



**Statement of Randy Nelson, President of
CHS Capital, LLC
Before the House Committee on Agriculture
Subcommittee on Commodity Exchanges, Energy, and Credit**

Hearing on *Focus on the Farm Economy: Tightening Credit Conditions*

April 19, 2016

Chairman Scott, Ranking Member Scott, and Members of the Committee, thank you for inviting me to testify today. My name is Randy Nelson, President of CHS Capital, and I appreciate this opportunity to share with you what CHS Capital does, who we serve, and what we are seeing right now in credit demand among our farmer and cooperative owners.

About CHS Capital

CHS Capital is a wholly-owned financing subsidiary of CHS Inc., the nation's largest farmer-owned cooperative. Headquartered in Inver Grove Heights, Minnesota, CHS Inc. is owned by more than 600,000 producers and 1,100 member cooperatives from around the United States, including 77,000 direct producer-owners and approximately 20,000 preferred stock holders. CHS is governed by a 17-member board of directors elected by our producer and member co-op stockholders. Our directors are all active farmers and ranchers with a broad range of experience in agribusiness, as well as other business sectors.

As a cooperative, CHS also returns cash to our owners every year, based on the company's performance and the amount of business an owner conducts with CHS during the year. During its fiscal year 2016, CHS will distribute about \$519 million to farmers, ranchers and cooperatives across the country. Between fiscal 2012 and 2016 CHS has distributed a total of \$2.7 billion in cash, a \$544 million annual average.

CHS is a highly diversified Fortune 100 company that supplies crop nutrients, grain marketing services, animal feed, and food and food ingredients. We also operate petroleum

refineries and pipelines and manufacture, market and distribute refined fuels, lubricants, propane and renewable energy products. Additionally, we provide a range of business solutions including insurance and hedging, as well as financial services through CHS Capital.

CHS Capital was established in 2005 and provides operating and term loans directly to cooperatives and producers. We work with a wide range of producers who farm anywhere from 100 acres to over 100,000 acres. We work with these producers through CHS-owned locations and independent member-owned cooperatives that sell inputs, feed, fuel and other supplies to the producer. The loans are offered to help facilitate the sale of inputs. The operating loans may be set up to only finance the inputs sold by the retailer or they may finance all the farmer's operating needs.

CHS Capital also provides loans for the purchase of market livestock, and loans for margin calls that provide pre-qualified customers access to additional capital for hedging without affecting current operating lines of credit.

Current financing trends

In our view, the decrease in crop prices has had a major impact on the financial strength of farmers. The low prices combined with high rent costs have caused nearly all farm projections for 2016 to reflect a shortfall in their ability to meet their current obligations. Some customers are looking for innovative options to increase profitability, such as growing specialty crops or purchasing beef heifers to feed, rather than selling their grain.

We have seen some common trends among many of our producers. While some farmers had their 2014 crop contracted at profitable prices, few farmers had their 2015 crop contracted, and we have seen limited corn and soybeans contracted for 2016. We have seen many farmers who were unable to cash flow their operation in 2015, despite record yields, across parts of the Dakotas and Wisconsin and most of Minnesota.

The challenges I have mentioned, are now evident in the negative working capital on the farmer’s balance sheet. However, through the benefit of several good years in farming, many have built up significant equity in their real estate. This provides them with the option to refinance their land to inject working capital. While this fixes the working capital issue, prices still need to rise in order to service the added debt. It is this real estate equity that will allow many to farm again this year. However, with the current outlook, at the end of 2016 some will reduce their equity to a level that is not sufficient to continue farming.

CHS Capital has received requests to finance a number of customers whose primary lender does not want to continue to finance the farming operation. CHS Capital is able to help some of these customers, but at the same time, we are also taking a close look at the projections to understand the possible shortfall at the end of 2016, and how their equity can support these losses.

