

AG RETAILERS CAN NOW OFFER ALTERNATIVE FINANCE SOLUTIONS

A persistent credit crunch has entangled the American agricultural community, despite the opening of more markets than ever before. That probably isn't front-page news. For participants in agriculture, the real news lies in practical paths for navigating the economic challenges faced by growers and the businesses that supply them.

HOW WE GOT HERE

A little more than 15 years ago, news of world population growth and a rapidly growing Chinese middle class wanting to increase the quality of their diet put a focus on U.S. agriculture's responsibility and opportunity to help feed the world. An invigorated industry push began to improve genetics to increase yields. Additionally, the Renewable Fuels Act started consuming corn which increased demand, and commodity prices and margins soared.

But the upturn didn't last long. Commodity prices and margins began to tighten. Then, consolidation of farms, manufacturers and suppliers began to shrink the number of players in the agriculture industry. This sequence of industry events caused available credit to drain out of the market.

HAS EQUITY LEFT THE ROOM?

As the ag retail industry began to consolidate, larger companies purchased many of the smaller family-owned businesses. Many of these smaller retailers had established stable customer bases in their communities where they felt comfortable extending credit. Once those businesses became extensions of major national distributors, that capital began disappearing. They had to follow new policies that determined credit limits, and credit was pulled away from the market.

Over the past five to seven years, there's been no improvement in commodity prices. Some financial institutions still extend credit to farmers and rely on equipment and land equity as collateral. However, much of that equity has been used up. Thus, a real credit crunch exists in the marketplace for farmers who must make arrangements for seasonal capital to cover their annual crop production costs. It's given rise to alternative financing and paved a new way to bring capital to production agriculture.



ALTERNATIVE FINANCE OFFERS SOLUTIONS

Seeing these events roll out, Ag Resource Management (ARM) developed the Ag Input Loan to help bring equity back to farmers who need it through a partnership with ag retailers and ag input distributors. Retailers have long-standing relationships with their customers, but they may be concerned about the credit quality or their cashflow and aren't able to carry the farmer's unsecured trade credit for the season. ARM can partner with the distributor, then take the distributor's input sales and convert that to a secured loan transaction. This makes it part of an overall budget that ARM manages and monitors throughout the growing season.

The retailer can then secure the sale of inputs to the long-term farmer-client and wait until the crop is sold for payment. They benefit from not having to carry accounts receivable on an unsecured trade credit status. They've now become part of a secured loan transaction because of their partnership with ARM.

As a forward-looking capital provider, ARM does not rely on land or equipment equity to make a loan decision. Rather, the loan decision is based on the farm's capacity to generate an income stream from a growing crop. To do that, ARM uses a proprietary financial model to apply appropriate discounts, which generates a risk-adjusted crop loan that syncs with the farm's budget. In the event of a crop failure, the revenue stream is protected with a well-structured crop insurance policy that maximizes farm revenue.

Once established, ARM sets up a systematic process to help manage risk on the loan by maintaining a close working relationship with the farmer. For example, ARM helps the farmer acquire the proper amount of insurance, spend capital on the inputs required to realize the highest potential yield and pay the loan when the crop is harvested. This in-depth involvement in the operation increases the chance of success.

Offering the Ag Input Loan benefits the retailer in two ways: He maintains his long-term relationship with that farmer, and he can offer a credit product that allows him to compete with other ag retailers who are trying to sell to the same farmer. However, the retailer has the advantage of shared risk with ARM, working under a well-documented credit structure.

ARM may also be able to help farmers who have filed bankruptcy. ARM does this under special provisions and protection provided by the bankruptcy court.



"Ag Resource Management pioneered the concept of monetizing crop revenue streams. By combining the math and science of determining both yield and price market values and their relative insurance values, ARM can reliably predict a farm's potential revenue stream."

-Leroy Startz, Director of Market Channel Development at Ag Resource Management

INTEGRATING NEW SUPPORT TOOLS

ARM is developing a Partner Portal that will allow retailers and distributors to monitor ARM accounts in real-time through an online dashboard. Retailers will be able to view every farmer loan they participate in and create monthly loan reports. ARM also offers a Master Program Agreement to its retail and distributor partners. The agreement serves as a roadmap on how ARM and its partners do business together throughout the season, detailing the responsibilities and obligations of both parties. If the season requires additional sales and seasonal credit to the producer, it provides a process to communicate with one another about those needs. This communication ensures that changes sync up with a revised and jointly approved crop budget.

ALL-IN LOAN OPTION

Another loan tool available from ARM is the All-In loan, which it sells directly to the producer. ARM can provide the working capital a producer needs to produce a crop, make land and equipment payments and cover day-to-day operation and living expenses. ARM provides an option so distributors and retailers can take care of their customers, whether they purchase their inputs from them that year or not.

To learn more, contact your nearest Area Manager or visit us at

ARMLEND.COM