

Financial Crisis and Access to Credit for Agriculture

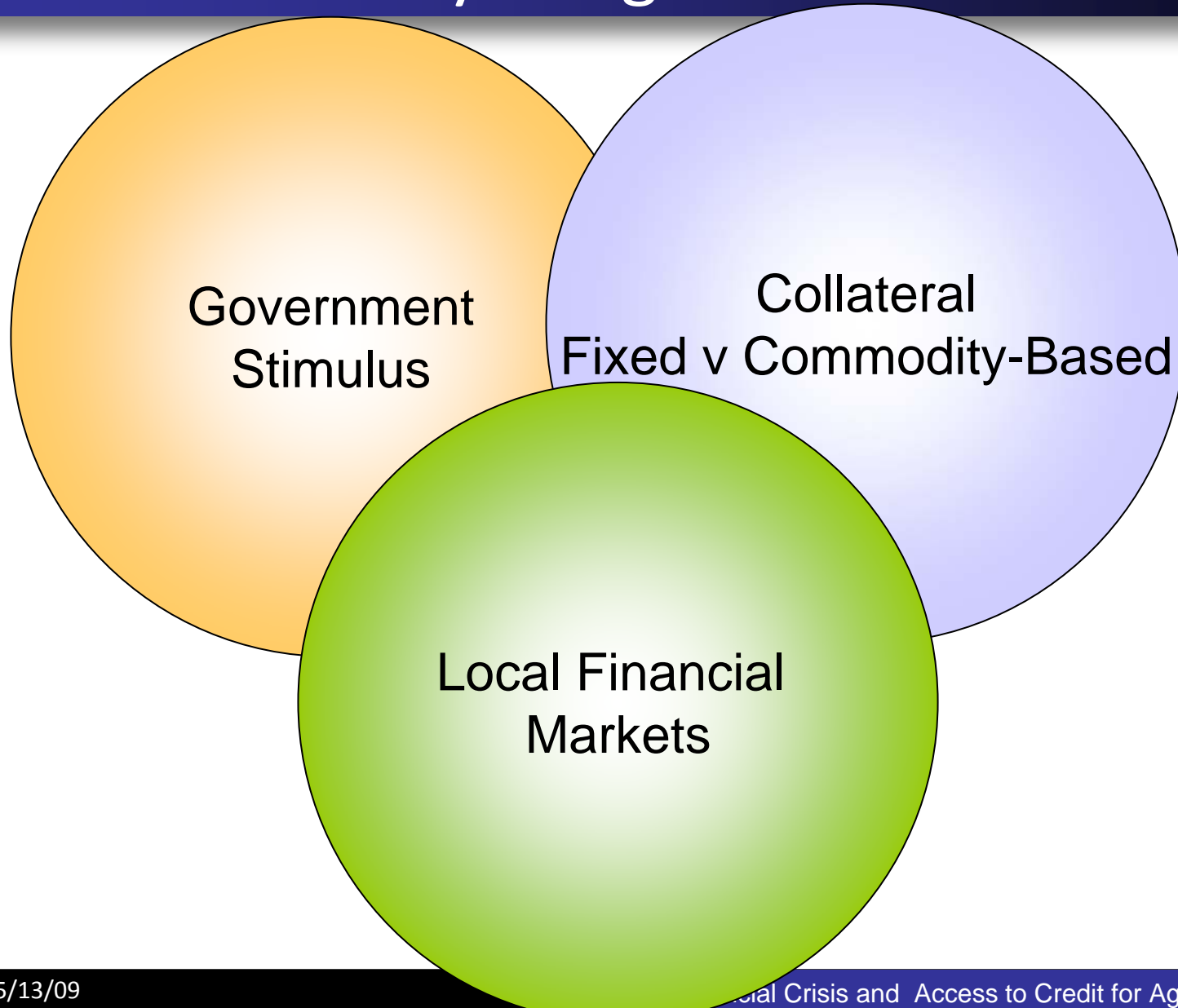
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Outline

- Brief background
- Current situation in financial markets
- Impact on agriculture in U.S.
- Global implications
- Details for Q & A

Summary:

Credit Availability in Agriculture: International



Growth of the crisis

- Seeds of crisis
 - Risk taking in housing
 - Homeowners
 - Lenders
- Fertilized by
 - Low interest rates
 - Leverage on leverage
 - Financial innovations
 - Lenders
 - Investors

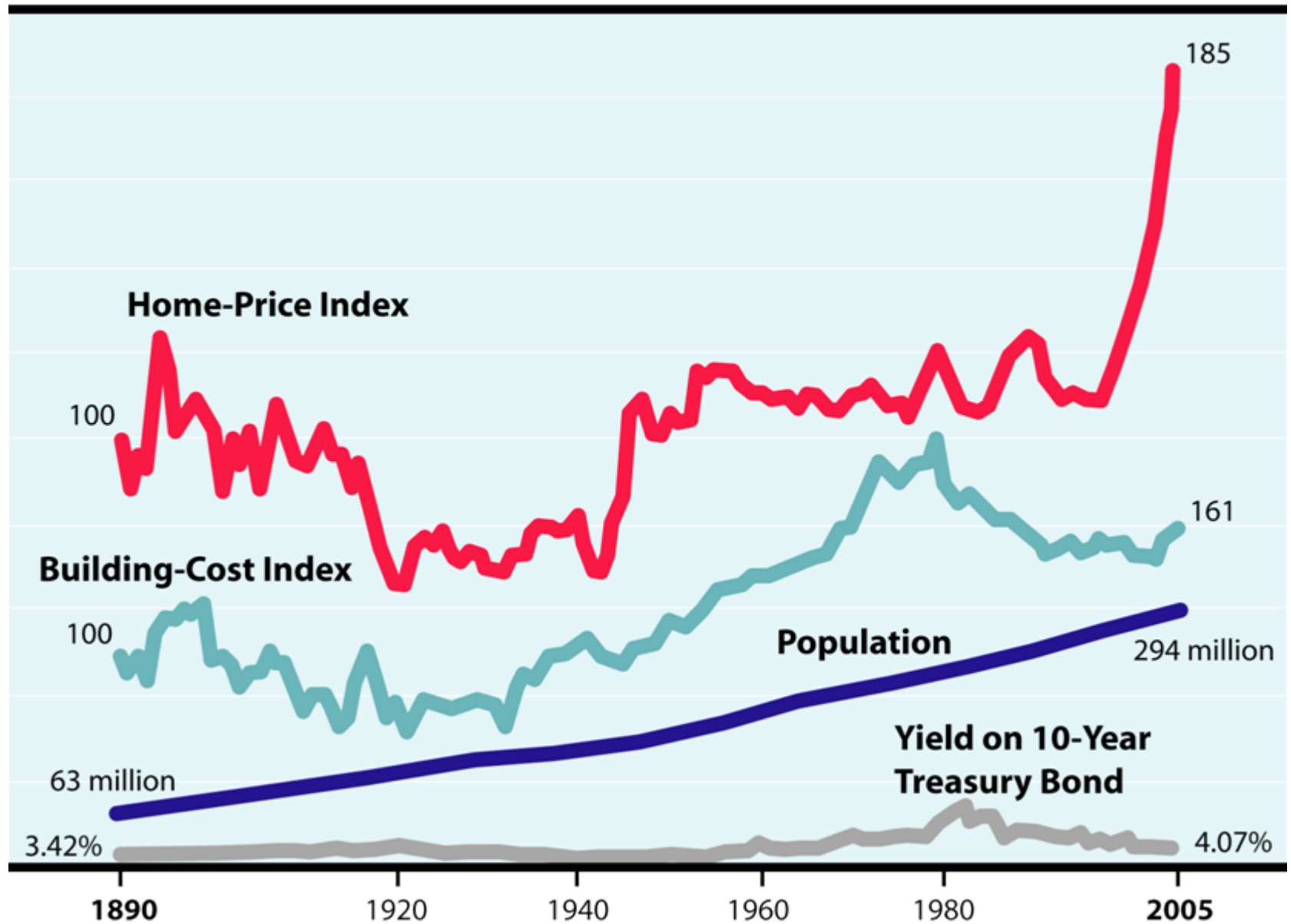


Acceleration of growth of the crisis

- Global spread
 - Accentuated by leverage
 - Interconnectedness of financial/investment markets
 - Counterparty risks
 - Lack of transparency
 - Just how big?
 - Evolution of reliance on short-term funding markets/mechanisms



