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AEI Presents Nothing Borrowed, Nothing Gained: How Farm Financing Works, and When it Doesn't or The Countercycle and the Future of Ag Lending

Episode 10 | The Farm Upstate

Sarah Mock: This is *Nothing Borrowed, Nothing Gained the story of ag lending: past, present, and future.* I'm Sarah Mock. The first story we ever told on this podcast was about the 1980's farm crisis. That event has had a long shadow that, in a lot of ways, has shaped the understanding and defined the careers of many people in agriculture. But as we headed into 2023 and beyond, more than one of our sources pointed out that it's been 50 years since the industry was in the thick of that crisis, and for all the fear and angst its memory recalls, people are also starting to forget.

Jeff Conrad: People are less risk adverse and people that come out of the farm crisis of the 80s, into the 90s and the 00s, you always had that perspective in your mind says, "I saw this when you know, values fell 40%" or whatever, and you see a new generation coming in and becoming loan officers and stuff. They don't have that perspective. And I think people get more comfortable taking on debt, being the borrowers and also the lenders extending more debt as that history fades away. And like many people we have today never even experienced that firsthand. They read about it in textbooks**.**

Sarah Mock: As Jeff Conrad of AgIS Capital points out here – not that many people who are around today were already running farm businesses during or before the 1970s and continue to make decisions and plan for the future today. But even in the case where people did have access to a lot of experience and insight, sometimes all of that plus knowledge, data, and wisdom are still not enough. There's one particular case that happened, not 50 years ago, but five or so, and it's the final story we'll share here as we think in particular about the future of the farm financial system. It's the case of Boerson Farms, an enormous crop farm in Michigan – at its peak totaling about 83,000 acres that, in around 2017, started to -- quite infamously, come up against some problems with ag lending.

Today, we'll dig into the Boerson Farms story, and in discussing what happened there, who was at fault, and what does and does not foretell about the future of ag lending, I'll do my best to tie up any loose ends here and bring everything we've learned this season

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together. But first, to Michigan -- to guide us through the details of the Boerson Farm story, we'll hear from one last new source:

Brent King: My name is Brent King and I'm a managing director at B Riley Advisory Services. I'm an expert at restructuring bankrupt companies. And I also am a fourth-generation farmer from the state of Illinois.

Sarah Mock: Brent King is a busy guy who spoke to me during a busy travel week - so please excuse the audio quality. He's been keeping a close eye on what happened at Boerson over the last several years.

Brent King: So, Boerson farms decided they wanted to be big at all costs. They wanted to be the biggest farm in Michigan, and that was their goal. So, they broke the first rule of agriculture and that is farming does not support high debt loads. But Boerson Farms secured very high debt loads and they did that through non-traditional ag lenders. I assert there is not an ag lender in America who would've ever financed that big of a mess. So, they – Boerson's got financing through CHS.

Sarah Mock: In 2017, Boerson farms was sued by CHS Capital Inc for defaulting on $145.3 million loan. That case has since been settled, but it was just the first claim of many. In addition to the significant loan from CHS also had real estate and equipment loans from other parties, many of which total in the tens of millions of dollars each, including numerous handshake lease agreements. But I think one of the most interesting aspects of this story is that Boerson farms was not even the first huge farm to run into problems with scale and debt *on many of these same acres in Michigan. Years before Boerson's troubles, David Stamp -- owner of Stamp Farms, got in some hot water when he tried to get a $68 million loan from Wells Fargo. The problem was, the financial data he used to apply for the loan turned out to be fraudulent, and in 2021, Stamp was convicted of bank fraud.

The good news perhaps, in all of this from Brent King's perspective, is that he doesn't think that the situation at Boerson's – or Stamp's – is an indicator of some fundamental flaw in the farm financial system.

Brent King: It's a one off that's not the dead canary in the coal mine. That is just a huge mistake. It was an operator who decided he wanted to have the largest farm in some space and come hell or high water that's what was going to happen. And he did it. He did, he had the largest farm in Michigan, one of the largest crop farms in America, but it didn't work out because it wasn't structured on sound finance and operational practice. It was just big for the sake of big.

