

AGVIEWS



— BY LYNN PAULSON

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Looking for Certainty in an Uncertain Environment

It's virtually impossible to watch, read or listen to the news today without seeing some commentary on or reference to the current disruption and attempted overhaul of various government departments and sectors. In this issue of AgViews, we look at what this uncertainty means for the agricultural sector, and what farmers, ranchers and producers can do about it.





Things are changing so much and happening so quickly these days that what might be true today may not be true tomorrow. The same goes for much of the information in this newsletter – it may be useful to you right now, but with this pace of change, it could be out of date as soon as next week. But you need to start somewhere, right?

As we all know, the agricultural sector is no stranger to uncertainty and has faced numerous challenges in recent years, including climate change, market volatility, geopolitical tensions, shifts in consumer preferences, and much more. But now, American farmers and ranchers are facing a new kind of uncertainty from policies proposed by the Trump administration.

Let's take a closer look at how agriculture benefitted from President Trump's first administration, some of the impacts we could see based on his current administration's proposals, and what steps you can take to find more certainty in your operation.

PAST POSITIVE IMPACTS

Looking back to President Trump's first term, there were a number of changes or policies enacted from 2016 to 2020 that positively impacted farmers, ranchers and producers. These included:

- **Trade agreements**, such as the United States-Mexico-Canada Agreement (USMCA), aimed to provide more favorable terms to American farmers and ranchers.
- **Tax cuts** have largely been a plus to agriculture as well – including increased estate tax exemption limits. Although some of the favorable tax provisions are scheduled to sunset at the end of 2025, it's generally

assumed these will be extended by Congress.

Other provisions, such as the stepped-up basis and moderate capital gains rates, can positively impact a family farm through the ability to transfer assets to the next generation without a huge tax burden.

- **Energy policies** have also been mostly favorable to agriculture. Policies promoting energy independence and year-round E15 sales have helped reduce fuel costs and supported biofuel production. Clearly, there's more work to be done in this area, especially with sustainable aviation fuel and consistency in carbon intensity measurements.
- **Relief from environmental regulations**, some of which unduly burdened farmers and ranchers, also helped.

TARIFF CONCERNS

On the other hand, the current administration's tariff and trade policies represent a more negative impact to agriculture. It seems that whenever we levy tariffs on trading partners, the first thing those partners do is retaliate with tariffs on agricultural products, making it harder for us to export our products to those markets. Reducing the global market access for our agricultural products is clearly a concern for U.S. farmers and ranchers. Additionally, depending on the tariffs that are enacted, producers may see an increase in input costs of fertilizer, chemicals, machinery and other imported items.

The best outcome to the current trade disputes might be the creation of a lasting agreement between our trading partners that leads to long-term certainty on trade and tariff policies.



IMMIGRATION REFORM AND USDA FUNDING

Another focus of the current administration is immigration reform, and by most accounts, a majority of Americans agree on the need for this. However, agribusinesses and farmers/ranchers rely heavily on immigrant labor, which means that proposed immigration policies could have a significant impact on those and other sectors that rely on immigrants.

USDA funding freezes have also left some farmers and ranchers without financial support that had been promised and approved. Delayed payments for producers who have signed contracts with the USDA for programs such as the Environmental Quality Incentive Program (EQIP) and the Rural Energy for America Program (REAP) are a concern.

As a result of these funding freezes, some farmers or ranchers may be hesitant to make investments or take on additional debt without the certainty of some of these programs, including conservation and sustainability

projects. We simply need to be mindful of the potential unintended consequences of these rapid cuts to government services or pauses of government funding.

PLANNING AROUND UNCERTAINTY

All of this uncertainty makes it hard to plan. As I always say, focus on what you can control and work to manage around all the uncontrollables. Have a plan, but be ready to pivot for different scenarios. This is a great time for producers to up their game with respect to financial management as a way to find more financial certainty. Fully utilizing technology and innovation to improve your operation's efficiencies can also be beneficial.

Lastly, take advantage of networking and educational opportunities to stay informed about current events. Work to stay up to date on the changes that are occurring and how they could potentially impact your operation.

Buckle up and stay tuned.



July 21 - Fargo, N.D.

July 22 - Mankato, Minn.
(new location!)

July 23 - Wisconsin Dells, Wis.

8 a.m. – 12 p.m. all locations

SAVE THE DATE FOR AGVIEWS LIVE 2025

Summer may feel far in the distant future, but be sure to save the date for AgViews Live 2025! With all the disruption and unknowns occurring in agriculture and the broader economy as a whole, it's a great time to remember to focus on what you can control and manage around the uncontrollables. AgViews Live is a terrific opportunity to put all the noise in perspective and gain tools to navigate these turbulent times.

Planning is underway for what's sure to be another great edition of our free and popular ag seminar. Dr. David Kohl and I look forward to seeing all of you for the start of our second decade of AgViews Live. Watch for more information in our next issue of AgViews.

