Flanagan State Bank

Ag Newsletter

APR 2019

Double Crop Opportunities

Double-Crop Rotation can be Profitable Enterprise

Double-cropping soybeans after wheat is a common rotation in southern Illinois, enabling producers to harvest three crops in two seasons; usually corn followed by winter wheat followed by beans. Three crops generate more revenue than two with fixed costs spread over two crops.

While the double-crop rotation is well established, it has faced recent challenges from higher yield and greater profitability potential from corn, low wheat prices or discounts at the elevator, and low soybean yields. However, recent changes in technology have made the wheat-soybean double-crop rotation more economically viable and sustainably valuable.

Employ the Early Wheat Harvest System

For example, the early wheat harvest system can optimize a double-crop rotation when producers choose ultra-early wheat varieties with comparable yields. Harvesting early varieties at 18-20 percent moisture enables planting double-crop soybeans seven to 10 days earlier.

In addition, harvesting wheat at higher moisture produces better quality grain. Test weight is higher, incidence of DON vomitoxin is lower and risk of price dockage is less.

Planting soybeans earlier increases yield potential by as much as one bushel per acre per day, improving profitability. And soybeans planted after wheat following corn produce higher yields. In fact, the 2019 wheat and double-crop soybean system is projected at over $50 per acre more profitable than either corn, soybeans or wheat alone.

Including wheat in the rotation is also good for soil conservation. It is a cash cover crop. Wheat can be spring grazed and the straw sold. Wheat residue reduces soybean cyst nematode populations when residue is left intact and soybeans are no-tilled into the stubble. Soybeans after wheat as a summer cover crop scavenge nitrogen, suppress weeds, and stimulate soil biology.

(cont. pg. 2)

In This Issue

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411 N. Center, Gridley

Double-Crop Tips

To maximize potential for high-yielding wheat and make the most of double-crop soybeans, John Pike, Pike Ag, LLC, in Marion, offers these tips for wheat:

• Choose a wheat variety with high yield potential and good head scab rating. Variety selection sets the foundation for maximizing profits in intensive management double-crop rotations.

• Early maturing wheat varieties can allow for earlier double-crop soybean planting, however, prioritize yield potential and scab ratings ahead of maturity.

• Use treated seed and scout for aphids.

• Plant as early as possible after the "fly-free" date. Planting early can cause excess fall growth, increasing the chances of winter kill and stand losses in some seasons.

• Use a well-maintained drill calibrated for "seeds per acre," not pounds (lbs.) per acre, as seed size can vary. Target 30 to 40 seeds per square foot or 1.3 to 1.7 million seeds per acre.

• Apply phosphorus and potassium for wheat and double-crop soybeans based on soil tests.

• With regional soil mineralization differences, a good starting point for nitrogen management is 100-110 lbs. for central and northern Illinois or 130-140 lbs. for southern Illinois.

• Apply 30 lbs. at planting with spring applications supplying the remainder, split between Feekes GS 3 and GS 5. Split nitrogen applications are generally divided one-third GS 3 and two-thirds GS 5. When stands are less than desired, a 50/50 split will help increase tillering.

• Have a herbicide program to address weed control. Several good products are available with flexibility of both spring and fall applications controlling grass and broadleaf weeds.

• If a foliar fungicide/insecticide application is not planned, scout, scout, scout and treat accordingly.

• Recognize the risk of head scab to yield and quality, planning a fungicide application at Feekes GS 10.5.1 (flowering).

• Harvest fast and early, and avoid total field dry-down. Having the ability to dry wheat can preserve wheat quality and enable earlier soybean planting.

As the top soybean producing-state since 2016, Illinois growers know how to produce soybeans. However, double-crop yields have lagged because soybeans are planted late and without a consistent level of management. Dan Davidson, agronomist and Illinois Soybean Association technical consultant, advises managing double-crop soybeans the same as full-season soybeans:

• Adopt the early wheat harvest system. Plant beans sooner to gain a bushel per acre per day.