It's interesting there's a much healthier debt load in agriculture today than there was in the 70s so you're not going to see the same level of crisis. But you are going to see isolated mistakes,

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potentially fraudulent farm activities. Even a shift in commodity prices could push some people to the point of being have an unsustainable debt. So, we see interruptions in markets. We see raising interest rates, all of those things are drivers of distress.

Sarah Mock: For our purposes, these drivers of distress -- rather than the specific details of Boerson farms - matter the most, especially how these drivers collided with plans to expand and use leverage to do it. I asked Brent King why he thinks the situation got so out of control. He pointed to two factors that too often lead to negative outcomes, the first of which effects farmers most.

Brent King: High commodity prices drive many of the bad decisions farmers make. And I'm not going to just limit this to farmers, high prices to really are the trip kind of trip up a lot of business operators, but especially farmers, they are convinced that because they had two really good years that they can then go out and buy the neighbors farm because heck I just sold $14 soybeans in October - so I'm going to the farm sale in January and I'm going to spend the money I made and I'm going to spend all the money I make for the next 20 years off of these $15, $14-$15 beans that I just sold. Well, the problem is you made the down payment, you got the loan, but beans aren't going to stay at $14.

And this is the other fundamental rule of commodity pricing is commodities are most accurately priced when they equal the cost of production. And that is a really grim reality that commodity producers face. So, you have to look at the high years of profit and the low years of losses and equalize them and create longer-term concepts of farm's productivity, as farm's ability to generate profit. So, it's like you get a one or two really good years. 2013 - 2012 was a really good year, 2013 things started to turn around fast, and it took several years for farmers to really realize then 14, 15, and 16 – "Shoot, I wish I hadn't bought that farm because I can't make the payments now."

Sarah Mock: Failure to recognize that debt is often taken on in good times, but paid for in bad ones, is only half the equation that leads to massive problems like the one in Michigan. The other factor sits on the other side of the table.

Brent King: Inexperience with agricultural lending. I think they were motivated by people who had not seen how big a mess a large loan can create in agriculture. You have to really look at the debt in two tranches, you have to see, the capital debt or land. What do we owe on the farm? When you go to a farming enterprise and not only is the land essentially fully or almost completely leveraged, but their operating capital is essentially coming from a creditor. In essence, they don't own their own farm. They may on paper own the farm, but they don't really have any equity in it. And they don't even have any equity in their own production operations. We see that in receiverships and in bankruptcies where farms are just massively leveraged – it's a big problem.

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Sarah Mock: The combination of inexperience in agriculture, and thus failure to understand and fully appreciate factors like a farm's debt to asset ratio is likely a bigger problem right now than many realize. Though as Brent King points out, many large banks who lacked ag specific expertise left ag lending after 2013. As we know that vacuum has largely been filled by non-bank lenders and alternatives like vendor credit. But Brent saw more than just cold feet due to declining commodity prices in this action. He thinks that around that time, banks recognized something critical that many others ignored.

Brent King: So, they had already woken up and seen that there's a great deal of potential risk in the exposures. And the fundamental problem that you're looking at here is that land values are decoupled in a financial or economic sense from the potential profits that farmers can earn.

So, saying to me that going out tomorrow and spending $17,000 an acre to grow corn in Illinois. And doing that with a heavy amount of debt financing, you can't convince me that I'm going to make that money back growing corn. So, drivers of high prices are coming from people who have money, whether that's farmers or whether it's investors. My firm advised and I worked heavily on the Easter Day Ranch bankruptcy. And, in Easter Day, you saw the Mormon church and the Bill Gates Foundation were the two contending bidders for the 22,000 acres of that ranch. So, you see people who have very large amounts of money competing for these very large farms, but you also see it on a local basis where a well-established farmer who might also own a small ag business that's been very good to him or his family they may say, "You know what, we like farming, we want to be involved with agriculture. We're okay with this relatively low rate of return. And that's where we want to put our money so that we can continue to farm."

And so those are the actual, primary drivers of really high prices of farm. Because it's not the profit off corn that supports $17,000 acre farmland.

Sarah Mock: In our extensive conversation about farmland prices a few episodes ago, I'm not sure any of our experts really put the reality of today's farmland prices as neatly as Brent just did. It's so important to recognize this new motivation in the farmland market. To take us all the way back for a minute - remember the analogy of the diner, where I wanted a small business loan to buy a new cooktop?

