook 2020

➤ DOWNHILL SLIDE

The three big hurricanes of 2017—Harvey, Irma and Maria—helped spot cotton prices hit a peak of 96.50 cents in June 2018. It has been all downhill since. USDA raised U.S. ending cotton stocks to 7.2 million bales for the 2019–20 season. That pressured prices to trade near their lowest level in three years. Noncommercial traders (speculators) have turned net short for the first time since spring 2016, essentially betting prices are going to go lower.

➤ OPPORTUNITIES FOR A JUMP-START

U.S. cotton exports have been limited by the trade dispute with China. This commodity's seasonal pattern suggests July cotton prices tend to peak in early June. With cotton supplies plentiful, it may be a challenge to get July futures any higher than 72 cents a pound in early 2020. If trade were restored, prices could have a chance to go as high as 78 cents per pound.

DTN Analyst Todd Hultman


COURTESY OF IOWA SOYBEAN ASSOCIATION

JEFF FRANK

“Our genetics are so much better today that we can lose part of a crop and still have a good year yieldwise. That’s added to our oversupply problem.”

AUBURN, IOWA. There’s no place Jeff Frank would rather be than on the cutting edge of soybean production, regardless of commodity prices. In fact, he believes it’s when prices are low that technology is most likely to make up for market shortfalls. The key is yield.

“I know we all talk about cutting costs, but I think about the fact that not everyone will do that,” he says. “What happens is you reduce your yield because you cut back on fertilizer or your herbicide program, and now you are automatically on the short end of the stick. We are in an era where yield seems to be the only way to make the math work.”

Frank says this season’s soybean crop saw a slow start, but yields on their farm ended up averaging around 65 bushels per acre. Sales opportunities, however, have been fleeting.

“We sold some $9 beans earlier in the year on new crop,” Frank says. “That was a hard decision to make. Will the market go up? You have to have a plan so you aren’t just hanging there. If you can see a decent profit, enough to hold things together, you need to cover your costs. But, I always say you need to hold some, too, in


COURTESY OF IOWA SOYBEAN ASSOCIATION

BENJAMIN KRAIN

case the market goes up. In this market, it's pretty easy to get hung out to dry."

Farming since 1977, Frank believes markets are significantly more volatile than they once were. That makes decisions to sell or hold especially challenging.

"Back when I started farming, if the market moved 40 cents in a year, that was a big swing. Now, it can move that much in a day. It's hard to play that game."

Increasingly, he notes, diversification is a way to help farmers work through the down markets.

"No matter what you diversify in, you should have more than one thing to rely on. That can be the difference," says Frank, who produces corn as well as soybeans. The Iowa Soybean Association board member adds he believes there are opportunities ahead on the trade side but notes it may take time.

"I do believe we are creating new markets for our product," he says. "I think the European market has a lot of promise. We have become too reliant on China. That said, I hope we can see our trade with them restored as we move into 2020. That would potentially be a game changer for this market."

Frank says he needs to see soybeans at that $9-and-above mark to start to feel he's meeting costs and building in some level of profit.

"I don't believe you get there by cutting back, either. You have to farm for everything you can all the time." ///

Soybean Outlook 2020

➤ SIDEWAYS MARKET

The smallest soybean planting in eight years has helped soybean prices hold sideways in 2019. This is no small achievement for a U.S. market that lost over 400 million bushels (mb) of exports in 2018–19 to the trade dispute with China.

➤ SUPPLY LEVELS GET LEAN

The 2019 U.S. soybean crop is estimated to be 900 million bushels smaller than the 2018 crop as the season wraps up. This means world-ending soybean supplies will be significantly leaner than what the markets expected earlier this year. The soybean price outlook is muddied by the uncertainty of trade with China, but even if the current trade status doesn't change, July 2020 soybeans could retest the 2019 high of $9.70.

➤ OPPORTUNITY TO TIME THE MARKET

The most likely scenario at this point, when it comes to timing on the market, is that this high in the soybean market hits in late June. That is typical of the soybean cycle. However, there is a chance the market's old high price could be tested earlier with help from adverse weather in South America.

DTN Analyst Todd Hultman

BY Dan Miller

The Big Question

Can you afford not to upgrade information technology?

JIM PATRICO

Farm-equipment manufacturers are certainly aware of the challenges facing customers today, but Robert Crain doesn't believe U.S. farmers are ready to throw in the towel.

"The larger guys are cautiously optimistic," says AGCO's senior vice president and general manager, Americas. He believes, however, there is positive news on the horizon for equipment manufacturers. The U.S. farming fleet is generally as old as it's been in 10 years. "We think that presents opportunities," he adds.

FLEET REPLACEMENT AHEAD

The September 2019 equipment sales report from the Association of Equipment Manufacturers paints a mixed picture. Tractor sales were actually up through September for both 4WD and 2WD models (100+ hp), 9.4% and 3.4% respectively, compared to the same period in 2018. Sales of 2WD tractors (100+ hp) were up sharply in September by more than 19%. Sales of 4WD tractors for September were down 5%.

Combine sales through September were reported up 1.8%. But in September sales rose more than 12%.

AGCO's Crain is optimistic. "We have customers who sold [corn] over $4 and booked sales over $4. They are going to want to see what goes into the bin and what government payments [will be before making decisions on equipment]."

With 200 dealerships, AGCO is working to get its Fendt line into large-equipment markets. Its IDEAL combine has a season's worth of experience behind it, and the newly designed 900 series tractors target the large-tractor segment of the Midwest Corn Belt.

MIXED 2019 NET SALES

While financial reports from the major farm-equipment manufacturers don't reveal numbers to be excited about, they don't show a disaster either. A cleaner planting window in 2020 and resolution of trade issues could improve the outlook for equipment. Claas sees a fairly flat, but recovering equipment market—assuming a return to more normal weather in 2020.

AGCO reported six-month sales in 2019 of $4.4 billion, a year-over-year decrease of 2.8%. Net sales in North America, however, grew by 1.7%. Increased sales of application equipment, as well as high-horsepower tractors, were offset by lower utility tractor sales.

Kubota is making a big bet on 2020. It unveiled earlier this year its largest row crop tractor series, the M8. Sold with either a 190 hp or 210 hp, 6.7-liter Cummins engine the M8 will be available as farmers head to the field for planting. Kubota's M8 target farmers looking for "usability" and "simplicity."

John Deere reported earnings in the quarter ending July at $899 million, down $11 million from same quarter, 2018. Net sales declined 3.4%. The company forecast a 4% increase in sales for the fiscal year.

