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## Farmer Mac lists concerns: ethanol, dairy, timber, land prices

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Farmer Mac President and CEO Michael Gerber told *Agri-Pulse* Tuesday that he does not expect Farmer Mac's current moratorium on ethanol loan exposure to be extended to any other sectors of agriculture. But he and Farmer Mac Chief Operating Officer Tom Stenson listed dairy and forest products as other areas they're watching closely for signs of further deterioration.

Both Farmer Mac's second quarter results and USDA's new more lenient loan program policies were announced Monday – both indicating that agriculture's tough times may not be over yet. Stenson noted that even before Agriculture Secretary Vilsack announced new lending policies (<http://www.agri-pulse.com/uploaded/20090810H.pdf>), the lenders using the secondary market provided by Farmer Mac have been restructuring loans. He said Farmer Mac has responded by becoming “nimble and flexible in response to those lenders working with their customers.” Gerber pointed out that “agricultural lenders out there have been pretty good about talking about restructuring, about doing the right things with their customers to help them work through and not react first and foremost with foreclosure in mind.”

Gerber said that “in general the ag economy is solid.” But he acknowledged that “There's no question that prices have come down and there are stresses in sectors of the industry that we haven't seen recently, like dairy now and timber to some extent as the spillover in the general economy occurs.”

Farmer Mac's 10-Q lists clear signs of possible trouble ahead:

- “. . . based on the potential decline in the profitability of certain agricultural industries, Farmer Mac expects that delinquencies are likely to increase during the remainder of 2009 and beyond, although any such delinquencies and related credit losses are expected to remain within Farmer Mac's historical experience.”
- “To date in 2009, conditions in the agricultural sector have continued to be more stable than the national economy in general, but the sector is not insulated from the effects of the economic downturn. The agricultural sector is made up of diverse industries that respond in different ways to changes in economic

- conditions and, in fact, often compete with one another. While some industries continue to prosper, others, such as ethanol producers and the protein sector (i.e., cattle, poultry and pork producers) are being pressured by falling prices for their products and elevated input costs.”
- “The dairy sector continues to experience operating losses due to oversupply and the worldwide economic slowdown. . .”
  - “. . . significant portions of California and Texas are facing issues related to persistent drought. “
  - “Farmer Mac will continue to monitor closely developments in those industries and areas experiencing stress, but anticipates that loan problems in those industries and areas are likely to increase throughout 2009, which could lead to higher delinquencies, provisions for losses and charge-offs, although any such credit issues are expected to remain within Farmer Mac’s historical experience.”
  - “With respect to the agricultural operating and lending markets, recent farmland sales have not reflected the level of buyer confidence that has been evident over the past several years, as farm real estate values appear slightly lower in most U.S. agricultural regions.”
  - “Farm input costs and current commodity prices have significantly squeezed profits and the related demand for farmland, especially in the protein sector and stressed irrigation water areas. Additionally, non-farmer investors who bought farmland during the past several years contributed to the rise in farm real estate values over that time, and these farmland buyers are notably fewer under current economic and market conditions. Based on these factors, Farmer Mac does not expect the rapid farm real estate value appreciation of the past several years to continue in the near term.”

In one response to such concerns, the 10-Q notes, “Farmer Mac is not seeking to add more ethanol loan exposure to its portfolio.” Gerber calls that a one-off moratorium not likely to be applied to other sectors. He said that along with ethanol, dairy and timber are “really struggling.” But he explained that “Ethanol is a unique industry in terms of its size . . . and concentration within our portfolio and the difficulty in the secondary market of moving that risk off of our balance sheet and into the marketplace. We don’t have those same issues with any of the other sectors.”

For more information on Farmer Mac’s second quarter results, go to:

<http://www.agri-pulse.com/uploaded/20090811H.pdf>

To read Farmer Mac’s 86-page 10-Q released August 10, go to:

[http://sec.gov/Archives/edgar/data/845877/000114420409041728/v156970\\_10q.htm](http://sec.gov/Archives/edgar/data/845877/000114420409041728/v156970_10q.htm)