Farm Finance 101 for Conservation Professionals

Paul Dietmann, VP New Markets

Compeer Financial

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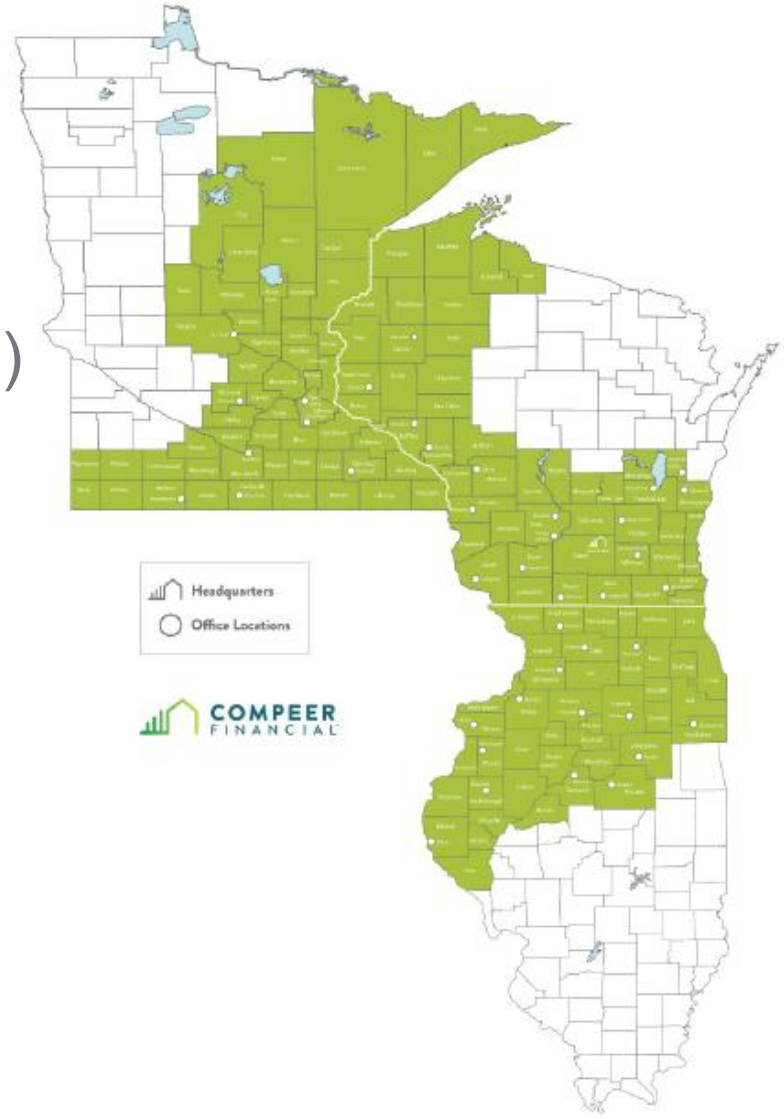
Compeer Financial

- Rural lending cooperative
- Part of the nationwide Farm Credit System (FCS)
- FCS holds 44% of all US farm debt
- Any owner of agricultural assets or person engaged in ag production is an eligible borrower
- Compeer is largest ag lender in upper Midwest…$35+ billion in assets
- This year Compeer will pay $152 million in dividends back to members based on 2025 profits



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What's happening in ag in 2026…

- Tariffs on, tariffs increased, tariffs decreased, tariffs illegal, tariffs off, then back on again
- Conventional commodity prices for milk and row crops are weak; generally good for livestock, particularly beef
- Crop input costs—especially fuel and fertilizer--are high
- Land values in upper Midwest rose 6% in 2025
- Farmers are very discouraged

Farm lending

Who lends to farms in the US?

- Farm Credit System institutions – 44%
- All banks – 35%
- Individuals, USDA-FSA, dealer financing, insurance companies – 20%
- Non-regulated alternative lenders – less than 1%

Farm loans

- Commercial loans, not consumer
- Generally can’t be sold on the secondary market to Fannie or Freddie
- Some lending institutions won’t finance farms at all
- Many lenders will only offer three or five-year adjustable rate loans for farms
- Interest rates are typically 1-1.5% higher than home mortgages
- Interest can be thought of as rent paid for use of loan funds

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2026 in farm lending…

- Long-term interest rates have risen to highest level since 2007
- More borrowers are struggling
- Tighter underwriting than in recent years
- Operating loan usage is up…loan balances are larger and payback is slower
- Some unregulated private lenders are in trouble
- Farm bankruptcies are increasing but still historically low

What does a lender want to see from a borrower?