Case IH and New Holland parent CNH Industrial announced revenues of $7.5 billion in the second quarter, down 6% from 2018. Ag net sales were off 7% because of lower volume in Europe and other regions. CNH's quarterly report strikes a positive note, however: "Cyclical replacement demands remain stable, with used-equipment inventories at low levels supporting new equipment sales in North America."

TECHNOLOGY AND IRON

With even modest prodding from grain markets, manufacturers believe farmers will want to remain current on technology.

"Data is opportunity," agrees Matt Olson, product marketing manager, John Deere Precision Ag. "Technology is already benefiting [our customers]." Machine intelligence, he notes, are bringing farmers into a new world of data.

TRACK THE JOURNEY

Olson explains at its most basic level, technology is a way to document "the journey of growing that crop" while considering all the possible management combinations and their outcomes. It allows managers to "take on risk."

"What combination of all those layers helps me understand what works and what doesn't work?" he asks. "What drives profitability and yield? Are you actually getting that yield? What works on your farm?"

Scott Harris, vice president of North America for Case IH, is another industry executive pointing a marketing arm at technology. Using words like "better," "more" and "targeted," he says the company is hanging technology on all its tools.

"Our engines and transmissions, our iron, is as good as it's ever been. But we're not done. We're putting technology into our tillage equipment ... to produce, for example, the optimal seedbed."

Harris stresses efficiency is productivity, and the goal is to address challenges "such as the difficulty in finding skilled labor with the functional automation of the machine, the sensors reading soil conditions, crop conditions, machinery conditions and making adjustments on the fly.

"Dealers and producers are operating in a difficult environment and looking for stability, anywhere they can get stability," Harris says. Technology will improve the bottom line. It's money in the bank." ///

JIM PATRICO

BY Rod Mauszycki

Tax Primer 2020

Regulatory reform has already been a wild ride, but more changes are coming.

With all the changes in farm taxation, late-arriving regulations and state tax conformity issues, it's amazing anyone was able to get a return out the door last year. Looking ahead, IRS guidance is still anticipated on several issues of importance to agricultural businesses.

SECTION 199A: TRICKY ANIMAL

This section allows taxpayers other than corporations a deduction of 20% of qualified business income earned in a qualified trade or business, subject to limitations. This can be a benefit, but it can hurt you if you aren't careful.

If tentative taxable income is under thresholds, this is pretty straightforward. Those thresholds are: $160,700 (single) and $321,400 (married, filing jointly). Those over those thresholds need to look at several factors that may significantly impact the deduction, including wages, guaranteed payments, distributions and aggregation. Section 199A may even impact how someone transitions out of farming.

NET OPERATING LOSS REVIEW

For farms, net operating losses (NOLs) must be carried back two years unless irrevocably electing to forgo the carryback. Under the new tax law, you may only use NOLs to offset 80% of taxable income. Even with large NOLs, there will be taxable income. NOLs do not remove self-employment (SE) tax for the income it offsets. The result may be a smaller federal tax bill but a sizable SE tax.

MEALS AND ENTERTAINMENT

Under new tax law, it is no longer possible to expense entertainment. Under certain conditions, 50% of meals may be deducted. Meals provided for convenience of the employer and "de minimis" fringe benefits fall under this exception. Think harvest lunches and dinners.

SOME PROPERTY OUT ON 1031

Personal and intangible property are not eligible for 1031 treatment under the new tax law. For farm purposes, only land and fixtures are eligible for 1031 exchanges. Equipment doesn't qualify. This is good from the aspect that sale of equipment produces ordinary income not subject to self-employment tax. It's bad from the perspective of potential built-in tax gains converting from a C corporation to an S corporation. In some states, disallowance of 1031 exchange treatment may increase state tax due.

GETTY IMAGES

CHARITABLE GIVING

Commodity gifting is still a viable way to help a charity. A farmer gifts commodities to a charity, typically at the time he delivers to the elevator or co-op. The farmer does not report income on the gifted commodities, and the charity does not pay tax on proceeds. Commodities gifted to a charity should be raised or produced in a prior tax year to avoid expense adjustment for farmers.

CROP INSURANCE DISAGREEMENT

There remains disagreement about a taxpayer's ability to defer revenue protection (RP) proceeds made as a result of crop damage. The IRS says RP proceeds, even when due to crop damage, are not eligible for deferral. Some practitioners argue the portion of the RP payments that relate to damage or destruction should be deferrable. In all cases, RP payments attributed to low yields (without damage or disaster) are not deferrable.

CAPITAL ACCOUNTS

When considering an exit plan, one of the biggest issues today surrounds negative capital accounts. For those who farm in a partnership, this can be devastating. Negative capital accounts may create unforeseen tax liability when closing out a partnership or transferring to the next generation.

CORPORATION CONVERSIONS

Another exit-planning technique is converting a C corp to an S corp. NOLs in the C corp are suspended upon conversion to an S corp. Built-in gains are triggered if the S corp shows a profit. Having earning and profits in the C corp may blow the S corp election.

ESTATE TAX LAWS

New tax law doubled the gift and estate tax exclusion to $11.4 million per person. Depending on the next presidential election, this could change dramatically. Many Democratic candidates have proposed lowering the estate tax exclusion to $3.5 million (indexed) and the gift tax exclusion to $1 million (indexed). There has also been a push for no step-up in basis. ///

BY Matthew Wilde

Grain Marketing In Turbulent Times

Profit potential usually exists every year for farmers ready to make sales.

MATTHEW WILDE

Grain and fiber farmers can position themselves to capture profit opportunities in 2020 despite ongoing trade wars and market fundamentals that seem to stand in the way.

The key may be having a written marketing plan in place. Market specialists say producers who take that step have the best chance to take advantage of profit opportunities.

"Hope is an emotion. It's not a marketing strategy, and it certainly doesn't pay the bills," says Steve Johnson, an Iowa State University Extension farm-management specialist. "It is the lack of planning and discipline that are adding to stress in these turbulent economic times."

Johnson travels the Midwest educating farmers on grain marketing. He estimates only about 30% of producers have a written marketing plan drawn up months before seed goes into the ground. It's a plan that should include reasonable price and time objectives to meet cash-flow needs based on cost of production and actual production history. Too many farmers wait and "hope" to hit the market high. Sometimes it works. Other times, farmers won't take profits out of fear of missing a bigger payday.

RALLY TIME

December corn on the Chicago Board of Trade rallied $1.10 per bushel from May 13 to June 17, 2019, hitting $4.73 per bushel. A late, wet planting season and production fears spurred the ascent. Johnson says farmers with a plan took advantage of the rally and made incremental profitable sales.