In anticipation of the working capital shortfalls, CHS Capital began offering term loans to utilize customers’ real estate equity to improve working capital and finance losses. The chart below provides an overview of the number of real estate loans we have processed by year:

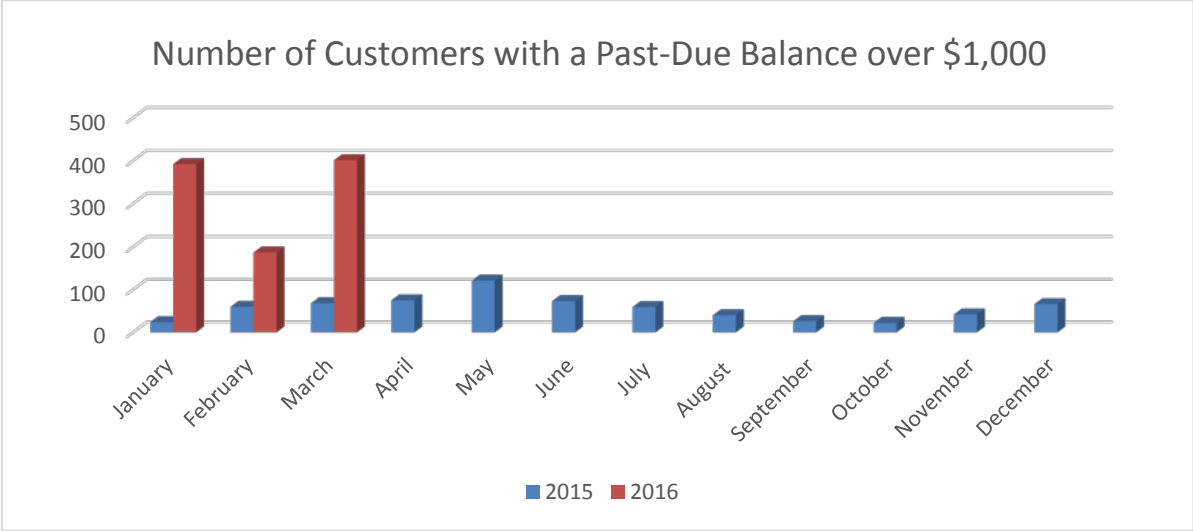
2012	2013	2014	2015	YTD 3/2016
1	0	6	16	7

CHS Capital completed term loans totaling \$55.5 million in the first three months of 2015, compared with \$226.5 million in loans that we have been completed so far in 2016. Nearly all of the term loans were written to refinance existing real estate versus new real estate

purchases. We expect the number of term loans to continue to increase if commodity prices remain low.

CHS Capital has seen a significant increase in past-due loans and requests to extend the prior year’s operating loan. The low commodity prices have resulted in more customers holding their inventory in hopes of higher prices, and an increasing number have had to liquidate assets in order to repay their loan. We are also seeing a higher number of customers who have not been able to obtain the operating funding for the upcoming crop year

The chart below reflects the year over year change in past-due customers (customers with a past-due balance in excess of \$1,000).



The majority of CHS Capital’s loans mature in the first quarter so an increase in past-due loans during that timeframe is not unusual. However, the number of past-due loans is significantly higher than a year ago

Looking ahead

With the current stockpiles of grain and number of acres projected to be planted, the outlook through 2016 and into 2017 is for crop prices to remain depressed. A weather issue in one of the major growing regions could positively impact prices. CHS Capital estimates the breakeven cash price for many growers to be in the range of \$3.90 - \$4.25/bu. for corn. If prices remain low throughout 2016 and the outlook is not positive, CHS Capital believes that many farmers will choose to preserve their equity and will rent out their farmland or liquidate assets.

We believe this will be especially true for farmers who are at or near retirement with no family succession plan. We believe there is also a segment of farmers who will have to liquidate due to high debt levels and a lack of equity. We feel that if significant acres of farmland are put on the market, and farmers are willing to walk away from expensive rented ground, the result will be a decline in rental prices and an increased devaluation rate of farm real estate.

We also believe some of the younger generation of farmers who came back to the farm during times of strong prices will leave, or at a minimum look for work off the farm. We believe that continued low prices will cause banks to pull away from financing production agriculture and look for a more stable industry to which they can lend.