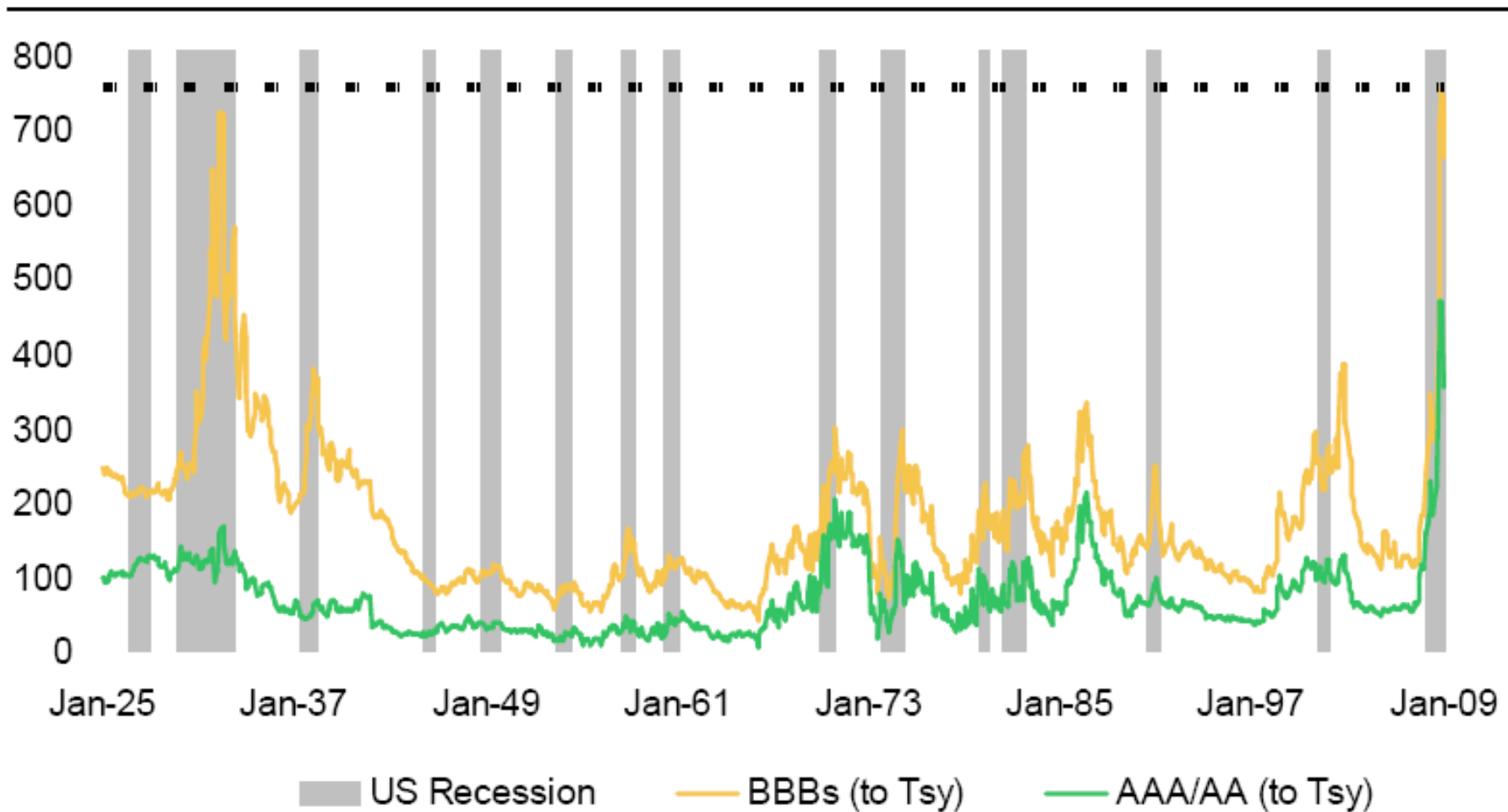
Inflation-adjusted U.S. home prices, Population, Building costs, and Bond yields (1890–2005)



Source: *Irrational Exuberance*, 2d ed. (Fig. 2.1)