BARRY ALEXANDER

RAE WAGONER

"We have 30% of farmers that are disciplined and making money in 2019, even on rented land," he says. "Then there's the other group that's losing money, maybe big money, because they have a lot of bushels unpriced. When December futures blew through $4.20, $4.40, $4.50, that was the group waiting for $4.80 or maybe $5."

PLAN TO SUCCEED

Todd Davis, University of Kentucky Extension grain marketing specialist, says a colleague recently called seven farmers they thought would have some sort of written marketing plan—none did.

"I often say, 'Prayer is not a proactive strategy' when talking with farmers," Davis says. "Come mid-November, hope will be the primary marketing plan for many. That is the time I would least want to be in a bind since there are cash-flow needs for seed, fertilizer, paying off debt and more."

Dave Powell, Udell, Iowa, took advantage of the late-spring corn rally. The grain and livestock farmer booked about 8,000 bushels of new-crop corn with the Cargill processing plant, in Eddyville, Iowa. He made cash-forward contract sales as prices soared well above $4 per bushel. Powell farms 1,500 acres with son, Chad, and has a cow/calf herd. The family typically sells half their projected corn and two-thirds of soybeans before harvest per their marketing plan.

"It works pretty well for us," Powell says. "I know our cost of production and what we need."

Powell averaged $4.05 per bushel for 2018 forward-contracted corn. He also sold several thousand bushels of old-crop corn in early July to Cargill, topping out at $4.54 per bushel. In addition, he sold two-thirds of his old-crop soybeans for $10.25 per bushel, on average, before China slapped on a 25% tariff.

LONG GAME

Barry Alexander, manager of Cundiff Farms, in Cadiz, Kentucky, says that the operation's written marketing plan includes selling crops 16 to 18 months before they're planted.

A 13,000-acre family operation, Cundiff grows food-grade white corn for export, nongenetically modified soybeans, seed soybeans, commercial soybeans, wheat and tobacco. Alexander makes sales based on input costs and production expectations, considering crop insurance coverage.

"Our marketing plan is a living thing that constantly evolves," he explains. "We update it multiple times as prices and crop conditions change. When I see a number far out that's profitable, I will take advantage of those markets." ///

Anatomy of a Marketing Plan

Steve Johnson, Iowa State University Extension farm-management specialist, and Todd Davis, University of Kentucky Extension grain marketing specialist, have common recommendations for building a solid marketing plan:

1. Write it down well in advance of spring planting.
2. Calculate break-even costs by crop and, if possible, by farm and field.
3. Determine cash-flow needs for the farm operation and the family, which may dictate when sales are made.
4. Establish reasonable futures and cash price objectives. This includes number of bushels sold at various price levels and Market Facility Program payments once they are received.
5. Identify marketing tools to use, such as forward cash, hedge-to-arrive, minimum price and basis contracts. Other tools include futures, hedges and buying put options.
6. Ascertain marketing time frames based on seasonal highs and lows. For example, April, May and June typically provide the best prices for corn.
7. Always consider why a market action is needed, which could include cash-flow or storage needs.
8. Utilize crop insurance as a safety net when making preharvest sales.

BY Des Keller

How Lenders See You

*Bankers have a lot to consider going into 2020.
Here's how they evaluate operating loans and unpaid debt.*

Securing operating loans for the upcoming crop season will bring new challenges for some borrowers, but there are ways to make farm operations more cash-worthy in the eyes of today's lenders.

Start with a thorough overview of the farm's financial statements to make a great first impression, says John Blanchfield, consultant with Agricultural Banking Advisory Services. He notes often financial statements are an area that needs help, with bankers spending too much time reconstructing customers' financials as a first step in the loan process.

"If a banker has to use up so much of their time working on getting the financial statements right, they have less time to evaluate the credit request itself," Blanchfield says. "A banker will naturally gravitate to those applications that don't require a huge amount of detective work."

There are four steps to borrowing success, he notes: the plan and request by the grower; financial statements and numbers; a site visit by the lender to the business; and evaluation of the total package by the banker.

"Two areas where producers could greatly improve are in the financials and the site visits," Blanchfield explains. "The latter is your opportunity to showcase what you have, that you are a serious going concern. I know for sure, as an example, that a banker looks at maintenance of machinery."

VISUAL ASSESSMENTS

Jordan Foland, vice president and commercial/ag lender with First Farmers Bank and Trust, Lafayette, Indiana, agrees machinery on a farm is an important element bankers consider.

"I want to see the machinery line. Is it all brand-new equipment?" he considers. "Is it used stuff they take great care of? Does the machinery look like it's been sitting outside since the day it was purchased? Generally, I put eyes on an operation before I make a final decision."

John Bhend, vice president, ag/commercial banking for CCF Bank, Albert Lea, Minnesota, says he's a visual learner, so he likes to see the farm earlier rather than later in the lending process.

As lenders make on-site visits, many emphasize in their assessment how well equipment is being maintained.

JIM PATRICO

"They don't have to have new machinery, but is what they have well-maintained, and is their operation organized?" he asks. "My general impression is that if someone is taking care of the little things, the big things like profitability and management will be in good shape."

THE "NO-SURPRISES" RULE

Bankers don't like surprises, Michael Langemeier notes. That means it's important to always know how every facet of the business is doing in terms of profit.

"I think most farmers have a good handle on some of their costs but not all of their costs," says the Purdue University ag economist and associate director of Center for Commercial Agriculture. "They may have a pretty good feel for their seed, fertilizer and chemical costs. But, they may not have allocated expenses for repairs, general insurance, crop insurance and even fuel, to some extent."

Langemeier breaks it down into three levels of knowledge an operator needs when it comes to the farm's profitability. First is the overall view. Basically, this level is concerned with whether gross revenue is above expenses. The second level evaluates individual enterprises on the farm—crops versus livestock or corn versus soybeans. The third level is even more detailed and considers individual fields in terms of what the return is versus the costs.

While many farmers today are increasingly evaluating costs and returns on a field-by-field basis, this isn't the norm. The reluctance to do this is, in part, due to the work involved in attempting to allocate expenses like insurance or repairs to a particular part of the business.

"An easy first step is to allocate expenses on a prorated basis per revenue shares according to how many acres are involved," Langemeier says. "Make it simple to start. Corn has higher revenue than soybeans, so proportionally more expenses are allocated to that crop."

