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**Financing Agriculture and Rural America:  
Issues of Policy, Structure, and Technical Change**

Proceedings of Regional Committee NC-221  
Louisville, Kentucky  
October 5-6, 1998

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April 1999  
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## PREFACE

This publication contains the papers presented at the 1998 annual meeting of the Regional Committee NC-221, "Financing Agriculture and Rural America: Issues of Policy, Structure, and Technical Change" (formerly Regional Committee NCT-173). The meeting was held at Farm Credit Services MidAmerica in Louisville, Kentucky on October 5 and 6, 1998.

The program included a keynote address by top managers of Farm Credit Services MidAmerica. There was also a panel session on "Issues and Developments in Rural and Agricultural Credit Markets." Neil Conklin of the Farm Credit Council, Mike Moore of the Federal Home Loan Bank, and Mike Novak of Farmer Mac participated in the panel session. Dr. Eric Hoiberg, Administrative Advisor of NC-221, made a presentation about the issues to be dealt with by Regional Committee NC-221. The program also included four selected paper sessions and a business meeting.

The program for this meeting was developed by Sergio H. Lence with assistance from Paul Ellinger. David Freshwater was instrumental in making the meeting arrangements. The committee gratefully acknowledges the local arrangements and generosity of the personnel at Farm Credit Services MidAmerica.

Cooperating agencies in the NC-221 project are the Agricultural Experiment Stations at Cornell University, Iowa State University, Kansas State University, Michigan State University, North Dakota State University, The Ohio State University, Texas A&M University, University of Arkansas, Purdue University, University of Illinois, University of Kentucky, and University of Minnesota, as well as University of Georgia, Pennsylvania State University, University of Guelph, Buena Vista University, the Federal Reserve Banks of Chicago and Kansas City, the Economic Research Service of the U.S. Department of Agriculture, Farm Credit Administration, Farm Credit Council, and Farmer Mac.

The materials in this document are also located on the internet at

<http://w3.ag.uiuc.edu/ACE/faculty/Ellinger/nc221.htm>

Sergio H. Lence  
NC-221 Vice-Chair, 1997-1998

## Table of Contents

NC-221 Annual Meeting Program	1
Minutes of the Meeting	3
Participant List	7
Impact of Interest Rate Swaps on Corporate Capital Structure: An Empirical Investigation/ <i>Yiang, Jian, George C. Davis, and David J. Leatham</i>	9
The Relationship Between Economic Value Added (EVA), and the Stock Market Performance of Agribusiness Firms/ <i>Turvey, Calum G., Linda Lake, Erna van Duren, and David Sparling</i>	26
Assessing the Financial Strength of Iowa's Farm Businesses/ <i>Jolly, Robert W., and Alan Vontalge</i>	51
The Determinants of Net Interest Rate Spreads for Farm Credit Direct Lending Associations/ <i>Dodson, Charles, and Marvin Duncan</i>	79
Evaluating Bankers' Expectations of Interest Rates on Farm Loans/ <i>Covey, Ted</i>	100
Do Seventh District Banks Use the Provision for Loan Losses to Smooth Income?/ <i>Singer, Mike</i>	118
Farm Household Savings/ <i>Mishra, Ashok K., and Mitchell J. Morehart</i>	148
Farm Operators' Utilization of Debt Repayment Capacity: A Leading Indicator of Farm Financial Stress/ <i>Ryan, James T.</i>	175
How Financially Stressed Are Current FSA Borrowers?/ <i>Dodson, Charles B., and Steven R. Koenig</i>	186
The Effects of a Federal Flat Tax on Kansas Agriculture/ <i>Elffner, Del D., Allen M. Featherstone, and Christine A. Cole</i>	206
The Impact of Bank Mergers on Canadian Farm and Rural Communities/ <i>Turvey, Calum G., David Sparling, and Erna van Duren</i>	230

