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Agriculture in Uncertain Times
Credit Market Meltdown
- Impacts on Agriculture?
(Has Our World Changed?)

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FSA Current Portfolio

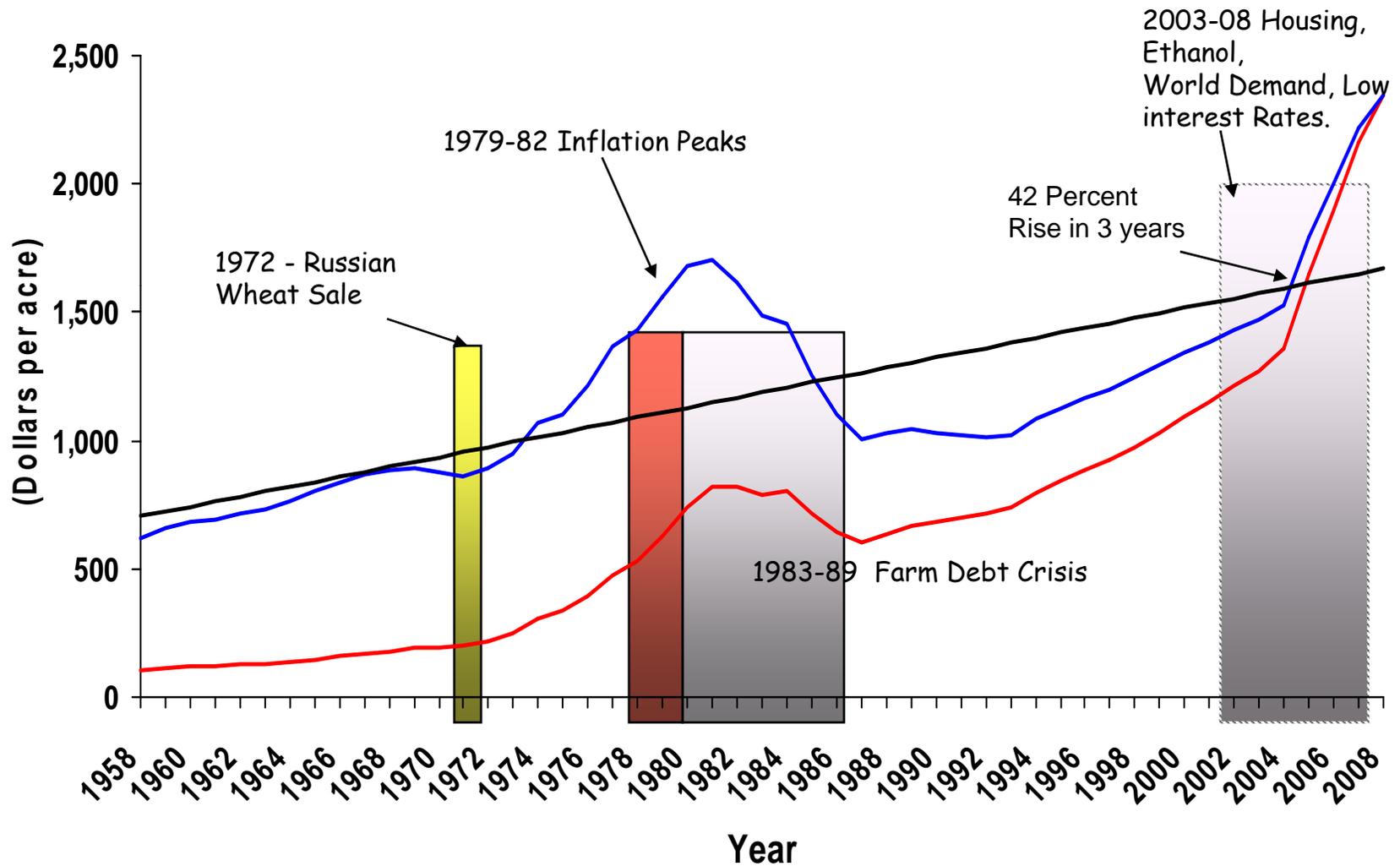
- 68,000 direct borrowers-\$6.5 Billion
- 33,000 guaranteed borrowers-\$9.2 Billion
- FY 2008 Loan activity- Over \$3.2 billion of credit to 27,000 applicants
- FY 2009 Loan Activity to date- \$2.6 billion to over 20,000 applicants

Spillover Affects to Agriculture

- Farm land values
- Farm lenders
- Demand for commodities
- Off Farm Income
 - Many operations rely on off farm income for household expenses and insurance
- Tighter Credit Standards
 - Change the playing field for more highly leveraged operations