The parallel to this would be - consider if in the market for commercial kitchenware. You couldn't just open up a catalog and select from a menu of options, but you instead had to bid against other restaurants for a limited number of stoves. If the price goes too high, do you forgo the expansion or bite the bullet and bid up the value in turn, locking in a lower return for yourself? Does the calculus change if, instead of neighboring restaurants in these bidding wars, more and more it's not restaurants at all? it's collectors, or people using the cooktop for their home or a hobby? This is, undoubtedly, a challenging position for a low margin business.

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It's easy to focus on why this makes the market for buying assets costly, and risky, for farmers, but it's worth noting that this market is also quite risky for financiers. See because the problem with these alternative motivations is they inflate the price while leaving the underlying reality of the asset unchanged. In other words, if a loan is made for an inflated price, and then defaults, the bank will likely be stuck reselling the asset for less than the loan was originally made for. This is a major factor that drove big banks out of ag lending a decade ago, it's not that they weren't up for the cyclicality of agriculture, it's that they determined the risk of lending to farm businesses to buy farmland, the price of which no longer correlated to productivity, was too high.

I think there's an argument to be made – perhaps the reigning argument in today's ag sector, that it doesn't really matter *why* farmland is priced the way it is, it costs what it costs, and farmers who want to grow have to find a way to afford it, or potentially find another career path. But Brent King is quick to remind us-- in finding a way, high levels of debt simply cannot be the answer.

Brent King: Farming is tried and true and proven, and farming has proven time and again, that it does not support high levels of debt because commodities are priced basically on the global supply of that commodity. Someone in Iowa, who's looking at $20,000 an acre for the 80 acres across the road is competing on a soybean grower scale with someone in Brazil who Is able to buy their land for a fraction of that price. And so, they're both dumping into the same hopper, the global hopper of soybeans. And so, we know that someone is going to eat your lunch if you're overly leveraged.

Sarah Mock: One of the ways that your lunch is likely to get eaten, when interest rates rise, like they are today.

Brent King: Climbing interest rates always put pressure on debtors. They consume profits. They make it more difficult for, a farmer to get the financing they might need or any business owner. Interest rates are an uncontrollable expense that can't be shed by a business. And we know that it is, that rising interest rates will force more businesses into bankruptcy or an insolvency proceeding, than would've happened had they not gone up. We've watched that. Those that are leveraged are always at risk.

Sarah Mock: I think it's worth taking a beat to recognize that the stability and cost of leverage is not, by far, the only factor that's likely to shift in the coming months and years. In addition to the high levels of volatility in interest rates and in commodity and input prices, there's also factors like climate change which are creating additional risk in the farm financial system, not only in terms of how farms themselves plan, operate, and navigate through weather events, but also how federal insurance programs work, as they begin to be utilized more and more, costing taxpayers an increasing amount.

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Compound that with modern shift in thinking about farm businesses away from maximum yield and towards maximum profit, especially over the long-term, and how that's affecting everything in the farm ecosystem from practices to purchases. A growing world population, and one growing wealthier, not to mention increasing demands for source of renewable fuel, create upside potential, or positive risk, for agriculture in the future. Tom Hoenig, like many before him, points out that the relatively low levels of leverage in ag today are a positive sign as we look ahead.

Thomas Hoenig: And that is a very important factor that may allow, us to avoid an overwhelming ag crisis that might come if interest rates get to 10, 11, 12%, again, as the central bank clamps down and as quantitative tightening takes hold, because once liquidity is pulled out of the system, then those values will stop rising - it's whether or not they begin to fall, that will affect the, asset balances on the books of those banks.

Sarah Mock: Though it's promising to hear that ag may be well situated to withstand an overwhelming crisis, even a relatively moderate crisis for the whole industry will inevitably lead, for at least a few, to the worst-case scenario - insolvency. Brent King has guided many families and businesses through restructures and bankruptcies over the years and has seen the pain and heartbreak that process often creates. And in so many cases, he says, it might have been avoided.