**NC-221 Annual Meeting Schedule  
October 5 and 6, 1998  
Farm Credit Services MidAmerica  
Louisville, Kentucky**

**Monday, October 5**

- 8:00 – 8:30 Continental Breakfast, Compliments of Farm Credit Services MidAmerica
- 8:30 – 8:45 Opening Remarks, Paul Ellinger, Chair of NC-221
- 8:45 – 9:30 Welcome: Donnie Winters, CEO, Farm Credit Services MidAmerica
- 9:30 – 10:00 Break
- 10:00 – 11:30 Panel Session: Issues and Developments in Rural and Agricultural Credit Markets  
Neil Conklin, Farm Credit Council  
Mike Moore, Federal Home Loan Bank  
Mike Novak, Farmer Mac
- 11:30 – 12:30 Lunch, Compliments of Farm Credit Services MidAmerica
- 12:30 – 2:00 Selected Papers Session #1
- Yiang, Jian, George C. Davis, and David J. Leatham. "Impact of Interest Rate Swaps on Corporate Capital Structure: An Empirical Investigation."
- Turvey, Calum G., Linda Lake, Erna van Duren, and David Sparling. "The Relationship Between Economic Value Added (EVA), and the Stock Market Performance of Agribusiness Firms."
- Jolly, Robert W., and Alan Vontalge. "Assessing the Financial Strength of Iowa's Farm Businesses."
- 2:00 – 2:15 Break
- 2:15 – 3:45 Selected Papers Session #2
- Dodson, Charles, and Marvin Duncan. "The Determinants of Net Interest Rate Spreads for Farm Credit Direct Lending Associations."
- Covey, Ted. "Evaluating Bankers' Expectations of Interest Rates on Farm Loans."
- Singer, Mike. "Do Seventh District Banks Use the Provision for Loan Losses to Smooth Income?"
- 3:45 – 5:00 Remarks from Dr. Eric Hoiberg, Administrative Advisor of NC-221.
- Research Subcommittee Meetings.

**Tuesday, October 6**

8:00 – 8:30 Continental Breakfast, Compliments of Farm Credit Services MidAmerica

8:30 – 10:00 Selected Papers Session #3

Mishra, Ashok K., and Mitchell J. Morehart. "Farm Household Savings."

Ryan, James T. "Farm Operators' Utilization of Debt Repayment Capacity: A Leading Indicator of Farm Financial Stress."

Dodson, Charles B., and Steven R. Koenig. "How Financially Stressed Are Current FSA Borrowers?"

10:00 – 10:30 Break

10:30 – 11:30 Selected Papers Session #4

Elffner, Del D., Allen M. Featherstone, and Christine A. Cole. "The Effects of a Federal Flat Tax on Kansas Agriculture."

Turvey, Calum G., David Sparling, and Erna van Duren. "The Impact of Bank Mergers on Canadian Farm and Rural Communities."

11:30 – 12:30 Lunch (Local Restaurant)

12:30 – 2:00 Business Meeting and Research Subcommittee Reports

2:00 Adjourn

**Minutes to the NC-221 Annual Meeting  
October 5 and 6, 1998  
Farm Credit Services MidAmerica  
Louisville, Kentucky**

Prepared by Calum Turvey, Secretary, Department of Agricultural Economics and  
Business, University of Guelph,  
December 17, 1998

1. Eric Hoiberg, Administrative Advisor of NC-221 discussed the NC-221 Project raising the following points
  - NC-221 has produced valuable output and research in the previous year
  - the mix of academic and industry representatives was looked upon favourably
  - deliverables have been strong in terms of refereed journal output but committee members should attempt different modes of delivery such as popular press and extension material. Eddie LaDue commented that in fact a lot of extension work has been done but not reported since much of this would have gone through the experiment stations. It was recommended that NC-221 reports also include this work on non-academic outreach.
  - It was also suggested that the scope of the committee be expanded to include other related disciplines such as rural sociology. Eric indicated that he would contact colleagues at Iowa State University who are doing related work on rural/farm credit and sociology issues. David Freshwater indicated that NC-221 had identified these groups but found no one in particular who was academically related.
  - Notwithstanding, Eric's indication was that relative to other regional committees the finance committee has been particularly strong. But, he also indicated that other representations from outside the NC region be attracted/invited to the group.
  - Eric also suggested that there is some pressure/suggestion that NC-221 funds be used to lever financial resources in other areas.
  
2. Neil Conklin, Farm Credit Council announced the availability of scholarships and perhaps more at a future date.
  
3. The formal presentation of the conference commenced with presentations comprised of panel discussions and selected papers. A broad range of issues relating to agricultural finance, corporate finance, lending, and policy were presented. Representation included both academics, practitioners, and policy makers.
  - 1 panel session with 3 participants
  - 1 report with 1 participant
  - 10 selected papers with 22 coauthors.Topics are summarized as follows
  - Issues and developments in agricultural credit markets