Farmland Values Set New Records

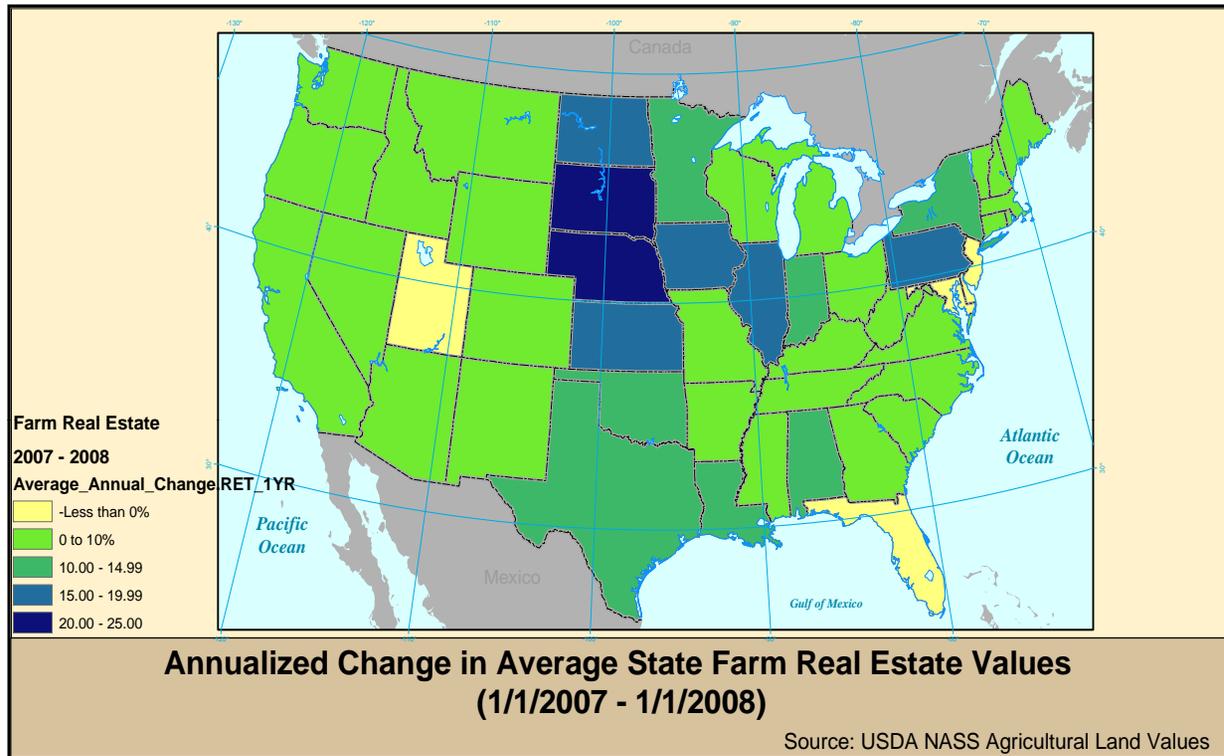
Data through January 2008



Source: USDA/NASS.

— Nominal values — Deflated 2008 values — Linear (Deflated 2008 values)

Have Farmland Values Peaked?



FEE Surveys indicate weaker prices in 4th quarter '08

Chicago - Down 4%, 6% in Iowa. Only second quarterly decline since 1980s

Kansas City - Down 1% for cropland and ranchland.

Minneapolis – Down 4% on dry cropland and 5% on ranchland.

Dallas – Ranchland down 2% and cropland flat.

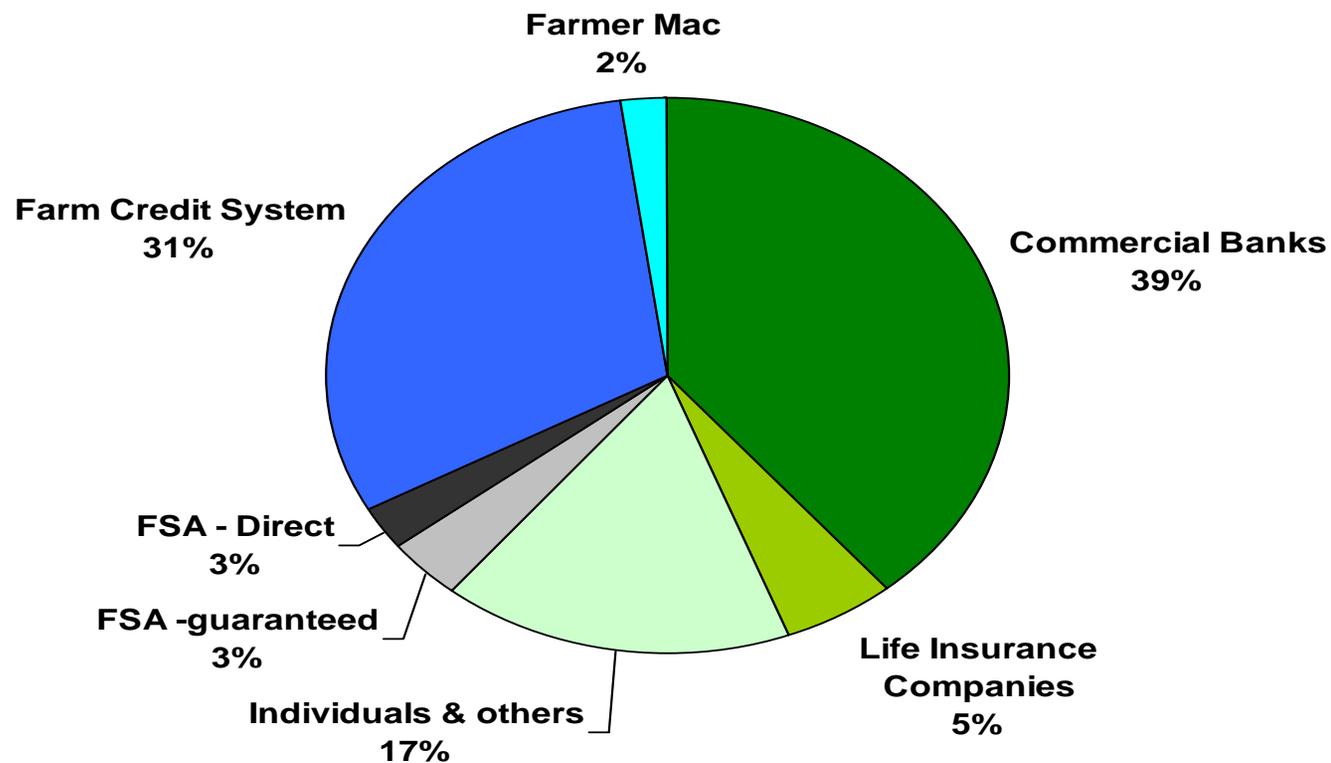
Richmond - Down 1%, down 8% for the year.

