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Agenda

- Economic Outlook
- Classifications
- Examination Tips
- Question and Answer

The opinions expressed here do not represent the positions of any Federal regulator or any other state agency. Perspective is given in general terms. Actual exam findings, recommendations, and outcomes depend greatly on individual circumstances. You are encouraged to contact your regulators with specific questions and situations.

Economic Outlook

Federal Reserve Bank of Minneapolis 2016 Survey of Agricultural Condition

- Widespread earnings problems
- Decreases in land values
- Robust risk management practices*

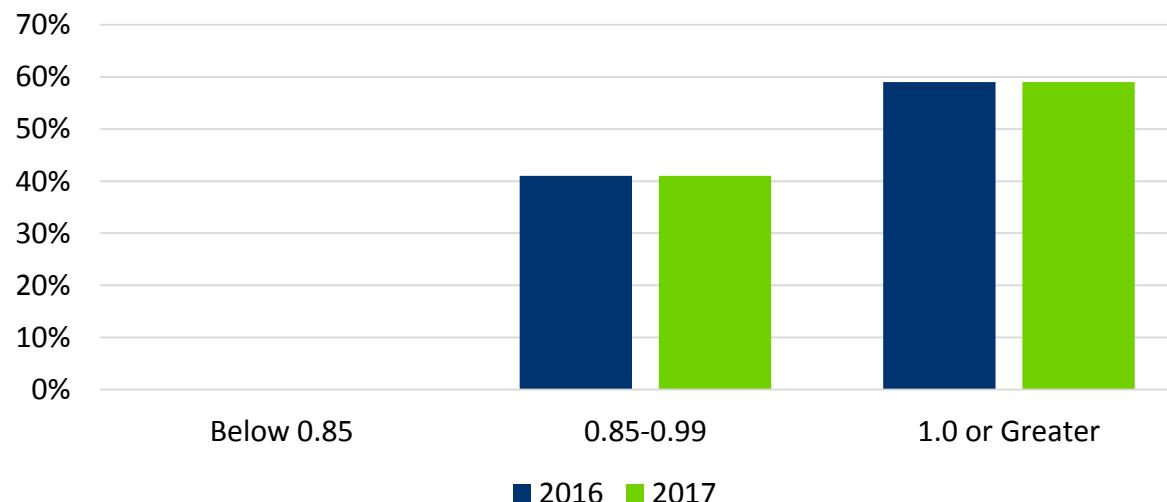
*to be fair, what else would they say?

Federal Reserve Bank of Minneapolis 2016 Survey of Agricultural Condition

	Increasing	Stable	Decreasing
Farmland Value	0%	22%	78%
Operating Loan Demand	56%	30%	15%

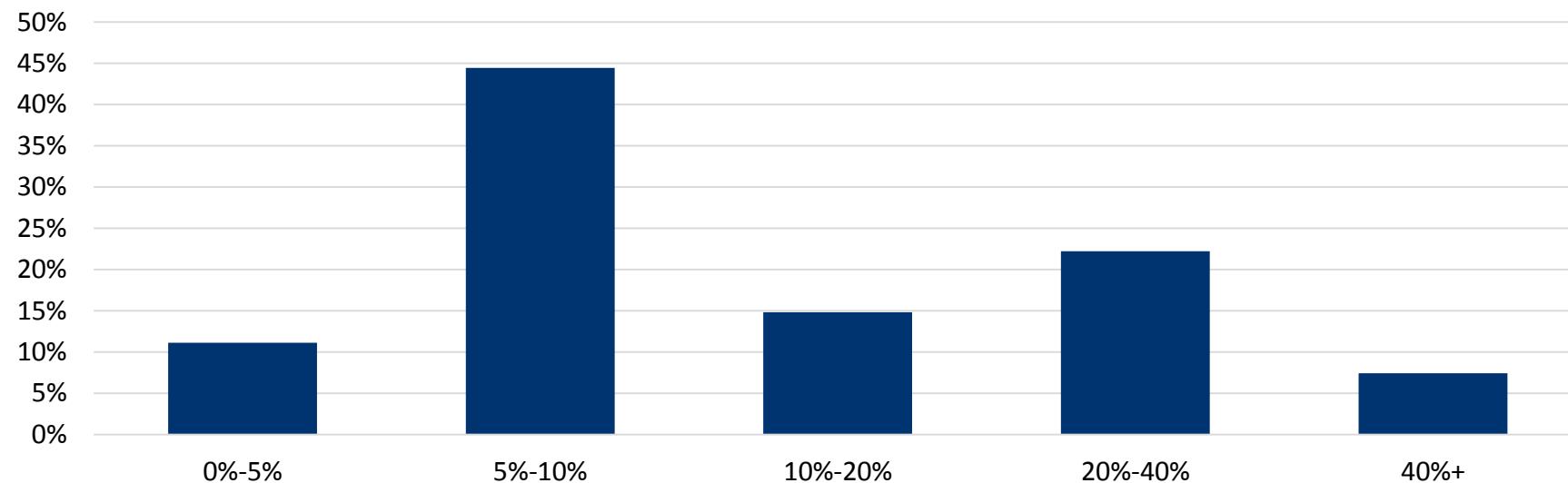
Federal Reserve Bank of Minneapolis
2016 Survey of Agricultural Condition

