



Early Winter 2015-2016

from F&M Bank

## Message from our bank president



Be sure to include F&M Bank as you plan for your 2016 ag operation. Our ag banking team has a wealth of experience, which allows us to be more flexible in structuring financial services for your farming operation. Whether you need financing for daily operations or to fund growth and expansion, we have loans and programs that can help.

If you are not an F&M customer and think your ag operation might benefit from a second opinion, we are happy to help. One of our bankers will provide a free analysis of your current ag banking relationship and tell you if it would be worthwhile to move to F&M. We are committed to doing what is right for you—even if that means keeping your banking relationship at another institution.

On behalf of the officers and staff of F&M Bank, we wish you a joyous holiday season and prosperous New Year.

Sincerely,

**Doug Sanders**  
President & CEO F&M Bank

## Significant Reductions in Working Capital Likely in 2015 on Grain Farms

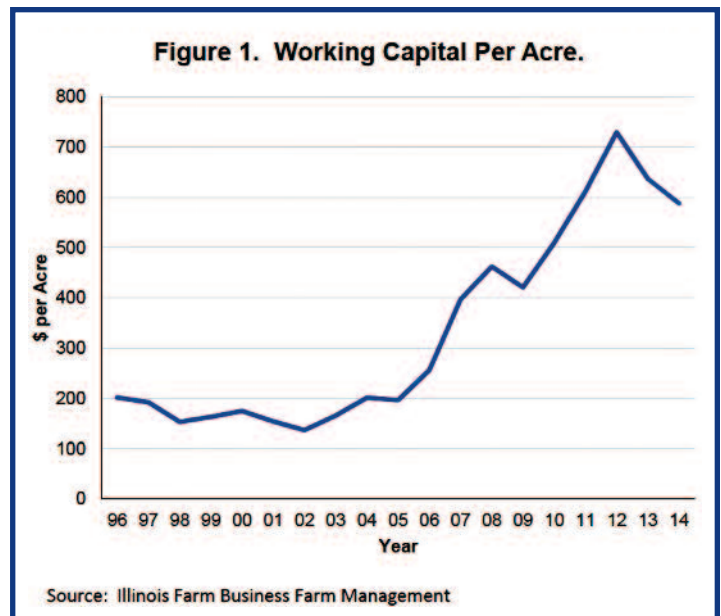
Working capital will be reduced on many Midwest farms in 2015. In this article, per acre reductions of working capital are quantified for owned, cash rented, and share rented farmland. A repeat of a year like 2015 in 2016 could see many farms back approaching a working capital situation similar to the period from 1996 to 2006, the period immediately prior to the period of higher incomes from 2006 to 2012.

### Working Capital on Illinois Grain Farms

Figure 1 shows working capital per acre for Illinois farms enrolled in Illinois Farm Business Farm Management (FBFM). Working capital equals current assets minus current liabilities. Current assets include cash and cash equivalents; crop, feed, and market livestock inventories; and prepaid expenses. Current liabilities include operating loans; current portions of longer-term debt; and accrued items such as income taxes. Working capital serves as a cushion for losses that may occur. Higher levels of working capital indicate more of a financial cushion.

Working capital averaged \$179 per acre from 1996 through 2006 (see Figure 1). As a result of higher incomes, working capital then increased to over \$600 per acre at the end of 2012. Working capital decreased in both 2013 and 2014. At the end of 2014, working capital was \$588 per acre.

Many farms still have higher financial reserves at the end of 2014 as compared to the period between 1996 and 2006. However, the total reserve is



### *Significant Reductions... continued*

not likely to be equal to the current level minus the \$179 average from 1996 to 2006. More working capital is needed now because of higher costs. Since costs have roughly doubled, working capital in the \$350 to \$400 per acre range now would be equivalent to the \$179 per acre level from 1996 to 2006.

Take \$400 per acre as the level now equivalent to the \$179 per acre average during the 1996-2006 period. Then farmers have \$188 per acre of working capital above that level from 1996 to 2006 (\$188 = \$588 working capital in 2014 - \$400 equivalent 1996-2006 level).

The values in Figure 1 are averages. There is considerable variability in working capital across farms. Therefore, the levels represented in Figure 1 may not be indicative of a particular farm. For example, younger farmers tend to have less working capital than older farmers. Also, farms that cash rent more of their farmland typically have lower levels of working capital.

In 2015, reductions in working capital will occur on many grain farms in Illinois. Farms with typical percentages in owned, cash rent, and share rent categories likely will see significant working capital reductions. If 2016 prices, yields, and costs are similar to 2015 prices, yields, and costs, the average farm will see their working capital levels back to the equivalent of the 1996 to 2006 period.



Of course, farms will vary from values in Table 1 depending on many factors. Farms with lower debt payments and higher off-farm income will have more working capital. Farms with more cash rent farmland will have more negative working capital changes than farms with less cash rented farmland.

Yields and prices in Table 1 could change. Higher prices, higher yields, or a combination of higher prices and higher yields could result in more income. Many farms are reporting higher than expected soybean yields. Increases in commodity prices would be beneficial as well. Yields and prices will come into clearer focus as the year progresses.