Will Farm Lenders Be Affected?

- Farm Loan Performance Has Been Strong
 - Delinquency and loss rates on FCS, commercial bank, and life insurance company loans haven been historically low; but have been trending upward in 2008.
 - Delinquency rates on FSA farm loans remain at 25-year lows going into 2009
- Ag Banks & FCS Associations Were Strongly Capitalized Going into the Current Financial Downturn

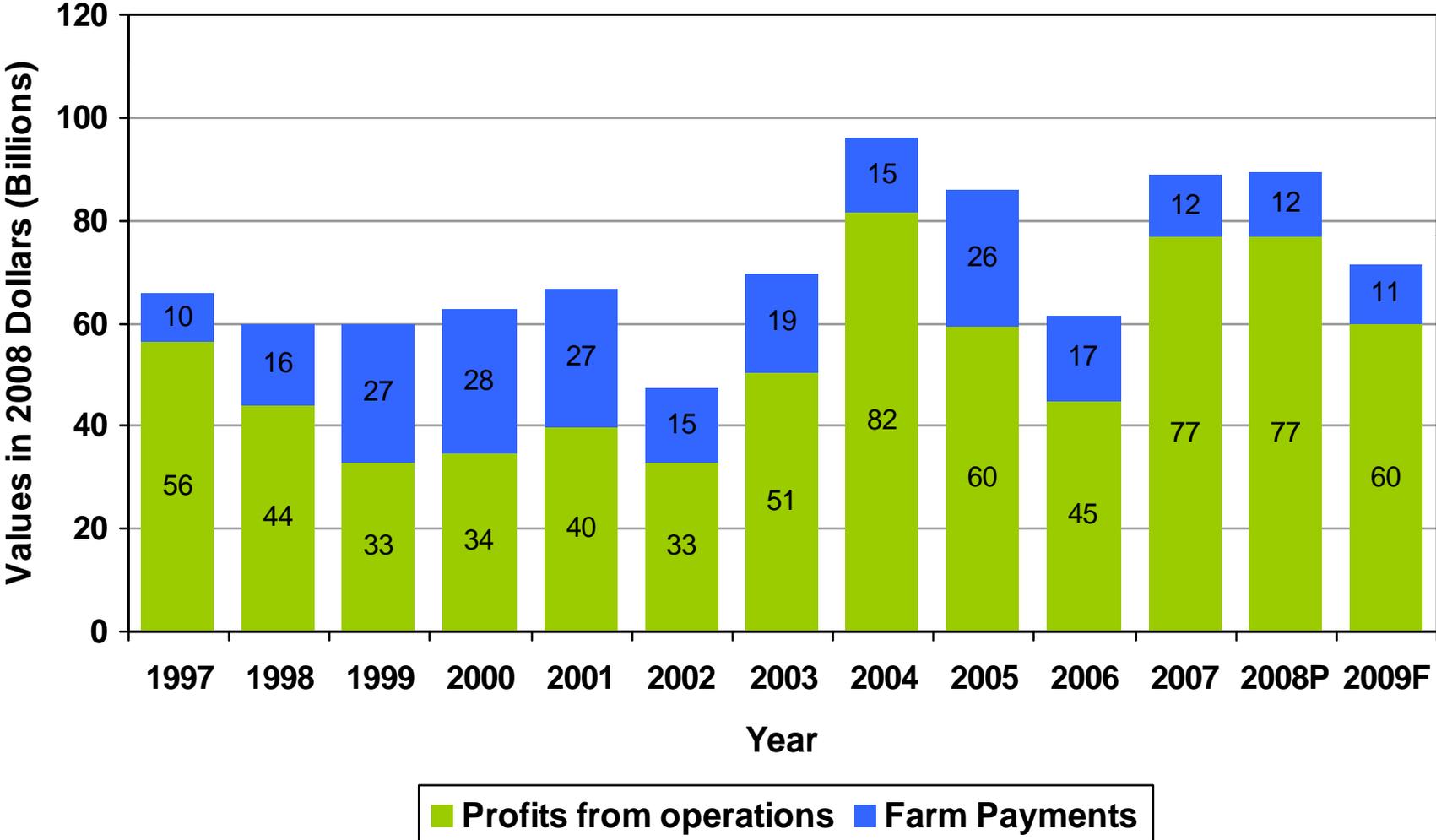
Who are the Suppliers of Farm Credit?