Anticipated Debt Service Coverage Ratio



Federal Reserve Bank of Minneapolis
2016 Survey of Agricultural Condition

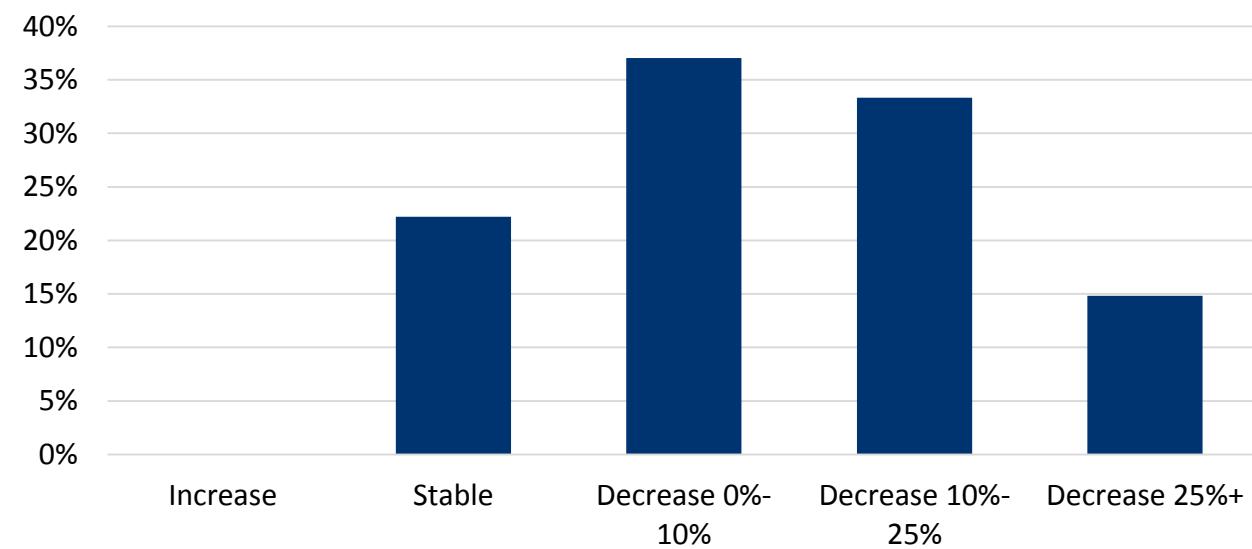
Severity of anticipated carryover debt in 2016 (% of Ag portfolio)



96% anticipate some level of carryover debt in 2016.