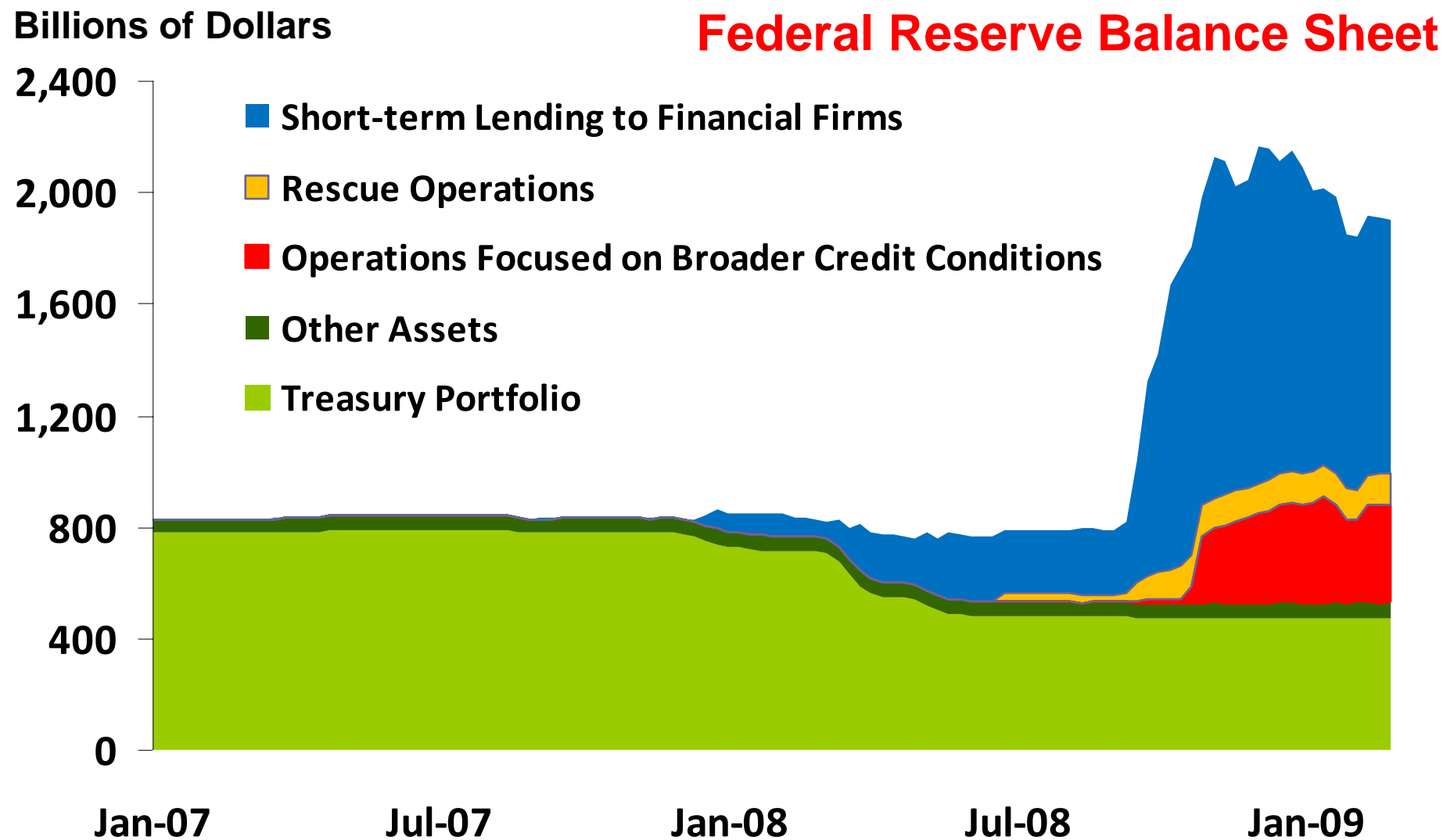
Beginning of Year Credit Spreads

Credit spreads are wider than Great Depression levels

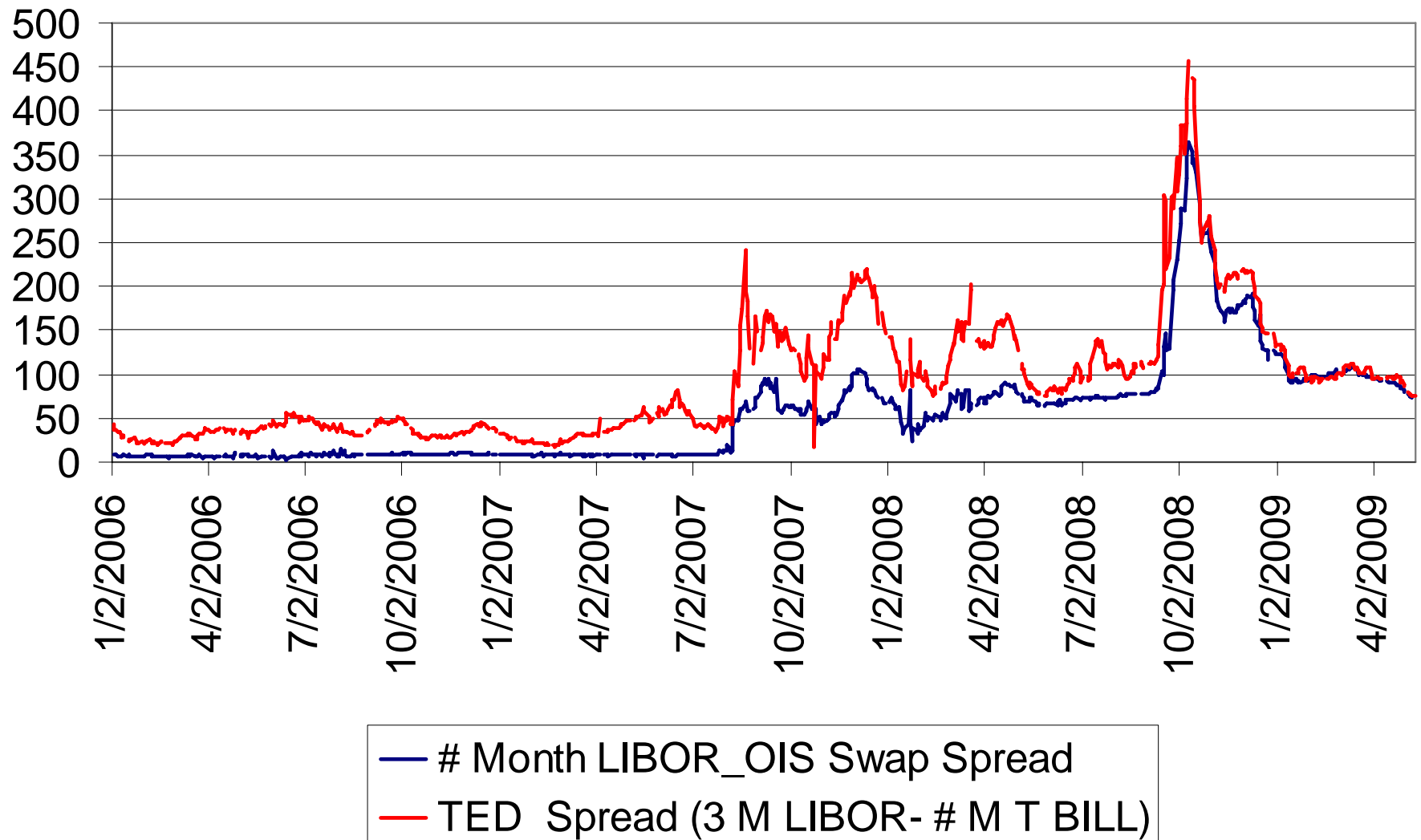


Source: Morgan Stanley, NBER, Moody's, Yield Book

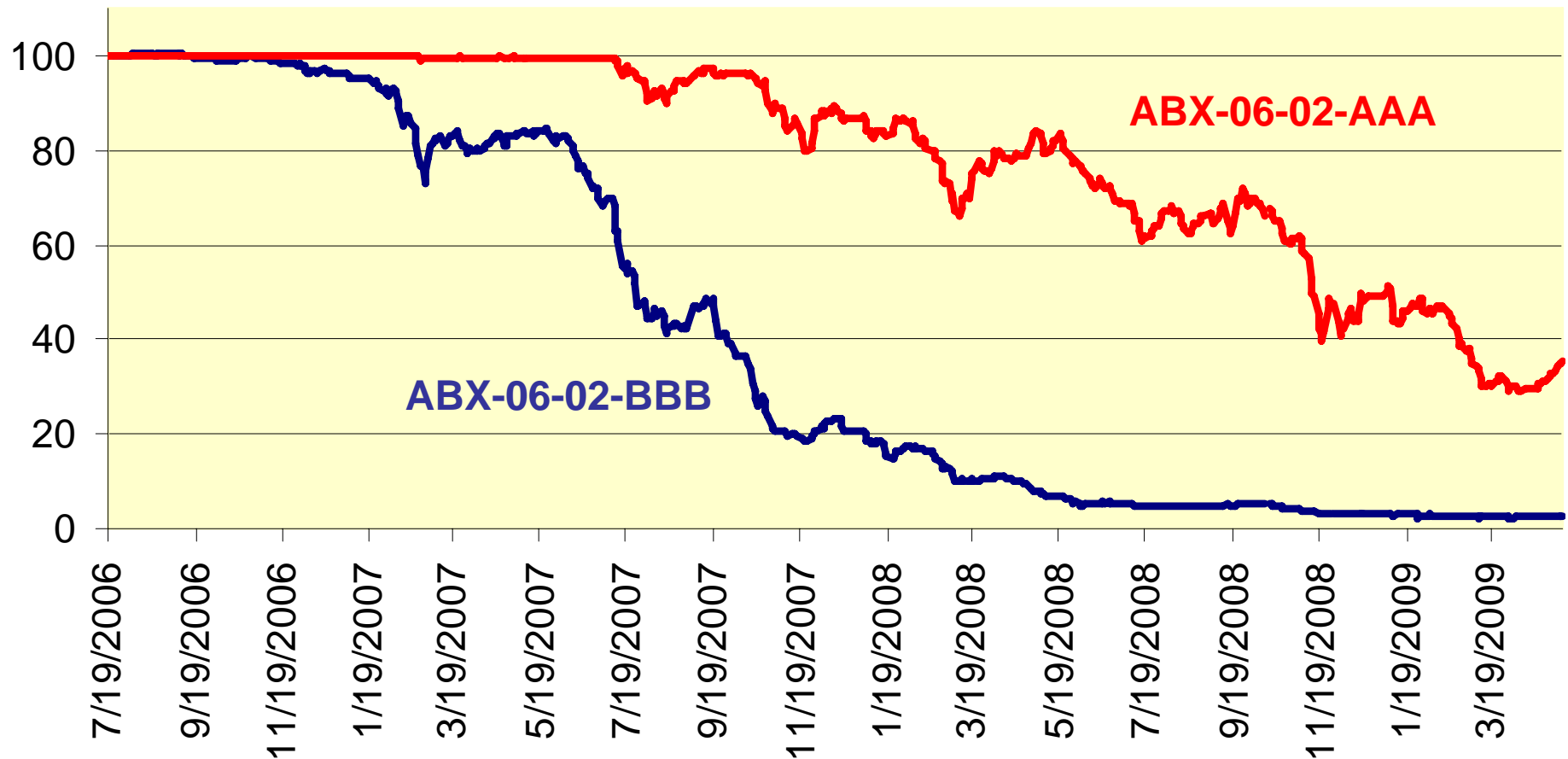
The Fed Has Expanded its Balance Sheet to Extend Credit to Banks