Banks and the Farm Credit System are the Largest Suppliers



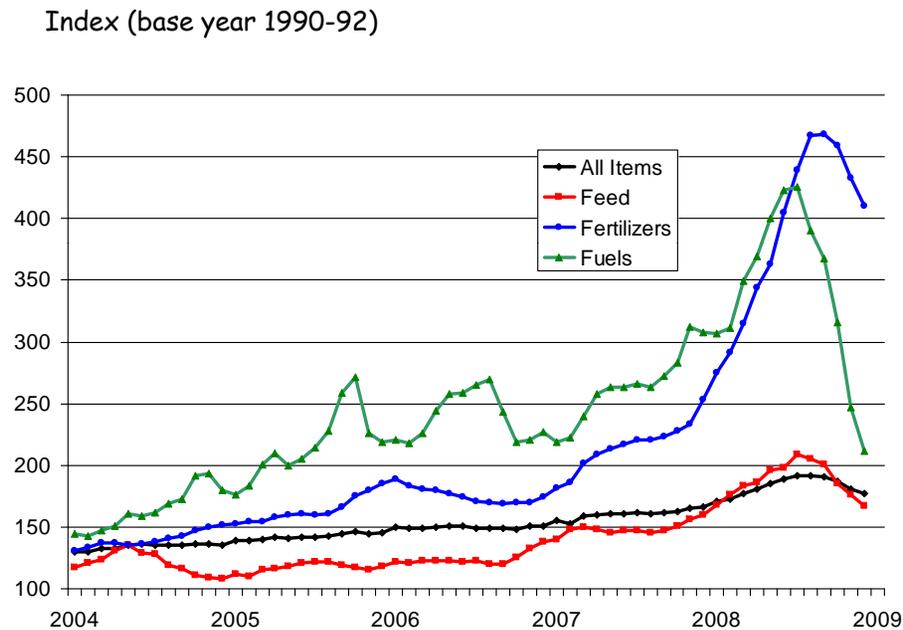
Source: USDA: ERS, FSA and the Federal Agricultural Mortgage Corporation. Based on 2006 Data.

The Farm Economy is Coming Off Two Years of Strong Profits



Source: Estimates made by USDA/ERS (February 12, 2009), Adjusted by GDP deflator.

And input prices are declining

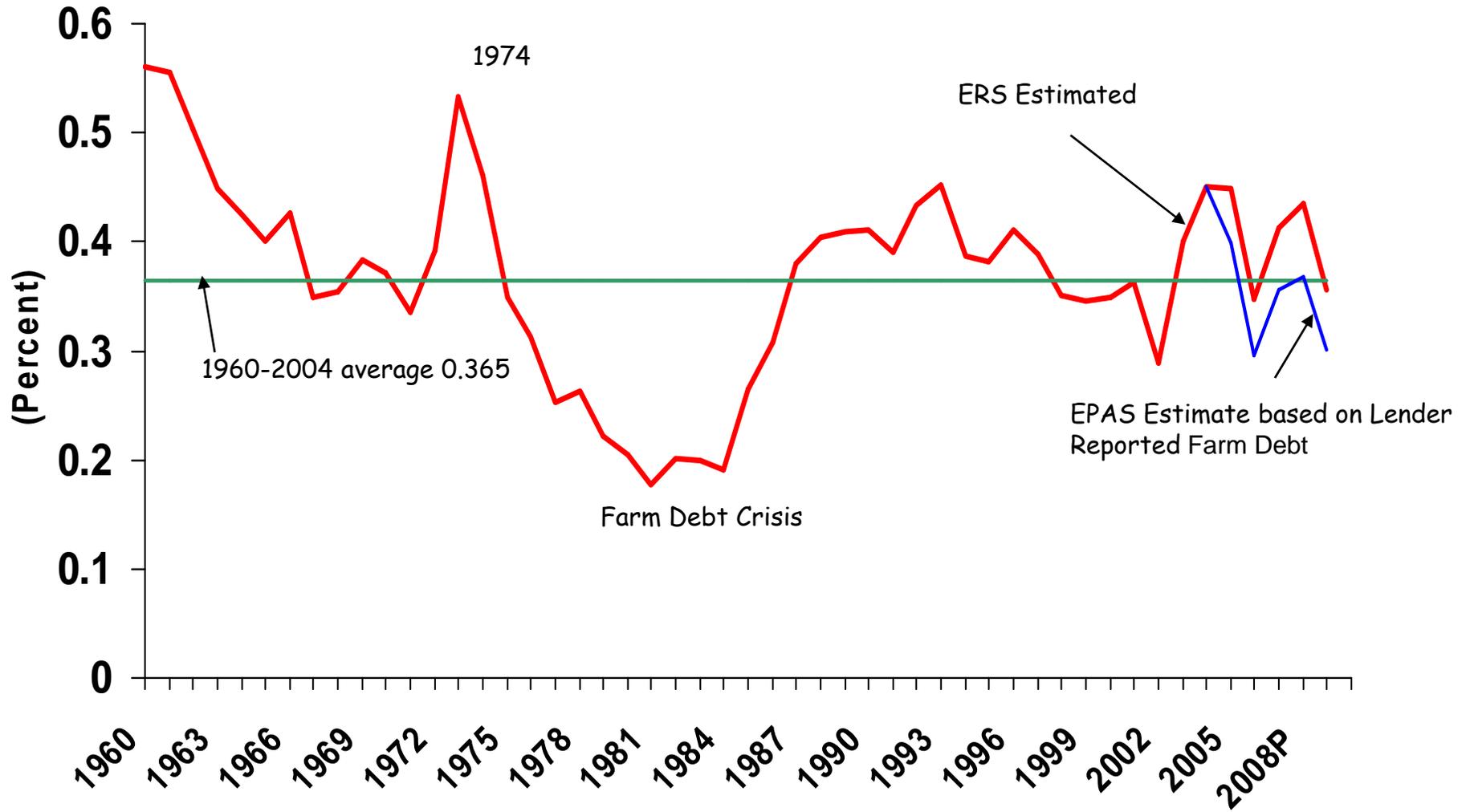


Source: USDA, National Agricultural Statistics Service, December 30, 2008.

