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United States Department of Agriculture

USDA's
93rd
Annual

Agricultural Outlook Forum

A New Horizon: The Future of Agriculture

February 23-24, 2017 • Crystal Gateway Marriott Hotel, Arlington, Virginia

Presentation from the USDA Agricultural Outlook Forum 2017

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93rd Annual Agricultural Outlook Forum
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Crop Insurance - Impact to Ag Finance

Mark Jensen – Sr. Vice President & Chief Risk Officer

Farm Credit Services of America &
Frontier Farm Credit

Farm Credit Services
of America

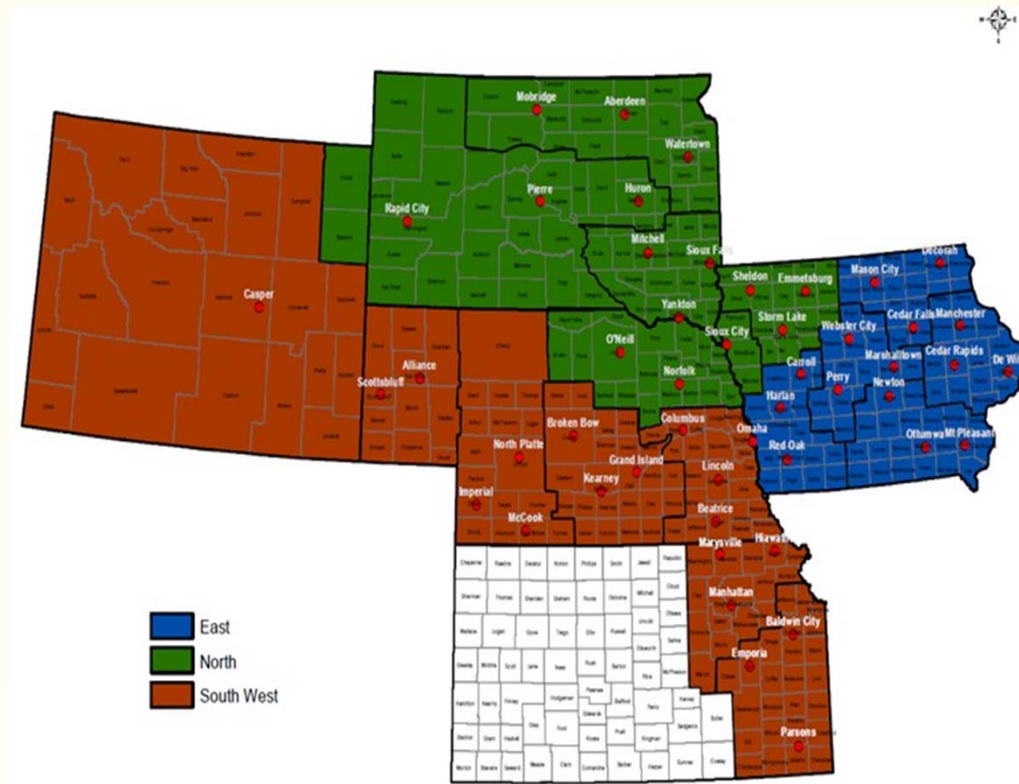


Frontier Farm Credit



Combined Service Area Overview