Brent King: If I could ask one question of every farmer who's thinking about borrowing money. That question would be, tell me exactly how you're going to pay this back? Because I, I have a sense that many of the times when we see companies and farms that are in trouble, they simply borrowed money because they could, because there was a lender that was willing to allow them to borrow the money. And so, they take it, they get the new tractor, they get the farm next door, whatever it is, but they've never really sat down with a cash flow and modeled out exactly, realistically how they're going to pay that debt back. So that's the analysis that needs to be done. Now, the bitter part about that analysis is that sometimes it really does lead to the conclusion that this farm is not viable. Some people who have farming operations that appear to be unlikely to succeed because of their debt ratios, but yet they survive until some giant collapse actually occurs.

You started all this with a question about the Boerson Farms and I think that. Made all of those mistakes at that farm, I, I don't think their cash flows were realistic - I've never seen them, but my guess is that they had never asked themselves the real hard question. Exactly how am I going to pay this back? Farms that fail often believe that if they can continue to farm and continue to grow, they can continue to absorb more debt. And that is not necessarily true.

Sarah Mock: Brent King does a great job here navigating the razors edge of credit--which is only getting sharper. Because again, if you walk away with anything from this

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season it should be the lesson that credit is a powerful, and sometimes dangerous tool, and one, as Nate Franzen of Dakota First points, is not only useful, but also often essential.

Nate Franzen: And a certain amount of leverage can be healthy. And quite frankly, in a business like agriculture that is very capital intense, it takes a lot of money to buy a piece of ground to buy a piece of equipment to farm - there's a lot of capital needed. Certainly, some people are blessed to have positioned their farms and ranches to not need to borrow money and good for them. That's great, but it's not very realistic for everybody, it takes a lot of money. And if you think about a young person wanting to get into farming, it's almost impossible for a young person to do that without borrowing money. It just costs too much. When you have to spend $350,000 just to get one combine or one tractor, how many people, just to have that laying around? Not a very high percentage of the population, right? So, it takes debt to help people get into the business and to help people grow their business. And as long as they manage that appropriately, that's a very healthy part of business. And, debt has a place, but it really does need to be managed.

Sarah Mock: Managing debt, and the risk it brings, is challenging work. Hopefully the stories you've heard here offer you a bit more clarity and confidence in your ability to understand the players and the system in which ag lending takes place, and to better understand the shifting scenario we find ourselves in today. But there's a little bit more to learn. David and Brent bring us home, after the break.

[COMMERCIAL]

Sarah Mock: In my final conversation with David and Brent, I wanted to start with their perspective on situations like Boerson Farms and hear what they think there is to learn about ag debt from situations where leverage becomes the ultimate destructive force. It surprised me that the first thing we talked about was not credit, but luck.

Brent Gloy: I think there is a tendency to associate success with financial success there's also, true that luck plays a role in that whole process goes back to that old saying of, the golden rule, “he has the gold makes the rules” that…

David Widmar: I thought it was, “do unto others until you wanted to be done unto you,” but that's the other golden rule.

Brent Gloy: That's the other version of the golden rule. And I think, there's evidence, that those people at least are able to manage that. We know there's some people who aren't very good at managing money at all. Does that make them, inferior people? No, in no way. I don't think anybody would necessarily agree with that. So, there is a skill or an ability or whatever to it.

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There are times I think when credit, gets in the way of that, they may have been really good at operating the business and doing all that stuff. But if they had made what turns out in hindsight to be a poor credit decision - they borrowed too much money at the wrong time, expanded at the wrong time. Doesn't matter how good a businessman they were or person they were, they're going to have significant trouble. It's perceived that, if this person has a lot of money, they're a genius or something.

And in some cases that may be true. In some cases, it may not be, they may have gotten really lucky. But luck plays a big role in lots of things and lots of history - the weather could have been bad on D-day it wasn't, it was clear.

Sarah Mock: Digging a little deeper, David was quick to point out that when we hear a story like Boerson Farm's, we have expectations about how it will go, and that those expectations often color our ability to actually learn from them.