- But, there are indications that certain commodity sectors are experiencing greater financial difficulty
 - Dairy
 - Poultry
 - Greenhouse/Nursery

But, the Pace of Debt Accumulation Relative to Farm Incomes Indicates Relative Cash flows are Weakening

Net Cash Farm Income to Farm Debt Ratio



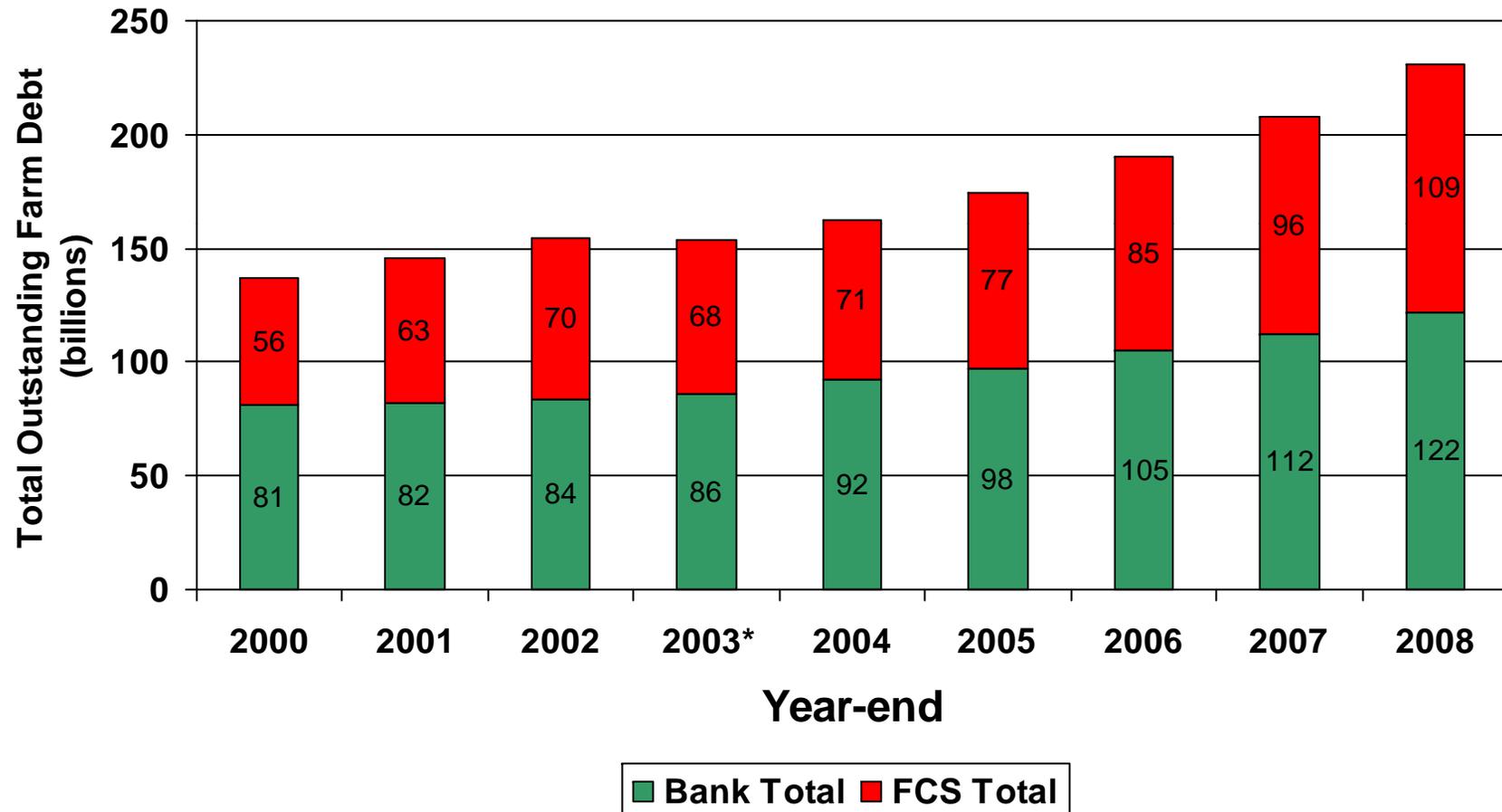
FSA/EPAS

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Source: Based on Economic Research Service Data (February 12, 2009) and Bank/FCS Regulatory Data

