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Agricultural and Rural Finance Markets in Transition

Proceedings of Regional Research Committee NC-1014
Minneapolis, Minnesota
October 3-4, 2005

Dr. Christine Wilson, Editor

Staff Paper #06-03

**March 2006
Dept. of Agricultural Economics
Purdue University
403 West State Street
West Lafayette, Indiana 47907-2056**

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Preface

This publication contains the papers presented at the 2005 annual meeting of the Regional Research Committee NC-1014, “Agricultural and Rural Finance Markets in Transition”. The meeting was held at the Federal Reserve Bank of Minneapolis in Minneapolis, Minnesota on October 3 and 4, 2005.

The program included a keynote address by Richard Todd, Vice President-Community Affairs, Federal Reserve Bank of Minneapolis. The program also included fifteen selected paper sessions, three industry presentations, and a business meeting.

The program for this meeting was developed by Christine Wilson with assistance from Richard Todd, Ani Katchova, Brent Gloy, and Paul Ellinger. The committee gratefully acknowledges the local arrangements and generosity of the personnel at the Federal Reserve Bank of Minneapolis.

Cooperating agencies in the NC-1014 project are the Agricultural Experiment Station at Cornell University, Iowa State University, North Dakota State University, The Ohio State University, Kansas State University, South Dakota State University, Clemson, University of Georgia, Michigan State University, Pennsylvania State University, Texas A&M University, University of Arkansas, Purdue University, University of Illinois, and University of Minnesota, as well as Auburn University, Rutgers University, University of Florida, the Federal Reserve Bank of Minneapolis, the Federal Reserve Bank of Kansas City, the Economic Research Service of the U.S. Department of Agriculture, and the Farm Service Agency.

The materials in this document are also located on the internet at: <http://www.ace.uiuc.edu/agfin/>

Dr. Christine Wilson
NC-1014, Chair 2006

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NC-1014 Agricultural and Rural Finance Markets in Transition
Annual Meeting Schedule
October 3-4, 2005
Federal Reserve Bank of Minneapolis

Monday, October 3, 2005

- 8:30-8:45 a.m. Introductory Remarks**
Opening Remarks
Christine Wilson, Purdue University
- Welcome
Richard Todd, Vice President-Community Affairs, Federal Reserve Bank of Minneapolis
- 8:45-9:30 a.m. Changes in the Community Reinvestment Act Affecting Rural Areas and Small Banks**
Lisa DeClark, Federal Reserve Bank of Minneapolis
- 9:30-10:30 a.m. Evaluating the Performance of Farm Service Agency and Non-Traditional Financial Institutions**
- Farm Service Agency Direct Farm Loan Volumes and Market Penetration by Farm Size, Socially Disadvantaged, and Beginning Farmer Cohorts, 2000-2003
O. John Nwoha, Bruce L. Ahrendsen, Bruce L. Dixon, Eddie C. Chavez and Daniel M. Settlege, University of Arkansas
- Governance in Rural Community Development Financial Institutions
Valentina Hartarska, Auburn University
- Comparing the Loan Performance of Direct and Guaranteed Farm Service Agency Loans
Steven Koenig and Charles Dodson, Farm Service Agency
- 10:30-10:45 a.m. Break**
- 10:45-11:45 a.m. Current Issues in Credit Risk**
- Credit Risk Migration Patterns of Agricultural Loans
Andrew Behrens and Glenn Pederson, University of Minnesota
- Pricing Agricultural Loans to Account for Long-Term Default Risk
Michael Gunderson, Purdue University, Brent Gloy, and Eddy LaDue, Cornell University
- Factors Affecting the Agricultural Loan Decision Making Process
Allen Featherstone, Kansas State University, Christine Wilson, Purdue University, Terry Kastens, and John Jones, Kansas State University

