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



Proceedings of NC-221 Annual Meeting Farm Credit Administration McLean, Virginia October 1-2, 2001

James T. Ryan, USDA/ERS, Coordinator

Center for Farm and Rural Business Finance

Report 02-F-221

University of Illinois, Urbana, IL 61801

July 2002

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NC-221 Annual Meeting Schedule
October 1 and 2, 2001
Farm Credit Administration
McLean, Virginia

Monday, October 1

- 8:00 – 8:30** **Continental Breakfast**
- 8:30 – 8:45** **Welcome and Introductory Remarks**
Jim Ryan, Vice-Chairman, NC-221
Mike Reyna, Chairman, Farm Credit Administration
- 8:45 – 9:45** **Agricultural Policy in the 21st Century—US and OECD Perspectives**
Introductions - Kitty Smith, Director, Resource Economics Division, USDA/ERS
JB Penn - Under Secretary for Farm and Foreign Agricultural Services, USDA
Joe Dewbre – Senior Economist, Agricultural Directorate, OECD
- 9:45 – 10:15** **Break**
- 10:15 – 11:45** **Invited Speakers**
- 10:15 – 10:40 The Rural Economy in the 21st Century
 Mark Drabentstott - Center for the Study of Rural America, KC FRB
- 10:40 – 11:00 Bankers’ Views of Current Conditions
 John Blanchfield – Director, Center for Agricultural and Rural Banking
 - American Bankers Association
- 11:00 – 11:25 Bioproducts and Bioenergy: New Opportunities for Farmers and Rural America
 Marvin Duncan - USDA
- 11:25 – 11:45 FCA Policy Initiatives for Enhancing Credit for Rural America
 Mike Dunn – FCA, Office of Policy and Analysis
- 11:45 – 12:45** **Lunch**
- 12:45 – 1:15** **Invited Speaker**
Crop Insurance
 Joe Glauber - USDA
- 1:15 – 2:30** **Selected Papers Session #1**
1. Chuck Mason, Dermot J. Hayes, and Sergio H. Lence, “Systemic Risk in U.S. Crop and Revenue Insurance Programs”
2. Bruce Sherrick. “The Accuracy of Producer Expectations: Evidence and Implications for Insurance Valuation”

3. B.A. Gloy and T.G. Baker. “The Importance of Financial Leverage and Risk Aversion in Risk Management Strategy Selection.”

2:30 – 2:45

Break

2:45 – 4:00

Selected Papers Session #2

1. Thomas L. Sporleder and LeeAnn E. Moss. “Capital Structure Decisions of U.S.-Based Food Processing Firms: A Transaction Cost Economics Perspective”
2. Bernard K.N. Armah and Timothy A. Park. “Agricultural Bank Efficiency and the Role of Managerial Risk Preferences”
3. Ashok K. Mishra, Charles B. Moss, and Kenneth Erickson. “Valuing Farmland with Multiple Quasifixed Inputs”

4:00 – 5:00

**Dr. Eric Hoiberg - Administrative Advisor, NC-221
NC-221 Subcommittee Meetings**

Tuesday, October 2

7:30 – 8:00

Continental Breakfast

8:00 – 8:30

Agricultural Policy in the 21st Century

Introduction – Phil Fulton, Associate Administrator, USDA/ERS
Charles Stenholm - U.S. House Committee on Agriculture

8:30 – 10:15

New Approaches for Measuring/Modeling Capital in Financial Institutions

Invited Presenters:

Capital Management and Regulatory Change

Peter J. Barry - University of Illinois

Credit Risk Issues in Capital Evaluation

Paul N. Ellinger - University of Illinois

The New Risk-Based Capital Model for Farmer Mac

Andrew D. Jacob - Farm Credit Administration

10:15 – 10:30

Break

10:30 – 11:45

Selected Papers Session #3

1. Steven Koenig and Charles Dodson. “Regional Demand for FSA Direct Farm Loan Programs”
2. Sharon K. Bard, Mike Boeljhe, and Dawn Craig. “Borrower Preferences in the Agricultural Credit Market: A Conjoint Analysis”
3. LeeAnn E. Moss, Peter J. Barry, Gary D. Schnitkey and Randall E. Westgren. “A Transaction Cost Economics and Property Rights Theory Approach to Farmland Lease Preferences”