Outstanding Farm Debt Has Been Rising at a Rapid Clip

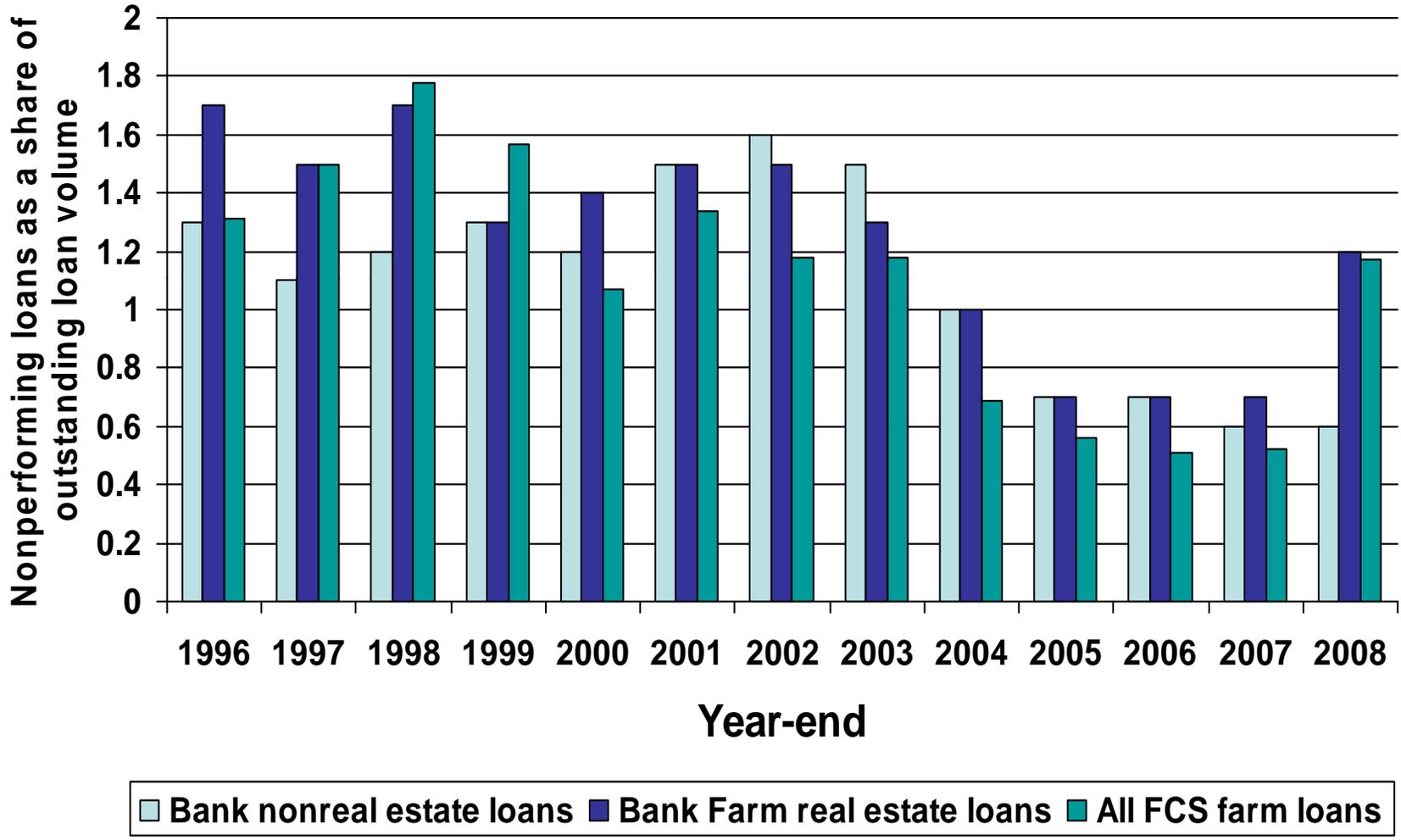
Bank Held Farm Debt Up 42 Percent, FCS Held Farm Debt Up 60 Percent in 5 Years



* = Reporting detail changes beginning in 2004 improved FCS farm debt reporting relative to prior years.

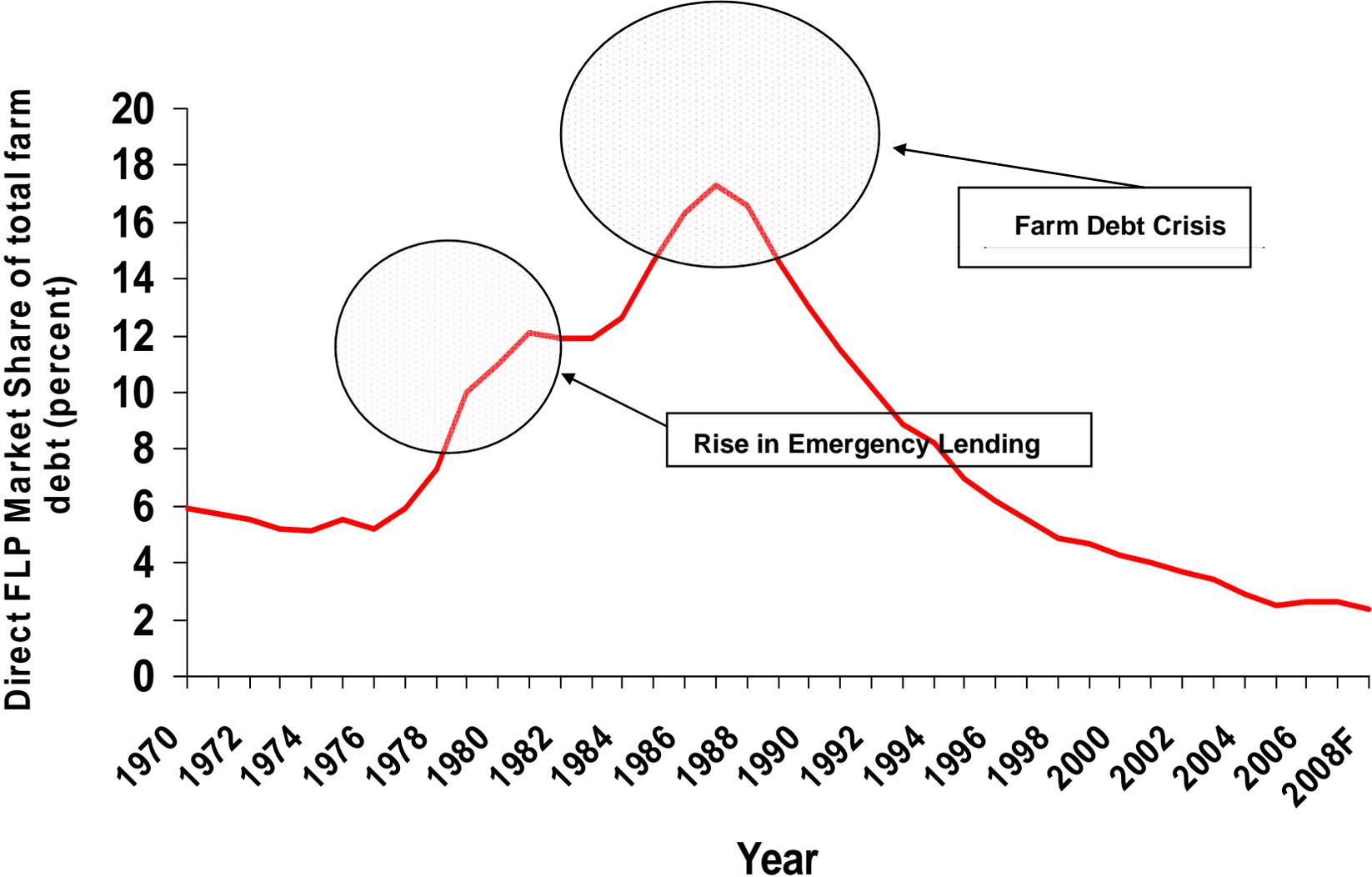
Source: Board of Governors Federal Reserve and the FCS Funding Corporation. Farm real estate and non-real estate farm loans.