David Widmar: As humans, we always want simplified summaries of what happened. And thinking about the 1980s farm crisis or the 2008 recession, we all want like a very tight story. And if it's a 90-minute movie, that's okay. But we really like to have two or three tweets that really explain like why this happened. In fact, we love to find villains. We love to have these simplified stories - this person did bad and that's why it happened. But it reminds me of a story, I believe it came out of Malcolm Gladwell's book *Outliers*. And he said that a typical plane crash involves seven, consecutive human errors. And the idea here is that it's usually, it's not one thing that goes wrong that causes a catastrophe or even two things. It's these things just start to hit and they're independent and on their own, or even two or three of them lying together, doesn't cause a problem.

But when they cascade, and they all play off each other it causes problems. And so, how fast things can change and how we think, “Okay, we have this all understood.” We know the risks that we're facing. We have this data; we feel confident that we've been able to make good loans. We've had good underwriting processes and then all the sudden stuff starts to play out an unexpected way. And all of a sudden, we find out that, we missed this risk, or we missed this in underwriting, or we didn't price this appropriately. And it might not have been a problem, but all of a sudden, we got to this extreme situation. in fact, you could do six and a half of these steps wrong, but all of a sudden, the seventh mistake happens in the right sequence, and it causes a catastrophe. I think that's the hard piece is that. We're really good at maybe looking at these individually it's the collection of them that really make it hard for us as humans to think through. And it also makes it really hard to learn the lessons. It makes it really hard to have a really thoughtful understanding as to what went wrong and how do we learn from this going on in the future? And we've talked about this a lot. The debt to asset ratio is probably at the sector level, that warning sign. And we all look back at that data and says, “Aha, no wonder they had a problem. This got too high they should have known.” But there was so much more going on in

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the background and there were so many more variables that contributed, but that also, we don't understand when we just look at that one chart.

Sarah Mock: When we think about that stuff "going on in the background" of past farm financial crises, it's easy to discount it through hindsight, but it's worth spending a little time thinking about what's going on "in the background" today.

In the last five years, agriculture and the broader U.S. and global economies, have been rocked by trade wars, a global pandemic, innumerable weather crises from droughts to floods to cold snaps and heat waves, Russia invaded Ukraine, supply chains snarls have cramped economic activity, inflation is on the rise around the world and the Federal Reserve as well as other central banks are acting, Crypto currency rose to significant prominence and experienced an epic collapse, farmland prices continue to climb, as do input prices across the board. Maybe in 10 years, it will be easy to look back and point out which of these and countless other events and trends mattered, and which didn't. But from here, on the present edge, it's much, much harder to tell.

Brent Gloy: I think that's reality, right? Everything seems a little bit important, but then you look back and It's not, it feels important, but it's not. And then occasionally there is one thing that is like really important, and we usually miss it - don't see it coming. And that's the really hard part about risk, something is going to overturn the apple cart, but knowing exactly what it is really difficult and that's why risk is such a hard thing to deal with and to manage.

David Widmar: It reminded me of "to be completely cured to newspapers, spend a year reading the previous week's newspapers." And I think that's this one way to think about, what's really important is if you read it a week or a month later what still resonates and what still connects? I think one of the things I find valuable is to look at a long series of data. Sometimes it's really tempting to just look at the short term, this three- or four-year trend and if you step back and understand more context, more history it helps us put those pieces together. I think the other thing that happens is there's this quote about there's the future's already here, it's just not uniformly distributed. And so, there's this dopamine response that we get when we think we know something that other people don't know. And so, finding that new information is really powerful, really addicting. And I think it's just this balancing act of what's relevant? What's actionable? How do I deploy it? Because it can be overwhelming. We're kind of this this new society where news finds you. You used to have to turn on the news or listen to the radio. No, it comes to you as alert. It comes to use notifications on your phone. And so, it can be overwhelming to think through the big picture, the 30,000-foot implications, whenever you're getting the latest breaking news of what so and so tweeted or what the Fed may or may not do at their next meeting. It's just completely overwhelming. So, individuals have to figure out a way to insulate themselves from that chaos.

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Brent Gloy: And that's the other thing is I think sometimes think about what would you do if you had that perfect information, what can you change? What would you do differently? And sometimes, honestly you get it wrong, right? So, try and figure out the strategies or whatever it is that will help you succeed no matter what, because we don't know exactly how all, any of this is going to unfold. But what we're saying, I think is that there are a lot of possible different outcomes, and you want to have a business that's resilient and can thrive in that environment.