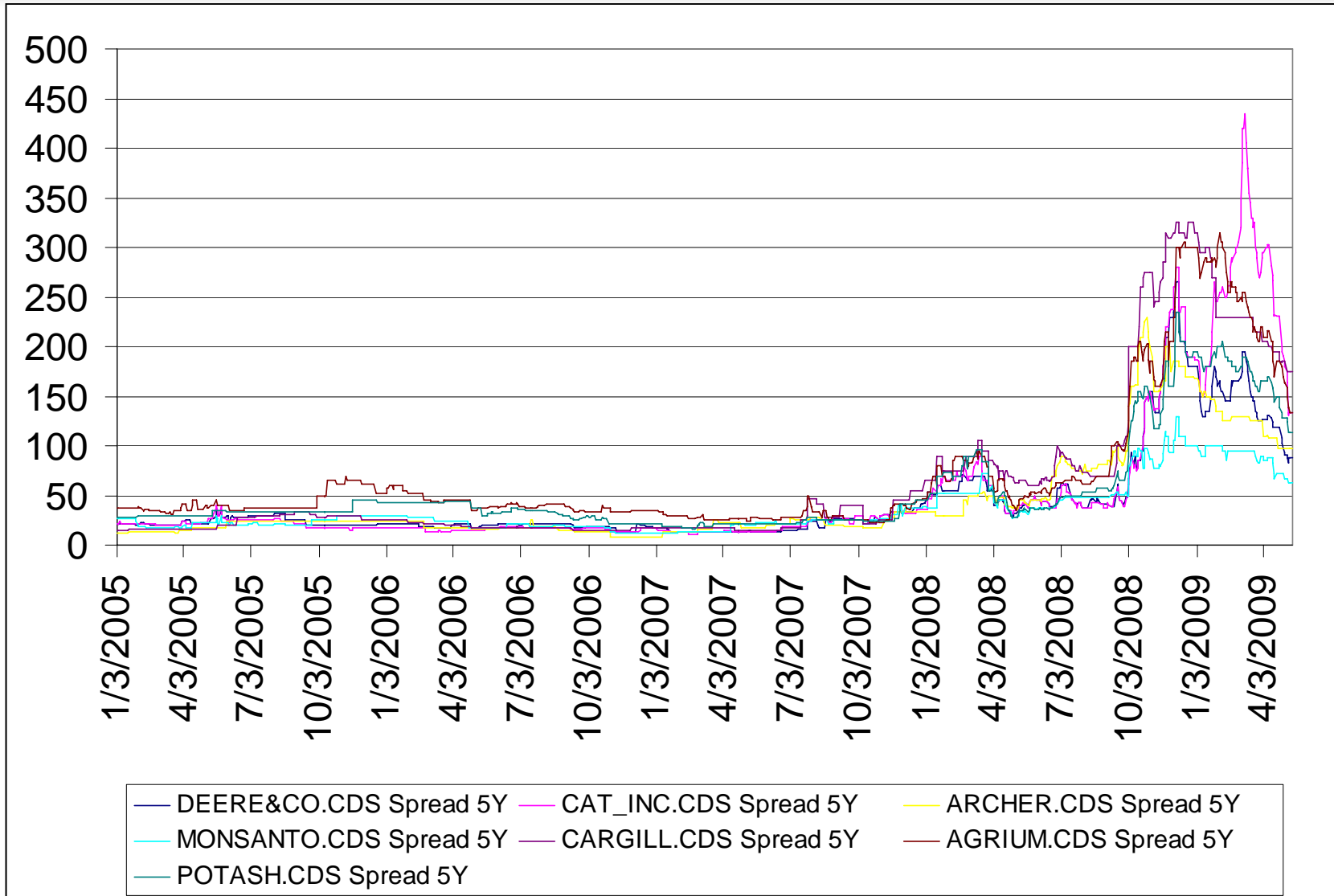
Other Credit Availability “Sign Posts”



Price of Legacy/Toxic Securities



Agribusiness Company CDS rates



Agribusiness Companies CDS

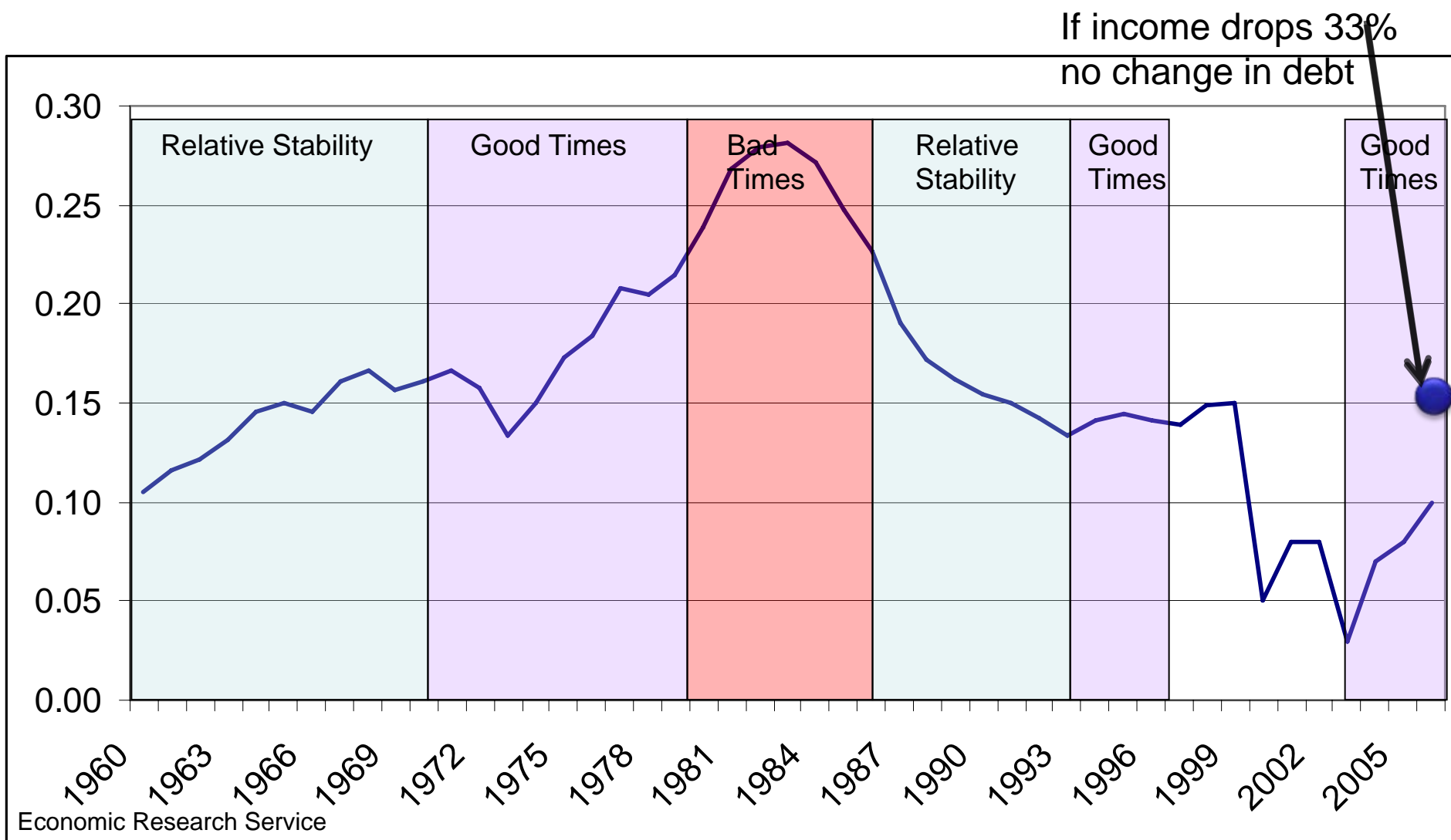
	5/11/2009	Average 2003-07	Max
Deere	88	24	265
CAT	134	21	435
ADM	98	20	230
Monsanto	62	28	130
Cargill	174	24	325
Agrium	134	41	315
Potash	113	34	235