Commercial Farm Loan Performance Has Been Excellent.....But is Now Reversing

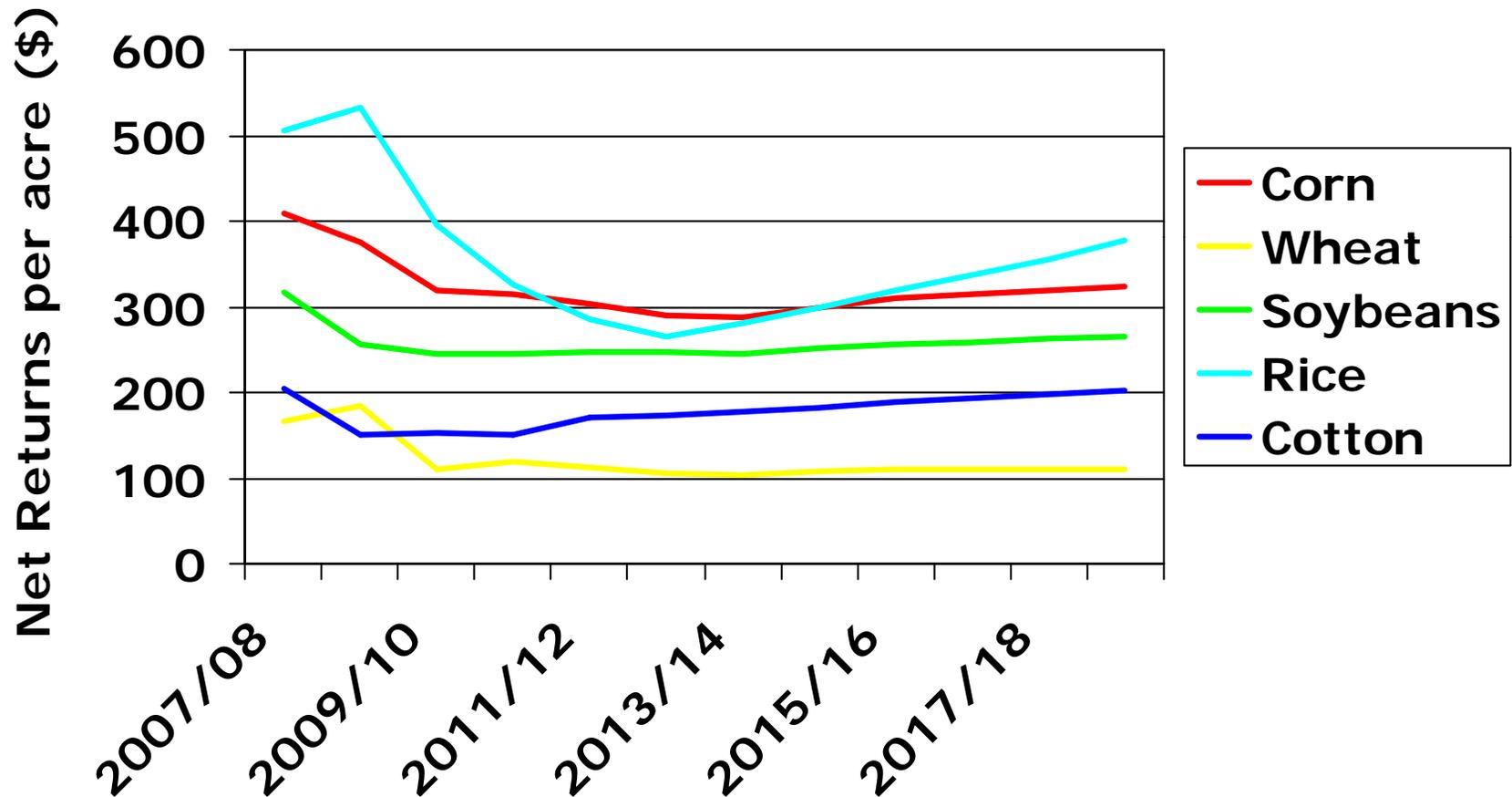


Source: Board of Governors Federal Reserve and the FCS Funding Corporation.

