

Midwest Farmowner

News & Information from Soy Capital Ag Services

How Does Farmland Fare in Volatile Financial Environment?

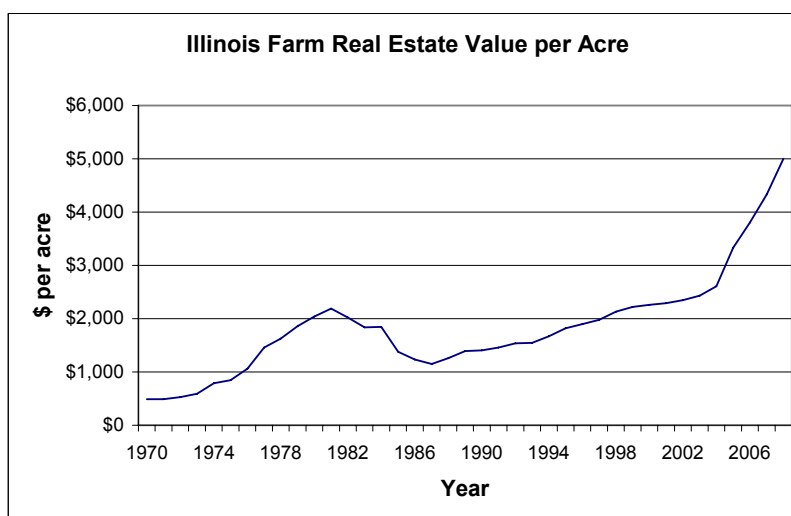
How is farmland going to fare in the midst of the current financial storm? Many farmland owners are asking their Soy Capital Ag Services farm manager that question, as worldwide economic winds batter the credit, commodity and stock markets.

“The natural tendency in most storms is to run for cover,” says Don McCabe, president, Soy Capital Ag Services. “That’s what many people are doing now, which causes the volatility of markets to become even more exaggerated.”

Investment Author Jim Rogers says recessions are like wildfires – they clean out the underbrush so the forest emerges new. When asked if the winds blowing the current fire are out of control – taking homes, livelihoods and financial security with it – his answer is, “Well, forest fires are wild, and for some it is worse than others.”

“In spite of a few negatives, owners of farmland with low debt are among those best positioned to weather this storm,” says McCabe. “There are factors to consider.”

Commodity Prices. When and at what level prices will stabilize is unknown. The harvest dive in prices was both seasonal weakness and sympathy for worldwide economic fear. Commodity prices are affected



Dale Lantz, University of Illinois Department of Agricultural and Consumer Economics

price could pay out even for those with good yields and prices. Insurance is affected by lower commodity prices but still provides contracted, paid-for protection.

Farm Rental Returns.

Farm returns are always unpredictable until the crop is harvested and priced. Reduced crop prices reduce rental returns. But returns to farming are positive even when returns to other activities in a down economy are not.

Land Values.

Farmland values have steadily increased. Most land has been purchased with low financing, and many were all cash transactions. Even if gains slow down or ease, land is in strong financial hands and farms are not likely to be forced on the market as happened in the early 1980s.

“Productive farmland is one of the best economic defenses in times of weak currency, soft dollar values and financial uncertainty,” McCabe says. “Long term, farmland is an excellent hedge against inflation. Although inflation is not the biggest concern right now, many ‘fixes’ used to maneuver these times will likely lead to more inflation. Soy Capital Ag Services can help farmowners weather these financial storms.” **MF**

two ways during recessionary times; selling pressure by those with earlier speculative positions, and reduced buying demand in the future. Demand will undoubtedly be reduced, but huge worldwide reserves of corn, soybeans and wheat are not being built like several years ago.

Availability of Money. Interest rates are somewhat stable. Both short- and intermediate-term money is in adequate supply for those credit worthy in agriculture.

Costs of Farming. Although crop inputs have increased dramatically over the last year, costs will have to come down as demand is impacted by economic returns.

Crop Insurance. Federal policies with harvest price components set final coverage in October for soybeans and November for corn. Revenue policies without a fall harvest

Inside: Farmland is Safe Haven Investment

Farm Bill Brings Changes for Next Crop Season

The 2008 Farm Bill will bring several changes to farm policy as it is implemented for the 2009 crop year. Most of those changes affecting Illinois farmers and landowners focus on establishment of the Average Crop Revenue Election (ACRE) Program, farm program payment eligibility and federal crop insurance/disaster payment provisions.

“The ACRE program allows farmers to establish an income protection feature during periods of low commodity prices,” says Brian Thompson, Soy Capital Ag Services regional manager in Bloomington. “ACRE payments are determined based on a five-year, statewide yield calculation and a two-year average national price for each commodity. In order to participate, farmers must forego 20 percent of their direct government payments and commit to ACRE for the duration of the 2008 Farm Bill.”

For those not electing to participate in ACRE, Counter Cyclical Payments (CCP) remain a feature. CCPs were designed to supplement income during times of very low prices. The concept is the same, but some provisions in CCP calculations have changed.

In addition, Thompson says eligibility for farm program payments will be tightened. All direct payments and CCPs will be linked to a person. Ownership interests of every legal entity (individual, trust, LLC, corporation, etc.) will be tied to each owner by social security number. The means test for program eligibility will also be reduced from a three-year average non-farm Adjusted Gross Income of \$2.5 million to \$500,000. New USDA forms will likely be required to determine compliance with these rules.

“Crop insurance will be subsidized differently beginning in 2009, too,” explains Thompson. “While the insurance options available will remain the same, lower levels of subsidy on countywide insurance policies will become effective. Some adjustments to administrative fees paid to insurance companies will also occur. In some cases, higher costs for coverage will occur with implementation of this legislation, but actuarial analysis of crop production risk will ultimately determine premium rates.”