Sarah Mock: I think from Brent and David's perspective, and one that jives with most of our other sources, a resilient farm business strategy is one that first and foremost, strives to understand the full scope of risks on the table.

Brent Gloy: People underestimate extreme risks consistently. You'll see people say, “Gosh, we had a, a 100-year flood. We've had two of them in the last two years.” Really, they probably weren't a 100-year flood to start with. We just really didn't understand how likely they were. We called them 100-year floods, but that was a really a misnomer, they’re not a 100-year floods. Yeah, in the last a hundred years, that's what happened. But really, if you wanted to say it was a 100-year flood, you should probably look back thousands of years or something. Why don't we do that? We don't have the data to do it. So, we just consistently underestimate those extreme events.

David Widmar: And is it a one-in-a-hundred-year event, or is it a two and a hundred-year event? Or a one in 50? And if we don't have enough data, they both seem improbable.

Sarah Mock: After the risks are understood as well as possible, Brent points out, another meaningful strategy for increasing resiliency is diversification.

Brent Gloy: So, diversification is usually viewed as a good thing, right? We're taught at an early age, don't put all your eggs in one basket. I mean that's at its simplest form. So, the idea, I think of diversification holds merit, the problems with it come when we think we're diversified and we're not. So, we get overly confident because we think we've diversified away all these risks. And we find out that, “Oh, by the way, that one event happened.” And it didn't diversify the way we thought it would, it actually impacted all the borrowers in our pool. So that's one problem with diversification is sometimes you think you're diversified, and something comes along, and it just blows it all out of the water. And everybody ends up being stuck. The trade war is a thing like that. It didn't really matter returns and most of the commodities were impacted by that. The other way people get in trouble with it is they, while they don't do it properly or they pursue it at all costs and then they start making loans in areas they don't understand, geographies they don't understand, businesses they don't understand. And so, they don't do a good job of underwriting, the risk to start with. And so, it gets so complicated that we just lose track of it all. And we make errors that we wouldn't make if we were stuck with, lending to the businesses, we really understand.

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David Widmar: I think other piece of this is, what are the correlations between what we're diversifying? I think we've talked about this in different ways. But maybe 80% of the time they're not correlated at all. And so, when one does well the other one does poorly or vice versa, but there are just times whenever you roll the dice, and it turns up unfavorable for all of the investments that you've made in this spot. You just want to make sure that you think about those maybe low probability, but risky potential outcomes that impact everything.

Sarah Mock: And finally, exercising caution, and seeking to think in the long term rather than the short term is a keep feature of resiliency.

Brent Gloy: My, my son, the other day, he's 12 and, he has his jobs around the place. And so, he's earning some money, because I try and incentivize him a little bit besides just yelling at him, and so now he's getting some money. So, he says, "Dad, I want this baseball box." Okay. What is that? It's this box of stuff that comes, every so often with baseball stuff in it. I'm like, how much is it? This is $40. I'm like, he's like I got $40 said. Yeah. But do you realize that $40 happens every month? That's a lot. Yeah, but I can do this and I'm like, so I'm trying to convince him, stay away from debt because that's some ways it's a debt. it's a commitment – I'm like be careful here with what you're doing because you're locking yourself into something and you're committing yourself for a long time of, buying this stuff. And so, you try and, teach your kids to avoid these kinds of commitments from the start. And I think that, debt, we have this, societal view that, just be careful with it. But it almost gets taken to the extreme sometimes is that people want to avoid it at all costs. And that's not a good business decision either.

David Widmar: I think we talk a lot about the survivorship bias, in decision making. It's the idea that if we only, look at survivors and of, maybe it's planes coming back from a battle or what, the phones that we dropped that actually made it through, we say, okay, what was successful about these? And let's build more airplanes or more phones, corn hybrids that replicate that. But that can be misleading. And I think let's flip the survivorship bias upside down for a little bit and talk about what biases do we have about failures. And I think oftentimes when we see a business fail or a farm fail, it's really quick to do a postmortem and see that there's a lot of debt or there's debt and debt was involved with that tragic end. And I think we oftentimes from that early age associate the demise of that business with too much debt. And oftentimes at the end of the road, there was too much debt relative to the earnings or relative to the assets or relative - but that debt in and of itself probably didn't cause the demise, it was, other factors that were going into that. So, I think that starts to impact our thinking a lot, maybe our caution around debt is it's always linked to that tragic ending, that tragic finale. But as Brent mentioned, it's a tool and it's an important tool. Now the more debt we use, the more leverage we use, the bigger the opportunities, but also the bigger the risks. And I guess said, I want to be careful there. You can definitely get yourself in trouble with just too much debt in and of itself. But not every business failure was because of the debt. I think other thing that debt represents is going back to that baseball box, that debt represents a long-term obligation. And so, we make these decisions