- Interest rate swaps on corporate capital structure
  - Economic Value Added (EVA) in corporate agribusiness (Canada)
  - The farm credit situation in Iowa
  - Determinants of net interest rate spreads
  - Bankers' expectations of interest rates on farm loans
  - Income smoothing at rural banks
  - Farm household savings
  - Measuring debt repayment capacity
  - Participant profiles in USDA farm lending programs
  - The effects of a flat tax on agriculture
  - The impacts of Canadian bank mergers on agriculture and rural communities
4. NC-221 Executive: A motion was approved for the 1999/2000 executive as follows
- Sergio Lence (Iowa State University) from Vice Chair to Chair
  - Calum Turvey (University of Guelph) from Secretary to Vice Chair
  - Jeffrey Stokes (Pennsylvania State University) to Secretary
5. The location committee agreed that Calum Turvey would find a sponsor in Guelph or Toronto for the 1999 meeting. The date will likely be in late September or early October. It was agreed that Monday and Tuesday are the best days to meet. This would suggest the following dates of September 28-29 or October 4-5, with October 4-5 being the most likely selection. Mike Singer, Chicago Fed has offered an alternative for 1999 or for 2000, which can be used as a backup plan should foreign travel or other complications arise with the Canadian site.
6. Paul Ellinger and Al Featherstone discussed 'sectioning' within the AAEA. Fifty people are required to establish a section. Sectioning will allow for more control over selected papers, principle papers, organized symposia etc at the AAEA annual meeting. The 50 person requirement could probably be achieved with the existing list. Featherstone suggested that a committee be struck to investigate sections and report back in 1999. Discussion was favourable.
7. Subcommittee reports:
- Objective 1 Group:* Develop a proposal for an invited papers session for the AAEA meeting. Sergio Lence will take the lead in putting this proposal together with assistance from Allen Featherstone. First Paper: build on Bob Jolly's paper examining the survival of Iowa producers with comparable data from Kansas (Featherstone), Kentuck (Freshwater), New York (LaDue), Michigan (Hanson), Illinois (Sherrick), North Dakota (Gustafson), Minnesota (Pederson), Indiana (Baker), and Pennsylvania (Stokes). Second Paper: 1996 and 1997 were very good Farm Income Years: Where did the Money Go? Examine levels of investment, debt payment, and land values.



Forecast what may happen in bad years. Examine at state, regional and national levels. Dr. Freshwater has \$500,000 of grants and contract which support the objectives of NC221. He is also willing to develop a statement of philosophy if needed.

- a. In regard to development of the risk management simulation models, we defer to Group 2 discussants as Jim Baker is taking the lead on the risk model. Neither David Leatham or Glenn Pederson were here to report on their effort.
- b. Tax policies and reform - members are looking forward to having access to David Lens model to examine the tax impacts.
- c. Role of Public and Quasi-Public Institutions - Jeff Stokes is interested in how the Farm Credit system might change its products to adjust to the need of borrowers. He would like to hear from anyone interested in joining him. None of the research on committed institutions met with Group 1. However, David Freshwater is conducting a study of Equity Finances in Rural Areas through the surveying of 25 primary investors - venture capitalists, coops, etc. His results will be reported to the Kansas City Fed on Thursday, October 8.
- d. Government Sponsored Enterprise and Securities - not addressed.
- e. Impacts of monetary, fiscal, or policies multi state survey of corporation law - not addressed.

*Objective 2 Group:* Subcommittee 2 met and discussed plans for each of the 3 included subobjectives. For part (a), *"Identify the financial structure and resource needs..."* it was decided to concentrate on measurement and documentation of the current conditions of agricultural producers. In light of the ongoing concern over "stress" in the sector, it was decided to also support a proposal for an Organized Symposium proposal at the AAEA meetings. Development of a context and additional perspectives for the current stress will include Iowa State and USDA participants. If appropriate, the other stations can then be brought in to generalize and extend the information.

For part (b), *"Identify the effects of structural changes on loan price and availability, operating efficiency, risk bearing capacity..."*, discussion centered on the financial capacity of more integrated operations and appropriate lender evaluations under coordinated production arrangements. Likewise, the evolving structure of banks involved in agriculture was considered. It was determined that this objective would be begun by documenting the changing compositions of banks with agricultural portfolios, and over time would add in components that more directly consider evaluation of underwriting and credit worthiness of vertically coordinated or integrated operations.

For part (c), *"Nontraditional Lenders – Identify practices, effects, and importance for input suppliers, individuals, and other unregulated lenders to gain a growing share of the ag credit market"*, two approaches were identified. Purdue is undertaking a farmer-level survey to investigate reasons for utilizing nontraditional sources of

credit. Illinois will help develop a survey document that other individual stations can help implement to identify nontraditional lenders in the various regions. Then, additional information can be collected and their activities more easily monitored through time.

**Attendees at NC-221 Annual Meeting  
October 1998**

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