11:45 -12:45 p.m.	Lunch
12:45-1:45 p.m.	<p>Investor Expectations, Financial Performance, and Management of Farmer Owned Agribusinesses</p> <p>Impact of Perceptions and Practices on the Financial Performance of Texas Cooperatives <i>Amy Hagerman, David Leatham, and John Park, Texas A&M University</i></p> <p>Investors' Expectations of Equity for New Generation Cooperatives and Limited Liability Companies and Implications on Performance <i>Chancel Akono Ada, William Nganje, Simeon Kaitibie, and Cole Gustafson, North Dakota State University</i></p> <p>Dynamic Dividend and Investment Decisions in Value Added Firms: An Application to Farmer Owned Ethanol Plants <i>Jianhua Zhu, Robert W. Jolly, Iowa State University</i></p>
1:45-2:00 p.m.	Break
2:00-3:00 p.m.	<p>Farm Income, Wealth, and Debt Use—Evidence from National Surveys</p> <p>Debt-Equity Structure and Risk Balancing by Farm Businesses <i>Ashok Mishra, ERS-USDA, Charles Moss, University of Florida, and Timothy Baker, Purdue University</i></p> <p>A Comparison of Farm and Nonfarm Households <i>Ani L. Katchova, University of Illinois</i></p> <p>Estimating and Forecasting Imputations in U.S. Agriculture's Value Added Accounts: The Case of Rent <i>Ted Covey and Mitch Morehart, ERS-USDA</i></p>
3:00-4:15 p.m.	<p>NC-1014 Business Meeting</p> <p>Remarks from John Gardner, Administrative Advisor of NC-1014</p> <p>Research Subcommittee Meetings</p>
4:15-5:00 p.m.	Research Subcommittee Reports
5:00 p.m.	Adjourn

Tuesday, October 4, 2005

8:30- 9:30 a.m. **Application of Basel II Concepts to an Agricultural Lending Operation**
Ross Anderson, Vice President-Credit, AgriBank, FCB

9:30-9:45 a.m. **Break**

9:45-10:45 a.m. **The Impact of Urban Development on Land Values and Case Studies of Entrepreneurship**

The Impact of Fringe Growth on Farm Investment Decisions
Michael P. Brady, D. Lynn Forster, and Nick Gardner, The Ohio State University

Estimating the Market Value of Agricultural Land in Kansas Using a Combination of Hedonic and Negative Exponential Techniques
Leah Tsoodle, Allen Featherstone, and Bill Golden, Kansas State University

Entrepreneurship and The Neo-Classical Model of Economics: A Reality Check from Eight Case Studies of New Jersey Food Industry Start-Ups
Calum Turvey, Cornell University and Cris Pires, Rutgers University

10:45-11:00 a.m. **Break**

11:00 -12:00 p.m. **Financing Livestock Producers**
Dan Glienke, Director of Business Development, Land O'Lakes Finance Company

12:00-1:00 p.m. **Lunch, Summary and Adjourn**

Minutes of NC1014

Agricultural and Rural Finance Markets In Transition

Covering: October 2004 – September 2005

Annual Meeting: October 3-4, 2005

Administrative Advisor:

Vacant

Chair:

Dr. Timothy Park
University of Georgia
Department of Ag. and Applied
Economics

Vice-Chair:

Dr. Christine Wilson
Purdue University
Department of Agricultural Economics
West Lafayette, IN 47907

Secretary:

Dr. Ani Katchova
University of Illinois
Department of Ag. and Consumer
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Urbana, IL 61801

Participants:

Bruce Ahrendsen (University of Arkansas), Ross Anderson (AgriBank), Anna Arkhiereeva (University of Minnesota (visitor)), Andy Behrens (University of Minnesota), Michael Brady (Ohio State University), Theodore Covey (ERS-USDA), Lisa DeClark (Federal Reserve Bank of Minneapolis), Matthew Diersen (South Dakota State University), Bruce Dixon (University of Arkansas), Dimitrina Dohcheva (University of Minnesota (visitor)), Paul Ellinger (University of Illinois), Cesar Escalante (University of Georgia), Allen Featherstone (Kansas State University), Dan Glienke (Land O'Lakes Finance Company), Brent Gloy (Cornell University), Mike Gunderson (Purdue University), Cole Gustafson (North Dakota State University), Amy Hagerman (Texas A&M University), Valentina Hartarska (Auburn University), Larry Janssen (South Dakota State University), Robert Jolly (Iowa State University), Ani Katchova (University of Illinois), Steve Koenig (USDA/FSA), Don Won Lee (South Dakota State University), Sergio Lence (Iowa State University), Driss Mehouchi (University of Minnesota (visitor)), Richard Meyer (Ohio State University), Ashok Mishra (ERS-USDA), Mitchell Morehart (ERS-USDA), Charles Moss (University of Florida), William Nganje (North Dakota State University), Raphael Onyeaghala (Southwest Minnesota State University), Glenn Pederson (University of Minnesota), Josh Roe (Kansas State University), Richard Sawyer (Farmer Mac), Bruce Sherrick (University of Illinois), Richard Todd (Federal Reserve Bank of Minneapolis), Cal Turvey (Cornell University), Christine Wilson (Purdue University), Zhu Jianhua (Iowa State University).