FSA Direct Loan Programs Have Been Used to Assist Farmers During Periods of Farm Financial Stress



Net Returns/Acre Expected to Fall—But Still Remain at High Levels



USDA Long-Term Agricultural Projections, 2009 (OCE, WASDE)

Economic Weaknesses Will Continue to Impact Farm Incomes Going Forward

- Reduced demand for red meats and poultry, less eating out (per capita consumption declining since 2007)
- Dairy-domestic demand weakening-restaurant sales down, sales of value-added products have also fallen, exports declining and worldwide production increasing. be affected.
- Coming off a period of higher demand which resulted in increased capacity-(herd liquidations & reductions in poultry contracts)

Source: Based on Economic Research Service Data, Livestock, Dairy, Poultry Outlook Reports

Demand for Crops



- Near-term weakness in the global economy diminishes demand growth for crops (over short-term).
 - Corn-based ethanol production in the United States is projected to slow—but remain at historically high levels
 - Reduced demand for soy products (oil & meal) have reduced domestic demand & prices
 - Increase in global consumption and trade, although lower, are expected to return to historically high levels resulting in higher commodity prices over longer term.

Source: Based on Economic Research Service Reports, Feed Outlook, Oilseeds Outlook

Importance of Off-Farm Income

- Most small and medium sized farms rely on off farm income for living expenses and insurance
- rural areas have suffered layoffs
- Obtaining positive debt service capacity relies on off-farm income

Tightening Credit Standards

- Depends on the length of the economic crisis
- Strong balance sheets and past profits carry most farms in 2009
- Farm lender stress will continue to rise
 - Ag loans will not be the primary driver; stress will be driven by “Main Street” consumer and commercial loans

Tightening Credit cont.

- 48 bank failures in fiscal year 2009 compared to 4 in 2008
 - 3-4 ag banks
- Number of banks and Farm Credits with reduced capital has risen
- Timing of price/expense spread
- Variable interest rates

Greatest Disconnect Between Lenders and Producers view of the Economy

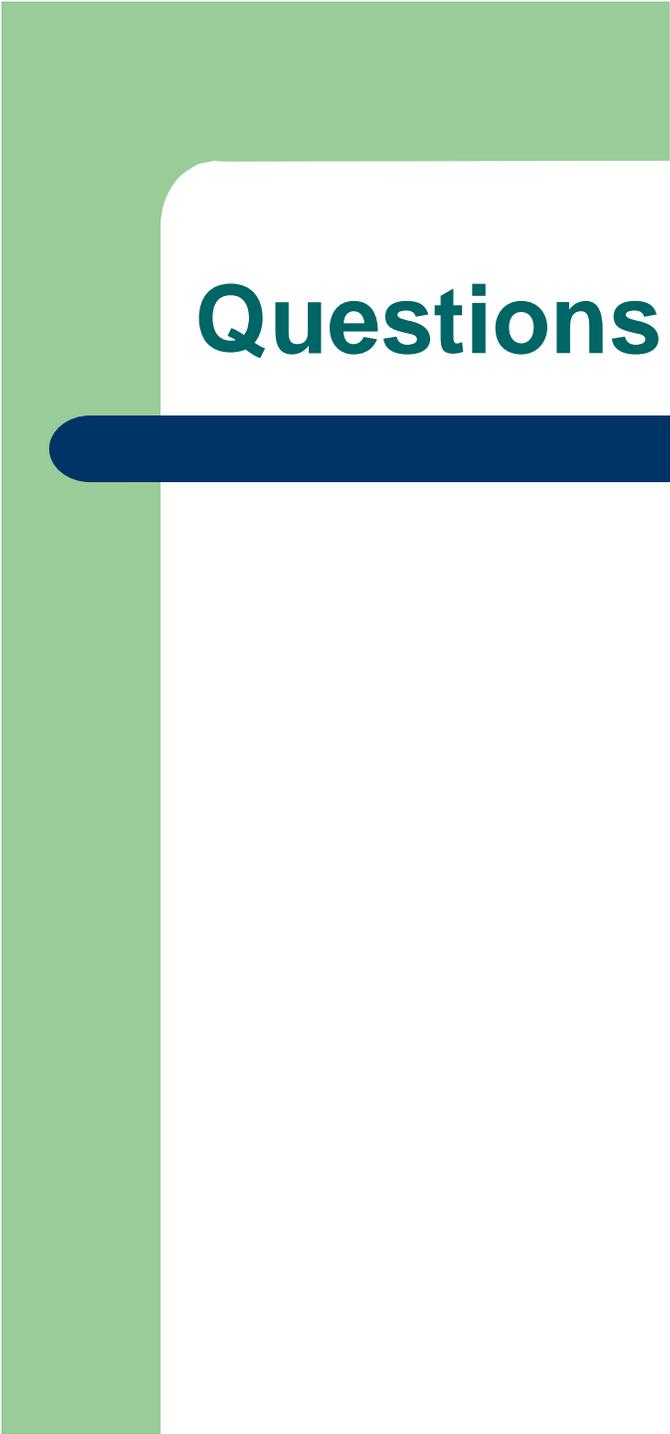
- Cash flow lending vs. asset lending
 - The question is not “can you afford it” but can “it afford it’s self”
- Entry strategy made with the head/business and exit stragey made with the heart/emotions

Educational Needs for Producers

- Management of input and output needs
- Capital cost management
- When are two birds in the bush better than one in the hand

Ag Credit Situation in Summary....

- Farm land values beginning decline
- Farm lender stress to rise; Ag loans will not be the primary driver; driven by “Main Street” Consumer and Commercial loans.
- World wide economy will dictate the future of demand for commodities and therefore begin to impact agriculture if not corrected
- Credit availability will tighten and marginally capitalized banks and producers will become more vulnerable
- *The \$\$\$\$\$ question is “how long will it last?????”*



Questions