Federal Reserve Bank of Minneapolis
2016 Survey of Agricultural Condition

2016 Farmland Value Change



Federal Reserve Bank of Minneapolis
2016 Survey of Agricultural Condition

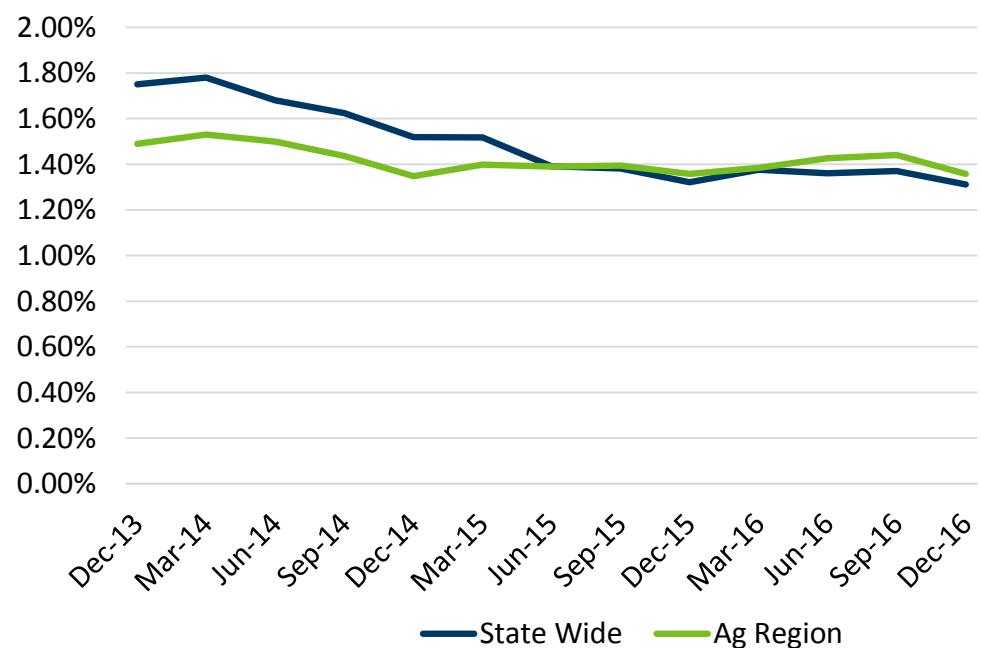
Risk Management Practices

- 95% have restructured loans to borrowers who are not cash flowing
- 85% have taken additional collateral
- 78% say they have increased use of government guaranty programs
- Closely reviewing balance sheets
- Family living expenses will be a major focus this year

“Overall, bankers indicate they are not changing their risk management practices significantly.”

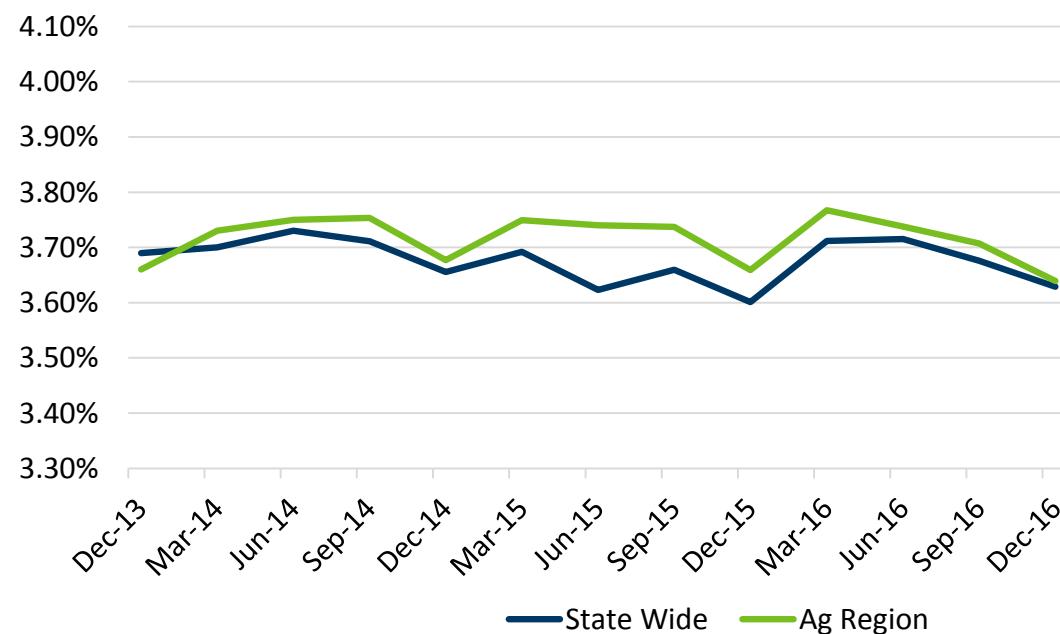
Minnesota State Chartered Banks Financial Performance – Agricultural Region