Annual Meeting Minutes
October 3-4, 2005

The 2005 Annual Meeting of NC-1014 was held October 3rd and 4th in Minneapolis, Minnesota at the headquarters of the Federal Reserve Bank of Minneapolis. The meeting was called to order at 8:30am on October 3rd by Vice-Chair Christine Wilson. She commented on the outline and the procedures for the annual meeting. Richard Todd of the Federal Reserve Bank of Minneapolis welcomed everyone to the meeting and the Federal Reserve Bank. Lisa DeClark of the Federal Reserve Bank of Minneapolis made a presentation about the recent changes in the Community Reinvestment Act. In her presentation, she discussed the Community Reinvestment Act and its effect on rural areas and small banks. She also outlined the examination methods for small, intermediate, and large banks.

The participants spent the rest of the morning and part of the afternoon in four sessions of selected papers. The papers presented in these sections addressed the objectives of NC1014 [NCT-194/NC221] and were the products of the work of NC1014 [NCT-194/NC-221] members along with invited participants from government research groups. A total of 12 papers were presented during the four sessions. Many of these papers were the product of multi-state, multi-institution collaborations. The specific topics covered by these papers and discussions included:

Evaluating the Performance of Farm Service Agency and Non-Traditional Financial Institutions

Farm Service Agency Direct Farm Loan Volumes and Market Penetration by Farm Size,
Socially Disadvantaged, and Beginning Farmer Cohorts, 2000-2003
Performance and Governance of Community Development Financial Institutions
Measuring the Performance of Farm Service Agency Farm Loan Programs

Current Issues in Credit Risk

Credit Risk Migration Patterns of Agricultural Loans
The Impact of Credit Risk and Loan Volume on the Value of Agricultural Lending
Relationships
Factors Affecting the Agricultural Loan Decision Making Process

Investor Expectations, Financial Performance, and Management of Farmer Owned Agribusinesses

Impact of Perceptions and Practices on the Financial Performance of Texas Cooperatives
Investors' Expectations of Equity for New Generation Cooperatives and Limited Liability
Companies
Dynamic Dividend and Investment Decisions in Value Added Firms: An Application to
Farmer Owned Ethanol Plants

Farm Income, Wealth, and Debt Use—Evidence from National Surveys

Debt-Equity Structure and Risk Balancing: Evidence from a National Survey

A Comparison of Farm and Nonfarm Households

Estimating and Forecasting Imputations in U.S. Agriculture's Value Added Accounts:
The Case of Rent

During the rest of the afternoon, the group held its business meeting. During the meeting, the group reviewed its project objectives, planned and assessed the work on each objective, began preparations for the 2006 meeting, and nominated and elected new officers for the upcoming year.

The participants adjourned to small group sessions to develop work plans and projects for each of the four project objectives. The objectives of the research group are:

- 1) Determine the effects of changes in international competitive balance and federal and state policies affecting agriculture on the financial and economic performance of farms, agribusinesses and rural financial markets;
- 2) Determine the effects of market, policy, and structural change in the agricultural and financial market sectors on the financial soundness, safety, and management of financial institutions that supply financial capital to agriculture;
- 3) Evaluate the management strategies, capital needs, and financial performance required for the long-term sustainability of firms in the food and agribusiness sector;
- 4) Develop linkages between emerging issues in rural finance and development and the role of social capital and rural entrepreneurship. Measure the impact of social capital on the economic development and performance of agricultural and rural communities.

