Here We Grow
Episode Eight Transcription

Speaker 1 ([00:09](#)):

Welcome to here We Grow, a grassroots podcast by Southwest Georgia Farm Credit, focused on education and inspiring growth down on the farm at home and rural communities. Whether you're a farmer or farm, her advocate, land lover, or southern dweller, we have industry experts and homegrown leaders ready to share their insights with you. Thanks for listening.

Speaker 2 ([00:30](#)):

Happy New Year everyone. Today we are celebrating a fresh start and seven successful podcast episodes under our bell. Today's podcast, we'll provide a 2023 outlook for equipment, equipment, financing, and leasing. On this episode, I welcome guest speakers Clayton Willis and Reagan Fretwell Brown. Well, Clayton and Reagan, thank y'all for joining me today.

Speaker 3 ([00:52](#)):

Glad to be here.

Speaker 1 ([00:53](#)):

Thanks for having me.

Speaker 2 ([00:54](#)):

Thanks for joining us, y'all. All right Clayton, you are first on my list today. Clayton currently serves as the farm credit leasing relationship manager for the southeastern United States. Clayton has been working in the agriculture equipment finance sector since he began his career with Farm Credit six years ago. He's a graduate of the University of Florida and previously worked as a relationship manager for Farm Credit of Florida. In his free time, he enjoys hunting deer and Turkey, as well as fishing the waters of the coast off from his home in Jupiter, Florida. Welcome, Clayton.

Speaker 3 ([01:26](#)):

Oh, thanks man. Glad to be here. My role is to serve as kind of the go between, between your local farm credit office and the Farm Credit Leasing Services corporation, which is headquartered out in Minneapolis, Minnesota. So we provide leasing support to local acas through their local branch offices to to get access so local farmers can lease whatever types of equipment, buildings, trucks, anything that they need for their operation. And there's quite a bit of advantages to leasing, overdoing a traditional loan, and it just depends on the case by case situation, but for some people it, it can really lead to a lot of tax savings to utilize a capital lease or a true tax lease over a traditional loan product. Some of the main differences that we kind of go into when we think about leasing is who owns the asset. So with a loan, the farmer borrows the money from the local bank, he owns the asset and takes the depreciation on his taxes.

Speaker 3 ([02:26](#)):

And a true lease, which is the majority of what we do at farm Credit leasing, we as farm credit, actually own the asset and the farmer leases that asset from us. And the benefit to doing it that way is the farmer can ride off a hundred percent of his lease payments just as an operating expense instead of only being able to take the mortgage interest at expense as the depreciation. So it can wind up being quite a big tax savings to a lot of farmers. You now, as far as what kind of assets can we lease, we can lease per too much anything that a farmer needs for his operation as long as it's not under the ground or a living breathing animal. So we've done everything from greenhouses to grain silos to recently vegetable packing facility right down the road from where you guys are recording this podcast on all the way up into, you know, different types of computers we've done every truck you can imagine, semi trucks, pretty much everything that a farmer utilizes for his operation, we can put on a lease.

Speaker 3 (03:35):

As long as it's got a serial number we can work with it. And the, you know, the other options as we get further into leasing are, you know, the ability to, for the farmer to stay in new equipment and that's a big push right now as far as cost of repairs and things like that. If you're looking at a fleet of, you know, say 10 to 15 tractors that you're turning over every three years, you know, we can come in, provide leasing options on that equipment, that way the farmer stays in new equipment and then he or she doesn't have to worry nearly as much about these new emission systems breaking down on 'em or, or getting, getting outside of warranty and running up some really big repairs. So a lot of our customers utilize us as a fixed purchase option lease financer, where at the end of the term the farmer buys out the equipment if he wants to keep it or he just walks away from it and we pick it up and we remarket it for him. So there's just a lot of really good options for leasing that just kind of help, you know, fulfill farm's credit mission, which is to, you know, provide reliable capital to rural America and the lease really fits in as part of that solution.

Speaker 2 (04:52):

Yep, I completely agree. Some, a couple questions. I know our borrowers are customers or future customers will have, or what is, what is the buyback end product look like? What can they expect to have to come out of pocket for at the end of the lease? How can you tier the payment schedules or lease payments to essentially, I mean, everything I've always heard about or the lease is, you know, a dollar buyback residual at the end. So kind of explain that for those that may need a little more explanation.