From there, make adjustments to a simple prorated system. For example, 40% of tillage may involve corn, 60% beans. Reallocate more fuel and machinery expense back to the crop where a higher percentage of tillage is used as part of the overall operation.

"Like everything else, the first time you do this is by far the hardest," Langemeier says. There are several accounting software programs that can help.

REAL-WORLD EXPECTATIONS

Enterprise accounting done on-farm would be welcomed by Foland, but he says they don't even expect farm operators to have used accrual versus cash accounting.

JORDAN FOLAND

DES KELLER

"Most of them are in cash accounting, that's why we can do our own accruals," says First Farmers' Foland. Otherwise, his bank expects to see three years of tax returns from a new customer along with (ideally) a year-end balance sheet.

"So much can vary from year to year depending on expenses that are prepaid and inventory that is carried from one year to the next," he says, adding for the most part, producers who have survived are well aware of their costs of production.

Beyond those basics, Foland says he considers a handful of ratios that help gauge the health of the business in making loan evaluations. Those include the debt service coverage ratio, the debt-to-asset ratio and the current ratio.

Debt service coverage ratio measures an operation's cash-flow available to pay down debt. This number is derived by dividing debt service (total debt obligations for the year) into net cash income. Net cash income equals farm revenues after taxes minus operating expense and interest payments—but including other income or off-farm income.

"Anything over 1 on debt service coverage means a positive cash-flow," Foland explains. "Typically, we'd like to see at least 1.2, but in recent years, it has been difficult to get there. If it's over 1 right now, we're pleased."

Debt-to-asset ratio is total liabilities over total assets. The result, hopefully, will be 30% or less. Having debts greater than 30% of total assets can hurt an operation's ability to withstand unexpected business challenges or be able to take advantage of opportunities.

Current ratio measures the extent to which current assets, if liquidated, would pay off all current liabilities. The higher the ratio, the greater the liquidity. Current assets include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can readily be converted into cash.

Current liabilities are a farm's debts or financial obligations due within one year. A number of operations have debt they originally put on 15-year loans, Foland ➤

says. "They now have, maybe, eight years left to pay. There is a fair amount of opportunity to stretch that debt back out to 15 years or longer to gain some breathing room."

Other factors, often less tangible, can make an impact on lenders, too, consultant Blanchfield says. He recalls visiting a Pennsylvania mushroom farm that employed a number of Spanish-speaking workers.

"I noticed that this farmer addressed everyone he interacted with in Spanish," he explains. "He struggled with Spanish, but you could see the effort was appreciated by the workers. This doesn't have anything to do with the balance sheet but how this human being treated those who worked for him." ///

Business IQ Assessment

Lenders are always looking for new assessment tools to help them evaluate business finances and make the right decisions when it comes to loans. One assessment John Bhend, vice president, ag/commercial banking for CCF Bank, uses is Business IQ.

Developed by noted ag economist, Dave Kohl, professor emeritus at Virginia Tech University, Business IQ measures business-management skills in 15 areas, from knowing cost of production to attitude. For instance, an operation classified as struggling and attempting a turnaround would score four points for stated goals in business, family and personal matters. A total score in the assessment of 35 to 50 indicates a "strong management rating and viability." A total score of less than 20 is indicative of "high risk and lack of long-term viability."

The Business IQ tool isn't perfect, but it helps, Bhend says. "One of the more challenging things as a banker is how do you quantify management ability?"

For information on this program, visit **fcuniversity.com/courses/ag-biz-planner.aspx**.

Business IQ: Management Factors

Progressive Businesses

Customer Checklist	Green (3–4 points*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production	Written	In head	No idea
2. Knows cost of production by enterprise	Written	In head	No idea
3. Goals: business, family and personal	Written	In head	No idea
4. Recordkeeping system	Accrual	Schedule F (one & done)	No idea
5. Projected cash-flow	Written	In head	No idea
6. Sensitivity analysis	Written	In head	No idea
7. Understands financial ratios, breakevens	Written	In head	No idea
8. Works with advisory team and lender	Yes	Sometimes	Never
9. Marketing plan written and executed	Yes	Sometimes	Never
10. Risk-management plan executed	Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget	Yes	Sometimes	Nonexistent
12. Written plan for improvement executed	Yes	Sometimes	Nonexistent
13. Transition plan/business owner plan	Yes	Working on plan	Nonexistent/controversy
14. Educational seminars/courses	Yes	Sometimes	Never attend
15. Attitude	Proactive	Reactive	Indifferent

***Extra Points:**
- Progressive Business may receive four points for Nos. 2, 6, 7, 8, 14.
- **Struggling Business attempting turnaround** may receive four points for Nos. 3, 5, 8, 11, 12.

Score	Overall Analysis
35–50	strong management rating and viability
20–34	moderate risk and viability; will most likely show previous refinancing
<20	high risk and lack of long-term viability

SOURCE: DAVE KOHL, PROFESSOR EMERITUS VIRGINIA TECH UNIVERSITY

BY Jim Patrico

Diversify Your Crop Portfolio?

These farmers are hunting profits in unusual places, and each has potential.

When commodity prices are stuck in the little-to-no-profit zone, it just makes sense to search for new crops with higher return potential.

Five years ago, Annette and Bruce Wiles chose to be among the first Nebraskans to try growing hops. This year, they also planted hemp.

The decision to plant specialty crops came after a long career in which Bruce and his brothers grew 11,000 acres of corn and soybeans. Annette had worked in product development in the financial/credit card industry. Each was ready to try something new.

Annette and Bruce Wiles are some of the first producers in Nebraska to grow hemp. They also produce hops for regional brewers.
COURTESY OF ANNETTE WILES

"I had a hard time understanding why people grow certain crops when they have no control over the price," Annette says. So, taking on specialty crops was a logical step, and their original research led them to hops.

How do hops and hemp stack up to more traditional commodities for profits? It's probably too early to tell.

The couple's sales of hops to brewers in Iowa, Missouri and Nebraska have increased each year. These are brewers who value regionally sourced hops and the distinct flavors they impart. Working in conjunction with the University of Nebraska, the Wiles also are breeding new varieties of hops they intend to sell as plants to other farmers wanting to give the crop a try.

Prices for hops are tied to variety and the market year.
JIM PATRICO

The Midwest market for hops is strong, especially in this era of booming local and home breweries, Annette says. The main obstacle is cost of production.

Hops are "very labor-intensive," and expensive equipment adds to startup costs, she says. Economies of scale indicate it takes 30 to 50 or more acres to be profitable. She and Bruce currently have 32 acres of hops in the ground.

Another obstacle is time. Hops plants take up to four years to reach full production. In their first year, the Wiles' hops produced 20 to 25% of their potential.