11:45 – 12:45

Lunch

12:45 – 2:00

Business Meeting and Subcommittee Reports

2:00

Adjourn

Minutes of NC-221

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

Covering: October 2000 – September 2001

Report as of December 1, 2001

Annual Meeting: October 1-2, 2001

Administrative Advisor:

Dr. Eric Hoiberg

Chair:

Dr. Jeffrey Stokes
Pennsylvania State University
208A Armsby Building
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Vice-Chair:

Dr. Jim Ryan
USDA-ERS
1800 M Street, NW
Washington, DC 20036

Secretary:

Dr. Matthew Diersen
South Dakota State University
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Brookings, SD 57007

Participants:

Brent Gloy – Cornell, Eddy LaDue – Cornell, Steve Hanson - Michigan State University, Allen M. Featherstone - Kansas State University, Matthew A. Diersen - South Dakota State University, Sergio H. Lence - Iowa State University, Glenn Pederson - University of Minnesota, Bruce Ahrendsen - University of Arkansas, Bruce Dixon - University of Arkansas, Bruce Sherrick - University of Illinois, Ani Katchova - University of Illinois, Eric Hoiberg - Iowa State University, Brian Brinch - Farmer Mac, Jim Johnson - USDA/ERS, Patrick Sullivan - USDA/ERS, Ashok Mishra - USDA/ERS, Jim Ryan - USDA/ERS, Ted Covey - USDA/ERS, Steve Koenig - USDA/ERS, Bob Collender - U.S. Government, Jim Monke - USDA/ERS, Ken Erickson - USDA/ERS, Dennis Shields - USDA/ERS, Mike Novak - Farmer Mac, LeeAnn Moss - Ohio State University, Sharon Bard - Ag. Ed. & Consulting, Timothy Park - University of Georgia, Paul Ellinger - University of Illinois, Peter Barry - University of Illinois, Andrew Jacob - Farm Credit Administration, Cole Gustafson - North Dakota State University, Loren Tauer – Cornell University, Kitty Smith - USDA/ERS, Phil Fulton - USDA/ERS, John Moore Farm Credit Administration

Annual Meeting Minutes

The 2001 Annual Meeting of NC-221 was held October 1 and 2 in McLean, Virginia, at the Farm Credit Administration Building. The meeting was called to order at 8:30 on October 1 by Vice Chairman Jim Ryan, substituting for Chairman Jeff Stokes, who was unable to attend. Mike Reyna, Chairman of Farm Credit Administration, greeted and complimented the committee and encouraged more work in the area of land valuation.

The morning sessions featured invited speakers that addressed various aspects of agricultural policy. On the first morning, J.B. Penn, of USDA, offered a perspective on the relationship

between domestic farm policy and international trade policy. He described the policy manuscript produced by USDA where they move beyond the commodity perspective towards agriculture. Joe Dewbre of Organization for Economic Co-operation and Development (OECD) followed with an assessment of OECD and its view of trade negotiations and various farm payments.

The rest of the morning and early afternoon featured additional invited speakers. Mark Drabenstott, with the Center for the Study of Rural America, expressed the need for a policy for rural development. He stressed the need for looking at regional competitiveness when examining new opportunities for economic growth. John Blanchfield, with the American Bankers Association, shared the concerns that bankers have over the continuation of government payments to agriculture. Marvin Duncan, of USDA, stressed the importance that biological advances may present to investors in rural America. Mike Dunn, with Farm Credit Administration, examined capital and financial risk management regulatory changes and commented on the state of investing in rural America. Joe Glauber, of USDA, gave a history of crop insurance and offered insights into the relationship between crop insurance and disaster assistance.

Two selected paper sessions were held in the afternoon. A third selected paper session was held on Tuesday morning. Selected papers presented over the two days were a mix of results from academic and more applied research projects relating to the objectives of the NC-221 project. In all, 9 papers were presented, reflecting the contributions of 22 co-authors. Topics included:

- Systematic Risk in U.S. Crop and Revenue Insurance Products
- The Accuracy of Producer Expectations
- The Importance of Financial Leverage and Risk Aversion
- Capital Structure Decisions of U.S.-Based Food Processing Firms
- Agricultural Bank Efficiency and the Role of Managerial Risk Preferences
- Valuing Farmland with Multiple Quasifixed Inputs
- Regional Demand for FSA Direct Farm Loan Programs
- Borrower Preferences in the Agricultural Credit Market
- Farmland Lease Preferences

Eric Hoiberg, Administrative Advisor to NC-221, discussed the project, and indicated that while the research reflected strong collaboration and high productivity, it could benefit from assessing its societal impact. The importance of influencing policy was stressed, as was the need for a broader-based agenda, perhaps looking for a more interdisciplinary orientation.