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



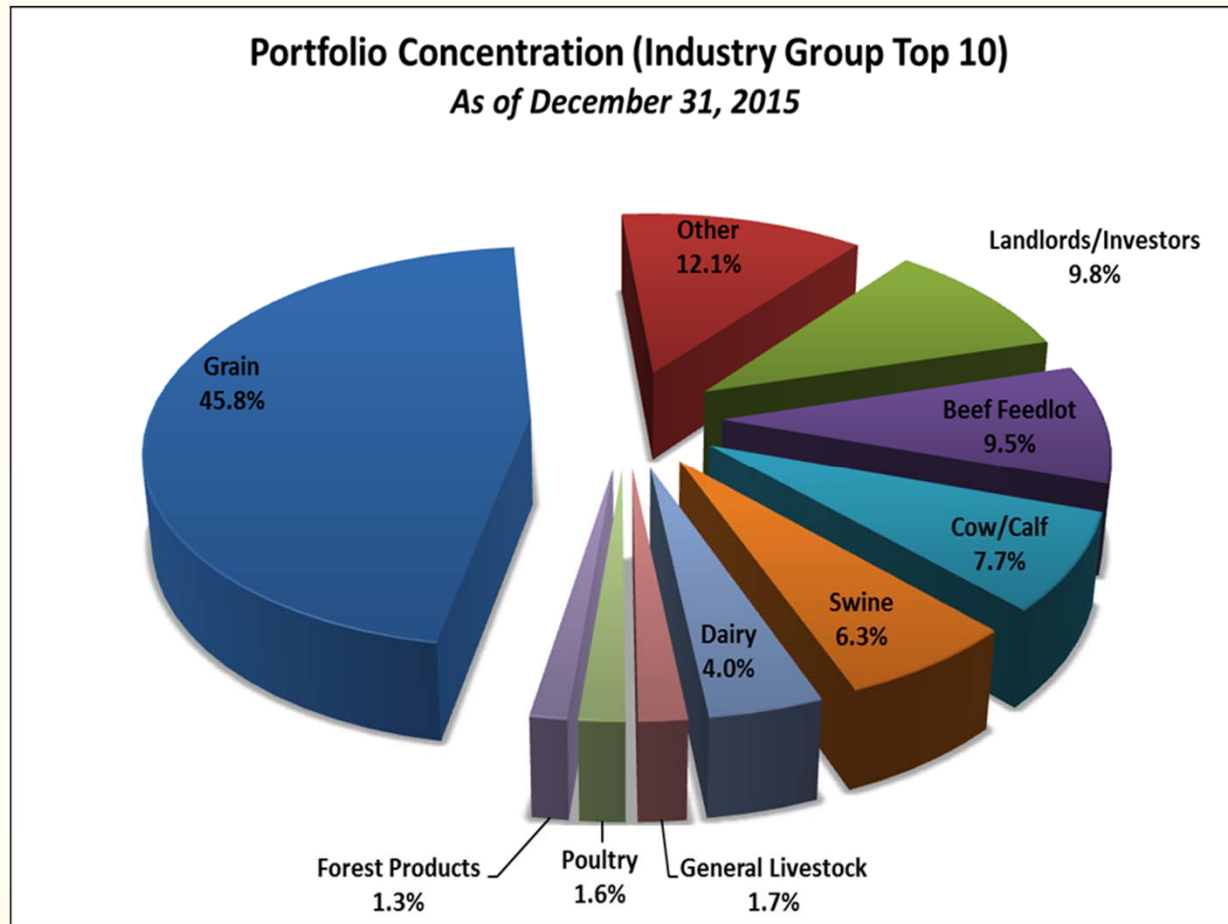
Note: Information is as-of 12/31/16

Farm Credit Services
of America



Frontier Farm Credit

Impact of Grain production



Crop Insurance Portfolio – December 31, 2016

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

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

- **Total customers = 16,396**

- **Total Premium = \$341 million**

- **Market share = 15.2%**



Lenders Perspective – Crop Insurance as a Risk Management Tool

- Catastrophic Risk
- Collateral Margin
- Cash flow



Crop Insurance Program

- **National Statistics**

- 290 Million acres insured in 2016
- Total Premium - \$9.1 Billion ~ \$31.40 per acre insured

