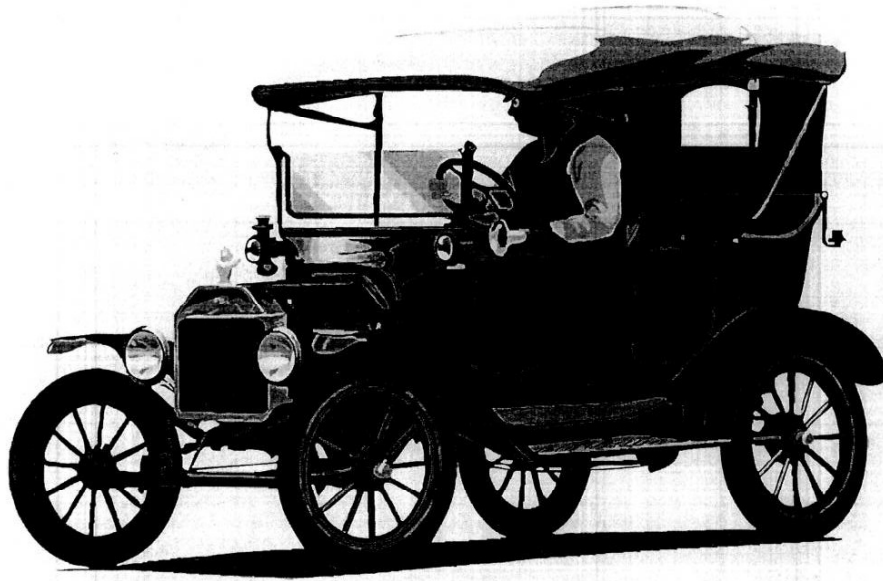


On The Road With



An Old AG Lender

2017-2018 Farm Tour

Richard Ritter

Special Thanks To Ryan Augsburger and Ryan Curtis

richardritter@flanaganstatebank.com

Office Phone: (309) 747-3600

Cell Phone: (309) 242-0355

Home Phone (815) 796-4518



USDA Certified Organic Survey

September 2017

	US	Illinois	Indiana	Iowa	Missouri	Wisconsin
Certified Farms Organic Certified	14,217 Acres	205 Acres	420 Acres	732 Acres	302 Acres	1,276 Acres
Acres	5,019,496	39,153	43,219	103,136	41,078	219,266
Ave Farm Size	353	191	103	141	136	172
Land Owned	2,322,418	15,537	29,913	65,297	29,920	142,580
Land Rented	2,322,418	23,903	13,572	40,098	11,366	78,907
Corn	261,008	9,239	8,397	30,342	5,714	35,855
Hay	1,317,868	7,516	27,196	28,914	5,544	126,657
Soybeans	124,591	10,787	2,403	20,547	7,102	9,698
Wheat	673,100	7,184	2,599	4,461	6,672	7,234
Oats	50,732	1,919	157	8,673	620	6,410

Flanagan State Bank 2017 Estimates Organic Crop Cash Flows

Income/Expense	Corn	Soybeans	Wheat	Oats	Hay
<u>Income</u>					
Yield	149 bu	46 bu	54 bu	85 bu	4 ton
Price Per Bu	\$9.13	\$20.00	\$11.00	\$5.50	\$120
Gross Income	\$1,360	\$920	\$594	\$468	\$480
<u>Expenses</u>					
Labor	\$38	\$33	\$37	\$37	\$22
Repairs	\$44	\$43	\$36	\$36	\$52
Seed	\$97	\$55	\$60	\$42	\$10
Fert/Line	\$196	\$83	\$57	\$25	\$46
Soil Additives	\$28	\$14	\$5	\$5	\$1
Weed Control	\$27	\$80	\$0	\$0	\$0
Building Repairs	\$3	\$3	\$3	\$3	\$3
Insurance	\$30	\$30	\$20	\$15	\$10
Utilities	\$8	\$8	\$8	\$8	\$8
Fuel	\$35	\$26	\$23	\$21	\$32
Drying/Storage	\$22	\$4	\$8	\$0	\$0
Custom Hire	\$4	\$2	\$13	\$13	\$70
Light Vehicle	\$2	\$2	\$2	\$2	\$2
Prof Services	\$5	\$5	\$5	\$5	\$5
Cash Rent	\$138	\$138	\$138	\$138	\$138
Other	\$10	\$10	\$10	\$10	\$10
Interest	\$20	\$16	\$13	\$12	\$13
R/E Taxes	\$17	\$17	\$17	\$17	\$17
<u>Income/Expense</u>					
Term Payments	\$55	\$55	\$55	\$55	\$55
Family Living	\$42	\$42	\$42	\$42	\$42
Income Tax	\$29	\$29	\$29	\$29	\$29
Total Expenses	\$850	\$695	\$581	\$515	\$565
Net Cash Difference	\$510	\$225	\$13	<47>	<85>
Plus Fertilizer	no	no	no	yes	yes
Other Crops	no	no	yes	yes	no