The participants reconvened into the entire group and each of the four objective-focused groups reported on research progress during the past year and presented plans for research projects for the next year.

The nominations committee presented nominations to the group for a new chair, vice-chair, and secretary. Elections were held. Chair will be Dr. Christine Wilson, Purdue University; Vice Chair will be Dr. Ani Katchova, University of Illinois; and Secretary will be Dr. Valentina Hartarska, Auburn University.

The location committee and the rest of the participants recommended that next year's meeting be held October 2-3, 2006 in Washington, DC. Possible sites are ERS, USDA and the Farm Bureau. An alternative site is the Federal Reserve Bank of St. Louis.

Calum Turvey, Cornell University was welcomed as the new editor of the *Agricultural Finance Review*. New paper submissions for the AFR should be directed to him. He

reported that the AFR is currently indexed in EconLit and that he will be exploring opportunities for electronic submissions of manuscripts, electronic availability of the journal, and including the AFR in the Social Sciences Citation Index. The Spring 2006 issue of the AFR will include invited papers addressing the Bankruptcy Act. Cal Turvey also made a call for invited papers in the development and microfinance area for the Fall 2006 AFR issue.

Bruce Sherrick, University of Illinois reported on the special issue of *Agricultural Finance Review*, which focuses on the research in agricultural finance that has been conducted over the last thirty years. Topics areas include: farm financial structure; portfolio risk management; agricultural risk management; farmland and asset valuation and performance; structure, performance, and risk measurement of financial institutions; macro, commodity, and tax effects; government credit programs; and credit evaluation in agriculture. A pre-conference session was held at the 2005 American Agricultural Economics Association (AAEA) meetings. A CD is available which includes the papers presented at the pre-conference and previous proceedings of the NC1014[NCT-194/NC221] annual meetings; to obtain a copy of the CD or for more information please contact Bruce Sherrick. Bruce Sherrick and Paul Ellinger will work on posting all available previous proceedings on the NC1014 website. Bruce Sherrick, the editor for the special issue of the *Agricultural Finance Review*, reported that the eight manuscripts are sent out for reviews. The deadline for reviewer responses is October 6, 2005. Authors will have a month to make the necessary revisions.

Christine Wilson will assemble the 2005 NC-1014 proceedings. Papers presented at this meeting should be sent to Christine Wilson by December 1, 2005.

Christine Wilson reported that the NC-1014 administrative advisor, John Gardner, has resigned. Nominations and suggestions for a new administrative advisor can be addressed to Christine Wilson or Ani Katchova. The administrative advisor needs to be an Experimental Station Director of the North Central region.

Christine Wilson reported that Jane Schuchardt, our CSREES-USDA representative, has expressed an interest to attend future NC-1014 meetings.

The second day of the meeting began with a presentation by Ross Anderson, AgriBank on the research and application of the Basel II concepts in AgriBank. He discussed the general concepts of the Basel II, the procedure for the calculations of allowance and economic capital, and the research and operational issues currently examined by AgriBank. Dan Glienke, Land O'Lakes Finance Company provided a general overview of the Land O'Lakes company and discussed the current practices of financing livestock producers.

The participants spent the remainder of the day in one session of selected papers and discussions. The specific topics covered by these papers and discussions included:

The Impact of Urban Development on Land Values and Case Studies of Entrepreneurship

The Impact of Suburban Growth on Farm Investment Decisions

Estimating the Market Value of Land in Kansas

Entrepreneurship and The Neo-Classical Model of Economics: A Reality Check from
Eight Case Studies of New Jersey Food Industry Start-Ups

Date and Location of Next Year's Meeting

The new Vice-Chair Ani Katchova will work to secure the meeting location and dates. Tentative plans are that the meeting will be held on October 2-3, 2006, in Washington, DC.

Current and Future Officers

New officers for the upcoming year are: Chair, Dr. Christine Wilson, Purdue University; Vice-Chair, Dr. Ani Katchova, University of Illinois; Secretary Valentina Hartarska, Auburn University.

The meeting was adjourned.

Submitted by:

Ani Katchova
NC-1014 Secretary

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October 2005**

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