**What about U.S.
Production Agriculture?**

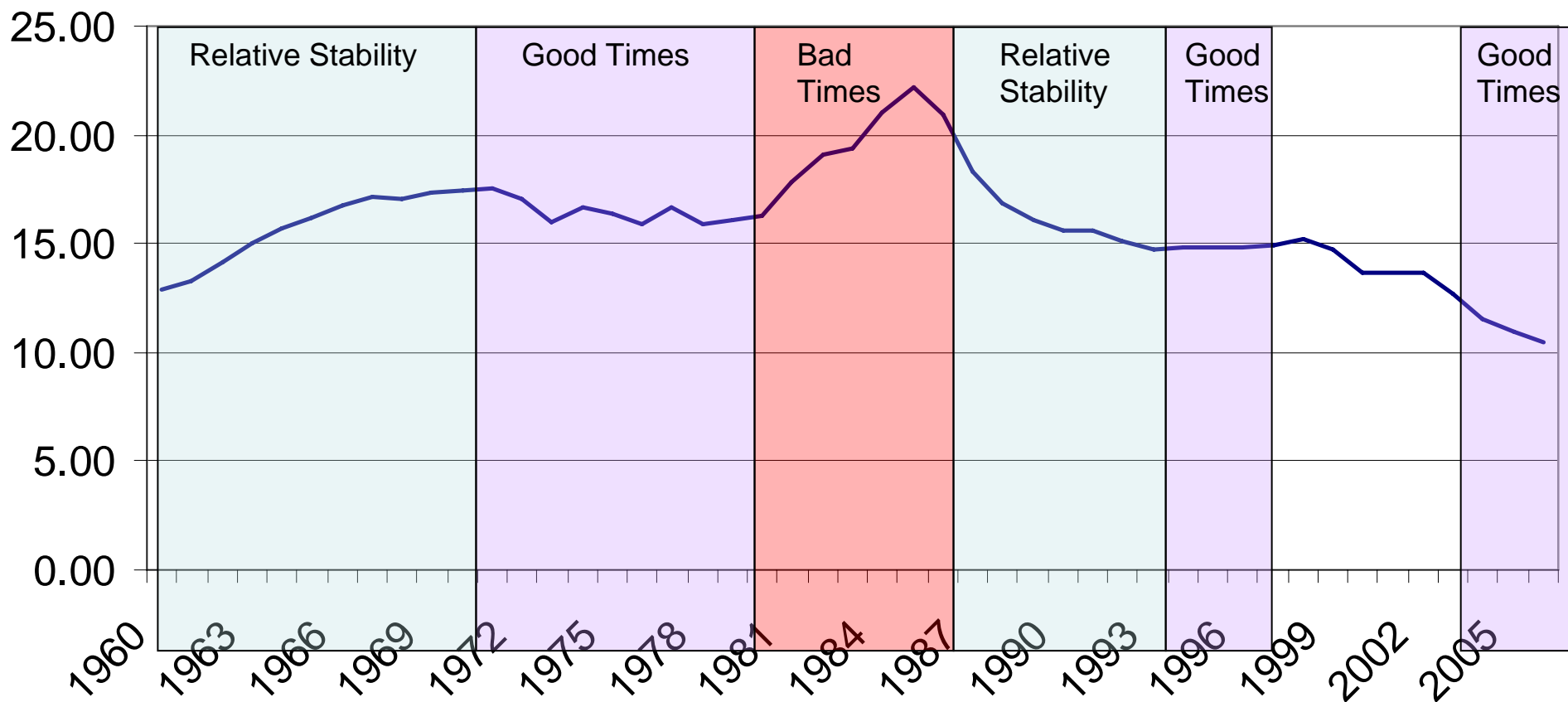
Economic Conditions – *July 2008 or 1980*

- Surging commodity prices
- Increasing oil prices
- Low and declining value of dollar
- High ag exports
- Inflationary pressures
- Negative real interest rates
- Increasing capital gains

