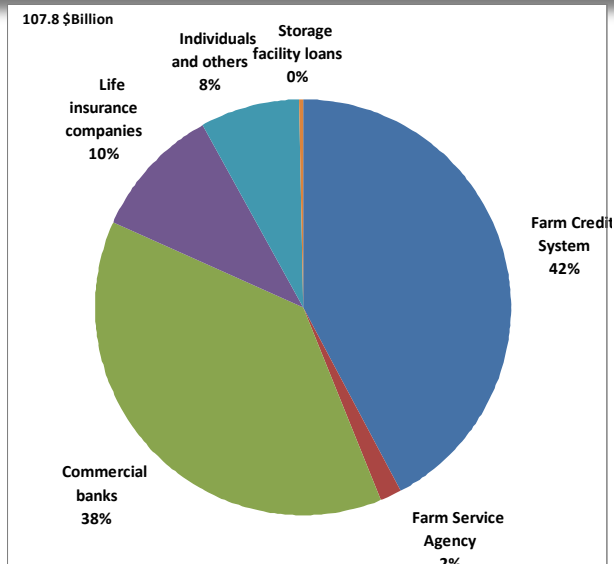


Financial /credit crisis impact on the agriculture and food industries

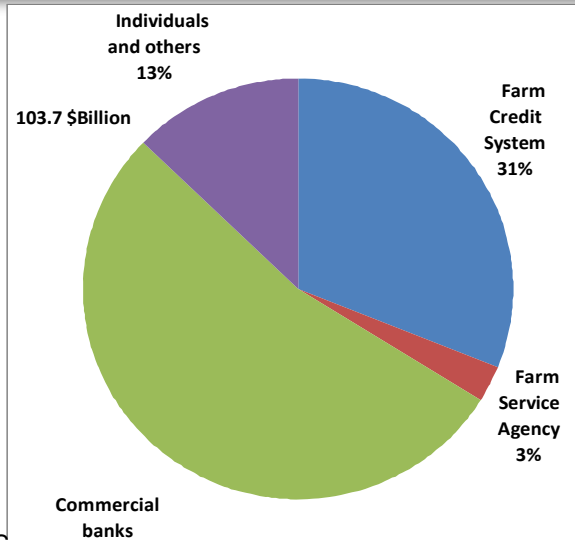
Paul Ellinger
University of Illinois
pelling@illinois.edu