*Schmitkey, G. "Significant Reductions in Working Capital Likely in 2015 on Grain Farms." farmdoc daily (5):184, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 6, 2015. <http://farmdocdaily.illinois.edu/2015/10/significant-reductions-working-capital-likely-2015.html>*

## **Farmers Advantage Checking**

When it comes to deposit services for agri-business, consider these great features in the value-added Farmers Choice Checking package of banking services:

- Free basic checks
- Free debit cards
- Free Online Banking
- Overdraft Protection with an Ag Line of Credit or WorryFree Line of Credit
- Free Bill Pay
- Deposits are credited the same business day
- No minimum balance
- Funds available next day to pay-down line
- No monthly service fee
- Privilege Checking and Savings accounts for family and employees
- 250 free items (debits, credits and deposited items)

For further information on any of our ag lending products and services, contact Dave Walter at (309) 343-0002, extension 20654.

## Expecting the Unexpected: Preparing Financially for a Disability or Death

No one wants to think about it, but everyone needs to plan for the possibility that they may suddenly become disabled or die. Taking a few steps now can make it much easier for your loved ones to manage your financial affairs when you can't. Here are a few tips to get started.

**Build a rainy day fund.** Savings can help you and your family get through difficult times, especially if there's a major health issue or other life event that may result in you earning less income.

Financial experts generally recommend that you set aside at least three to six months of living expenses to get through a difficult period without having to take out a loan or borrow from retirement savings. Having even a small amount of money automatically transferred on a regular basis into a federally insured savings account is a great way to gradually build a cushion to help manage unforeseen situations.

### **Keep a list of your financial accounts and personal documents in one secure place.**

Ensuring that a loved one responsible for your affairs can easily find a list of your deposit accounts, investments, loans and other assets or obligations will save them time and avoid risks of unnecessary expenses (such as fees associated with certain old, "dormant" accounts). Other paper records that your heirs may need to know where to find include wills, home titles, car titles, bonds and certificates of deposit. But this list can also be valuable to a criminal, so keep it in a secure place that only you and selected others have access to.

**Consider the pros and cons of consolidating accounts.** Think about how many savings, checking, investment and credit card accounts you have. Then ask yourself if combining multiple accounts could make it easier for your loved ones to identify, monitor and manage those accounts on your behalf. If you plan to consolidate your deposits at one institution, though, make sure the combined funds are within the FDIC's deposit insurance coverage limits.



Remember that you can have more than \$250,000 in one bank and still be fully insured provided that the money is in different ownership categories—single accounts, joint accounts, retirement accounts and so on.

### **Consult with an attorney about legal documents to create or update.**

One example may be an advance directive that will specify your wishes for medical care if you are terminally ill. Others may include a will and/or a trust to guide the distribution of your property after your death, and a "power of attorney"

authorizing someone else to handle transactions and make decisions on your behalf if you become mentally or physically incapacitated.

### **Carefully evaluate who you hire to help you.**

You may want to talk to a financial advisor for help, such as in deciding whether to consolidate accounts or sell investments.

**Determine if you have adequate insurance.** Consider discussing with an insurance agent or a financial planner whether you have adequate life and disability insurance, and evaluate the pros and cons of long-term care insurance. Your needs will depend on factors such as whether you have dependents and any property that you would like to pass to an heir but is serving as collateral for a debt. Note: In general, your debts will be paid from your estate and will decrease the money that your heirs could inherit. But exceptions exist. For example, the responsibility to repay any debts that another person co-signed with you shifts to that person after you die.

**Take steps to make it easier for your heirs to access your valuables.** Start by confirming that the beneficiaries or co-owners you want on accounts are named in the records. For example,



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Nondeposit investment  
products available  
through our Trust  
Department: • Are Not  
FDIC Insured • Not  
Bank Guaranteed • May  
Lose Value • Not a  
Deposit • Not Insured  
by Any Federal  
Government Agency

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*Expecting the Unexpected.. continued*

having joint accounts with your spouse or another loved one can make it easier for him/her to access the account if you become disabled or die, but you are giving this person equal rights to the money in that account. You can also set up payable-on-death accounts at a bank that would ensure that the people you name would have access to the money after you (or any other co-owners) die.

And if you have a safe deposit box, talk to a bank employee or an attorney about how a loved one or another person you designate could access the box. Procedures vary considerably by state. For example, after a death, some state laws may permit a decedent's safe deposit box to be accessed immediately by a co-owner, but other states may generally not permit anyone to remove any items other than a will and burial instructions for several weeks.

Source: FDIC Consumer News

## 2016 Illinois Farmland Price Outlook

Farmland prices in Illinois decreased modestly during the first half of 2015, and it appears that downward pressures are likely to continue into 2016. While headwinds related to farm income will likely continue, current farmland prices do not appear out of line with current cash rent and interest rate levels. That is, farmland price bubbles or conditions that would be seen as such are not evident in the current market. If large farmland price decreases do occur in the near future, it is likely that they would be associated with unexpected interest rate increases or additional shocks to expected future agricultural income. Likewise, increases in commodity prices that are viewed as more permanent, along with interest rates, could cause farmland values to rise.

Schnitkey, G., B. Sherrick, and T. Kuethe. "2016 Farmland Price Outlook." *farmdoc daily* (5):194, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 20, 2015. <http://farmdocdaily.illinois.edu/2015/10/2016-farmland-price-outlook.html>

### Our Ag Lending Team

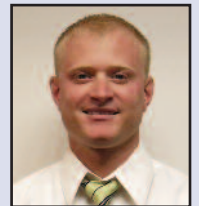
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Additional team members include (L to R, top to bottom) Trent Cox, Annette Pickrel, Lisa Shafer and Shawn Hedden.



*Your community, your money, your hometown bank...F&M*



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