Washington State University says average dry-matter production in mature plants in the Pacific Northwest can vary from 1,800 to 2,800 pounds per acre, depending on variety. Prices also vary by variety and by year. A 2015 Michigan State University study predicted the first four years of hops production would yield losses for a 20-acre farm. In the fifth year, the study showed a $13,000 profit.

HEMP LICENSES

Growing hemp has been a similar—but different—experience for the Wiles.

First, they had to obtain one of only 10 licenses from the state of Nebraska to grow hemp. That tells you that Nebraska (like many other states) is just now exploring the crop.

Hemp, grown for CBD (cannabidiol) oil extracted from seeds and for fiber from the plants, is a crop with a fraught history based on confusion with its cannabinoid cousin, marijuana. Entrepreneurial farmers like the Wiles will have to contend with regulations that, in many states, are just now being written and interpreted.

The Wileses have four varieties of hemp, 72 plants of each in two greenhouses. They are experimenting to learn the best varieties to produce CBD oil.

Like everyone else in this new cropping frontier, they are unsure of the profit potential. One University of Nebraska researcher estimated net income of as much as $100,000 per acre. A study in Pennsylvania suggested the profit potential at only $1,200 per acre. In other words, who knows?

All of which leads Annette to say of both hops and hemp: "There are opportunities for farmers. But, if you don't have the infrastructures and markets lined up for what you grow, farmers can spend a lot of money on the front end" ... and not be rewarded.

GIANT MISCANTHUS TRIAL

When John Atkinson, Kingdom City, Missouri, first started growing the tall grassy plant named Giant Miscanthus six years ago, it was part of an experiment.

MFA Inc., a Midwest farm and marketing cooperative, wanted contract growers because it planned to pelletize dried Giant Miscanthus fiber to burn in steam generators as an energy alternative to coal and oil. A few years into the experiment, MFA sold its interest in the operation to Renew Biomass, a southwest Missouri company that processes Giant Miscanthus fiber (branded M-Fiber) for pet food and supplement manufacturers.

Atkinson's Giant Miscanthus contract passed from MFA to Renew Biomass.

"Your next question is: 'Are you glad you're in it?' " Atkinson asks. "And, I am."

Here are his reasons:

➤ He had to buy no new planting or harvesting machinery. MFA planted 60 acres of Giant Miscanthus on marginal ground that Atkinson had slated for brome hay. The crop has a life expectancy of 15 to 30 years. Come harvest in late winter, Renew Biomass sends a crew, which harvests and bales the crop.

➤ Giant Miscanthus is low maintenance. It took a couple of years to get established and grew 8 to 10 feet tall. "Now, it's doing well ... All I have to do is fertilize occasionally—every two to three years—and keep a border cleared around it," Atkinson says.

➤ It produces twice as much biomass per acre as switchgrass or corn.

➤ Giant Miscanthus—which arrived here from Asia 100 years ago—seems to have few natural enemies, so pest control is minimal to none. What's more, since it propagates from rhizomes, not seeds, it is noninvasive.

➤ It has deep roots to hold soil in place. It is heaven on earth for wildlife, and it traps more carbon than most crops.

➤ The income is steady. Atkinson recently signed a seven-year contract with Renew Biomass for $40 per ton. He doesn't have exact yield numbers for his fields, but nationwide averages are 7 to 10 tons per acre.

Like anything, there are some downsides to Giant Miscanthus. Most notably, markets for the niche crop are spotty and not well-established.

Emily Heaton, associate professor of agronomy, biomass specialist, biomass crops production at Iowa State University, has studied the plant for most of a decade and at first thought the crop would thrive as a source for cellulosic ethanol plants.

"No company was able to figure out how to do that in today's energy and policy environment," she says.

Even so, the biomass content of Giant Miscanthus is enticing other potential users. Its biggest current Iowa market is bedding for poultry growers, Heaton says. Construction companies in Iowa and Wisconsin use Giant Miscanthus straw to hold soil in place during road and work site projects.

Heaton estimates 15,000 to 20,000 acres of Giant Miscanthus already have found markets in hot spots such as Georgia, Illinois, Iowa, Maryland, Mississippi, Missouri, North Carolina, Ohio, Pennsylvania and Wisconsin. She advises interested farmers to keep their antennae up.

"If there is a market you hear about, I would check it out," she says. "It [Giant Miscanthus] is not going to make you a ton of money the way row crops did from 2010 to 2013. But, it can be stable and provide income for you in a steady way while protecting your soil and water." ➤

Giant Miscanthus is a striking crop, with uses that include biomass and conservation. Markets are not well-established.

JIM PATRICO

JIM PATRICO

THE NON-GMO ROUTE

It didn't take much to convince Gary Hughes to plant non-GMO soybeans for the Japanese tofu market.

Specialty crops are Hughes' thing. The Rosendale, Missouri, corn and soybean producer has long planted his 2,500 acres to both waxy corn and non-GMO soybeans. Five years ago, when a company named Lathrop Feed and Grain (now Lathrop FSG) told him he could get a premium on the variety of non-GMO soybeans he was already planting, it was kind of a no-brainer. "It all comes down to profit," Hughes says.

He had long been a believer in non-GMO beans, which do well on his "average" soils. Two years ago, he switched all of his bean acres to non-GMO because he questioned the cost efficiency of GMO beans now that weed resistance is rampant.

"Do the math," Hughes says. With extra applications and expensive chemistry, "I'm paying the same for weed control with non-GMO beans [as with GMO beans]." Besides, he asserts, non-GMO seed is less expensive.

Hughes is the type of grower Stacey Evans loves. Evans is the general manager of Lathrop FSG (based in Lathrop, Missouri), which started cleaning non-GMO soybeans in 2008 for sale to Japanese tofu manufacturers. The first couple of years, the company shipped 50,000 to 100,000 bushels in containers that were backhauls from Japanese shipments to Kansas City of electronics, toys and other goods. Today, Lathrop FSG ships 400,000 to 500,000 bushels to Japan in those same kinds of containers. To attract growers, Lathrop FSG offers a $2-per-bushel premium over local commodity prices. By contract, a grower can lock in the price whenever he feels the market is right.

The catch is that the Japanese are extremely particular about bean quality. "What we look at as commodity, they view as their food," Evans explains. His company and his growers have to make that mental transition when dealing with the Japanese. "You go from being a handler of commodities to being a food manufacturer."