Farm Real Estate Lending



Source: USDA ERS

Nonreal Estate Farm Debt

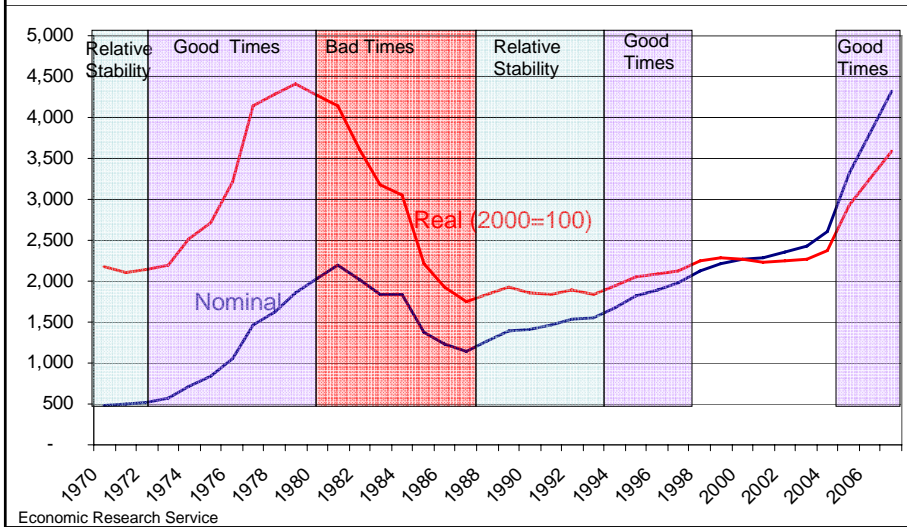


Source: USDA ERS

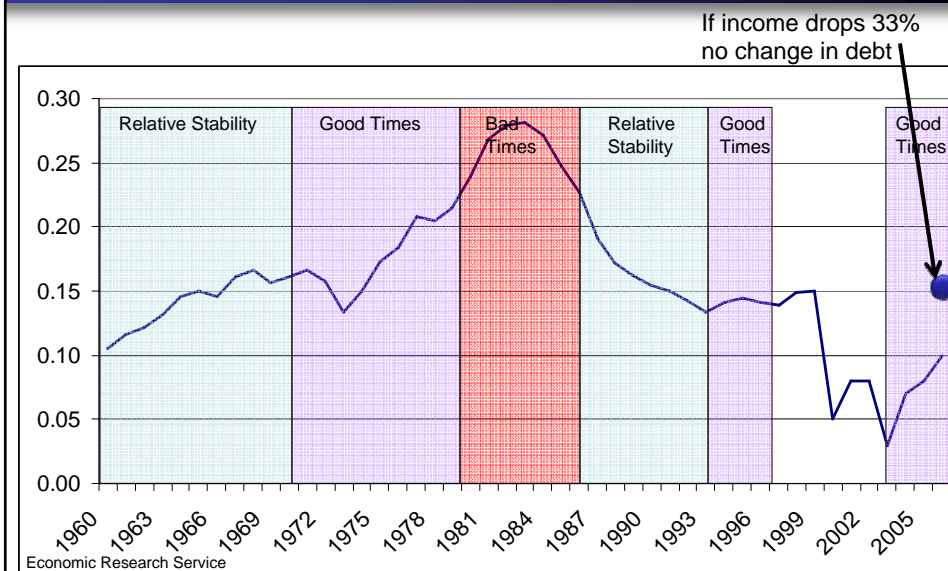
Economic Conditions – *July 2008 or 1980*

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

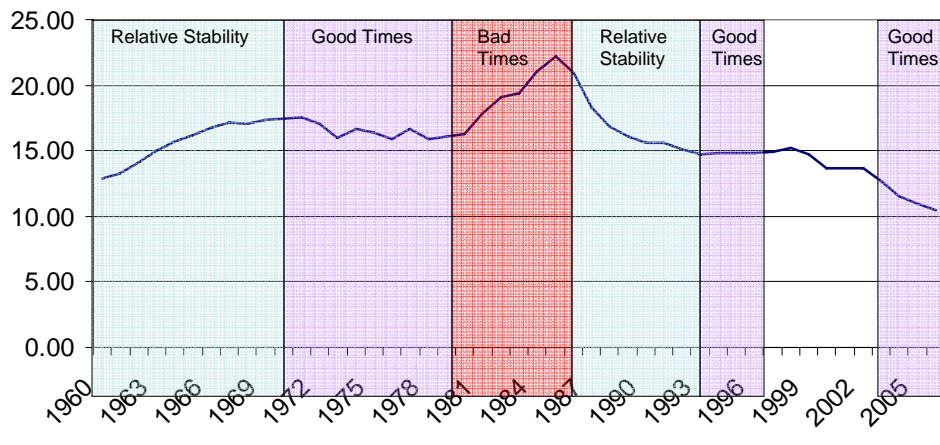
Illinois Farmland Prices



Debt Service to Farm Income



Farm Debt to Asset Ratio



Economic Research Service

Ellinger, Farm Foundation: 11/18/08

Financial Crisis & Agriculture and Food Industries

7

Farm Income in Illinois

	2007	2006	2005	2004	2003	Average
Operators' Total Net Farm Income	\$209,012	\$103,303	\$62,940	\$97,514	\$70,640	\$108,682
Grain Farms....	\$220,797	\$109,569	\$60,273	\$94,046	\$72,637	\$111,464
Hog Farms....	96,892	108,461	122,184	209,968	73,182	\$122,137
Dairy Farms....	166,276	57,073	103,370	108,395	60,600	\$99,143
Beef Farms....	97,537	12,243	50,733	66,784	72,456	\$59,951

1998-2002 Operators' Total Net Farm Income = \$32,038

Ellinger, Farm Foundation: 11/18/08

Financial Crisis & Agriculture and Food Industries

Fall Credit Demands in Midwest

- Delayed harvest and commodity prices declines
- Increased and higher prepaid expenses
- Cash needs increased, new 2009 lines
- Elevator operating lines established, Oct-Nov

Individual Lenders in
Production Agriculture

Commercial Banks

Table 1. Commercial Banks Lending to Agriculture by Asset Size.