- **1989-2016 Loss Statistics**

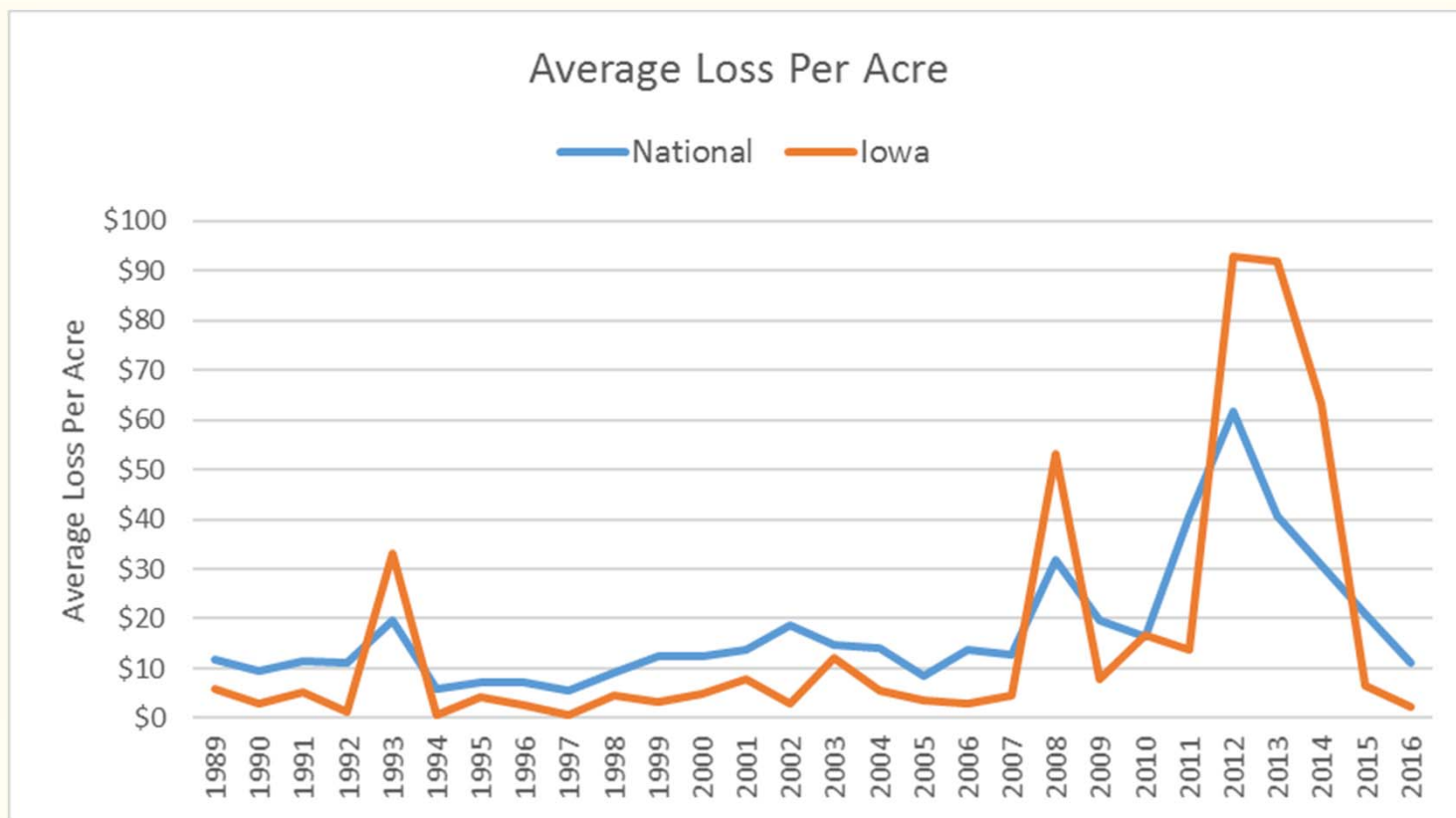
Average Loss per Acre: \$19.71

Minimum Annual Loss: \$5.45 (1997 Crop Year)

