

Midwest Farmowner

News & Information from Soy Capital Ag Services

Farmland Values Reflect Continued Strength

The Illinois farmland market rose through the second half of 2007, and has continued to rise early in 2008. Historically high grain prices, uncertainty in other areas of the economy and a tight supply of high quality farmland over the winter months have driven overall prices of cropland 20-25 percent higher since the beginning of 2007.

“In a market like this, high-quality farmland is a hot commodity, which benefits potential sellers. Part of the reason supply is low can be directly attributed to the grain income profitability right now. The only way to draw more potential sellers to the market is to raise the price,” says David Klein, Soy Capital Ag Services managing broker and vice president in Bloomington. “We find our auction method to be very effective at price discovery in this type of market, although listing a farm during the growing season can also be successful. Marketing a farm after crops are planted is something that wasn’t even considered 10 years ago, but has become more common in the past few years.”

Margaret Turasky experienced that market strength in the sale of her farm, known as the Margaret Knox McCue farm, near Springfield, Ill., in December. She was extremely pleased with the

price Soy Capital was able to obtain. “We did our homework and went to farm meetings and other land auctions to select the company we wanted to handle our sale,” she says. “We were very impressed with the professionalism of Tom Toohill and the rest of the Soy Capital staff.”

Turasky says Toohill was responsive to requests for information and answered questions in a timely manner. “We liked having several options presented on how best to sell our property,” she says. “We ultimately went with an auction, and it was handled very well.”

Soy Capital farm real estate professionals can help evaluate the best potential method for marketing a farm by considering each property’s unique characteris-

tics and assisting owners with recommendations that best suit their needs. Contact Klein or any of Soy Capital’s other farm managers at 800-532-LAND, if you are considering selling your farm and would like to discuss what options exist.

“Farmowners need to do their due diligence and be comfortable with the company they choose to manage their sale,” says Turasky. “Soy Capital’s professionals did what they said they would, and we couldn’t be happier with the outcome.” **MF**



Illinois farmland values continue strong in the wake of high commodity prices, uncertainty in the economy and tight high-quality land supplies.

USDA

Inside: Consider Crop Insurance Options Before March Deadline

Crop Insurance Integral to Risk Management

March 17th is the deadline for farmland owners to choose a federal crop insurance policy to reduce price and yield risk for the 2008 season. Choosing the correct product and level of protection from those available is an important decision this year, given potential for higher-than-usual crop value and market volatility. Below is an overview of several commonly used crop insurance products that can assist in your decision.

The Crop Revenue Coverage (CRC) and the Revenue Assurance (RA) harvest price option policies protect yield and price risk. Both policies provide a gross income guarantee equal to the producer's average production history (APH) times the coverage level chosen times the higher of the spring or harvest price. The spring price is determined in February of the current crop year, and the harvest price is determined in October or November. Both policies provide a minimum level of protection with the potential for an increase in protection if prices rise.

"One key difference between the CRC and the RA harvest price option is how the maximum price protection is determined," says Kevin Meiss, farm manager in Soy Capital's Bloomington office. "The CRC policy has a cap on price protection of \$1.50/bu. on corn and \$3.00/bu. on soybeans. The RA harvest price option policy doesn't have a cap. Since 1991, the price protection cap on the

CRC policy has not been exceeded. But with the current grain market volatility, the cap may be an issue in 2008."

Other commonly used crop insurance policies available include Group Risk Income Protection (GRIP), Group Risk Protection (GRP), Income Protection (IP), Revenue Assurance (RA) spring price option and Multi Peril Crop Insurance (MPCI).

"The limitation on GRIP and GRP policies is yield protection," says Meiss. "County yield is used to determine coverage and loss, not the producer's individual APH yields. If a producer's production is equal to or exceeds the average producer in the county, these policies can be advantageous. But if a producer's production is less than the average producer, these policies may not be the best choice."

Meiss adds that GRP policy will only provide price protection at the February established price level, whereas GRIP has the option for higher price protection in the fall. The IP, RA spring price option and MPCI policies all lack full price protection. With IP and RA policies, a producer is not protected against a price rise. The MPCI policy provides yield protection only, with no price protection.

"Crop insurance is a valuable tool. Understanding the protection your policy provides is key to managing price and yield risk," says Meiss. **MF**

Tight Supplies Keep Commodity Prices Volatile

The grain markets traded at historic levels during 2007, and all indications are that tight supply and demand dynamics will continue to drive the market in 2008.

Wheat prices on the Chicago Board of Trade (CBOT) traded at new record highs last year, while corn and soybean prices saw unprecedented price ranges and volatility. Corn traded in a \$1.50/bu. range with a contract high over \$4.50/bu. Soybeans traded in a \$5.00/bu. range, reaching over \$12.00/bu. in December 2007.

"These high prices also brought greater daily price ranges," says Brian Thompson, vice president and regional manager in Soy Capital's Bloomington office. "As an example, corn prices in a four-month span in



Illinois soybean growers will need a favorable growing season in 2008 to help keep pace with demand. Soybeans are in tight supply, which has driven the market into the double digits the last several months.

early spring 2006 had only four days where the contract traded more than five cents per day. During the same time frame in 2007, corn prices traded in a daily range of more than 10 cents on 24 days, with eight of those days trading in a range of more than 15 cents. That illustrates the complexity of evaluating grain marketing opportunities for the 2007 crop."