Debt Service to Farm Income in United States



Farm Debt to Asset Ratio in United States

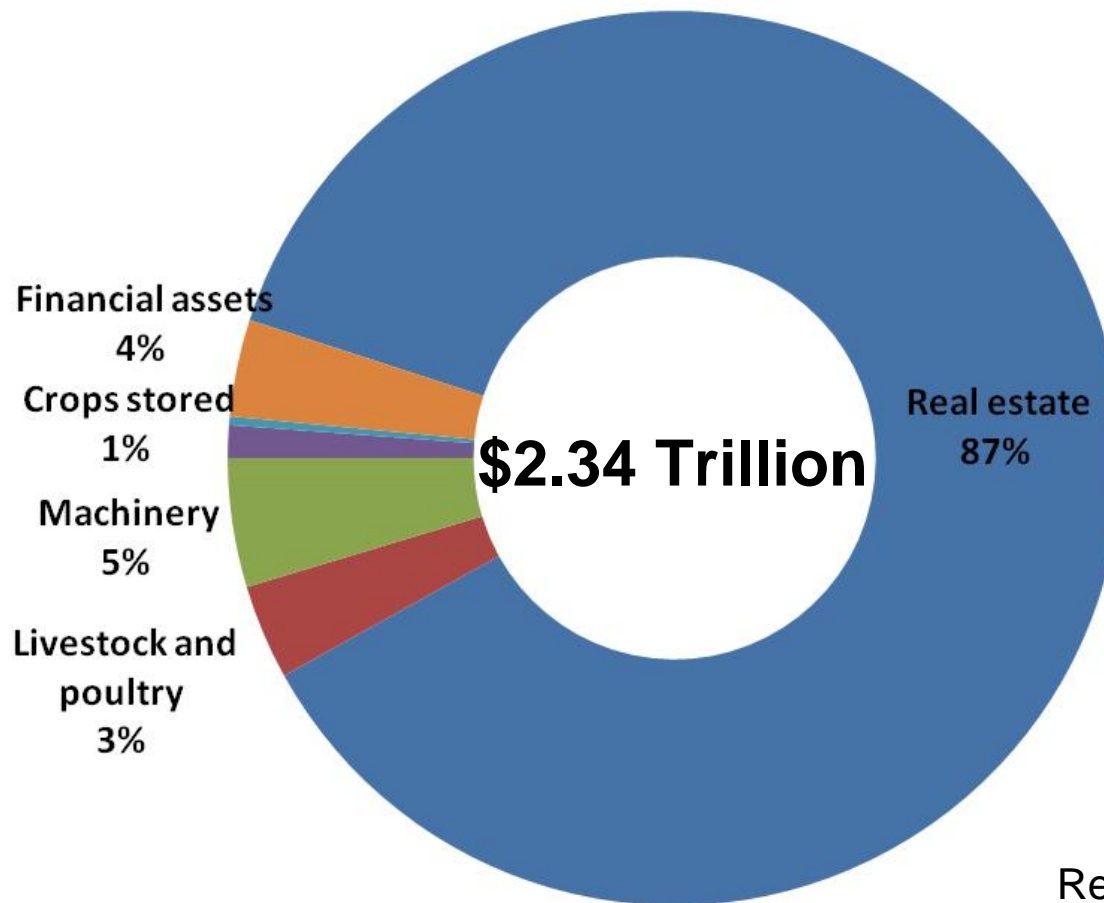


Economic Research Service

Significance of Farmland



Total Assets Used in Farming: United States

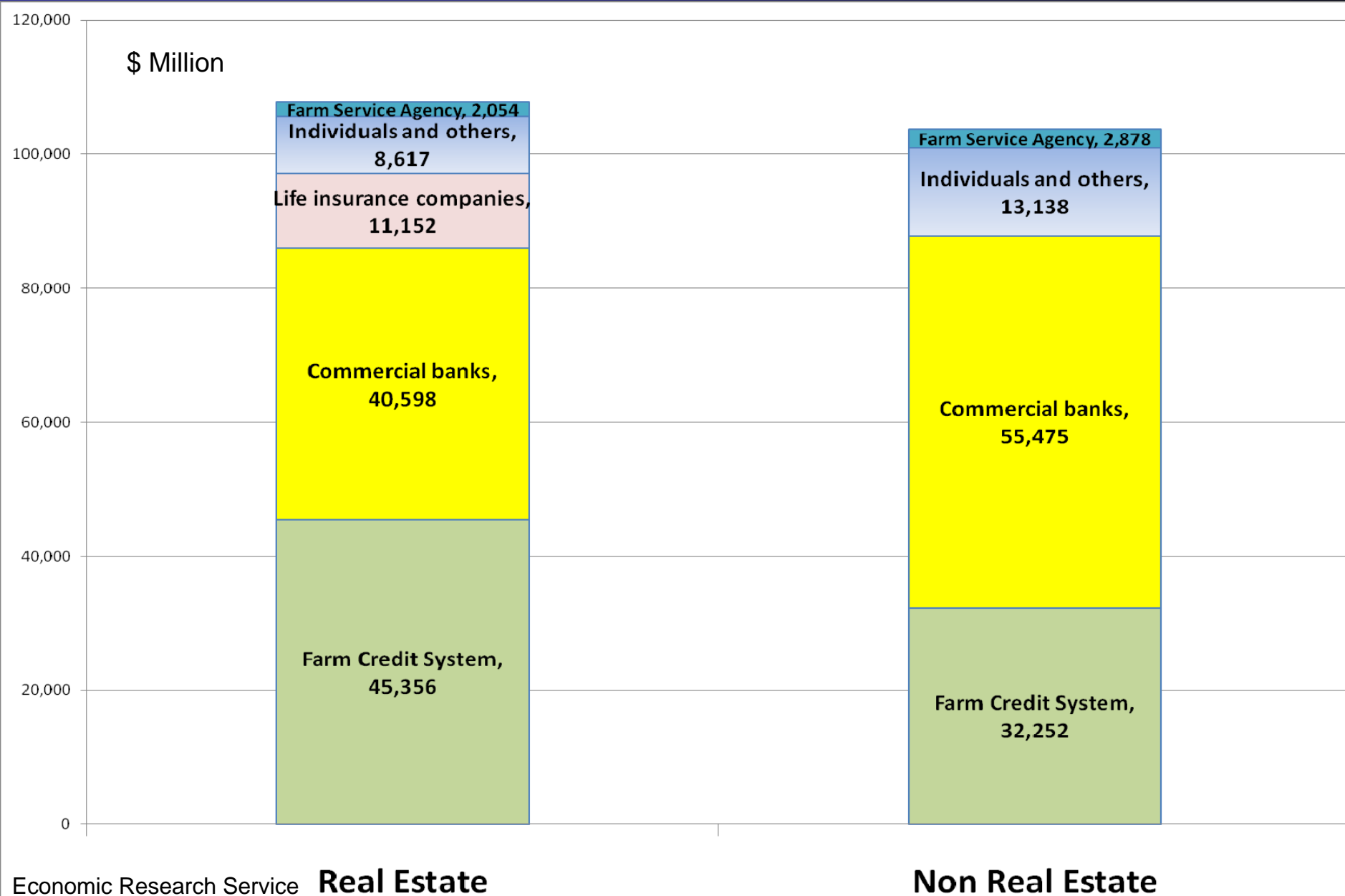


Source: Economic Research Service

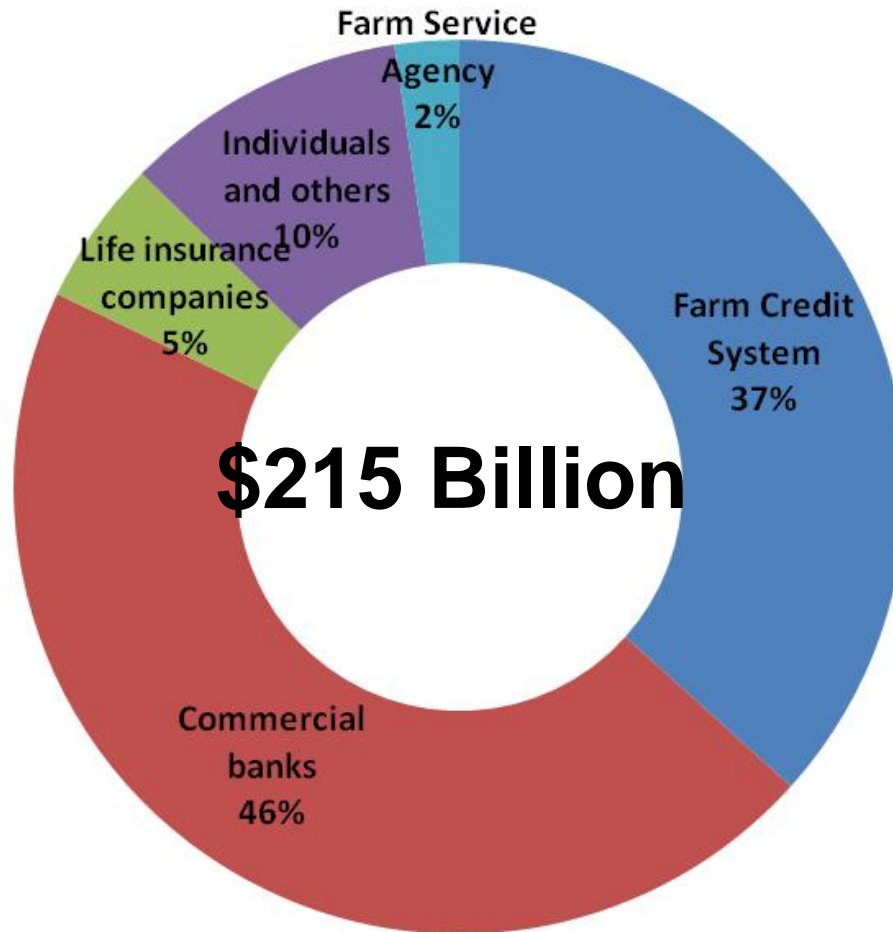
Trillion