- Purpose of the loan and potential financial impacts on the farm
- Enough cash flow to cover all demands on the farm's cash: operating expenses, loan payments, family living costs, working capital reserves, replacement of depreciating assets
- Skills and management ability
- History of making payments on time
- Enough collateral to cover the debt in event of a default

A few more thoughts on ag lending

- Lenders are not selling loans. Farmers are selling lenders opportunities to invest in their farms for a period of time by renting to farmers the use of funds
- Lenders want to rent out as many funds as possible but only want to rent funds to people who will handle them responsibly and give them back as agreed
- Risk is reflected in interest rates

Promise to Pay. For value received, the undersigned ("Borrower" or "you") promises to pay to the order of [redacted] Inc., or any subsequent holder (the "Lender" or "we") of this Promissory Note (the "Note"), the sum of $53,500.00 (the "Principal"), together with interest calculated at rate of 94.00 % per annum and any outstanding charges or late fees, until the full amount of this Note is paid. The Principal consists of $48,150.00 given directly to Borrower and a $5,350.00 origination fee.

What roles can ag lenders play in conservation?

- Help conservation professionals understand the economics of farming
- Help other lenders understand the financial impacts of conservation practices
- Help farmers decide whether or not to implement practices…we can encourage but not force adoption
- Finance conservation practices creatively
- Adopt conservation practices on our own farms

Bringing it to farm level

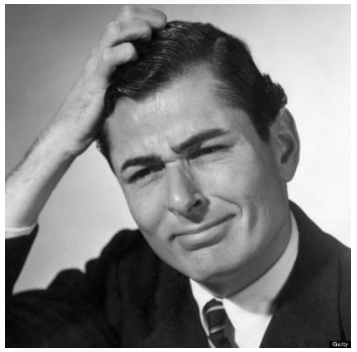
Corn – Fall 2026 delivery

Income					
220	Yield	$ 4.40	price		$ 968.00
			ARC/PLC payment		$ 58.00
				TOTAL	$ 1,026.00
Variable Expenses					
Seed				$ 125.00	
Fertilizer				$ 210.00	
Chemicals				$ 100.00	
Fuel				$ 30.00	
Repairs and maintenance				$ 50.00	
Supplies				$ -	
Utilities				$ 7.00	
Crop drying and storage				$ 30.00	
Hauling and marketing				$ 20.00	
Crop insurance				$ 28.00	
Labor - hired				$ -	
Operating interest				15	
	Total variable expenses			$ 615.00	$ 615.00
Overhead Expenses					
Land charge (rent or opportunity cost)				$ 300.00	
Economic depreciation of capital assets				$ 90.00	
Insurance,building repairs, taxes				$ 20.00	
interest on farm term loans					
Return on farmer's equity				$ 100.00	
Return on unpaid labor/management				$ 50.00	
	Total overhead expenses			$ 560.00	$ 560.00
		Return per acre			**$ (149.00)**
	Breakeven price to cover variable costs				$ 2.80
	Breakeven price to cover ALL costs				$ 5.34

Soybeans – Fall 2026 delivery

Income					
65	Yield	$ 10.72	price		$ 696.80
			ARC/PLC		$ 58.00
				TOTAL	$ 754.80
Variable Expenses					
Seed				$ 80.00	
Fertilizer				$ 50.00	
Chemicals				$ 70.00	
Fuel				$ 30.00	
Repairs and maintenance				$ 40.00	
Supplies				$ -	
Utilities				$ 5.00	
Crop drying and storage				$ 5.00	
Hauling and marketing				$ 20.00	
Crop insurance				$ 15.00	
Labor - hired				$ -	
Operating interest				15	
	Total variable expenses			$ 330.00	$ 330.00
Overhead Expenses					
Land charge (rent or opportunity cost)				$ 300.00	
Economic depreciation of capital assets				$ 90.00	
Insurance,building repairs, taxes				$ 20.00	
interest on farm term loans					
Return on farmer's equity				$ 100.00	
Return on unpaid labor/management				$ 50.00	
	Total overhead expenses			$ 560.00	$ 560.00
		Return per acre			**$ (135.20)**
	Breakeven price to cover variable costs				$ 5.08
	Breakeven price to cover ALL costs				$ 13.69

How do farmers justify growing crops that appear to be losing money?



Land charge	$300
Other overhead costs	$110
Return on owner's equity & labor	$150
	$560

Much of this doesn't hit the farm's cash flow.

Enterprise budgets are a rough estimate of profit potential.