This information was compiled from a farmer survey mailed out to producers throughout the Midwest. The information received back was averaged and blended with other current farm data. Please note our oats and hay information was limited in responses. This data should be used as a guide only. If you have any questions, please contact Richard Ritter 309-747-3600 or by email richardritter@flanagansstatebank.com thanks!

FINBIN 2017 Summary Crop Comparison

	Conventional	Transitional Estimate	Organic
<u>Corn</u>			
Income	\$756.61	\$466.52	\$1,303.57
Expense	\$681.24	\$650.89	\$650.89
Net Return	\$75.37	<\$184.37>	\$652.68
Labor Hrs	2.66 hours	4.98 hours	4.98 hours
<u>Soybeans</u>			
Income	\$484.06	\$295.24	\$731.08
Expense	\$382.77	\$498.14	\$498.14
Net Return	\$101.29	<\$202.90>	232.94
Labor Hrs	1.61 hours	5.18 hours	5.18 hours
<u>Wheat</u>			
Income	\$346.11	\$219.23	\$433.63
Expense	\$302.36	\$374.66	\$374.66
Net Return	\$43.75	<\$155.43>	\$58.97
Labor Hrs	1.42 hours	3.68 hours	3.68 hours
<u>Oats</u>			
Income	\$253.06	\$164.20	\$368.09
Expenses	\$227.12	\$331.19	\$331.19
Net Return	\$25.94	<\$166.99>	\$36.90
Labor Hrs	1.97 hours	2.61 hours	2.61 hours
<u>Hay</u>			
Income	\$619.15	\$534.19	\$607.01
Expenses	\$387.05	\$387.05	\$371.53
Net Return	\$232.11	<\$147.14>	\$235.48
Labor Hrs	3.78 hours	3.87 hours	3.87 hours

Crop Insurance Coverage Available

	Coverage	Spring Price	Max Price if purchased before 7-1- 17	APH Yield	BU Guarantee	Dollar Guarantee Unsold
Corn	RP 85%	9.06	13.59	T-Yield	110 bu	\$997
Soybeans	RP 85%	20.52	30.78	T-Yield	33 bu	\$677
Wheat	RP 85%	9.88	14.87	T-Yield	48 bu	\$483
Oats	RP 85%	4.65	6.98	T-Yield	56 bu	\$260

Based on Illinois County Data for 2017 using T-Yield's. This is an illustration only crop insurance protection locks in your profit and reduces lenders risk. Crop insurance guarantees can be used as collateral values for lenders. If crops are sold before July 1st above the spring price than this becomes your insured price as long as it does not exceed max price shown. This could significantly increase your crop insurance guarantees and needs to be considered each year. Highly recommend crop insurance coverage.

Crop Rotation Cash Flow Comparison

Organic

Conventional

FINBIN Actual 5 yr averages

• FINBIN Actual 5 yr averages

	Crop	Yield	Price	Net Income	Crop	Yield	Price	Net Income
Year 1	Hay*	3.59T	\$167	\$235	Corn	169bu	\$4.28	\$75
Year 2	Corn	110bu	\$10.90	\$653	Soybeans	45bu	\$10.67	\$101
Year 3	Soybeans	28bu	\$23.93	\$233	Corn	169bu	\$4.28	\$75
Year 4	Oats*	56bu	\$6.15	\$37	Soybeans	45bu	\$10.67	\$101
Year 5	Wheat*	38bu	\$10.11	\$59	Corn	169bu	\$4.28	\$75
Totals				\$1217				\$427
Annual Average				\$243				\$85

Net Annual Difference \$158

Based on 5 year averages on FINBIN Data for both conventional and organic production from 2012-2016. FINBIN Data collects farm information from: Illinois, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Carolina, Utah, and Wisconsin Farmers.