Farm Sector Income and Finances Forecast

WHAT I'M HEARING FROM LENDERS AROUND THE COUNTRY

The USDA recently released its annual farm sector income forecast for 2025, and it's interesting to look at where we've come from and where we may be going this year.

The question of how the farm economy is really doing probably depends on who you talk to. The agricultural economy is bifurcated – grain and row crop producers have felt the most pain, with expenses slow to fall while commodity prices are off significantly from recent highs, often below most producers' cost of production. On the other hand, as I touched on in the last issue of AgViews, livestock and dairy producers are generally feeling fairly optimistic, with favorable prices for their products.

The combination of these trends was the main reason net farm income continued to decrease in 2024, with crop receipts down significantly but livestock receipts increasing. Ag lenders are clearly seeing these same trends with their loan portfolios.

Surprisingly, according to the USDA's forecast, net farm income is expected to increase in 2025. A deeper dive into the numbers, however, finds that direct government payments that are expected to be made in early 2025, along with continued strong prices for livestock, are the main drivers of the overall expected increase.

While this national and macroeconomic data is important from a policy and farm program viewpoint, the data that matters most for producers and their lenders is the performance of individual farm operations.

At the time of this writing in early March, ag lenders are in the middle of what we call “loan renewal” season, meeting with their ag borrowers to review 2024 profitability and performance and take a realistic look at projections and outlook for 2025.

At the end of the day, the success of an operation depends on the ability to manage risk – production risk, financial risk, market risk and overall industry risk (government policy, tax implications, succession planning, etc.).

Generally, here's what we're seeing in our portfolio and what I'm hearing from my ag lender colleagues around the country:

- Working capital levels for most grain producers have decreased significantly. As a result, operating loan balances will likely increase, coupled with higher interest rates than earlier in the decade. Working capital is the first line of defense, or the “shock absorber,” for economic adversity. For some producers with depleted working capital levels, inflated land values could become their shock absorber or last line of defense.
- With continued depressed commodity prices for grains plus sticky expenses, it's challenging for many crop producers to reasonably project positive debt service coverage for 2025.
- Livestock producers – especially established cow/calf producers – are doing quite well. The sector seems to be in no hurry to expand. This positive outlook is expected to continue through 2025.
- Overall, land values are stable, with limited acres available for sale. Marginal land is beginning to soften in some areas.
- Machinery and equipment values have moderated and depreciated more than in past years, especially for newer, late-model equipment.
- Grain and row crop producers have significantly dialed back their capital expenditures.
- With the average age of U.S. farmers and ranchers approaching 60 years old, more seasoned producers who don't have a succession plan for their operation are starting to consider retirement.
- Excessive family living expenditures are often the “silent profit robber” of many operations.
- Many non-traditional lenders and creditors are pulling back from some of the earlier years of easy credit.
- There are growing concerns about biosecurity (bird flu) impacts to poultry, dairy and, to some extent, humans.

CHALLENGES FACING YOUNGER PRODUCERS

Something else I've been hearing lately is that younger producers are facing significant challenges from this cycle. Younger producers are often the most vulnerable to economic downturns because many of them haven't yet had the chance to build up balance sheets as a cushion against prolonged economic declines. Further, many of them haven't had the benefit of asset appreciation or paper wealth – especially land values – that many older producers have used to build deeper balance sheets.

In visiting recently with some of my senior ag lenders and colleagues from across the country, I've learned that some younger crop producers with significant leverage may have trouble getting adequate financing in 2025.

Given this challenge, what are some of the steps younger producers can take to remain viable?

For starters:

- Diversify your operation and consider value-added income streams.
- Leverage technology and precision agriculture when it makes economic sense.
- Consider utilizing sustainable practices that may qualify for government payments.
- Take advantage of networking and education opportunities. This a huge one. I find it interesting that with all the winter meetings and conferences for farmers and ranchers, there appears to be very little emphasis placed on developing a deeper understanding of an operation's financials, which can be particularly useful to younger producers trying to compete with older, well-established and financially healthy operations.
- Explore off-farm income. Find a "gig" or a side job that uses any excess time and assets your farm may already have.
- Try to live within your means, understanding the difference between a want and a need.

In the midst of all this, it may be helpful to remember that production agriculture is and has always been a cyclical endeavor and undertaking.

-Lynn Paulson



How to Protect Yourself Against Fraud and Scams

Reading or watching the news these days, it's not unusual to see a story about someone losing their savings after getting tricked by some sort of intricate scam. Fraud and scams are getting harder to catch, and are a serious concern for anyone. But for farmers and ranchers, the consequences of being affected by a major scam or fraud can be devastating.

We reached out to Heidi Schumacher, Bell Bank's enterprise fraud manager, to learn about types of fraud farmers, ranchers and producers should be aware of, and what you can do to protect yourself and your operation. Heidi has 15 years of experience with Bell, and has spent the last 9 years working in the area of fraud prevention. She stays informed on the latest fraud trends, working to help Bell detect and prevent fraud and scams and protect our clients and customers.



Heidi Schumacher

HOW HAVE FRAUD AND SCAMS CHANGED OVER THE LAST 10 YEARS?