So, special care is needed with tofu beans. At harvest, for example, farmers shouldn't cut non-GMO beans if their hulls are wet with dew or rain. Dust from harvesting can leave speckles on the beans, and tofu makers do not like dirty-looking beans.

Hughes employs special procedures when he harvests non-GMO beans. "I run them like seed beans," he says. "You want very high quality and a low number of splits. It makes you fine-tune your combine. I also handle them with conveyors rather than augers" to prevent damage to the beans.

Would he recommend a non-GMO contract to others? "I would, but not without reservations," Hughes says. "It is not for everyone."

Weed-control timing is key. "If you miss, you're done. There is not an effective rescue treatment," Hughes says. There is also the matter of non-GMO varieties typically having lower yields than some of the hot GMO varieties.

But, in Hughes' world, the lower costs of non-GMOs—and $2 premiums—outweigh lower yields. "It's just a matter of knowing the genetics of what you are planting." ///

BY *Elizabeth Williams*

Little Relief Ahead For Cash Renters

Market Facilitation Payments and some minor price rallies are playing into landowners' plans for 2020.

While some farm operators will struggle to pay their bills this year, landowners are not expected to be all that sympathetic. Cash rents aren't projected to climb in 2020, but they're not likely to go down either.

Mark Ruff, a corn/soybean/wheat farmer in central Ohio, agrees with the consensus that there will be little change on the cash-rent front for the upcoming season.

"It may not be economically sound, and it's not necessarily what should happen, but I doubt anything will change land rents for next year. A $70-per-acre MFP (Market Facilitation Payment) ... does not make up for the loss of yield and the loss of exports. It stops some of the bleeding, but it doesn't make your operation whole," he says. "I question whether the MFP payment should be shared with the landowner when we are just hanging on."

Ruff says they've been trying to switch to more flex acres with their landlords but notes it's a mixed bag.

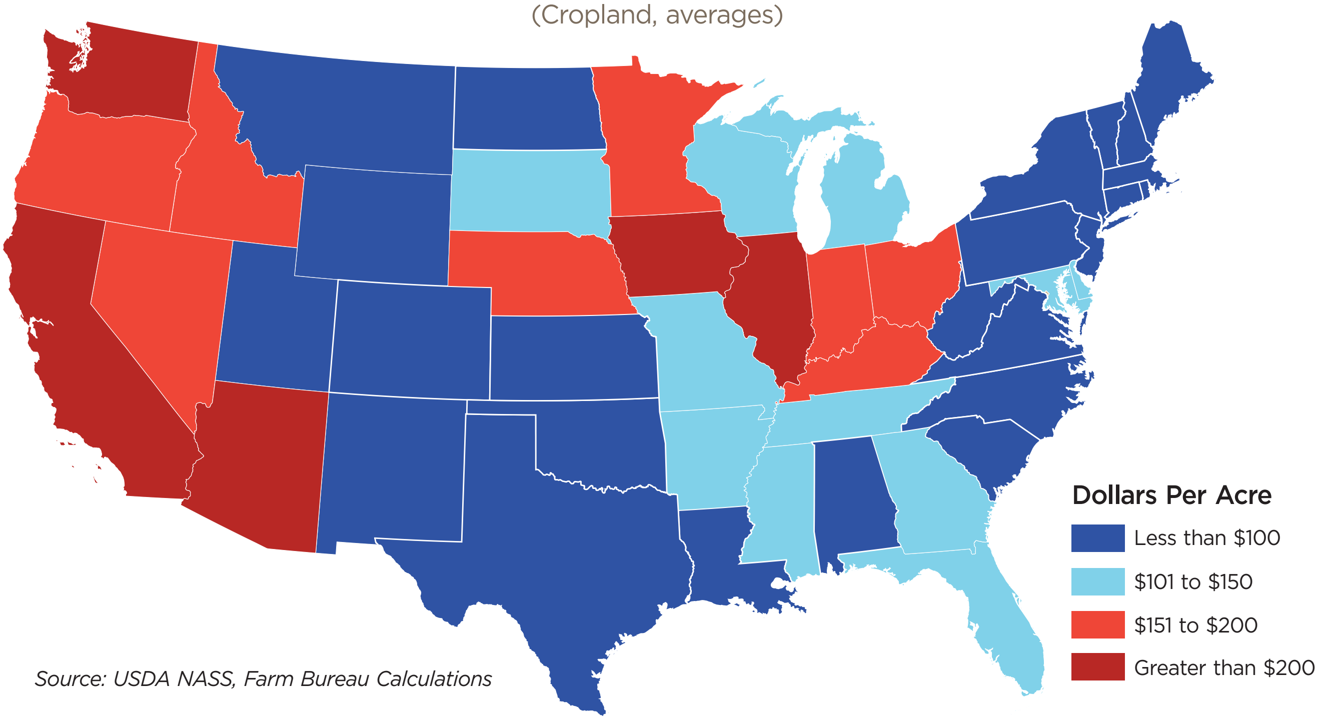
"Your base has to be low enough for that to make sense for the operator. If it's not below market rate, what's the point? It should be 80% of fair market value. But, it's a tough sell to guarantee less to the landowner now for the possibility of gaining more in a good year. The further landowners get from the farm gate, the harder it is for them to understand how the variability [in farm profit] works." ›

MARK RUFF

JIM PATRICO

2019 Cash Rental Rates

(Cropland, averages)



Source: USDA NASS, Farm Bureau Calculations

BOB ELBERT

Some of the highest rental rates in the country are found in Illinois, where farmers will see on average $100 less in per-acre revenue in 2019 than they did a year ago. USDA reports the state's average cash rent stands at $224 per acre, steady with 2018 levels of $223 per acre.

"Next year doesn't look any better for crop revenue," University of Illinois ag economist Gary Schnitkey notes. "We're predicting $3.70-per-bushel corn and $8.50-per-bushel soybeans [as a season average price for the 2020 crop]. We need to see lower cash rents."

Landowners want to hold rents steady, but they are concerned about getting paid. The top two questions they ask farm-management specialist Steve Johnson are, "What's my tenant getting for an MFP payment?" and "Will my tenant be able to pay their cash rent?"

Farmland owners expect their Midwest tenants will get around $70 per acre in MFP payments. In addition, they watched prices rally this summer.

"So, they're not willing to come down much on rents in our area," reports Mark Nowak, farm business consultant in Wells, Minnesota. "In south-central Minnesota, I don't see rents changing much from the $240 to $260 per acre range where they've been the past couple years."

PROFITABLE OPERATORS LOOKING

Nate Franzén, president of the ag banking division of First Dakota National Bank, in Yankton, South Dakota, says there are still highly efficient, profitable operators who will pay up for rent in 2020.