Real Estate Assets	\$2.042
Real Estate Debt	\$0.111

Lenders to Agriculture



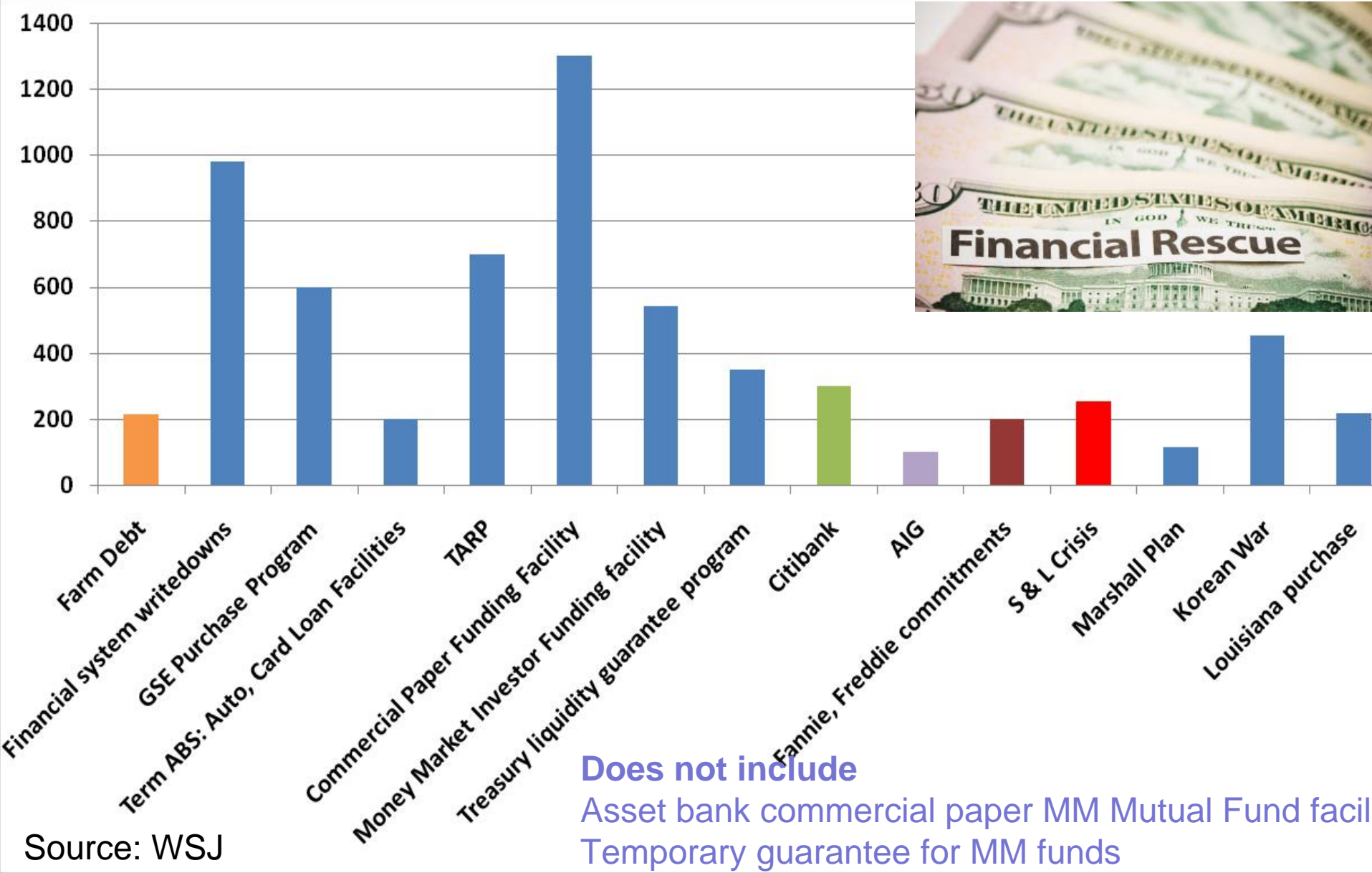
Total Farm Debt



Economic Research Service

Does not include
other sectors of the
supply chain

Perspective of \$215 Billion



Source: WSJ

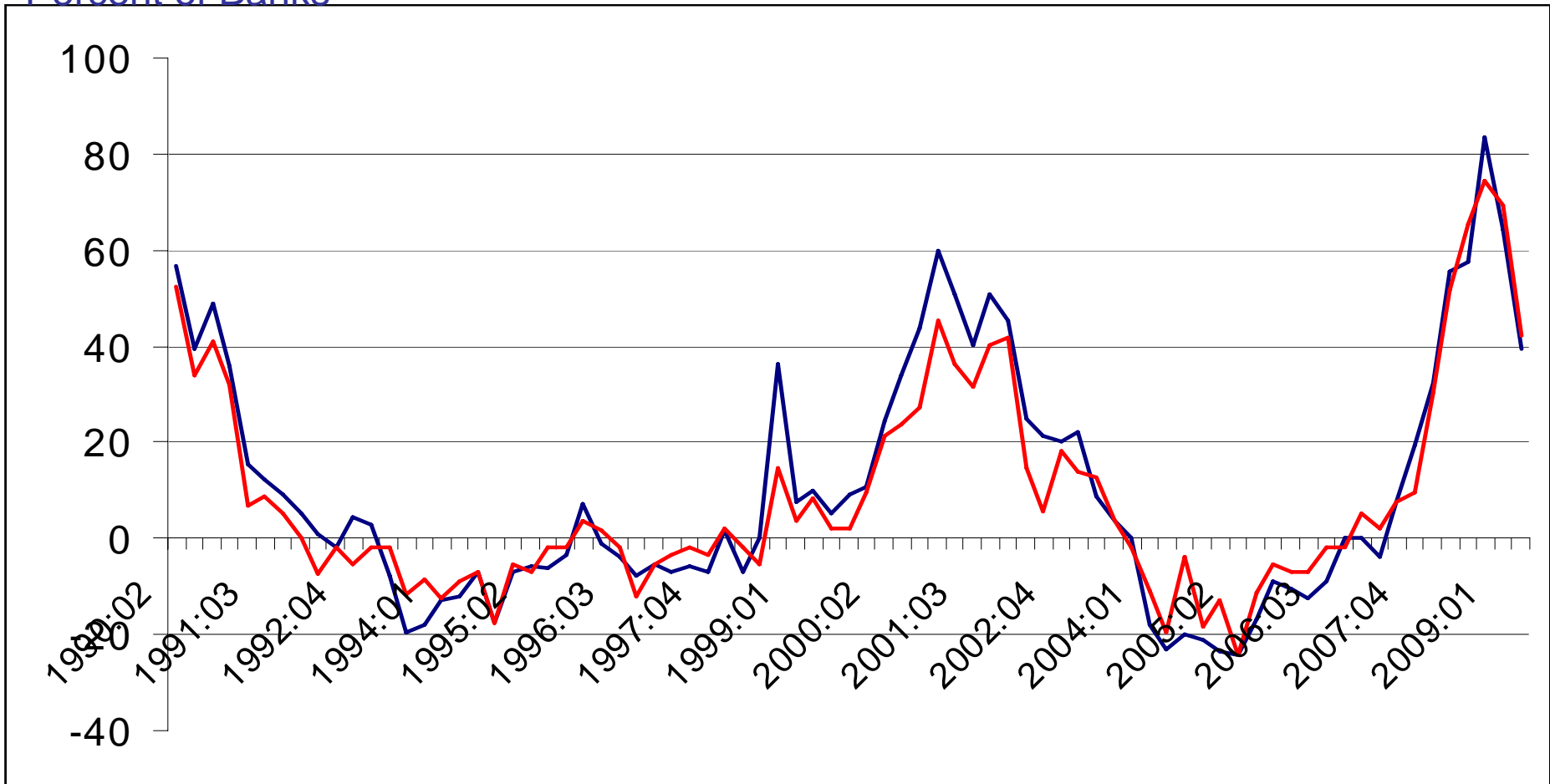
Individual Lenders in Production Agriculture in U.S.