Fraud and scams have become a lot more sophisticated over the last decade, and the dollar amounts involved have increased substantially. COVID changed the game so that fraud and scams could take place from anywhere, and fraudsters no longer need to come into a bank or meet face to face in order to commit a crime.

WHO'S MOST VULNERABLE TO FRAUD?

Everyone is vulnerable to fraud! There are some factors, however, that can put you especially at risk, such as not monitoring your accounts daily via online banking or paying for things regularly with checks. Check fraud continues to be a big problem because of increasing mail theft. Once upon a time if a check went missing, you could put a stop-pay on the item and issue a new check. But today, it's too big of a risk that the check, even if cancelled, could fall into the wrong hands, be mass produced, and then be mailed out all over the country.

WHAT ARE SOME TYPES OF FRAUD OR SCAMS THAT FARMERS AND RANCHERS SHOULD BE AWARE OF?

Business Email Compromise (BEC) is a big one, where a fraudster impersonates a known contact or vendor by email, and tricks someone into paying a fake invoice. This can be avoided by verifying who you're paying, and vetting the vendor you're working with. Also, pay attention when any payment destinations suddenly change.

Something else we've seen lately is when farmers or ranchers think they're purchasing farm equipment via an online auction or from an out-of-state seller. We've had a few customers who thought they were buying tractors from out-of-state auctions only to discover a scammer was using an actual auction's





website and name. Make sure you know exactly what you're purchasing and who you're purchasing it from, because once a wire is sent, it can't be disputed – it's a guaranteed payment.

Another example that comes to mind: We had a customer affected by a BEC where they thought they were paying a vendor they were familiar with. Unfortunately, they sent money to a fraudster, and they didn't realize it until the real vendor reached out later to ask about their payment. At that time, they understood what had happened: they had received a fraudulent email stating they needed to open a new account because of fraud on their old account, and the payment needed to be rerouted. By sending out the payment instead of calling their vendor to verify the change, the customer suffered a massive loss.

WHAT ARE SOME BEST PRACTICES SOMEONE CAN FOLLOW TO MAKE SURE THEIR ACCOUNTS AREN'T COMPROMISED?

One thing you can do is stop using checks to pay employees, vendors or bills. Instead, set up direct deposit for employees and auto payments for bills. When it comes to paying vendors, make sure they're well known or fully vetted.

Additionally, keep a close eye on your account activity. Never click on or open attachments from unknown email senders. If you receive a call that claims to be from Bell, but is someone you don't know or aren't familiar with, tell them you're going to call Bell's main number or the number of someone you know at the bank to verify the information.

If you suspect something isn't right, reach out to your banker immediately. For example, if you see transactions on your account that you don't remember, or if you receive suspicious calls, texts or emails, contact us right away.

HOW CAN BANKS AND THEIR CUSTOMERS STAY AHEAD OF THESE BAD ACTORS?

Bell offers fraud prevention tools for customers to help you watch your account as closely as possible – these include online banking, alerts for debit card transactions, positive pay for business customers, and more. I'd encourage everyone to utilize these tools first and foremost. On top of that, protect your personal information. Shred your bank statements, stop writing checks, and above all be cautious when giving out your personal info. When in doubt, give us a call – we're always here to help you.

WHEN IT COMES TO FRAUD, WHAT ARE CUSTOMERS RESPONSIBLE FOR, AND WHAT ARE BANKS RESPONSIBLE FOR?

There is a misconception that banks look at every check and payment that comes through, but that just isn't possible. It's the responsibility of the customer to make sure they're monitoring their bank accounts to report suspicious activity. Victims of fraud may be able to get their money back if they report the fraud quickly. However, this may not be possible if they authorized the transaction in question. If they were scammed into taking action, they don't have much recourse in the end.

DO FRAUDSTERS EVER GET CAUGHT AND CRIMINALLY CHARGED?

I wish I could say yes. Most often, though, scams are committed by a large, organized criminal ring located outside of the area. If any bad actors are caught, they were likely a victim in the scenario as well. Often, it's those people who are arrested and prosecuted, but rarely do the recruiters get caught.

Call us to start the conversation!

If you're ready to talk about your farm financing, call an experienced Bell Bank ag lender in your area. We're proud to serve American farmers and agribusinesses!

Our roots run deep. Bell has the area's longest-serving group of lenders, with more than a century of experience among them. We understand that as the business of farming becomes ever more complex each year, you need a lender who understands that challenges are opportunities for success.

We have money to lend. Find greater stability from season to season with a long-term loan, or use shorter-term loans to increase cash flow to your farming operation.

We offer:

- Operating loans
- Machinery and equipment loans
- Agricultural real estate loans
- Ag co-op loans

Bell Bank Agriculture

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He has expert knowledge of the ag industry, having worked in ag lending for more than 30 years and as a retired owner and operator of a Benson County, N.D., family farm. His banking experience includes merging several banks and holding companies and growing the new company to \$600 million. He has also served on various financial boards.



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