Speaker 3 (05:18):

Yeah, so I guess it just kind of goes into the first question is what does the farmer want to do tax wise? Do they want to write off their payments or do they want to depreciate the equipment or the asset? So the irs you know, gets involved here where what we call a bargain purchase option. If you have a bargain purchase option, say $1 up to about 10% of the asset cost, that is gonna be considered a conditional sale lease. And that is what you're gonna depreciate on your taxes. So that can be like, like you mentioned, dollar buyback. You know, that's a majority of what happens on these conditional sale leases is that they, at the end of the term, the farmer can purchase the asset for just a dollar and no, we don't actually charge them $1. I think their last payment might just be, you know, a dollar more than what it, what the other ones are.

Speaker 3 (06:15):

So we, we we actually don't go around collecting $1 bills, but it is considered the bargain purchase option. So those are types of leases where you're gonna depreciate that asset on your taxes. Now if the residual value or the value at the end of the lease is more than 10%, that is what can be written off on your taxes as a true lease and where you can ride off a hundred percent of that lease payment as operating expense. So an example of that that we do a lot for vehicles say, you know, you got a medium sized farm that has three or four pickup trucks and different types of semi trucks. We do a lot of track leasing and track stands for terminal rental adjustment clause. So at the end of that lease, there's a 20% residual value. Most of the time, after about 60 months, it's 20%.

Speaker 3 (07:10):

So you, you buy a truck or semi-truck, you drive it for five years, you can put basically as many miles as you want on it. At the end of it, we, we give you the option to purchase that vehicle from us at tw at the 20% residual value, or we'll take that asset back, we'll remarket it, we'll sell it, and then if we make money on the sale, if you, if we sell that vehicle from more than 20%, we'll actually write that farmer a check for whatever over the residual value we collect. Now if we collect less than 20%, say, cuz the truck's in bad condition or it's got a lot of ton of miles on it and and just needs maybe some work, then the, the farmer writes us a check for the difference. So we're kind of splitting that, that windfall at the end and that's the track lease.

Speaker 3 (07:58):

But like I was mentioning with the, the tractors where, you know, if a farmer wants to stay in new equipment and they're rolling over their, their fleet of tractor every 36 months, that's when you want the highest residual possible, right? Because that's when it breaks down your cost per hour where it can be as low as it can possibly be, you want the highest residual value at the end. So that's where on the stitch purchase option leases, we, we try to offer the most competitive residual we off we can. And most of the time, you know, that ends up being in the 40 to 50% range after three years. So basically you buy a new tractor, you use it for three years, you're only paying for essentially half of the tractor instead of the full price of it. And it just keeps you rolling into new equipment.

Speaker 2 (08:46):

Okay. Very nice. Also, I mean, when, when approaching leases, I mean, and I think you might have answered this question somewhat in your last spiel, but are is there, are there limitations? I mean every, when people, I mean people immediately think of a car lease probably when here in this podcast and, and they're like, oh, I can only drive so many miles a year. And is that kind of, I guess back into the hours and the usage of the vehicle? Like you talked about the ending residual, I mean, at the end of the lease you're gonna have to come down and, and sit and say, hey, this is, this is the existing value. And and if, if it was below the amount that y'all I guess predetermined at the beginning of the lease, then you'll come back and they'll write a check. But if it's above the value then and y'all, y'all liquidate the machinery, then they get the check back or

Speaker 3 (09:33):

Yeah, that's on the track. Leasing for the vehicles on tractors, we're, we're using hours per year to determine residual. So a very common one is about 900 hours per year. I mean, some of your traditional row crop farms won't, won't hit that many, but if you're talking a vegetable farm or something or a dairy farm, something like that where you're gonna have high hours on the equipment, that's how we structure the lease is based off of how many hours you're expected to use every year. And that's for those fpo or what we call a fixed purchase option, where that's our true walkaway lease option. So if they say we want to do 900 hours a year for three years, then that's the total amount of hours that are allowed on that tractor when we turn it back in. And anything over that you have to pay per hour an hourly fee on over that allotted time.