"I don't think cash rents will come down a lot. You'll see some variance by neighborhood, but generally, if someone wants to put something out there for rent, there are some who will pay the going cash-rent rate, even if it's high," Franzen explains. "You might see more delineation between high-producing land and more marginal ground. It comes down to supply and demand. Good land in short supply will bring a high price."

He adds he senses a peak in farmers' frustration levels following challenges brought about by abnormal weather, along with trade issues and declining ethanol demand.

"But, it's hard to quantify," he notes. "I'm actually more positive today than I was in April and May. Since then, there were some opportunities to lock in a profit. Also, we thought interest rates might go up two or three more times, and that doesn't look like it will happen. Don't get me wrong, it's not a cakewalk out there."

LAND IS THE NEW SAVINGS BOND

Ben Riensche, a corn and soybean farmer in northeast Iowa, also doesn't anticipate much movement on cash rents this year. He believes market disruptions and yield declines should put downward pressure on rents, but says the system isn't built that way.

"The more I think about it, the whole system seems hell-bent on protecting land prices and cash rental rates," Riensche says. "Where would rents be going this year if we didn't have MFP, prevent-planting option and subsidized crop insurance? Investing in land is like investing in a savings bond. Like savings bonds, farmland costs a lot, and the returns are slight, but the investment is basically riskless.

"The farm operator, staggering from years of trying to hold onto land to distribute bloated fixed costs ... simply doesn't have the reserves or the working capital to continue to reward landlords," he continues. "Then, the government steps in with subsidized crop insurance premiums, prevented-planting payments and MFP payments, which the farmers simply need to 'keep the wheels on the bus,' and the cash rent gets paid."

Riensche does the math and points out, "$250 per acre rent on a $10,000-per-acre piece of land is equal to 2.5%. Sounds like a U.S. savings bond rate."

Relationships Matter

Leasing land continues to be a highly competitive area in agriculture, with someone else usually willing to step in and pay top dollar for acres that become available.

Those rates are key, but relationships do still matter to many landowners, advises Nate Franzén, president of the ag banking division of First Dakota National Bank, in Yankton, South Dakota.

"We've seen operators work with their landowner, showing them their financials and explaining how it's not working for them today. And if they've been a big help to the family ... digging them out in the winter, etc., a lot of times the landowner will understand and work with the operator."

Franzén's advice for farm operators? "Be the best tenant you can be." That includes good agronomics, clean fields, clean roadsides.

If the owner lives in the community, help him or her out. Have honest, open and continual communication. Explain technology in a format they will understand. "Every rural community is hungry to keep young people there. If you are a young farmer, show the owner that you care about your community and neighbors. There is value in goodwill," Franzén notes.

Another option is to improve the farm, central-Ohio farmer Mark Ruff advises. "If we pay for tile and install it, we negotiate a 10-year fixed lease with the landowner. If the owner pays for the tile and we install it, we get a five-year fixed lease," he says.

As in any relationship, communication is key. Kevin Green, an eastern-Iowa farmer in DeWitt, distributes a newsletter to his landowners. In addition, he holds a monthly "Refresher" where he meets with landowners for refreshments and to update them on what's happening on the farm. An annual get-together in August is held at a local winery. Written communication is also important.

"If you are a young farmer, show the owner that you care about your community and neighbors."

—Nate Franzén

Green learned this the hard way several years ago when rents were rising. He talked to one of his landowners in August and offered to pay an additional $30 per acre. The owner wanted to wait and see what the markets would do. In December, that owner called Green and asked him if he would offer more. Green said that was about as high as he could go (thinking they were including the additional $30 an acre he had previously offered). The landowner rented it to someone else for less than the additional $30 Green offered because the owner thought Green was only offering what he paid the previous year.


KEVIN GREEN

JIM PATRICO

"I've learned to put everything in writing now," Green says. Even the little things can make a difference. "You'd be surprised at how much an owner values getting fresh sweet corn delivered to them in the summer," Green shares.

In the end, though, there may also be some ground you need to be willing to let go.

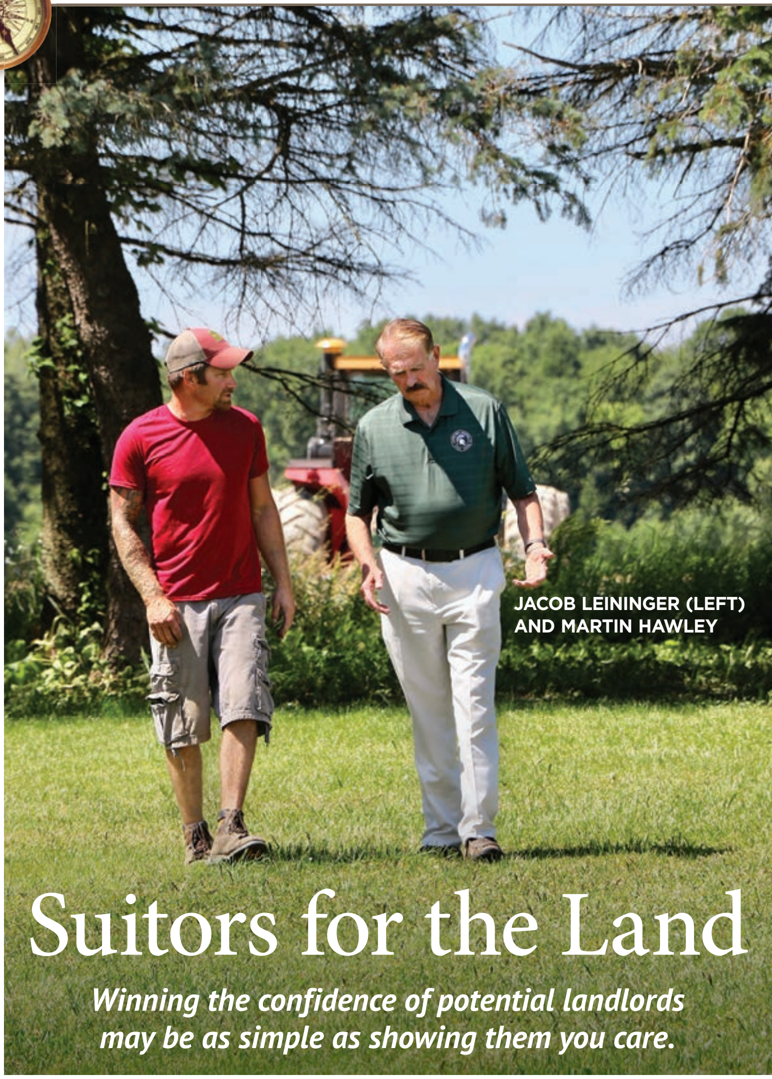
"The first time I let some land go that the owner wanted $300-per-acre cash rent for, I worried about my reputation," Ohio farmer Ruff says. "Did people think I was in trouble financially? But, after I did it, I was so glad. Comparing the numbers, there was no way I could improve that farm enough to make it pay."

