

# BREAKING BREAKING BARRIERS

**ALERT- Rates are Rising!  
Let's Navigate.**

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SUMMIT

#TPSummit19

## Some History

- Comparison to the 80s
- Now we are on the rise!
- Prime has ticked up to 5.50
- 3.25 seemed like FOREVER

# BREAKING BARRIERS

## Here is why...

Month	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Jan-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	3.75%	4.50%	5.50%
Feb-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	3.75%	4.50%	
Mar-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	3.75%	4.50%	
Apr-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.00%	4.75%	
May-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.00%	4.75%	
Jun-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.00%	4.75%	
Jul-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.25%	5.00%	
Aug-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.25%	5.00%	
Sep-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.25%	5.00%	
Oct-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.25%	5.25%	
Nov-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.25%	5.25%	
Dec-1	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%	4.25%	5.25%	

## Buzz Words

- Variable/Floating
- Balloon/Call/STM
- Rate lock/Long Term Fixed
- Rate Sensitivity

## Variable/Floating

- What kind of rate do you have? On RE? On Equipment? On your LOC?
- Fixed for a specific period at X%
- Float with prime? Floaters are finally starting to float folks...
- What can you do? What is best?

## Balloon/Call/STM

- Typical are 3, 5, 7, or 10 year calls with amortizations of 15, 20, 25, or 30 years
- Cheaper rate up front but only locked for a shorter amount of time vs being locked for the length of the loan
- What is best now?
- What should you do if you have one already?

## Rate Lock/Long Term Fixed

- Locked for entirety of the loan - 10, 15, 20, 25, or 30 years
- More expensive rate, but never changes and does not have to be renewed
- Risk adverse choice, pay more for certainty
- What is best?
- What if you already have one?

## Rate Sensitivity

- Mother of all buzz words this year
- How is your DSC (debt service coverage) impacted by rate hikes?
- So, based on your current rate lock situation, does your ability to pay your debts decrease with rate increases? How much? At what point can you not make all payments?



## Rate Sensitivity Examples

<b>Debt Service:</b>		
QB Peanut Loan	\$3,761	
Qnbt (Renewal)(interest)	\$18,750	5.0%
RE Bank 1	\$50,367	5.0%
RE Bank 2	\$59,600	5.0%
FSA (R/E & Equipment)	\$58,376	
John Deere	\$113,437	
BBT Truck	\$8,208	
<hr/>		
<b>Total Debt Service</b>	<b>\$312,499</b>	
<b>Excess Cash</b>	<b>\$113,091</b>	
<hr/>		
<b>Coverage</b>	<b>1.36</b>	

<b>Debt Service:</b>		
QB Peanut Loan	\$3,761	
Qnbt (Renewal)(interest)	\$24,375	6.5%
RE Bank 1	\$59,602	6.5%
RE Bank 2	\$71,236	6.5%
FSA (R/E & Equipment)	\$58,376	
John Deere	\$113,437	
BBT Truck	\$8,208	
<hr/>		
<b>Total Debt Service</b>	<b>\$338,995</b>	
<b>Excess Cash</b>	<b>\$86,595</b>	
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<b>Coverage</b>	<b>1.26</b>	

# Rate Sensitivity Example Explained

- Approximately \$26k change in payment from 1.5%
- May not sound like much but what if that doubled? What if it was 3%? That is not unheard of.
- It's hard enough to operate on a tight budget to hit BE without worrying about interest rates. Now **you have to worry about both.**

## What can you do?

- Stay on your toes. Pay attention to the Fed meetings.
- Take a deep dive into your current rate situation and evaluate your risks.
- Run some scenarios, and make the call to your banker.
- Understand the structures, costs, and what is best for you.

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**Questions?**

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