Speaker 2 (10:28):

Okay. All right. And then, but

Speaker 3 (10:31):

Also also with the fixed purchase option leases, that's what we call true walkaway. So at the end of that, we basically just come pick up the equipment you in every lease you have the option to buy it out, we'll absolutely sell it to you because that's in our best interest, right? If we don't have to come collect it, if you buy it from us, perfect. If you don't wanna buy it for us, that's when we do the inspection, that's when we resell it, and then that's when the residual value comes into play. And if anything over normal wear and tear happens to the tractor, then yes, absolutely we, we would have to have to charge for that. But we, we really try to be as upfront as possible. I know you mentioned the car lease, like that's, that's a common thing that we run into, you know, people have a bad experience at their local car lot just cuz you know, they go down and some guy with a crooked smile pats 'em on the back when they roll off the lot with their, with their car lease and then when they come back they, they charge 'em unbelievable amounts of money for every little bit and scratch and any mile over.

Speaker 3 (11:35):

And that's, that's not the business we're in. You know, we're in the helping farmer's business because that's who we are. You know, we're farm credit, we, we operate just, just like the cooperative model that your local farm credit office operates on. So that's what really differs is us from other leasing companies

Speaker 2 (11:54):

Come.

Speaker 4 (11:55):

Hey Clayton, this is Reagan. I was wondering if you could talk about how leases are good for when farms are in transition, why that's a good

Speaker 3 (12:05):

Choice

Speaker 4 (12:06):

For Yeah, those borrowers.

Speaker 3 (12:08):

Yeah, Reagan brings up a great point where that's the other advantage of having a lease is these are off balance sheet items. So when you're talking about assets of the farm that need to transfer with the, you know, generational switch between, you know, the, maybe the patriarch or the matriarch of the family down into the next generation of the kids that are gonna take over the farm and you have that, that tractor sitting on the balance sheet and the asset column, you know, they're gonna, they're gonna face that, that death tax or however you wanna frame it, inheritance tax, anything like that with, with that tractor serving there as an asset where if it's on a lease and it's on a true lease, you know, we own that asset, it's on our balance sheet and the only thing that's on there is the rental payment as an operating expense so that that rental payment is very easily absorbed by the next generation that takes over the farm. So, you know, Reagan, that's a great point. It it serves a lot of purposes for, for tax planning as well and that's typically what we find is, you know, in the leasing business we don't have to do a lot of sales because if the customer consults their cpa, their CPA sells it for us just cuz there's so many good, good benefits to it.

Speaker 2 (13:29):

Awesome. Well that was a great question Reagan and no better time to introduce our second guest today. Reagan Brown has been employed with Southwest Georgia Farm Credit for over 18 years. She has her MBA from Georgia Southwestern and has held various positions and is currently residential lending unit and other financial services manager. She started with Farm Credit Express products for Southwest Georgia Farm Credit and other farm credit associations and has been working in equipment financing and leasing for the past 10 years. Welcome Reagan.

Speaker 4 (13:58):

Hi, I'm glad to

Speaker 2 (13:59):

Be here. Thanks for coming. All right. So on the other side of the the farm credit leasing and then we have Farm Credit Express, I'll let you have the floor and go into in depth about what that process is and why it's advantageous to our borrowers.

Speaker 4 (14:12):

Okay. Farm Credit Express is an equipment financing product through our local dealerships. So pretty much every equipment dealership and irrigation dealer in our territory is part of the Farm Credit Express program. And what this means is our customers can go straight to the dealership, purchase their equipment and finance directly with Southwest Georgia Farm Credit. It's a quick approval process, usually less than 20 minutes, and you can actually sign and close your documents in the dealership's office.

Speaker 2 (14:45):

Okay.

Speaker 4 (14:46):

And another benefit of using Farm Credit Express is you do get the benefit of our patronage program, which generally decreases your effective interest rate. Right now with us historically is about 1% for the most ag friendly terms in the business for your financing needs, give me a call for rates or any other information you may need at 2 2 9 2 5 4 6 3 91.