• Chose an adapted variety of a similar maturity that bushes out and treat it to protect against soil-borne diseases. Don't take the leftover or cheapest seed.

• No-till soybeans into wheat stubble immediately after harvest when soil is fit for planting. Make sure disc openers are sharp and adjusted; plant when straw is dry and easier to slice.

• Seed with a planter in 15-inch rows for better placement. Increase your seeding population 20 to 25 percent over a full-season population.

• Plan for soybean fertility needs and apply when fertilizing the wheat crop.

• Plan a good herbicide program, including a burndown and ability to control resistant weeds.

• Scout for insects and disease pressure. Later maturity provides opportunity for increased pest incidence during seed-filling from insects migrating from maturing, full-season *bean field.*

Illinois Soybean Association
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ILLINOIS SOYBEAN ASSOCIATION
CHECKOFF & MEMBERSHIP PROGRAMS

Make Your Marketing Plan Now

The winter and early spring is the time to get your finances in order and get your marketing plan complete, if it is not done so already. The earlier the better for a marketing plan, but for sure by the time the birds start chirping in the spring. You have been paying bills and you should have a good handle on your farm expenses for the coming year. It is essential to know your costs, so you know how much money it is taking to run your operation. Once you know this, you can at least look at an average yield and come up with what you will need for a price to cover these costs. The beauty of having this on the computer is that you can go in and change the yield any time to see what it would take at different yields.

The saying that 'the market doesn't care what my costs are', is an accurate statement. However, it is totally false that you, as a producer, should not care what your costs are. Knowing your costs can help you see if one crop looks better on the budget than another. Knowing your costs could help make the decision to plant more, or less, of a particular crop. Case in point would be that, for many, the last few years have shown that beans were better on the budget than corn. This year, I have sat down with several where beans don't look that great. However, we at least have the road map to make decisions on where we are going. Seeing these numbers can actually help make good marketing decisions today so we are not under water tomorrow.

A quick and dirty look at a market outlook would tell me that we have too many soybeans in the world. We have seen corn supplies shrink, even though we have seen big corn crops in the U.S. the past 2 plus years. We have tariffs we are dealing with and we have African Swine Fever, in China and elsewhere, that is affecting bean demand. We have an unknown of the actual size of production in South America and we don't even know how many acres we will plant here in the U.S. yet. Many were thinking that we would see more corn acres

and less bean acres in 2019. I think that is accurate still, but I don't think we have seen enough of a market move to make a big switch, especially with higher nitrogen costs. There are many things that can change between now and harvest, and that will affect the price you get.

This is why I would stress controlling what you can control. You know your costs so how does that affect your budget? If you should be selling more grain now, do it. To stay protected if you don't grow the crop, due to weather issues, come back in with call options to be in the market if we rally. If you don't want to be an aggressive seller, look to get a floor under you with put options, so you can wait and see what the weather does, but at least you don't have to worry about the market collapsing and leaving you with nothing done. Plan for this now while you have the time. Once you go to the field, it is difficult to execute a plan if you didn't start one in the first place. I sit down with many producers to go over budgets and get a plan in place that is tailored to their specific needs.

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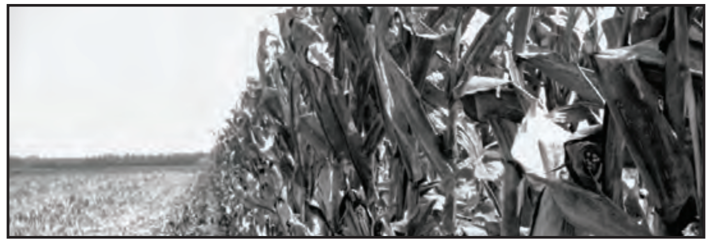
ADVANCE TRADING INC. ATI Trusted Risk Management

Is Your Bank Actually Working for YOU?

Since the 2018 crop came out of the ground, we have seen commodity prices stay lower. We received the bailout for the 2018 soybean crop and a little for corn, but we are not guaranteed to receive a payment for 2019. These past few months, we have been sitting down with our farmers and 2019 is going to be a “tight” year for many farmers. We have also seen an increase in the number of inquiries by new, potential customers looking to switch lenders. We welcome this; however, this is somewhat concerning at the same time.