And the volatility will remain. USDA in their January report lowered 2007 crop production estimates and 2007-08 ending stocks estimates for both corn and soybeans.

"These reductions in supply surprised those on the CBOT and generated renewed sensitivity to prospects for 2008 crop planted acreage and yields," says Thompson. "In the 11 trading days following the January report, corn traded eight of those days in price ranges of more than 10 cents. Three of those days reached the daily trading limit of 20 cents. Soybeans saw similar volatility with seven trading days seeing 40-cent swings."

Thompson predicts commodity price forecasting during the balance of 2008 will be very difficult, as dynamic prospects for future crop production and demand evolve.

"Grain marketing decisions must be made with a plan that can reward strong price levels and manage anticipated price risk," he says. "Soy Capital farm managers are in a position to help landowners and tenants develop and execute sound grain marketing decisions in these exciting, yet turbulent times." **MF**

Proper Management Key to Effective Glyphosate Use

Glyphosate, the active ingredient found in Roundup herbicides, has been a useful weed control tool for more than 20 years. First used as a burndown in no-till fields, glyphosate controlled most annual weeds. However with continued use in both Roundup Ready soybeans and Roundup Ready corn, some glyphosate-resistant weeds have been confirmed in Illinois. Wise glyphosate use is more critical than ever.

“Many farm plans today include glyphosate use through the entire production system. Proper weed resistance management suggests the use of a second mode of action in both corn and soybean herbicide programs is important,” says Mark O’Rourke, farm manager in Soy Capital’s Bloomington office. “A second mode of action could either be applied as a pre-plant/pre-emerge or a post-emergence herbicide application.”

For farms managed by Soy Capital, the use of a second mode of action has become standard procedure for providing sound weed resistance management. O’Rourke says

many farms now use a system involving glyphosate-resistant corn in rotation with a conventional soybean program. Planting conventional soybeans also allows farmers to take advantage of greater premiums offered by conventional soybean buyers.

“The problem lies in the wide adoption of a chemistry that contains a single mode of action. Using resistance management practices and applying multiple modes of action on each crop is a means to extend the useful life of a herbicide,” says O’Rourke. “But as the annual use of a herbicide increases and weeds become resistant, usefulness wanes.”

For example, when a weed such as waterhemp becomes resistant to glyphosate, other herbicides become necessary. If a population of waterhemp is already resistant to ALS herbicides and becomes resistant to glyphosate, the alternative for waterhemp control in soybeans becomes a garden hoe or other mechanical method.

“Fortunately we have a few alternatives for control of waterhemp in corn, and a new



USDA

Proper weed management through an appropriate herbicide strategy can help preserve the Roundup Ready technology’s effectiveness. A handful of weeds in Illinois have developed resistance to glyphosate, the active ingredient in Roundup herbicide, and requires special attention.

mode of action this year with the herbicide Laudis,” says O’Rourke. “For weed control in soybeans, we have a couple of options in the future. Liberty resistant soybeans are on the horizon with varieties to be tested in 2008 and registration coming as early as 2009. Also in development are dicamba-resistant soybeans, which would add another mode of action for broadleaf weed control, but they are years from registration. We await these innovations, and will continue with sound resistance management.” **MF**

Consider What is Equal in Estate Planning

If you’re considering ways to share your farm equally with your children, Rick Imhoff, CFP®, senior vice president and head of the Soy Capital Bank & Trust Company Wealth Management Group in Decatur has some suggestions. The example below outlines how one family might spread the farm’s assets among three children.

Chuck and Susan Cooper have a successful farming operation in central Illinois. Their eldest son, Brad, is a major contributor with hopes of taking over when mom and dad retire. The Cooper’s daughter, Anna, is a nurse and lives in southern California with her husband. John, the youngest, lives nearby and is a teacher at an area high school.

Chuck and Susan are considering development of an estate plan that would treat their children equally at their death. While this might ordinarily be a simple task, the Coopers have nearly 70 percent of their assets tied up in the farm. Imhoff says that, and varied interest in the farm among the children, makes the issue a little more complicated.

“One possible solution for Chuck and Susan would be to distribute the farm directly to Brad after they both pass away. All non-farm assets would be divided equally between Anna and John,” says Imhoff. “To close the gap between the difference in value of the farm and non-farm assets, Chuck and Susan could establish an insurance trust funded with a policy that would pay the death benefit to Anna and John equally.”

Imhoff explains that to save possible estate tax liability, the insurance trust would need to be irrevocable. Once established, the trustee would apply for a joint life insurance policy on the lives of Chuck and Susan to keep premiums lower than a single policy on each. The death benefit would not be paid until the survivor dies, when it is needed. The Connors would make annual contributions to the trust to cover premiums.

“As contributions are made to the trust, Anna and John as beneficiaries would waive their right to withdraw contributions,” he says. “The contributions would then qualify for an annual gift tax exclusion and help keep death benefits free of estate taxes.”

Imhoff notes that various provisions should be considered when purchasing a life insurance policy to factor in possible future increases in value of farm and non-farm assets. “In the end, the likelihood that each child will get exactly one-third of the remaining value of mom and dad’s estate is quite remote,” Imhoff says. “However, if properly structured, the use of an insurance trust will help the Coopers more closely equalize their estate among their children and be more acceptable to them.”

Many estate planning tools are available to landowners. Call your Soy Capital farm manager to help select the best options for your unique situation. **MF**

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