Speaker 2 (15:10):

Okay. So if you're a dealership out there and you don't have Farm Credit Express at your dealership, how do they go about getting approved and getting that product added to their financing options?

Speaker 4 (15:20):

Just give me a call and I'll get it done.

Speaker 2 (15:21):

Perfect. All right. If you're listening, you got a dealership and you want quick financing for your customers, give Reagan a call and she'll get you set up for Farm Credit Express. Like I said earlier in this podcast, that we know that the equipment is limited out there and so when some a customer finds what they want, they need to act fast. So how, how quickly can farm Credit leasing turn around a decision if they found the equipment they want and what all will be needed to make that decision?

Speaker 3 (15:49):

Yeah, I think, I think we've, we've got gotten better about our turnaround times here lately. I I think we're, we're running about two to three business days really just for the, the credit approval piece on average. You know, don't, don't hold us to anything, but I've seen it come as fast as the, you know, the same day. And then I've seen some things kind of require some underwriting that it takes a little longer. It just all depends on the dollar amount. But, you know, the best thing to do, and I, and I think that, you know, Reagan can kind of agree here for both is to just kind of have a budget in mind of what you're wanting to spend and then just, just go ahead and, you know, give your, give your lender a call at Farm Credit or, or you know, talk to your local relationship manager that you're used to dealing with and just tell 'em, you know, kind of what you got coming down the pipeline, what you're thinking about purchasing, kind of the terms you're looking for and what payment you're trying to be at.

Speaker 3 (16:46):

And then we can kind of craft from there which direction's gonna be better for you to go as far as whether it's, you know, through express if you're getting it from a local dealer or if you're buying it, say from a neighbor from a dealer that's outta state or not on the network of Farm Credit Express, then that's kind of where Farm Credit Leasing can come in and, and play a role too because we are, we're nationwide and we have, you know, pretty much a un unlimited reach as far as looking for equipment, finding equipment for our customers that, that they need help finding. And, you know, trying to, to get assets on, on lease in different states to, to get the deal done because you know, like you mentioned earlier, this equipment scarcity is real and we've been living it for the past two or three years, you know, since Covid hit us hard on, on our manufacturing in this country that, you know, we we're seeing it more and more where farmers in Georgia, Florida, you know, the southeast, they're having to go to Indiana or Illinois or Ohio to find equipment and bring it back down to Florida and, and you know, we can definitely help with that process and, and get 'em put unleashed that way.

Speaker 3 (17:58):

And you know, I know Greg, you you might just wanna jump in here and just kind of share kind of the reach of Farm Credit Express as far as where customers might look to shop in inside the district.

Speaker 4 (18:10):

Oh yeah, for Farm Credit Express is available pretty much everywhere east of the Mississippi with some exceptions. But you can go to our website, Southwest Georgia Farm Credit and go to our, the Farm Credit Express page and you can look up a dealership to see if they are part of the network or you can just, if you're in our territory, just go to a dealership and ask for it. And then you, the customer gets to submit the application right there, it gets, can get approved and close sometimes within less than an hour. And it still stays with your local relationship manager with your local farm credit office. So that is one of the benefits of Farm Credit Express is that although you are doing it through a dealership, it does stay in your local area. And some other benefits of Farm Credit Express is that we can do a hundred percent financing up to seven years on new and used equipment and we can structure the payments based on how your cash flow is. So we can do monthly, quarterly, and annual payments.

Speaker 2 (19:22):

And to echo what Reagan just said there I always tell my customers, I mean, don't push yourself. I mean it's, it's impressive you can pay off a expensive piece of equipment in 24 months or 48 months, but we have no pre-payment penalty set on these loans. So I mean, look at the options right now. The rates from one to seven years are not spread apart very by, by very much. The spread is very, very small. So go ahead and give yourself the breathing room on your debt schedule. Finance it 5, 6, 7 years. If you have a good year you then can pay us off, but don't, don't trap yourself in a corner just by having to pay it off in 24, 36 months because once those documents are signed, that's, that's the payment schedule,

Speaker 4 (20:02):

Right? These loans don't have a prepayment penalty. So if you wanna prepay early, you can, and if you don't, you don't have to. But there's just a lot of advantages compared to some of the other financing options of the out there. And don't forget the farm credit Express loans pay patronage, so you'll get a dividend check every year.