ALLL to Total Loans

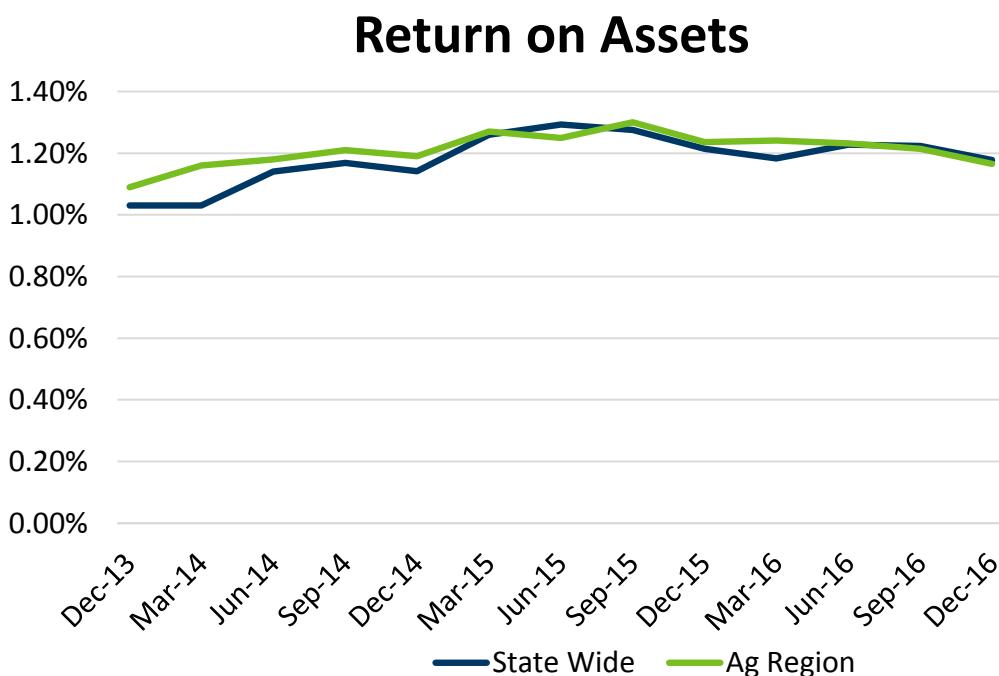


Minnesota State Chartered Banks Financial Performance – Agricultural Region

Net Interest Margin



Minnesota State Chartered Banks Financial Performance – Agricultural Region



Minnesota State Chartered Banks Examination Findings

	Capital	Assets	Mgmt	Earnings	Liquid	SMR	Composite
Less than Satisfactory	3.3%	8.7%	7.0%	16.1%	2.9%	4.1%	5.0%
Statewide Avg.	1.6	1.7	1.8	1.8	1.5	1.7	1.8

Classifications

Overall Financial performance expectations for classifications are not particularly dissimilar from other commercial credits.

- Payment performance
- Cash flow of operations
- Collateral coverage

Key Differences, Advantages, Disadvantages:

- Operating Carryover Debt
 - Generally, more widespread use
 - Raises asset quality questions
 - *Could* taint the entire relationship
- Wide Variety of Payment Plans
 - Lessens emphasis on late payment analysis

Key Differences, Advantages, Disadvantages:

- Collateral Coverage
 - Liquid collateral (such as grain, feeder LS, or breeder LS)
 - Well analyzed and documented
 - *Potentially* offset overall credit concerns
 - Can offset portion classified

Key Differences, Advantages, Disadvantages:

- Collateral Coverage
 - Illiquid Collateral
 - Lack of recent sales
 - Stale valuations
 - Poor documentation
 - Poor controls

General Exam Treatment (borrowers with well defined weakness)

- Operating Loans
 - Short term, current assets, self-liquidating
 - Pass
- Term Loans
 - Illiquid collateral, long term profits required
 - Adversely Classified

General Exam Treatment (borrowers with well defined weakness)

- Carryover Debt
 - Lack of clear repayment plan
 - Unrealistic assumptions
 - Poor compartmentalization
 - Adverse Classification and potential risk management criticism

Examination Tips

Individual Borrowers

- Carryover Debt
 - Identification
 - Separate Marketing Note
 - Risk Management vs. Classification

Individual Borrowers

- **Onsite Inspections**
 - Annually for all credits – Best Practice
 - Documentation
 - Less than 90 days for grain and feeder LS
 - Less than 180 for breeding LS
 - Warehouse and Purchase receipts
 - Liquidation Value
 - Lien perfection
 - Not a hard a fast rule, exceptions apply

Individual Borrowers

- Current Year Operating Debt
 - Classifications
 - Realistic Projections

Portfolio Risk Management

- Effective Risk Identification Process
 - Current
 - Accurate

Portfolio Risk Management

- Carryover Debt
 - Identified
 - Compartmentalize
 - Realistic repayment plans
 - Quantify bankwide

Portfolio Risk Management

- Stress Testing
 - What happens if market conditions do not improve?
 - What happens in a drought?
 - At what point does the bank lose profitability?
 - At what point does capital start to erode?
 - Does portfolio diversification protect the bank?

Open Questions

Thank You!

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