Profitability and cash flow

- **Related but very different**
  - Can be profitable with negative cash flow
  - Can have strong cash flow and be unprofitable
- **Cash flow is always critical!**
- **Profitability has heightened importance at certain points in the farm's lifecycle**
- **Profitability *and* cash flow are necessary for long-term economic sustainability**

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1,000 acres; 500 corn, 500 beans

All land is owned

No debt other than operating loan

Net cash flow $333,250

Could have rented it out for $300/acre, $300,000

	January	February	March	April	May	June	July	August	September	October	November	December	TOTALS
BEGINNING CASH	$25,000	$8,416	$8,832	$20,248	$3,664	$10,080	$496	$10,912	$2,328	$8,744	$8,160	$7,326	
CASH IN-FLOW													
Livestock income													0
Crop income											308,750	513,000	821,750
Government payments										58,000			58,000
Crop insurance proceeds													0
Custom work income													0
Sales of capital assets													0
Proceeds from new loans		10,000	160,000	125,000	100,000		20,000	15,000	15,000				445,000
Off-farm income													0
Other income													
TOTAL CASH IN	$0	$10,000	$160,000	$125,000	$100,000	$0	$20,000	$15,000	$15,000	$58,000	$308,750	$513,000	$1,324,750
CASH OUT-FLOW													0
Livestock purchases													0
Car and truck expenses													0
Chemicals					85,000								85,000
Custom hire													0
Feed													0
Fertilizer & lime				130,000									130,000
Fuel & oil			15,000					15,000					30,000
Insurance	5,000		21,500										26,500
Labor hired													0
Rent of machinery & equipment													0
Land rent													0
Repairs & maintenance	7,000	5,000	5,000	7,000	4,000	5,000	5,000	4,000	4,000	4,000	5,000	5,000	60,000
Seeds & plants			102,500										102,500
Supplies													0
Property taxes													0
Utilities	417	417	417	417	417	417	417	417	417	417	417	413	5,000
Crop drying and storage												17,500	17,500
Crop hauling and marketing												20,000	20,000
other expenses													0
OPERATING OUT-FLOW	12,417	5,417	144,417	137,417	89,417	5,417	5,417	19,417	4,417	4,417	5,417	42,913	476,500
Capital purchases													0
Principal and Interest payments										50,000	300,000	115,000	465,000
Family living draw	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,163	50,000
TOTAL CASH OUT	16,584	9,584	148,584	141,584	93,584	9,584	9,584	23,584	8,584	58,584	309,584	162,076	991,500
ENDING CASH	$8,416	$8,832	$20,248	$3,664	$10,080	$496	$10,912	$2,328	$8,744	$8,160	$7,326	$358,250	

What if all land was rented rather than owned?

Net cash flow $18,250

If the farmer had $100,000 of debt on machinery, net cash flow would be 0.

	January	February	March	April	May	June	July	August	September	October	November	December	TOTALS
BEGINNING CASH	$25,000	$8,416	$8,832	$20,248	$8,664	$15,080	$5,496	$10,912	$2,328	$3,744	$3,160	$2,326	
CASH IN-FLOW													
Livestock income													0
Crop income											308,750	513,000	821,750
Government payments										58,000			58,000
Crop insurance proceeds													0
Custom work income													0
Sales of capital assets													0
Proceeds from new loans		10,000	160,000	430,000	100,000		15,000	15,000	10,000				740,000
Off-farm income													0
Other income													
TOTAL CASH IN	$0	$10,000	$160,000	$430,000	$100,000	$0	$15,000	$15,000	$10,000	$58,000	$308,750	$513,000	$1,619,750
CASH OUT-FLOW													0
Livestock purchases													0
Car and truck expenses													0
Chemicals					85,000								85,000
Custom hire													0
Feed													0
Fertilizer & lime				130,000									130,000
Fuel & oil			15,000					15,000					30,000
Insurance	5,000		21,500										26,500
Labor hired													0
Rent of machinery & equipment													0
Land rent				300,000									300,000
Repairs & maintenance	7,000	5,000	5,000	7,000	4,000	5,000	5,000	4,000	4,000	4,000	5,000	5,000	60,000
Seeds & plants			102,500										102,500
Supplies													0
Property taxes													0
Utilities	417	417	417	417	417	417	417	417	417	417	417	413	5,000
Crop drying and storage												17,500	17,500
Crop hauling and marketing												20,000	20,000
other expenses													0
OPERATING OUT-FLOW	12,417	5,417	144,417	437,417	89,417	5,417	5,417	19,417	4,417	4,417	5,417	42,913	776,500
Capital purchases													0
Principal and Interest payments										50,000	300,000	425,000	775,000
Family living draw	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,163	50,000
TOTAL CASH OUT	16,584	9,584	148,584	441,584	93,584	9,584	9,584	23,584	8,584	58,584	309,584	472,076	1,601,500
ENDING CASH	$8,416	$8,832	$20,248	$8,664	$15,080	$5,496	$10,912	$2,328	$3,744	$3,160	$2,326	$43,250	

A FEW BOTTOM LINES

- Even in an unprofitable year, some farmers will have strong cash flow
- Farmers carrying higher levels of debt and/or renting much of their land are more likely to be under financial stress
- Farmers for whom crop insurance isn't available approach risk differently:
  - Tend to farm smaller acreages
  - Keep capital investment very low
  - Keep variable costs low
  - Building soil health and installing irrigation are seen as risk mitigation
  - Capture higher prices by selling directly to consumers

Your thoughts?

Paul Dietmann, VP New Markets

paul.dietmann@compeer.com (608) 370-6956