Asset Size (\$ Million)	Percent of Ag Loans at Commercial Banks	Number of Banks
Less than \$100	16.09%	2,507
100-500	33.96%	2,677
500-1,000	10.44%	474
1,000-10,000	17.85%	347
Greater than 10,000	21.66%	66

Source: Call and Income Reports, 6/30/2008

18% are publicly traded

Largest Banks

Table 2. Largest 15 Banks Lending to Agriculture, June 2008.

	Loans Secured by		Total Agricultural Loans (\$000)
	Farm Real Estate (\$000)	Nonreal Estate Agricultural Loans (\$000)	
Wells Fargo Bank	\$ 2,298,000	\$ 5,061,000	\$ 7,359,000
Bank Of America	1,395,453	1,325,665	2,721,118
Bank Of The West	775,373	1,611,853	2,387,226
U S Bank	788,882	1,084,962	1,873,844
Rabobank	1,348,721	491,479	1,840,200
Regions Bank	773,483	353,394	1,126,877
M&I Marshall & Ilsley Bank	725,463	388,266	1,113,729
Wachovia Bank	591,000	469,000	1,060,000
First National Bank Of Omaha	41,333	877,025	918,358
New Frontier Bank	346,710	402,182	748,892
Keybank	203,962	526,880	730,842
JPMorgan Chase Bank	191,000	524,000	715,000
National City Bank	245,168	265,917	511,085
Pinnacle Bank	180,608	309,293	489,901
Fulton Bank	380,599	106,031	486,630
	\$ 10,285,755	\$ 13,796,947	\$ 24,082,702
% of all commercial banks	17%	24%	20%

Source: Call and Income Reports, June 2008.

Bank Liquidity

Table 3. Liquidity and Solvency Measures for Commercial Banks

Asset Size (\$ Million)	Loan to Deposits	Equity to Assets
Less than \$100	75%	12.1%
100-500	86%	9.9%
500-1,000	94%	9.0%
1,000-10,000	105%	8.6%
Greater than 10,000	149%	7.6%

Source: Call and Income Reports, 6/30/2008

Impact on Commercial Banks Lending to Agr.

- Dog bone
 - Farm and bank size
- Regional differences
- Fed actions
 - Insurance & Capital infusions
- Potential for enhanced documentation/underwriting/regulation
- Potential exposures to interest rate risk

Farm Credit System

- Government Sponsored Entity (GSE)
- Strong capital position
- Acquires funds via capital markets
 - Unintended consequences of gov't actions
 - Funding costs higher
 - Longer term harder to place
 - Recent actions Fed will likely ease
- Lenders to elevators/POS input suppliers
- Growth in some assn. slowed by Farmer Mac limitations in long-term standby market

Farmer Mac

- Another agricultural GSE
- Guarantee portfolio quality remains strong (11/10)
- 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 FCS

Insurance Companies

- Larger RE 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
- Commercial paper
- Input suppliers

Summary: Agricultural Lenders

- Financial health in general, strong
- 2008 farmer earnings/payback in Midwest relatively secure
 - Grain farmers v protein markets
- Increased risk spreads, partially offset by cost of funds declining
- Longer term fixed-rate financing may be limited
- Largest impact on credit availability will likely be the affects the economic crisis has on profit margins
 - U Illinois studies suggest cost of production before labor and land costs > \$3.00 per bushel
- Operating lenders may feel impact if cash rents don't adjust

Summary: Other Issues in the Agr. Landscape

- Some agribusiness financing concerns:
 - Ethanol
 - Elevators
 - Input suppliers
 - Trade letters of credit
- Maybe a time to take the competitive gloves off and get enhanced cooperation among the agr. lender groups
- Financial, commodity market, and input price risk being pushed to producer