Speaker 2 (20:22):

Well, Clayton, I've got a few customers I was actually talking with today about grain bin, so hopefully I'm giving you a call sooner than later. But just go, go in, go into a little bit more in depth and I guess into the process of what, let's just use a grain bin for corn Milo soybeans, just, just use that as an example right now, what the process would be from start to finish. So if they're listening, they'll know it's seamless and we can get it done for 'em.

Speaker 3 (20:47):

Yeah, absolutely. So basically what we start out with is just we, we need an application from the customer and then we can do pretty much everything under half a million dollars with just the current balance sheet and a credit score. So we don't really have to do a lot of underwriting. So that makes us pretty quick on the credit side where we can turn over decisions usually in one to two business days on green bin type applications. So we, we collect that application, we get the, the balance sheet credit reviews that hope to have credit approval within 24 to 36 hours. And then once we have credit approval, basically what we need to know is the location of the asset, kind of the landowner information, who owns that land where, where it's getting built. And you know, we get a full legal description of the land and we also get an invoice in our name from the manufacturer who's ever building the project.

Speaker 3 (21:39):

And then when we do what's called an interim funding agreement, more likely than not on a green bin situation where say that there's a couple of different draws due and say if it's a hundred thousand dollars grain bin, when you, when you sign the contract, 20% of it's due is a down payment. Well, we'll go ahead and fund that 20% and then, you know, two, three months later when they get the material shipment in and they, they start erecting it at your farm and they need another draw, we'll we'll process that draw and then say there's a final draw after everything's completed and you're happy with the work. You'd say, all right, pay on the rest of the money and we'll, we'll mail out that final draw. We'll, we'll complete the lease documents and then we'll book the lease there at the end of the project after everything's completed.

Speaker 3 (22:24):

And then we'll, we'll start on a fixed payment schedule from there. Usually on the grain bins we can go out out to 84 months pretty easily with a, with a true lease with about a 20% residual. So it's a, it's a great product offering that we have and, you know, we can really accelerate the depreciation on that item. You know, say if it's a 10 year maker's life, which is what the IRS uses to determined depreciation schedules, and you want to do a five year term or a three year term whatever you wanna look at on it, you know, you can basically ride off 80% of the cost of that item over five years, let's say, instead of 10 years. So you're, you're really advancing your depreciation benefit there.

Speaker 2 (23:13):

Okay. And I, and I've met you once or twice in person, we talked about some of the unique things you've gotten to do through farm credit leasing. So tell me didn't you tell me one time you, at least you did some, some vats or something for a vineyard or what, what are, what's the most unique thing that you've had the opportunity of leasing?

Speaker 3 (23:30):

Oh, man. Well, right now I, I get to do a lot of a lot of stuff for electric distribution as well. So that's part of another segment of the, the business that I get to lease lease equipment to. So recently I've been doing a lot of like bucket trucks and digger derricks for, for electric cooperatives, and that's really, really neat. But on the farm side you know, just kind of a example of we can lease everything. I just recently did a lease on some washing lugs for a fruit farm. That was kind of a neat one.

Speaker 2 (24:04):

Awesome. Well, I've heard talks of some fruit packing sheds going in the area, and so that'll be interesting for them to hear and hopefully an option for them to, to finance or lease some equipment from you.

Speaker 3 (24:16):

Yeah, absolutely. You know, this is, you know, on top of the, the lugs, we actually just recently got a lease approved for the washing machine that, that just washes the look. So pretty much anything and everything you need for a farm or a packing house or any type of that, that operation, we, we can do a lease on it if it's equipment.

Speaker 2 (24:37):

Awesome. Well, this has been very advantageous information for our customers, future customers or just local ag sector individuals at that time. This concludes our podcast today with Clayton and Reagan. We appreciate y'all joining us. For more information or to read a transcript of today's podcast, visit our website at s wga farm credit.com. Make sure you should subscribe to our podcast on your favorite app to get notified of new episodes and follow us on Facebook and Instagram for a great industry resources. From all of us at Farm Credit, we wish you a successful and prosperous new year. Happy 2023.