The 2008 Farm Bill became law this summer, but Thompson adds provisions are subject to final implementation. Additional details will be available in coming months. **MF**

City Dweller Finds Farmland a Safe Investment Haven

When Vicki Semke was looking for new investment opportunities, the Glencoe, Ill., resident did not anticipate farmland was where she would end up investing.

“I was on an 18-24 month quest for a safe haven away from paper and the dollar,” says Semke, who is in the furniture business in Chicago. “Gold and farmland kept coming up in my search as sensible investments. I decided to do some research into purchasing farmland, and Soy Capital ended up being the best way to get that done.”

Semke spends free time in Michigan with her family, and enjoys visiting farms where they can pick berries and other activities. She appreciates the lifestyle, and was comfortable taking a look at rural properties for investment. She initially worked with realtors in



Vicki Semke owns Mig and Tig Furniture in Chicago, but found farmland to be a safe investment.

Michigan and Indiana, but was not pleased with the results.

“I went on the Internet and started driving around, and a friend from college recommended I contact Soy Capital,” she says. “I have to tell you, that the people I worked with at Soy Capital understood. They were professional and gave to me within 48 hours

information on how farmland investment works. I knew I had found the right company. They zeroed in on my needs and didn’t waste my time.”

Semke worked with Tom Moyer and David Klein, and purchased a property near Farmer City, Ill., that will be managed by Soy Capital as well.

“Investors looking for farmland will be pleased when they work with Soy Capital. I understand the process now, and know the farm managers will thoroughly and professionally manage my farm and allow me to not worry about the day-to-day activities,” says Semke. “I’ve studied agriculture since making this decision, and realize its tremendous potential. Illinois farmland is an asset that needs to be protected. That will become more and more important as we feed the world and produce energy.” **MF**

More New Biotech Seed Traits Coming in 2009

Development of new biotech seed traits continues, with a focus on both soybean and corn seed products in 2009 and beyond. Soy Capital Ag Services will monitor the performance of such traits in the coming year and keep farmers apprised of the findings.

Monsanto will launch Roundup Ready 2 Yield soybeans in 2009, which are an upgrade of the Roundup Ready soybean trait released in the late 1990s. Roundup Ready 2 Yield soybeans are also resistant to Roundup herbicide, and are expected to deliver more yield per acre than soybeans with the first generation trait.

Bayer Crop Science will introduce a limited supply of LibertyLink soybeans. LibertyLink soybeans are resistant to Ignite herbicide, and are the first nonselective, herbicide-resistant alternative to Roundup Ready soybeans.

Two corn traits introduced last year include Monsanto's YieldGard VT corn and Syngenta's Agrisure corn. Both traits, along with the Herculex corn traits offered by Dow AgroSciences and Dupont, will be available in 2009 to provide producers herbicide tolerance and insect protection in one corn seed product.

"All insect-tolerant corn traits require farmers to plant refuge corn in the same field or near the trait corn to reduce potential insect resistance," says Kevin Meiss, Soy Capital Ag Services farm manager

based in Bloomington. "Seed dealers will have complete details regarding refuge requirements for seed corn purchases for 2009."

Meiss says future biotech traits include drought tolerance, additional herbicide tolerance, disease resistance, additional insect tolerance and nitrogen use efficiency.

"As new traits are released, Soy Capital will continue to work with companies offering the traits to determine their effectiveness and need," he says. "We continue to provide third-party seed testing results that can be reviewed at www.soycapitalag.com."

While biotech traits offer many advantages to farmers, proper use of the grain produced from biotech seed is equally important. All biotech seed sold in the U.S. is approved for food/feed use in the U.S., but is not always approved in foreign markets.

"Before you order seed for 2009, contact your grain buyer to determine what biotech grain will be accepted. The National Corn Growers Association Web site at www.ncga.com provides an updated list of corn traits approved in Japan and the European Union," says Meiss. "Roundup Ready 2 Yield and LibertyLink soybeans are approved for food and feed use in the majority of U.S. export markets."

Contact Meiss or Mark O'Rourke in Bloomington with any questions or concerns. **MF**

Wet 2008 Underlines Value of Proper Drainage

Yield potential for corn and soybeans has increased significantly in recent years, and agronomists say proper farm drainage has become an obvious contributing factor to that improvement. Wet conditions in 2008 only underscored the importance of drainage.

"Recent technology has made drainage applications more efficient and effective over the past decade. Yield monitors and mapping have made it much easier to quantify losses, topography maps have allowed us to find more effective routes to remove excess water, and new computer software has allowed us to efficiently create drainage systems," says Dan Patten, farm manager in Soy Capital Ag Service's Bloomington office. "With record high input prices in 2009, we need to make sure we help farmowners maximize the potential for every pound of fertilizer applied and every seed planted."

Soy Capital farm managers have enhanced

the productivity of many farms with improvements in field drainage. Several factors dictate the potential gain from improvements in farm drainage, including the distance to, or access of, a good outlet, slope, existing drainage and soil types. But in general, Patten says an average corn and soybean yield average improvement of five to 10 percent is not uncommon.

"Often it is the best soils on the farm that can be improved the most. Isolated areas may be improved 30-50 percent," he says.



Farmers learned during a wet 2008 that proper drainage is critical to maximize yields.

"In addition to a cash return from a drainage investment, a farmowner will see appreciation in their farm's value as well."

If you feel your farm can be improved with changes to field drainage, call a Soy Capital Ag Services farm manager for further analysis, or visit www.soycapitalag.com. **MF**

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