Green had one area farm owner ask him, "Are you the one who pays for tile, removes trees and cleans up farms?" Green says he walked into that trap with a "yes." The owner wanted Green to do all that for free and pay market rent.

"I turned him down. That farm needed a lot of work. I would have lost money."

Not all ground is worth farming. ///

STORY AND PHOTOS BY *Des Keller*



JACOB LEININGER (LEFT) AND MARTIN HAWLEY

Suitors for the Land

Winning the confidence of potential landlords may be as simple as showing them you care.

The warm sunny weather in this southwest corner of Michigan on a late-June day belies the yearly scramble to plant soybeans. This year was particularly tough, as weeks of ongoing rain wiped out any chance for a planting date in April or even May. Finally, it's all hands on deck.

Jacob Leininger runs a tillage tool, smoothing out bare soil dotted with crusty dirt chunks. His father, Curtis Leininger, and father-in-law, David Brasher, prep the soybean planter. Jacob's wife, Jenny, rides herd over their three young children, Emersyn, Bo and Mack, who help in the field by picking up cantaloupe-sized rocks, heaving them into the bed of an ATV.

A short distance away, standing on the porch of the circa-1880s farmhouse where he grew up, 80-year-old Martin Hawley talks about meeting Jacob Leininger, who has rented 80 acres from Hawley for several years now. As is often the case, their business relationship started simply enough as office chitchat.

"A coworker of Jenny's at her off-farm job mentioned I might be looking for a new tenant for the farm," says Hawley, a chemical engineer who has served on the faculty at Michigan State University for 55 years. "Shortly after that, Jacob called me, and we got together to talk. It was clear he was committed to farming. I liked that he was young and had a great family. After a half-hour, I thought, 'This guy is worth taking a chance on.' I think it has worked out fine."

Farming is a family business for the Leiningers, where even the children (Emersyn, Bo and Mack) help by picking rocks out of fields.

The deal may seem simple and straightforward with a bit of good timing involved, but there were several factors that helped make this tenant/landlord agreement happen. First, Jacob moved quickly when he heard the 80 acres next door was available for rent. Otherwise, an opportunity would likely have been lost. Hawley says if he hadn't heard from Jacob, he likely would have rented to a much larger operation nearby that works 5,000 to 6,000 acres. Jacob farms just 350 acres and has an off-farm job as lead contractor for Ryan Custom Contracting, a construction company. Second, Jacob took the trouble to ask to rent Hawley's land. Sounds simple, but people don't always let it be known they want to expand their farm operations.

NETWORK AND BE FLEXIBLE

Dave Bryden, director of sales, marketing and strategic partnerships for a national farm-management company, Family Farms Group, says, "Not everyone can or should grow, but if you want to, a big part of it is simply letting people know you want to grow. Some farmers are perfectly content to farm what they have now. If you are a landowner, how do you know if I'm one that's perfectly content?"

Bryden notes letting a lender, attorney or tax professional know you have an aspiration to grow the size of the farm is key. They often hear of opportunities before anyone else and may be able to facilitate a meeting. Jacob was flexible and willing to farm on 50/50 shares with Hawley, a man who likes to maintain involvement in his home property. So, while Jacob pays cash rent to his other landlords, as part of his year-to-year verbal agreement with Hawley, he provides labor and machinery. They split fertilizer, seed and fuel costs.

SHARE THE STORY OF YOU

There are intangibles that work into the equation, as well. Jacob understands that being a family farmer makes a difference in a lot of peoples' eyes.

"Each one of our landlords is different, and each one is special," he says. "But, I think they all like the full family version of us—that the kids and Jenny are with me helping. I think that makes a difference."

It doesn't hurt that Jacob is the fifth generation to farm in the area and Jenny the seventh generation.

Even when things seem to be working well for all concerned, it's important, Bryden says, to keep in mind landowners' needs and desires change. Farmers need to understand that and be able to adapt if at all possible.

"You might have a landowner who has worked on a crop-share lease arrangement forever," he says. "That doesn't necessarily mean going into next year that will be the arrangement he or she wants. Always ask. Don't assume what they've done in the past is what they want or need in the future."

Increasingly, landowners are emphasizing care of the land as a component of lease agreements.

COMMUNICATION IS NO CLICHÉ

Ronnie Mohr has farmed near Greenfield, Indiana, for 55 years. He works with his brother and two sons on 4,300 acres. He says it's important to watch what you say to a landowner, because he or she may take that comment to whomever is farming their land at the moment.

"I made that mistake once by expressing an interest in a farm to a landowner if they ever made a change," Mohr says. "The other farmer got really upset."


RONNIE MOHR

Mohr works with 23 landowners and adds he works hard to keep all 23 informed. "I know it is an overused phrase, but communication is key. We try to let people know about our whole operation and that we care about the community. That provides a connection to people."

One of Mohr's landlords is Paul Marsh, a professional farm manager who helped build Prudential's real estate broker service more than 25 years ago. He went on to become chief underwriter and portfolio manager for their $4.25-billion ag mortgage business. He retired in 2017. Mohr and Marsh farm 50/50 shares on the Marsh family land, as they have for years.

"It is not my personal objective to squeeze every last dollar out of a tenant every year," Marsh says. "A landowner needs to be conscientious about how the land is treated, and the Mohrs know our farm. Maintaining fertilization, organic matter and cover crops are important to me."

Another plus, Marsh says, is when a farmer is able to tell their story using things like social media. "Some of these operations have created websites and Facebook pages, and tell how they care for the land," he says. "If they are doing their farming practices successfully, and someone needs an operator, those guys go to the head of the list."

PULLING TOGETHER

As the day winds down, the Leiningers are putting on a full-court press, planting soybeans into the evening for what they already know may be a subpar year harvestwise.

Sweat running down his forehead as they pour bean seed into the planter, Jacob says in a tough year, having a good partner in your landlord means a lot.

"The good thing about Martin is he wants to put back into the land and take these risks, and grow together," Jacob says. "We've tiled and cleaned fencerows and worked together to build the land." ///