Whether it is through CHS Capital or other segments of our enterprise, CHS recognizes the importance of maintaining a safety net for agricultural producers. As you and your colleagues on the Agriculture Committee examine the current state of the farm economy in anticipation of future legislative initiatives, we urge you to craft farm policy that covers multi- and single-year losses and strengthens risk management tools.

Thank you again for the opportunity to share our views on the state of credit in farm country. I look forward to answering your questions.

COMMERCIAL FINANCING



Loan Breakdown

Ag Supply: 119

Ethanol: 1

Grain: 56

Seasonal: 87

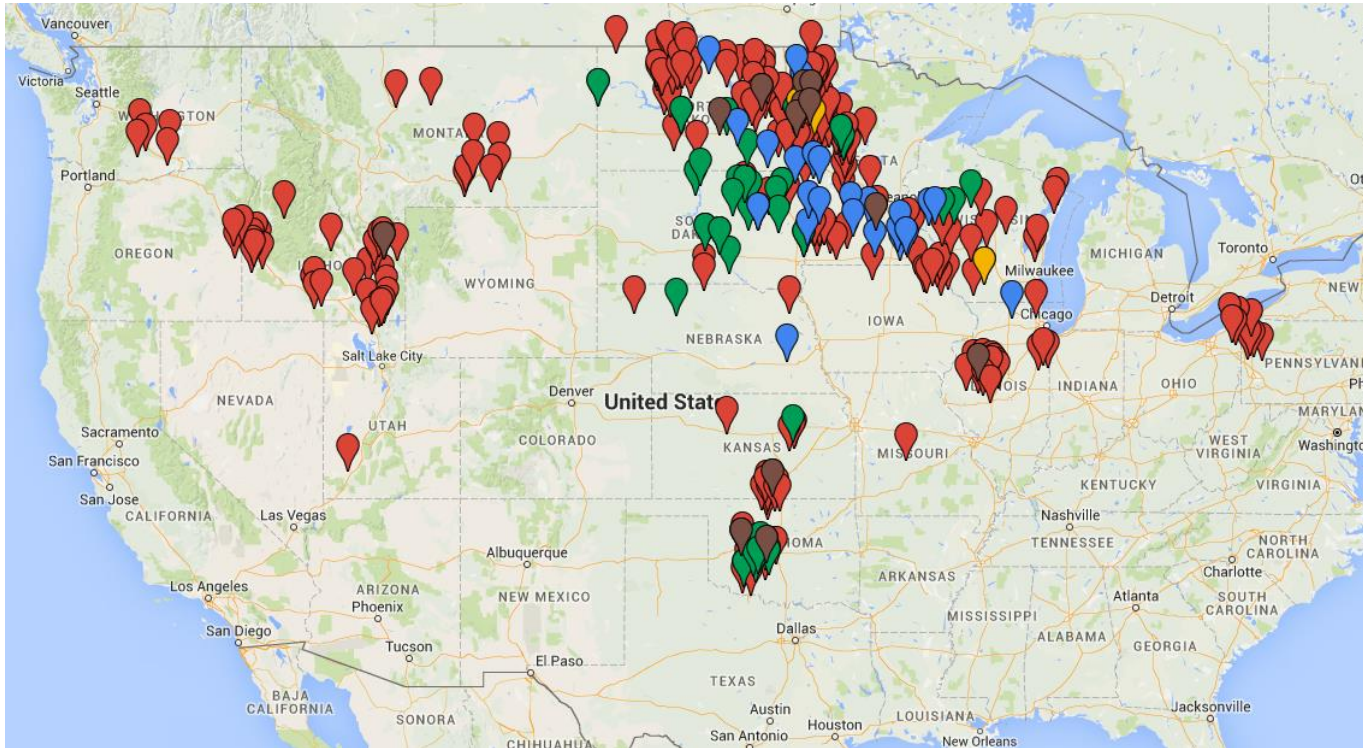
Special Term: 30

Amortized: 59

Grand Total on Commitments

\$1,127,600,000

PRODUCER LOCAL FINANCING



-  Crop
-  Hedge Line
-  Livestock
-  Real Estate
-  Machinery

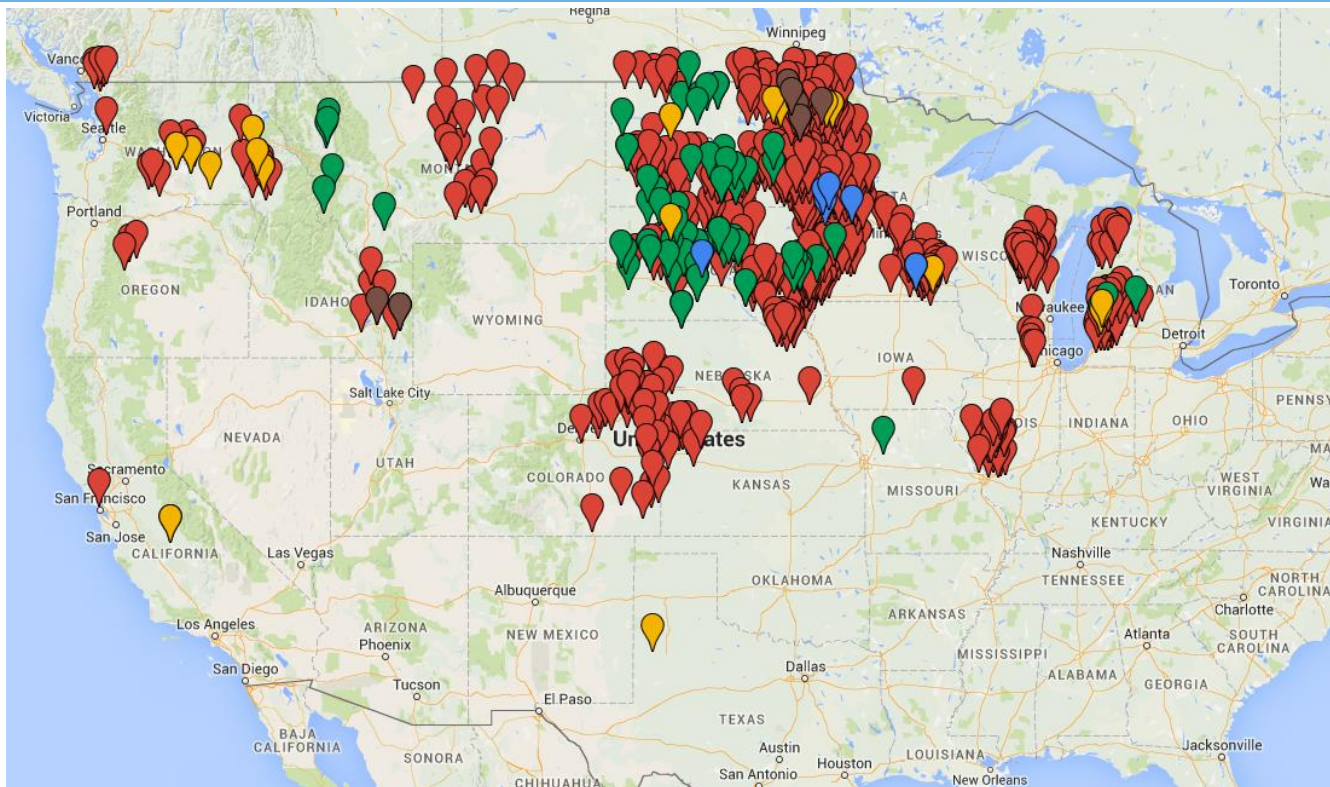
Loan Breakdown

Crop: 660 **Hedge Line: 34**
Livestock: 62 **Machinery: 20**
Real Estate: 4

Grand Total on Commitments

\$222,991,000

PRODUCER COUNTRY OPERATIONS FINANCING



- Crop
- Hedge Line
- Livestock
- Real Estate
- Machinery

Loan Breakdown

Crop: 3030 **Hedge Line: 6**
Livestock: 125 **Machinery: 7**
Real Estate: 32

Grand Total on Commitments

\$748,221,000