

Ag Lender Advises Discipline in Farm Spending

Financing is the oxygen that gives life to many farms in Kansas, and it is increasingly important that ag law attorneys have a good understanding of financial issues impacting their clients. In this edition of the KBA's Ag Law Section Newsletter, we talk with Jake Espenmiller, chief lending officer at Conterra Ag Capital, where he is responsible for strategy and business development.
— Michael Fielding, Chair, Ag Law Section

Q: Unlike many other lenders, Conterra Ag Capital is an ag lending institution that focuses exclusively on agriculture. What do you see as the benefits that come to producers given that singular focus?

A: Throughout my time in this business, I've seen other ag lenders who also focus on commercial and industrial, residential, and small business lending, shift away from ag in favor of other sectors in down cycles. Broadly speaking, ag has had a good run over the past two to three years. As a producer, you want a lender who will be with you through thick and thin; we are passionate about agriculture and are in it for the long haul. Our focus on agricultural has also allowed us to become very knowledgeable across most core production areas in the U.S. We have many clients with multi-state businesses, and we serve their lending needs across geographies.

Q: The last few years have felt very chaotic given geo-political events, supply chain shortages, inflation pressures, etc. Are you seeing any trends that are emerging from this?

A: We all know about 2020 and the supply chain issues. The 2021 Texas deep freeze shut down natural gas production, a key raw material and fuel source in fertilizer production. Throw in the Russian invasion of Ukraine and record low water levels in parts of the Mississippi River, and it's been an interesting couple of years to say the least. A silver lining to what we've been through and are still experiencing is that producers have become acutely aware of how interconnected ag is to the global theater, and many have taken steps to take greater control over their own destiny. I've seen a lot of on-farm grain and fertilizer storage built during the past couple years, which not only helps with logistics but also allows producers greater flexibility in pricing grain and key inputs.

Q: Environmental, Social and Governance (ESG) issues are gathering a lot of traction generally. How do you see that impacting ag right now as well as in the next few years?

A: It's kind of the Wild West out there related to ESG and ag. Environmentally speaking, farmers and ranchers are the original stewards of the land. It always has been and always will be their most precious resource, and they care for it as such. Socially, farmers and ranchers are the lifeblood of rural communities. My late father-in-law farmed his entire life. In



addition, he was a coach, pastor, counselor, and a veteran. My mother-in-law was a teacher for over 30 years and never said no to a person or organization in need of her time. This is the norm in farm country, not the exception. They take care of their communities not because someone created an acronym for it, but because it's the right thing to do. The challenge, though, is as an industry we've not done a great job of telling our story related to ESG. Most farmers and ranchers I know are extremely humble, they don't want to draw attention to themselves and generally roll their eyes at those who are "all hat, no cattle." So, I think there's some work to be done in connecting the ESG dots for the broader public. Like it or not, it is important because it will affect the flow of capital to agriculture. I meet regularly with investors who are interested in what we do. Most of them are bound by the people they salute to discuss our approach to ESG.

Q: What do you see as the most pressing problems for ag lenders and ag producers in the next six to 12 months?

A: Prices for most major commodities should remain relatively strong over the next year. But for those producers who have big lines of credit for input financing tied to variable rates, borrowing costs could be double. I'm also concerned about the cost of the dollar relative to other currencies. Record exports have been a big driver of demand for U.S. agricultural products, but a strong dollar makes those products more expensive for other countries. On the bright side, the U.S. is still considered the world's safest and most stable source for food, which should keep demand strong.

Q: What do you see as the most pressing problems for ag lenders and ag producers in the next one to three years?

A: Input prices have historically lagged commodity prices. There will come a point in this cycle where commodity prices begin to fall, but the cost of seed, fertilizer, and chem-

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icals remain elevated. Producers need to understand their breakeven point, be disciplined marketers, and have enough working capital to get through that point of inversion. Also, both lenders and producers need to realize there is a “wealth effect” related to farmland similar to what you see in home values. When consumers are feeling good about real estate values and/or their investment portfolio they tend to spend more. Farmers and ranchers can fall into the same trap, burning precious cash because they feel great about the value of their farmland. My advice is to be disciplined when considering capital improvements and equipment and land purchases, and to be self-aware of the wealth effect on those decisions.

Q: For attorneys representing producers who are beginning to experience financial challenges, what would you (as an ag

lender) suggest counsel advise their clients about to successfully resolve the problems before they spiral out of control?

A: Most important is to communicate early, often, and with clarity. Make sure your lender has good information on which to base their decisions, meaning well-organized financial statements and a full understanding of what went wrong. Was it bad luck, bad decisions, or both? Be prepared to communicate what steps have been or will be taken to avoid those challenges in the future. Next, realize there are more options available today for clients who have fallen on hard times. Secondary providers of debt capital can sometimes offer more flexible terms to help a producer who just needs some time to heal. This, of course, comes at a cost; the more risk a lender takes the more reward they expect.



2022 AG LAW CLE CONFERENCE

This program is a recording of a live, in-person CLE conference. This conference was a collaboration between the Kansas Bar Association Agricultural Law Section and Kansas Farm Bureau, and offers a comprehensive selection of topics relevant to agricultural law practitioners in Kansas.

*Approved for 7 credit hours, including 1 ethics hour, in Kansas.
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