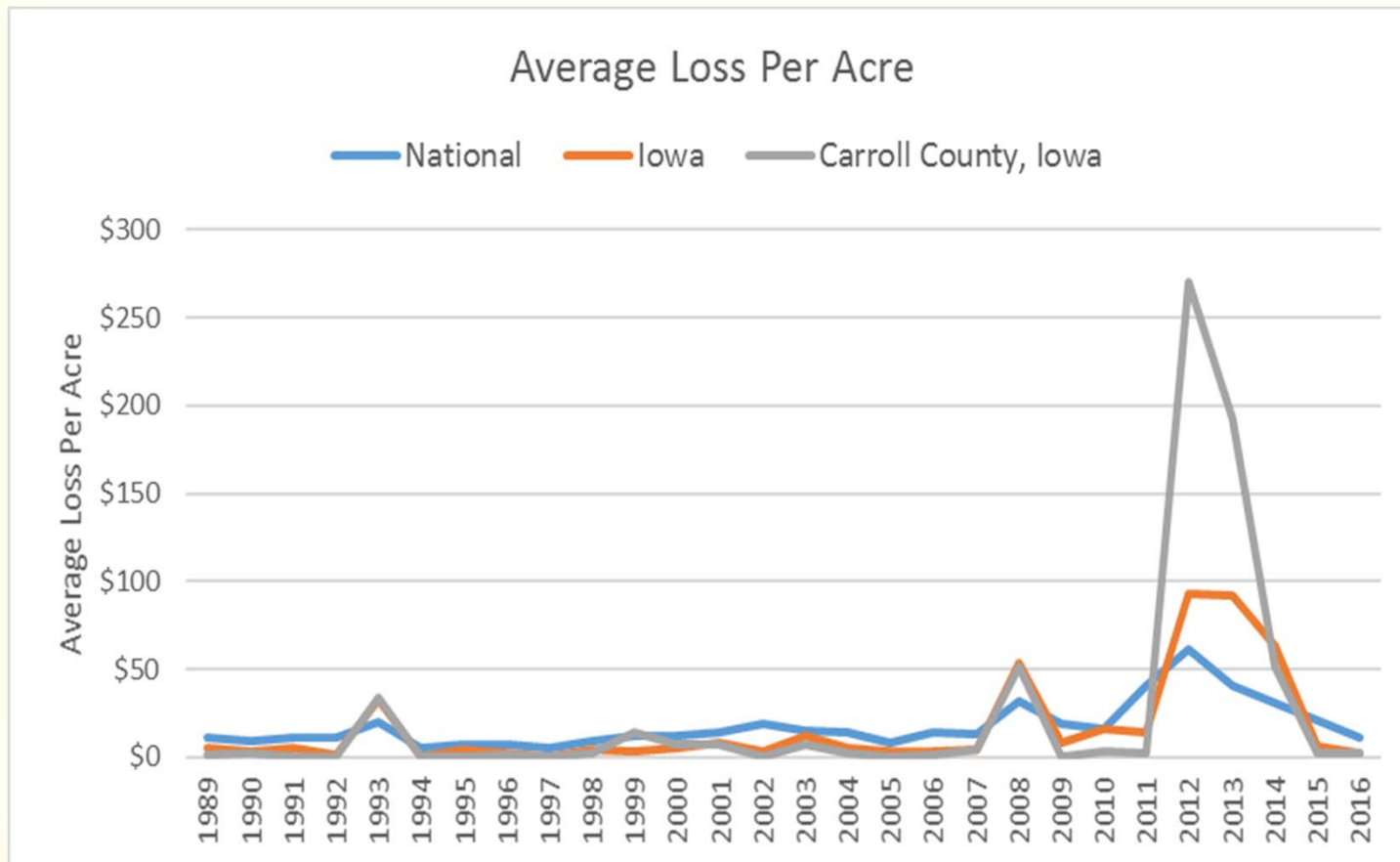
Maximum Annual Loss: \$61.63 (2012 Crop Year)