Crisis Initial Impact on Commercial Banks

- Dog bone
 - Farm and bank size
- Regional differences
- Fed actions
 - Insurance & Capital infusions
- High exposure to commercial real estate
- Potential exposures to interest rate risk

Banks Tightening Lending Standards on Business Loans

Percent of Banks



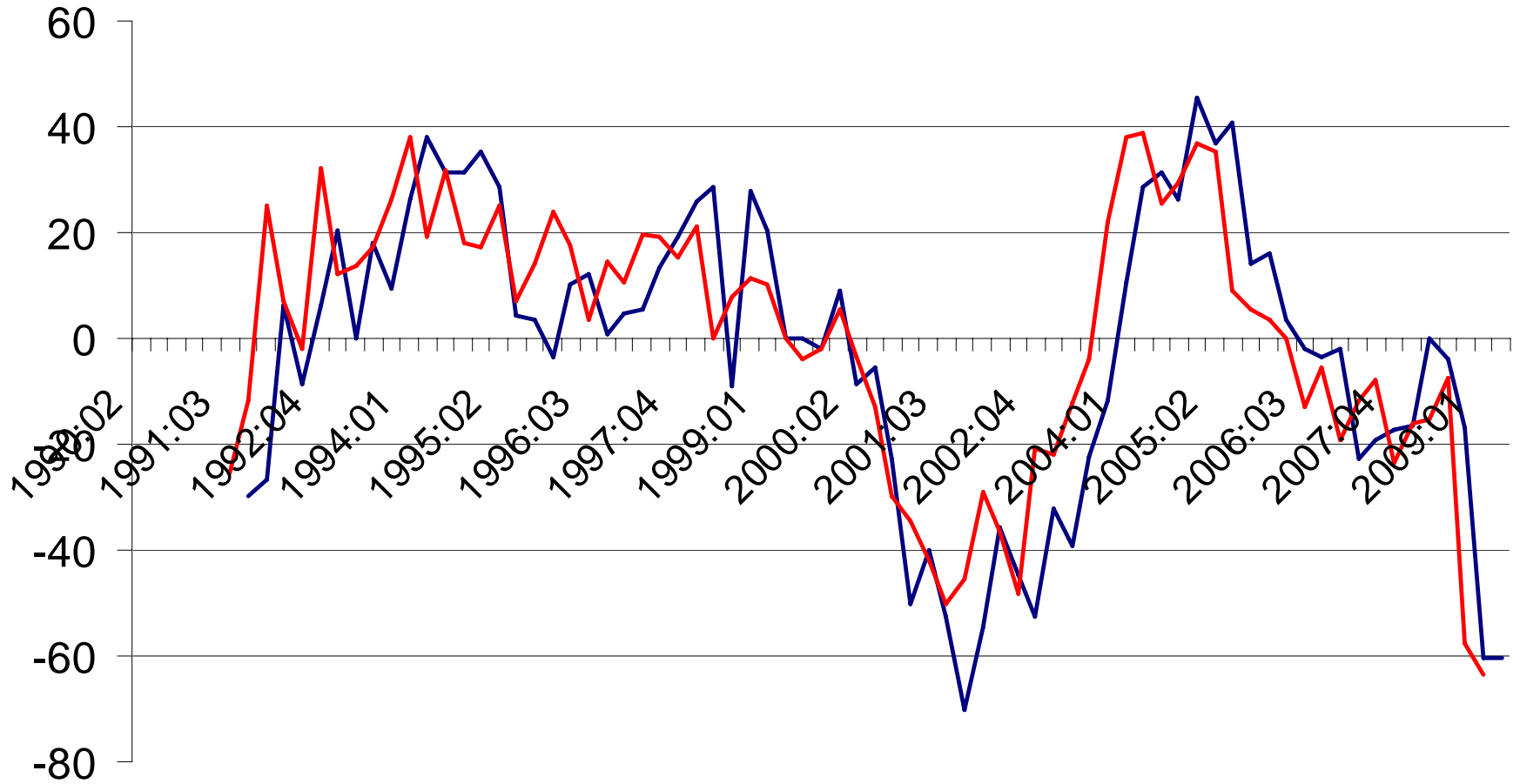
Small Business Loans

Large and Medium Loans

Federal Reserve: Sr Lender Survey

Banks Reporting Higher Demand Business Loans

Percent of Banks



Small Business Loans

Large and Medium Loans

Federal Reserve: Sr Lender Survey

	Loans Secured by Farm Real Estate (\$000)	Nonreal Estate Agricultural Loans (\$000)	Total Agricultural Loans (\$000)
Wells Fargo Bank	\$ 2,633,000	\$ 5,751,000	\$ 8,384,000
Bank Of America	1,619,432	1,601,725	3,221,157
Bank Of The West	821,074	1,923,390	2,744,464
Us Bank	782,071	1,048,474	1,830,545
Rabobank	1,296,619	521,831	1,818,450
Regions Bank	766,606	428,349	1,194,955
M&I Marshall & Ilsley Bank	759,927	412,099	1,172,026
Wachovia Bank	515,000	552,000	1,067,000
First National Bank Of Omaha	45,328	765,398	810,726
New Frontier Bank	331,896	448,742	780,638
Keybank Na	197,496	486,497	683,993
Citizens Business Bank	163,101	445,896	608,997
Jpmorgan Chase Bank	161,000	433,000	594,000
Fulton Bank	393,013	118,466	511,479
Fifth Third Bank	133,854	369,597	503,451
	\$ 10,619,417	\$ 15,306,464	\$ 25,925,881
% of all commercial banks	17%	26%	21%

Banks Participating in TARP

- 400 Firms (530 Banks)
- 6% of banks lending to Agriculture
- 24% of Agricultural Volume
- 0.09% ROA TARP Banks
- 0.42% ROA NonTARP Banks

Health of Commercial Banks

- 256 Banks on FDIC troubled bank list
76 on 12/31/07
- Undercapitalized 33 banks lending to
agriculture
Only 13 on 6/30/2008

Funds Availability – 12/08

Federal Reserve Quarterly Surveys (6 Fed Districts)

- Only 5-14% of commercial banks reported less funds available for agricultural lending than 1 year ago
- 6-24% reported higher funds availability for agricultural lending

Farm Credit System

- Government Sponsored Entity (GSE)
- Strong capital position
- Acquires funds via capital markets
 - Unintended consequences of gov't actions
 - Funding costs spreads have increased
 - Longer term bonds harder to place
 - Vulnerabilities: Securities portfolio & Pilgrims Pride
- Key lenders to elevators/input suppliers
- Growth in some assn. slowed by Farmer Mac limitations

Farmer Mac

- Another agricultural GSE
- Guarantee portfolio quality remains strong
Focus on increasing capital
- \$65 Million infusion from Farm Credit System
 - Investments in Fannie and Lehman, impairment losses \$97 million
- FCS standbys now more limited
- Similar issues in funding to Farm Credit System

Insurance Companies

- Typically, larger real estate loans
 - Dependence on larger farms access to working capital
- Some evidence of scaling back new lending – capital and earnings related

Captive Finance Suppliers

- Asset back security market dried up
- TALF (Treasury Asset Backed Securities Facility) is now assisting
- Commercial paper more limited
- Input suppliers facing cash flow stresses of volatile product prices

Summary: Agricultural Lenders- Shorter term

- Current financial health, in general, strong
- Credit generally availability for traditional farmers
- 2008 farmer earnings/payback in grain farms relatively secure
 - Grain farmers v protein markets
- Increased risk spreads, partially offset by cost of funds declining

Summary:

Credit Availability in Agriculture: International

