IOWA STATE UNIVERSITY
SOIL AND LAND VALUATION
CONFERENCE
May 15, 2019
Kirk Manker
VP-Chief Appraiser
Farm Credit Services of America/Frontier Farm Credit

kirk.manker@fcsamerica.com

402-348-3367
“Change has never been this fast, and will never be this slow again.”

Gordon Moore, co-founder of Intel
MY BACKGROUND

• Grew up on a grain/livestock operation in west-central Iowa (Moville, IA)

• Graduated from South Dakota State University (1985)
  – BS, Agricultural Business and Agricultural Economics

• Farm Credit Services of America (1985-2019)
  – Sioux Falls, SD
    • Loan Officer (1985-1987)
    • Appraiser (1987-1996)

  – Omaha, NE
    • Specialty Appraiser (1996-1999)
    • VP-Chief Appraiser (1999-2019)
THE SCENARIO

• Slow, manageable, incremental change.

• And the came Disruption. On-line and non-traditional lenders (Rocket Mortgage, Zillow, Kabbage, etc.) are disrupting the agricultural lending and appraisal worlds.

• The disrupter became disrupted.

• The question I ask is…“Will I, our company, and/or our business model be relevant in the next 2-3 years?”

• The agricultural lending, appraisal, and real estate sales industries will be relevant if:
• Listen to Our Customers and Adapt to Their Needs
• Focus on Hiring, Developing, and Retaining Great Talent
• Leverage Data, Data Aggregation, and Risk-Based Processes
• Implement Cutting Edge Technology for Efficiency
• Accept Automated Valuation Modelling (Algorithms)
• Serve Iowa, Nebraska, South Dakota, Wyoming, and the eastern 41 counties in Kansas
• 48 offices (Headquartered in Omaha, NE)
• 1,730 employees
• 57,000 customers
• $29.9 billion in combined loans and leases
PORTFOLIO CONCENTRATION

Portfolio Concentration (Top 10 Industry Group)
*as of December 2018*

- Grain: 41.1%
- Landlords/Investors: 9.9%
- Beef Feedlot: 9.1%
- Cow/Calf: 7.5%
- Swine: 7.3%
- Dairy: 3.7%
- Grain/Farm Supply - Local: 1.8%
- Forest Products: 1.8%
- Poultry: 1.6%
- Other: 16.2%
SPECIALIZATION/SEPARATION OF DUTIES

- Risk Management
- Credit
- Lending
- Appraisal
APPRAISAL TEAM

• 76 Team Members
  – 20+ New Team Members in the Past 3 Years
  – Attitude, Aptitude, and Appetite

• Complete:
  – 5,000 to 7,000 Real Estate Sales Per Year
  – 4,500 to 5,500 Real Estate Appraisals Per Year
  – 700 to 900 Chattel Appraisals Per Year
Monthly Nearby Corn

Sources: CRB
## BENCHMARK FARM VALUE TRENDS

<table>
<thead>
<tr>
<th>State</th>
<th>Six Month</th>
<th>One Year</th>
<th>Five Year</th>
<th>Ten Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa (21)</td>
<td>-1.4%</td>
<td>0.7%</td>
<td>-15%</td>
<td>68.1%</td>
</tr>
<tr>
<td>Kansas (7)</td>
<td>0.7%</td>
<td>2.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nebraska (18)</td>
<td>-1.0%</td>
<td>-0.9%</td>
<td>-13.7%</td>
<td>107.1%</td>
</tr>
<tr>
<td>South Dakota (23)</td>
<td>-0.6%</td>
<td>-2.0%</td>
<td>-3.4%</td>
<td>95.5%</td>
</tr>
<tr>
<td>Wyoming (2)</td>
<td>3.1%</td>
<td>3.6%</td>
<td>34.5%</td>
<td>29.6%</td>
</tr>
</tbody>
</table>
## NUMBER OF IOWA AGRICULTURAL SALES

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Sales</td>
<td>2,909</td>
<td>2,227</td>
<td>2,020</td>
<td>1,728</td>
<td>1,839</td>
<td>1,791</td>
<td>1,840</td>
</tr>
<tr>
<td>% Change</td>
<td>-23.4%</td>
<td>-9.3%</td>
<td>-14.5%</td>
<td>+6.4%</td>
<td>-2.6%</td>
<td>+2.7%</td>
<td></td>
</tr>
</tbody>
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IOWA BUYER TYPE

Buyer Type

Sales % of Buyer Type by Year, and Buyer Type

- State Full Name
- Iowa
- Kansas
- Nebraska
- South Dakota
- Wyoming

- 1031 Exchange Buyer
- Local Investor
- Other
- Out of Area Investor
- Tenant
- Typical

Year 2012: 77% Local Investor, 11% Other, 2% Out of Area Investor, 2% 1031 Exchange Buyer
Year 2013: 79% Local Investor, 10% Other, 2% Out of Area Investor, 2% 1031 Exchange Buyer
Year 2014: 75% Local Investor, 9% Other, 4% Out of Area Investor, 3% 1031 Exchange Buyer
Year 2015: 74% Local Investor, 12% Other, 3% Out of Area Investor, 3% 1031 Exchange Buyer
Year 2016: 74% Local Investor, 12% Other, 3% Out of Area Investor, 3% 1031 Exchange Buyer
Year 2017: 72% Local Investor, 11% Other, 3% Out of Area Investor, 4% 1031 Exchange Buyer
Year 2018: 74% Local Investor, 12% Other, 4% Out of Area Investor, 3% 1031 Exchange Buyer
Year 2019: 76% Local Investor, 9% Other, 3% Out of Area Investor, 3% 1031 Exchange Buyer
IOWA METHOD OF SALE

Method of Sale

Sales % of Total Method by Year, and Method

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</tr>
</thead>
<tbody>
<tr>
<td>Iowa</td>
<td>24%</td>
<td>30%</td>
<td>26%</td>
<td>26%</td>
<td>34%</td>
<td>28%</td>
<td>28%</td>
<td>24%</td>
</tr>
<tr>
<td>Kansas</td>
<td>49%</td>
<td>47%</td>
<td>47%</td>
<td>43%</td>
<td>40%</td>
<td>44%</td>
<td>47%</td>
<td>56%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>18%</td>
<td>18%</td>
<td>20%</td>
<td>25%</td>
<td>21%</td>
<td>21%</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>South Dakota</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>8%</td>
<td>18%</td>
<td>6%</td>
<td>6%</td>
<td>21%</td>
<td>21%</td>
<td>19%</td>
<td>17%</td>
</tr>
</tbody>
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Method:
- Other
- Private Sale
- Public Auction
- Realtor
- Sealed-Bid Auction
What impact will higher interest rates have on real estate loans?
- Historically have impacted land values.
- Most customers have existing real estate debt at lower fixed rates.
- We do not see a lot of upward pressure on long term rates.

What impact will higher interest rates have on operating loans?
- This is typically a smaller portion of the overall cost structure of the operation.

What impact does our collateral requirements have on real estate values?
- We focus on cash flow.
- It is challenging to cash flow 50% debt on real estate.
- We implemented sustainable lending caps on real estate based on economic models.
  - $5,400 per acre in northern Iowa
  - $3,900 to $4,800 in southern Iowa

Financial strength of producers?
- 5% are financially challenged with limited options except structural changes
- 25% have financial challenges, yet have options due to equity in real estate
- 70% are and have been profitable. They are waiting on sidelines for opportunities.
Now Is The Time...Let’s Be Relevant!

Thank You