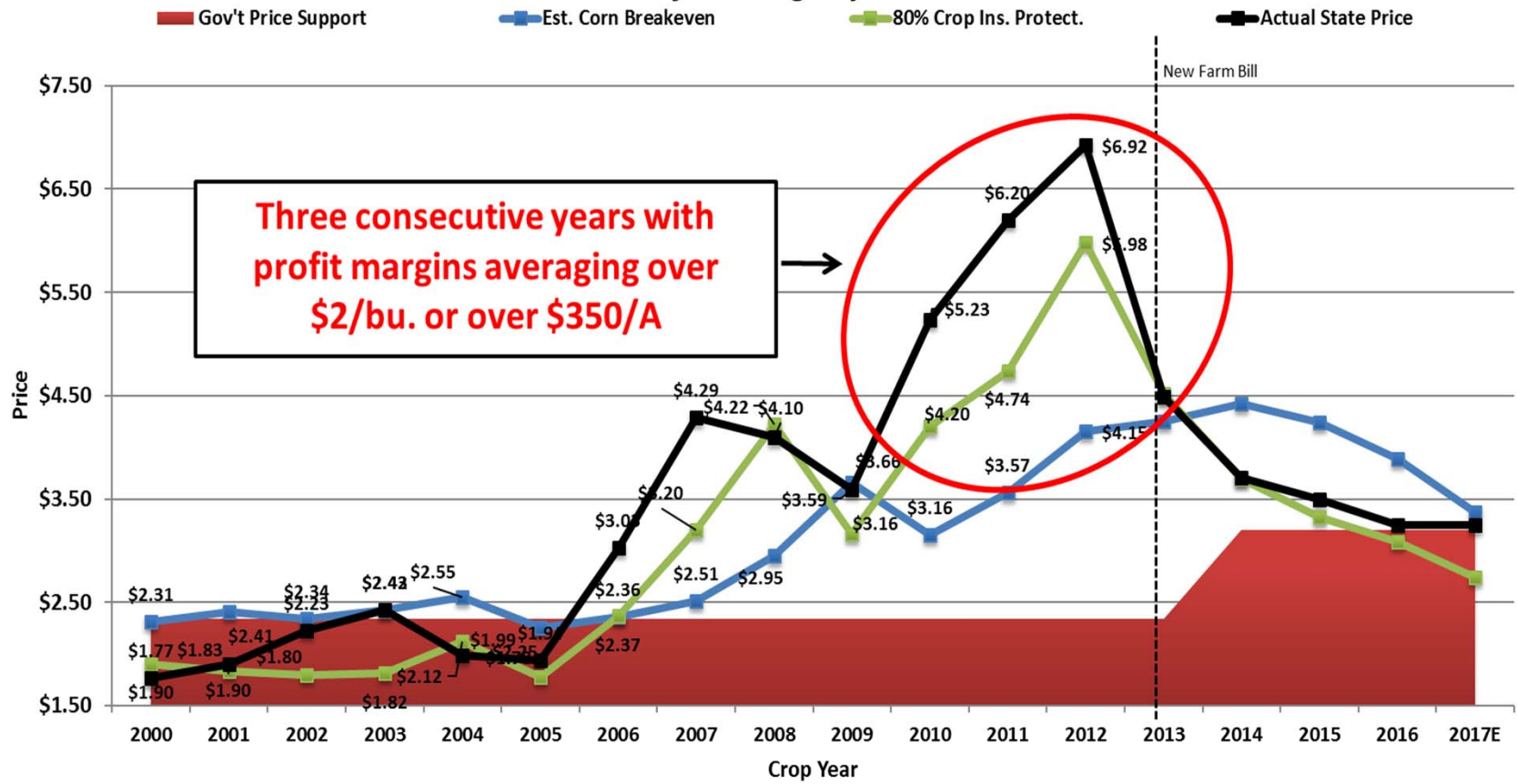
Crop Insurance Program



Crop Insurance Program

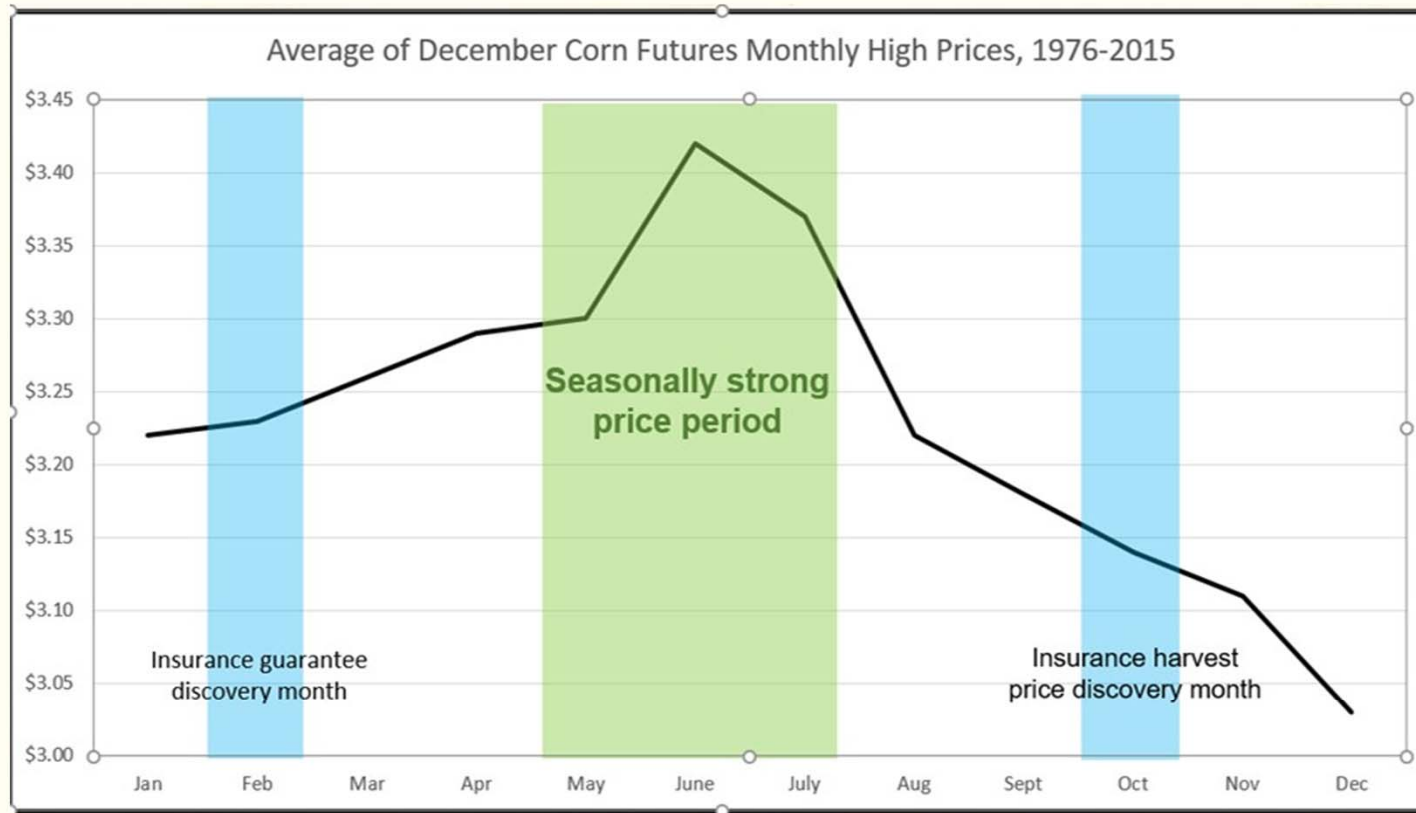


Iowa Estimated Corn Breakeven Corn following Soybeans



Feb 2017 Update
Source: Iowa State University

Crop Insurance Supports Forward Planning & Marketing



Incremental Borrower Liquidity Cost

Example: 1000 acres farm, 180 bu APH

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

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