A subcommittee met to discuss and address committee objectives 1) Determine the effects of changes in federal and state policies affecting agriculture on the financial and economic performance of farm and rural non-farm businesses and rural financial markets and 2) Identify and evaluate the costs and benefits of structural changes in production agriculture, rural non-farm businesses, and rural financial markets. Brent Gloy reported for this subcommittee.

Several members were present and conducting work in this area. Members present were: Bruce Ahrendsen, Bob Collander, Jim Ryan, Sharon Bard, Ani Katchova, Steven Hanson, LeeAnn Moss, Brent Gloy, Allen Featherstone, and Glenn Pederson.

Bruce Ahrendson discussed projects that examined the relationship between farm policy and cash rents, farm bankruptcies in the United States, and commercial bank consolidation. Bob Collander reported on ERS's activities which included studying the impact of broadening of the Federal Home Loan Bank's mission and federally supported lending. Jim Ryan also mentioned that the AELOS data set is now available for research work. One might recall from last year's meeting that the data comes from a questionnaire that was sent to 40,000 farmers and 10,000 landowners. Sharon Bard discussed a farmer research panel that her firm ran and offered that there was the potential to possibly examine some issues with this group. Ani Katchova discussed work on land values and the farm level factors that influence debt use. Steve Hanson described projects on crop insurance, specifically revenue and yield insurance. LeeAnn Moss articulated several research projects, which involved studying governance issues in the supply chain and strategic management issues facing Ohio producers. Allen Featherstone discussed research on tax, insurance, and farm performance issues. Glenn Pederson's research projects included evaluating restructurings of the Farm Credit associations, farm exits, and credit risk management.

Group members agreed to develop either an organized symposia or principal papers session for the summer meetings of the American Agricultural Economics Association or the winter meetings of the Allied Social Sciences Association. The basic idea of the paper session was to consider the impact of government programs on the farm sector. Brent Gloy agreed to coordinate efforts on this project. Allen Featherstone and Bruce Ahrendson agreed to forward Gloy copies of previously successful principal paper sessions. Since the meeting Ahrendson and Featherstone have both forwarded copies of previous proposals. It was decided to recommend a principal paper session at the winter meetings.

A second subcommittee met to discuss and address committee objective 3) Measure the effects of technical change on rural financial products, services, and firm decision making. Paul Ellinger reported for this subcommittee. Peter Barry, Bruce Sherrick, Paul Ellinger, and Eddy LaDue were present for this subcommittee.

The discussion focused on the Agricultural Banking Technology Survey developed at the University of Illinois. The subcommittee also discussed the progress made on capital management issues addressed in the organized symposium. It was decided to recommend a principal paper session for the AAEEA annual meeting.

The second morning began with an address by Representative Charles Stenholm, U.S. House Committee on Agriculture. Rep. Stenholm gave an overview of the House agriculture bill and its content related to target prices and conservation.

A symposium, organized by Bruce Sherrick, followed that addressed new approaches for measuring and modeling capital in financial institutions. Peter Barry began with a presentation on capital management and regulatory change. Paul Ellinger followed with a presentation on credit risk issues in capital evaluation. Andrew Jacob finished the session with a presentation on a new risk-based capital model for Farmer Mac.

The third selected paper session was followed by the business meeting. The committee agreed to endorse a proposed principal paper session on capital management. The committee agreed with the sub-committees' suggestions for the location for next year's meeting and for the future officers.

During the business meeting, Eddy LaDue encouraged submissions for Ag Finance Review. Possible topics include: Financing and Exports, Rural Policy Problems, Land Values, Crop Insurance, Farm Bill Impacts, and Bank and Lending Institutions.

Date and Location of Next Year's Meeting

The chair appointed a committee to determine a suitable location for the 2001 meeting. The committee was composed of Bruce Sherrick and Matthew Diersen. Tentative plans are to have the 2002 meeting in the Kansas City area on October 1-2, 2002. A possible venue mentioned was the Kansas City Federal Reserve Bank. Bank representatives have been contacted about hosting our meeting. Denver, possibly CoBank, has been mentioned as an alternative location.