* indicates that these crops would have additional value for either a second crop or for fertilizer value not included.

Crop Rotation Cash Flow Comparison

Organic

Conventional

FSB 2017 Estimated Averages

FSB 2017 Estimated Averages

	Crop	Yield	Price	Net Income	Crop	Yield	Price	Net Income
Year 1	Hay*	4 T	\$120	\$(85)	Corn	200bu	\$3.60	\$(107)
Year 2	Corn	149bu	\$9.13	\$510	Soybeans	65bu	\$9.30	\$18
Year 3	Soybeans	46bu	\$20	\$225	Corn	200bu	\$3.60	\$(107)
Year 4	Oats*	85bu	\$5.50	\$(47)	Soybeans	65bu	\$9.30	\$18
Year 5	Wheat*	54bu	\$11	\$13	Corn	200bu	\$3.60	\$(107)
Totals				\$616				\$(267)
Annual Average				\$123				\$(53)

Net Annual Difference \$176

Based on survey data to Illinois Organic Farmers. Assumes same: cash rent, family living net cost, income tax, and term principal payments. Based on 5 year average yields and estimated prices. * indicates that these crops would have additional value for either a second crop or for fertilizer value not included.

Conventional vs Organic Crop

2017 Cash Flow Comparison

Flanagan State Bank 2017

	Conventional Corn	Organic Corn	Conventional Soybeans	Organic Soybeans
Income				
Yield Per Acre	200	149 bu	65	46 bu
Price Per BU Fall	\$3.60	\$9.13	\$9.30	\$20.00
Gross Income	\$720	\$1,360	\$605	\$920
Expenses				
Labor	\$15	\$38	\$13	\$33
Repairs	\$30	\$44	\$30	\$43
Seed	\$125	\$97	\$65	\$55
Fert/Lime	\$165	\$196	\$46	\$83
Soil Additives	0	\$28	0	\$14
Chemicals/Weed Control	\$90	\$27	\$72	\$80
Building Repairs	\$3	\$3	\$3	\$3
Insurance	\$25	\$30	\$31	\$30
Utilities	\$8	\$8	\$8	\$8
Fuel	\$31	\$35	\$18	\$26
Drying/Storage	\$30	\$22	\$4	\$4
Custom Hire	\$4	\$4	\$2	\$2
Light Vehicle	\$2	\$2	\$2	\$2
Prof Services	\$5	\$5	\$5	\$5
Other	\$12	\$10	\$12	\$10
Interest	\$18	\$20	\$12	\$16
Term Payments	\$70	\$55	\$70	\$55
Family Living Net	\$33	\$42	\$33	\$42
Income Tax	\$25	\$29	\$25	\$29
Total Expenses	\$691	\$695	\$451	\$540
Remaining Balance	\$29	\$665	\$154	\$386
Cash Rent 11.000 x2.50%	\$275	\$275	\$275	\$275
Difference	<246>	390	<121>	105

These numbers should be realistic and conservative numbers on both sides based on customer data and input surveys from organic producers in the Midwest.

Farmers Guide to Organic Farming

- 1) Organic farming is a long-term commitment and way of life, it is not a quick or temporary fix for conventional farmers until their conventional cash flows improve.
- 2) Organic farming is different from conventional farming in: crop rotations, diversification, farming practices, labor needs, timing of work, twelve-month farming of the soil, marking, management, weed control, and how you fertilize the crop. Conventional farmers plant primarily corn and soybeans and rotate them annually, while organic farmers could have 4-6 primary crops in the rotation, plus cover crops, and livestock. These additional crops and livestock in the operation help make: the organic system work, diversify and add value to the operation, and complete the cycle of life. Organic and conventional farming are very different.
- 3) Success for organic farming is measured in: organic matter, earthworms, balanced soils, water holding capacity, nutrients, and fertilizer available, microorganisms in the soil, minimizing weeds, feeding the soil, and making the soil both more productive and healthy.
- 4) Do you have a mission statement? Why do you want to be an organic farmer, and what is your benefit? Why should a consumer want to buy your products? A mission statement forces you to summarize the purpose and goals of your operation and answer the basic questions of: who, what, when, where, why, and how. It also helps you determine if this is an emotional or business decision for you. If you have a realistic, detailed, and focused mission statement than your business plan is partially done and you are serious about what you are doing.
- 5) Work toward a success formula of: 40% financial management skills, 40% production management skills, and 20% communication skills.