Many of the inquiries we have had are from farmers that have had banks that are mainly collateral lenders. Collateral versus Cash Flow lending is easily defined; collateral lenders just want enough collateral, usually that includes land or equipment, to cover their losses if the farmer goes bankrupt. Cash flow lenders, on the other hand, work to make sure your business will have a positive cash margin and consistently make a profit.



One of the most concerning things, to us as lenders, is that a lot of farmers have never put together a cash flow projection. Doing a cash flow helps the farmer to know where your expenses are going, so, they know where they can trim some costs or make commodity sales to become profitable on their farm. This might mean putting on their own anhydrous rather than hiring it out or spraying their own chemicals, if possible.

Something that is becoming more prevalent is the value of off-farm income. When prices were high, farmers could afford to live solely off their farm income alone. Today’s market is different. We are seeing a lot more farmers having to supplement their family living costs by working off-farm jobs. Family living is a big expense that many farmers do not have a good handle on because they haven’t sat down and tried to figure the exact cost.

A lot of our customers use Farm Business Farm Management (FBFM) records to help track this. These records help show where your money goes on and off the farm, whether that be fertilizer, hired labor, chemicals, or family living. FBFM records are a huge asset to Illinois farmers that need an extra hand with their record keeping.

(cont. pg. 5)

How the Process Works

First, we sit down with each customer and put together a balance sheet, cash flow projection, and a breakeven analysis. Knowing if the business will have a positive cash flow that year will help farmers make some decisions on what to put on or not put on the crop that year.

With the tough markets right now, knowing their breakeven price is a major asset. When they know what these breakeven prices are, they can make sales to secure a profit or limit losses. Some sales may be more profitable than others, but with the way the current market environment is, we need to take our "wins" when, and where we can get them.

We have included, in a past newsletter, a breakdown of stored grain prices/costs. The longer grain is stored commercially, the harder it is to get back to that breakeven price. We encourage most farmers to price grain for the Fall of 2019 when we get their breakeven price to either 1) secure a profit, or 2) minimize their losses.

Since we are a Cash Flow Lending institution, we will work with farmers to get their numbers in line to make a profit. At the same time, this takes some compromise on both sides. We will work with them to figure out where and how to cut some expenses to make their operation work, but the farmer needs to be willing to try and stick with these suggestions. A business that is unwilling to change during times of tight cash flow, usually are not in business for very much longer.

At Flanagan State Bank, we have over 50 years of Ag Lending experience and have learned, and are always learning, new ways to become profitable on the farm. Whether that be organic, double-cropping, no-till, or just straight conventional farming; we will work with the farmer to get the most out of their acres in any market environment.

If you are looking to maybe move your operation to FSB we require every one of our Ag customers to have a few things to get started, and to continue working with us. We require 3 things:

- 3 Years of Income Tax Returns
- An up-to-date balance sheet
- A working, positive cash flow projection

**The balance sheet and cash flow projection are things we can help the farmer fill out when we meet for the first time.*

As mentioned above, we are always looking for the best possible way for each of our customers to become as profitable as possible on their farm. Here at FSB we partner with our farmers so they can grow their operations for not only themselves, but for the future generations. We strive to not only create a business, but also a personal relationship with every one of our customers to better understand their needs.