Current and Future Officers

The chair appointed a committee, composed of Allen Featherstone and Sergio Lence, charged with making nominations for new leadership for the project. It was unanimously decided that Jim Ryan (United States Department of Agriculture) would be the Chairman, Matthew Diersen of South Dakota State University Vice Chairman, and Brent Gloy would be the Secretary presiding over the project during the next year.

Submitted by:

Matthew Diersen
NC-221 Secretary

Regional Research Project NC-221 Conference
**“Financing Agriculture and Rural America: Issues of Policy,
Structure and Technical Change”**
FCA Chairman Michael Reyna’s Welcoming Remarks

October 1, 2001

Good Morning. Welcome to the headquarters of Farm Credit Administration, also known as the FCA. I am your host, Mike Reyna, Chairman and CEO of the FCA. It is an honor for me and for the rest of the FCA to be your host for this conference. If there is anything we can do to facilitate your conference and its proceedings, I hope you will let me, Dr. John Moore, our Chief Economist and liaison with NC-221, or one of my staff, know.

I want to take this opportunity to express our appreciation and commend you for the work that the Regional Research Committee for the Agricultural Finance Community does. When I first looked at your committee’s title, I was wondering which region we were dealing with, but I realize from looking at your program and past proceedings that the term regional has little relevance for the focus of your research or the source of your membership. I would like to take the time to recognize each of you personally. Many of you I have worked with closely and there are many of you that I would like to work with in the future. I want to recognize:

- Congressman Charlie Stenholm, with whom I have visited on several occasions, for his dedication and commitment to farm and rural policy making,
- Dr. JB Penn, who has recently left the nearby environs of McLean, where he was a familiar face and major contributor at many FCA meetings and conferences, and
- Dr. Marvin Duncan, one of our former colleagues, who served as an FCA Board member and as FCA’s Chairman and CEO.

In reviewing your objectives I was so impressed that I felt an immediate affinity for them. As my FCA colleague, Mike Dunn will explain later this morning, these are issues that the Farm Credit System and the FCA relate to very well, many of which are incorporated in our current agenda. Briefly, these research objectives are:

- 1) The determination of the effects of changes in federal and state policies affecting agriculture on the financial and economic performance of farm and rural nonfarm businesses and rural financial markets;
- 2) The identification and evaluation of the costs and benefits of structural changes in production agriculture, rural nonfarm businesses, and rural financial markets; and
- 3) The measurement of the effects of technical change on rural financial products, services, and firm decision making.

The study of these issues is particularly relevant at this time – both:

- because of the financial stress that rural businesses and agricultural enterprises are experiencing during a period of great economic and political uncertainty - nationally and globally, and also
- because of the pending legislative opportunities associated with the upcoming farm bill.

I am impressed with the sudden shifts in the agriculture sector and its environment in the last several years. We have gone from a period of relative agricultural prosperity in the early nineties - to a period of heavy reliance on government support payments. During this latter period, we have seen a government surplus suddenly appear and which may now quickly disappear. We are now facing a period of shifting national priorities and economic uncertainty that will make us look more closely at how we spend Federal revenues. I believe this will impact agriculture and rural economic development.

I am sure that you, like me, noticed the administration's recent study on "Food and Agriculture Policy." It is noteworthy for several things:

- It takes a more global perspective of agriculture and the environment within which it exists.
- It distinguishes between the needs of the farm sector and those of rural economies, and
- It contains no specific recommendations for farm support programs, rather it contains a critique of past programs and lists the problems they have created in an effort to solve others.

It is this last point that I find particularly significant. The point is that we simply do not have the answers to the challenges we face today. Hence your research is particularly timely and relevant.

I would like to make one more observation. In light of the recent terrorist activity on our own American soil, I have observed a return to basic values, a greater patriotism and appreciation for the freedoms we enjoy and a greater unity as a nation. I do not mean to imply that we take them for granted. But I think our gratitude often goes unexpressed. My point is this - we, as a free land, are blessed with an ability to independently sustain ourselves in large part because of the agricultural capabilities and resources we enjoy. Our agricultural resources are necessary to help us successfully face the challenges ahead in this ever-changing global environment. And I believe at times like these, this contributes directly to our success as a freedom-loving nation.

So, let me return to my initial observation. Your objectives are laudable and your work, with its strong problem-solving focus, is essential to a successful and prosperous domestic agriculture and rural economic development. And a successful and prosperous agriculture is essential to our success as a nation, perhaps now more than ever before.

I hope you have a successful and a rewarding conference.