- 6) Organic farming is not a non-profit business, so it needs to be profitable to survive, continue, and grow in the future. An organic farmer must have accurate and timely farm records and use them to both manage and make adjustments in your operation. Do you know what it costs to produce your products? What are your biggest expense that you can control? It's your operation positively cash flowing? Do you have measurable financial goals that you work toward each year? Do you review your cash flow quarterly with advisors, lenders, and suppliers to determine ways to be more efficient, productive, and profitable. Bottom line is important.
- 7) Each Organic farmer should have:
 - A) Transitional crop rotation plan
 - B) Organic crop rotation once certified
 - C) A plan to minimize weeds
 - D) A plan to improve soil health
- 8) Your transitional plan, number of acres, crops in transitional crop rotational should all be based on your financial position and your cash available to pay bills. Expect to have cash shortages on all transitional acres until certified. This could vary from \$(147)- \$(203) based on FINBIN Data for the past years on corn, soybeans, wheat, oats, and hay.
- 9) Start small learn and experience organic farming, become profitable, then grow your operation slowly. Some producers considering organic start first by trying Non-GMO before transition to help them adjust to: living with more guidelines and monitoring, marketing a value-added product, and learning to change farming practices and ways. Other farmers have started by converting small tracts of CRP Ground directly into organic production. Common practices of organic producers are: convert small acreage

annually, primarily using small grain crops such as hay, wheat, and oats with cover crops, and avoid row crops such as corn or soybeans during first two years of transition.

- 10) Find, hire, and pay an experienced and knowledgeable organic mentor to advise, help prepare a cash flow, avoid making mistakes, market crops, control weeds, help you be profitable, and help you convert soils from conventional to organic.
- 11) Setup emergency funds in savings to be available for transitional shortages, and to cover delays on payment from crops sold on specialty contracts.
- 12) Finance your operation with AG Lender that understand farming and organic production, and cares about your operation and future. Communicate with your lender, be responsible, and adjust as needed based on cash flow. Do not finance your operation with credit cards, family loans, personal loans, or additional home mortgages.
- 13) An organic producer must have family, landowner, and lender support. Communicate, inform, and educate them, so they all understand and are comfortable with what you are doing. Bring them with you to organic field days, meetings, and updates. Keep them all interested, informed, and excited.
- 14) Have a marketing plan, know your breakeven price for your products, have grain storage for all organic crops, and cash available to cover any delays in grain payment.
- 15) Well drained soils will help organic producers in both weed control and improved yields.
- 16) Check with your local USDA NRCS Office about programs available for: cover crops, transitional support, EQIP Funds to support improved conservation practices, and other special programs to assist organic farmers.

17) Organic farming income varies greatly from transition to organic certified, to what crop is planted in the rotation that year. So, it is important to the organic farmer to have farm lease that adjusts to the income that year. I recommend a flex lease such as:

- A) \$250 base fixed cash rent (minimum)
- B) 33% bonus to landowners over \$800 income per acre on row crops such as corn and soybeans. Range \$250-\$480
- C) 33% bonus to landowners over \$400 income per acre on small grains. Range \$250-\$354

This is an example only for illustration purposes. You need to customize your farm leases if possible to your crops, income, and your operation. This lease would allow you to pay the \$250 cash rent minimum during the first two years of transition.

18) FSA Direct or Guaranteed Financing

- A) Guaranteed Funding- Max Loans \$1,399,000
 - 1) 90% Loan Guarantees
 - 2) Work with local lenders to reduce their risk
 - 3) Work with risks not normally comfortable with
 - 4) More flexible repayment, lower interest rates, lower collateral requirements
- B) Direct Loans- Max Loans \$300,000
 - 1) Work directly with local FSA Officer
 - 2) Lowest interest rates, and most favorable repayment terms
 - 3) More experience and support with organic production

19) Organic Farming is growing and becoming more common, so it maybe in your best interest to run a classified ad or post that you are an organic farmer seeking more ground

to rent and farm from a landowner that would allow organic production. Landowners are seeking tenants to farm for them.

- 20) As an organic farmer, you must be thankful for what you have, enjoy what you are doing, look forward to tomorrow, and start each day making God your priority.