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

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

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



Catastrophic Risk

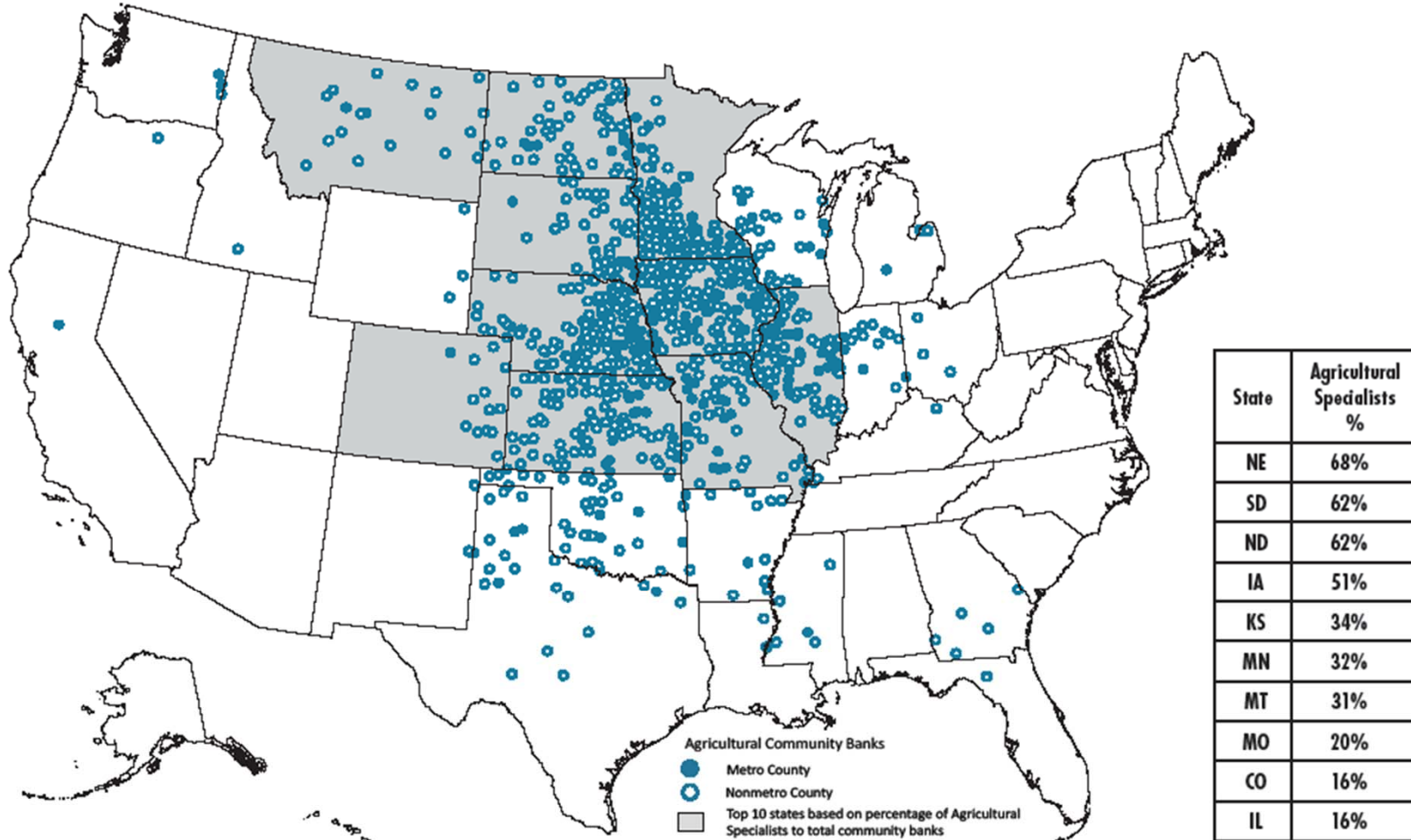
- **Concern for any business**
- **More so for financing ag – weather risk is uncontrollable**

Foundation to mitigate this risk for an ag lender:

1. **Capital**
2. **Crop Insurance**



Headquarters Locations of Agricultural Specialists, Year-End 2011



Source: FDIC.

Ag Banks: Hold agricultural production loans plus loans secured by farm real estate greater than 20% of total assets

Summary

- **Financing ag has unique catastrophic risk**
- **Nation-wide – portfolio vs. individual borrower risk**
- **Crop insurance provides the stability for producers to be successful**
- **Lenders will be willing to provide capital to finance the industry – if the returns and risk are in balance**