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today in maybe the best of times or some really good times, or when that euphoria, that Brent mentioned, it feels really good. And if we're buying a house or a farm or a tractor or a car there are years associated with that. And the challenge is when those conditions change and so there's not as much income or there's not as much profitability and we are stuck with those obligations, through the downturn or through the cycles. And that gets really challenging. It's really hard to restructure or recalibrate our debt obligations, beyond when we first take on those obligations and those liabilities.

Sarah Mock: I'll point out that during our conversation, Brent highlighted that it's not that the current ag sector necessarily lacks discipline. On the contrary, it's simply that credit has been very cheap for a long time. Now that the cost of credit is rising, more and more people will appear to have been undisciplined, though part of the reality is that nearly 20 years of declining interest rates was a long time to build habits and strategies that fit that reality. New habits and strategies, and new levels of discipline, are required moving forward.

So where does this leave us? Ag lending is, without a doubt, a complex space that's intimately tied in -- not only to the volatile world of global commodity ag, but also to many other unpredictable worlds -- from government to investment firms to money markets and currency exchanges. For the last 20 years or so, agriculture's exposure to these other worlds through lending has been positive due to low and declining interest rates -- and lured more diverse investors into the space, keep assets valuable, even well making it more and more difficult for beginning farmers to make a go. But the era of low and declining interest rates seems to be rapidly ending, the winds are shifting, and it's not totally clear how all the new players in and around agriculture are likely to act over the coming years.

When we think about how a strategic farmer or agribusiness person is to navigate all this uncertainty -- perhaps the most important takeaway of all is that very first one, that David elevated in our first season.

David Widmar: It reminds me of that quote that maybe Mark Twain said, “history doesn't repeat itself, but it often rhymes.”

Sarah Mock: Sometimes the rhymes turn out a little on the nose, like the way the Boerson Farms story echoes the Stamp Farms story before it. But other times, the patterns are more nuanced. Sure -- Jay Powell, the current chair of the Federal Reserve, is not Paul Volker, and it's unlikely that he will act in exactly the same way his predecessor to bring down inflation. But, the mission of the Federal Reserve, to keep inflation at 2% has not changed, and Paul Volker or not, the Federal Reserve only has so many levers it can pull to try and reach that goal.

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Will the next few years look exactly like the deflation period of the late 70s and early 80s? Probably not. But as David suggests, it's likely to look something like it. Of course, agriculture has transformed significantly since that time, and is likely to benefit and suffer in different, and hard to predict ways. The smartest decision-makers though, know the difference between hard to predict risks and impossible to predict risks, and strive to understand all the possibilities that could threaten or disrupt their operations, and to understand the likelihood of those effects. We've talked about a number of hard to predict risks here. Risks that exist within farm operations and within lending institutions. In reality, all these risks matter to everyone operating in the system -- because it's just as possible that the failure of an ag lender can negatively affect a farm or ag community, as it is that a farm failure can negatively affect an ag lender. Understanding and tracking these risks overtime can be a bit like fighting the hydra – seemingly as soon as you've understood one aspect, three new dimensions appear, and that's probably truer now than it's been for a few dozen years. But that's the challenge of farming and lending in a modern, ultra-fast and interconnect financial world.

And it will only become more challenging as competition in agriculture becomes more globalized and more competitive. Navigating the farm financial system over the coming years will not only take the best information you can get your hands on, and the best analysis you and smart people you trust can bring to it, it'll also take a good bit of luck and nerves of steel, because despite all the risks, farming successfully over the next decade will almost certainly require using credit. After all, when it comes to today's highly capital-intensive farming, the wisdom remains -- nothing borrowed, nothing gained.

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