Flanagan State Bank
Ag Lending Team

Richard Ritter
David Wyss Jr.
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Flanagan State Bank

2019 Double Crop Wheat-Soybeans Cash Flow

Wheat

Inputs	Cost
Seed	$55.00
Fertilizer	$100.00
Fungicide	$25.00
Chemicals	$10.00
Drying/Storage	$9.00
Repairs	$18.00
Insurance	$12.00
Interest	$7.00
Fuel	$13.00
Miscellaneous	$9.00
Total Input Cost	**$258.00**

Double Crop Soybeans

Inputs	Cost
Seed	$70.00
Fertilizer	$45.00
Fungicide	$20.00
Chemicals	$25.00
Drying/Storage	$5.00
Repairs	$15.00
Insurance	$10.00
Interest	$7.00
Fuel	$9.00
Miscellaneous	$9.00
Total Input Cost	**$215.00**

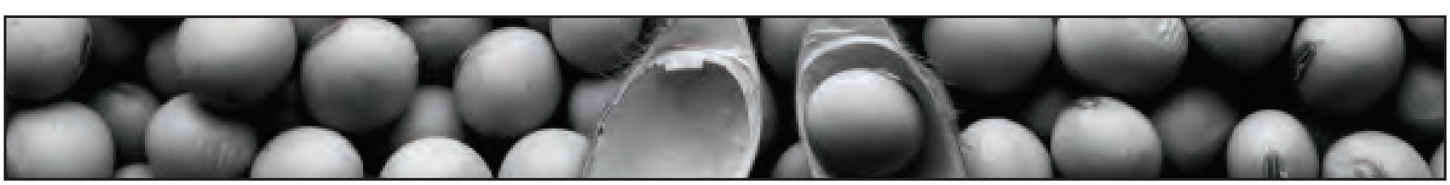
3 Year Average Yield History	75 bu.
FSA Prices	$4.90
Grain Sales	$367.50
Straw Sales	$100.00/A or More

3 Year Average Yield History	35 bu.
FSA Prices	$8.90
Grain Sales	$311.50

SUMMARY	
Total Sales (Wheat and Beans)	$779.00
Total Expenses	$473.00
Net Profit	$306.00

Corn following wheat will normally have a 10-15 bushel yield advantage

This total does not include: Cash Rent, Hired Labor, R/E Taxes, and Utilities



The following are three questions that I get occasionally in my work as a financial advisor helping people navigate the important financial decision in their lives:

What's the best way to save for college expenses?

Whether you have young children, or you are a grandparent and want to help your kids save for the high cost of college, here's a couple tips.

I like the 529 plans because of the advantages they offer; Illinois has pretty good 529 plans. Illinois Bright Start is one of the Illinois plans. 529 Plans are triple tax free: 1) You can get a deduction from your state income taxes when you contribute, 2) your money grows tax deferred, and 3) as long as you use it for qualified education expenses, you don't pay tax on withdrawals.
It's flexible because you as the parent or grandparent can be the account owner. You can change beneficiaries of the account in case the child you were saving for doesn't end up going to college. This was a disadvantage of the old custodial accounts. The website to start at is www.brightstart.com.

Does it pay for wait until after 70 to apply for Social Security?

No. Benefits do not go up after age 70, so there is no reason to wait past age 70. For a married couple, I like for the higher earning spouse to wait until age 70. Even if something happens to the higher earning spouse, the now higher benefit will be paid to the surviving spouse. By waiting until age 70, the higher earning spouse just got an 8% increase PER YEAR for the years between 66 and 70.

What is an exchange traded fund (ETF)?

The best way to describe an ETF is to compare it to a mutual fund. But ETF's have several advantages over mutual funds.

- ETF's are pooled investment vehicles just like mutual funds.

- It usually offers diversified exposure to some area of the market; it can invest in stocks, bonds, currencies, options or a blend of assets.

- Because its exchange traded, you can buy them in a brokerage account and throughout the day, instead of just at the end of the day like a mutual fund.

- ETF's are created and redeemed a little differently than mutual funds. I don't have the time to do into the details, but this process causes ETF's to be more transparent (I know the detailed holdings of each ETF), usually less expensive, and they are more tax efficient than mutual funds.

- Most ETF's that I use are very liquid; this means there are no problems getting one sold for a good price. When compared to individual bonds, bond ETF's are very liquid and cost very little to buy and sell.

I will typically use ETF's and mutual funds when creating portfolios for my clients. CAPS Financial Group is a fee-only service provider. The only form of income I receive is from fully-disclosed client fees. This means that I don't accept commissions from companies who want to offer their products to you.

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