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Agricultural and Rural Finance Markets in Transition

Proceedings of Regional Research Committee NC-1014
Washington, DC
October 2-3, 2006

Dr. Ani L. Katchova, Editor

December 2006
Dept. of Agricultural and Consumer Economics
University of Illinois
Urbana, Illinois 61801

Preface

This publication includes the papers presented at the 2006 annual meeting of the Regional Research Committee, "Agricultural and Rural Finance Markets in Transition." The meeting was held at the Economic Research Service of the U.S. Department of Agriculture in Washington, DC on October 2 and 3, 2006. The program included three invited presentations, fifteen selected papers, and a business meeting.

The program for this meeting was developed by Ani Katchova and Theodore Covey with the assistance of Mary Bohman and Jim Johnson. The committee gratefully acknowledges the local arrangements and support provided by the Resource and Rural Economics Division of the Economic Research Service.

The proceedings are also posted on the internet at: <http://www.ace.uiuc.edu/agfin>.

Dr. Ani L. Katchova
2007 NC-1014 Chair

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NC-1014 Agricultural and Rural Finance Markets in Transition
Annual Meeting Schedule
October 2-3, 2006
Economic Research Service, USDA, Washington, DC

Monday, October 2, 2006

8:30-8:45 a.m. Introductory Remarks
Opening Remarks
Ani Katchova, University of Illinois

Welcome
Mary Bohman, Director of Resource and Rural Economics Division, Economic Research Service, USDA

8:45-9:45 a.m. History, Recommendations, and Outcomes of the HORIZONS Project
Kenneth Auer, President and CEO, Farm Credit Council

9:45-10:45 a.m. USDA Farm Loan Programs

Comparing the Cost Effectiveness of FSA's Direct and Guaranteed Farm Loan Programs
Steven Koenig and Charles Dodson, Farm Service Agency - USDA

A Detailed Look at Lender Participation in the Farm Service Agency Guaranteed Loan Program
Latisha A. Settlage, University of Arkansas at Fort Smith, Bruce L. Dixon, Bruce L. Ahrendsen, University of Arkansas, and Steve Koenig, Farm Service Agency - USDA

Commercial Bank Usage of the Farm Service Agency Interest Assistance Program
Bruce L. Ahrendsen, Bruce L. Dixon, Chris Bacchus, University of Arkansas, and Latisha A. Settlage, University of Arkansas at Fort Smith

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

11:00-12 noon. Lender Characteristics and Loan Contracts

Factors Influencing Farmers' Preferences for Lender Attributes
Travis A. Farley and Paul N. Ellinger, University of Illinois

The Spatial Extent of Commercial Bank Deposit and Loan Contracts
Maureen Kilkenny, University of Nevada

Determining the Probability of Default of Loans in the Seventh Farm Credit District
Allen Featherstone and Josh Roe, Kansas State University

12:00-1:15 p.m.	Lunch Break
1:15-2:15 p.m.	Farm Record Keeping, Crop Insurance, and Weather-Linked Bonds
	The Current State and Value of Farm Record Keeping <i>Dana M. Marcellino and Christine A. Wilson, Purdue University</i>
	Premium Subsidy Changes and Demand for Crop Insurance <i>Dong Won Lee, Matthew Diersen, Larry Janssen, South Dakota State University and Cole Gustafson, North Dakota State University</i>
	Weather-Linked Bonds <i>Calum G. Turvey, Cornell University</i>
2:15-2:30 p.m.	Break
2:30-3:30 p.m.	Agricultural Mortgage Termination and Market Segmentation, and Farm Income
	Agricultural Mortgage Termination: A Survival Analysis Approach with Competing Risks <i>Jonathan B. Dressler and Jeffrey R. Stokes, Penn State University</i>
	Market Segmentation of Today's Agricultural Borrower <i>Brian C. Briggeman, Oklahoma State University, and Michael D. Boehlje, Purdue University</i>
	Estimating the After-Tax Income of Farm Households <i>Ron Durst and Ashok Mishra, Economic Research Service - USDA</i>
3:30-4:30 p.m.	NC-1014 Business Meeting
	Remarks from Calum Turvey, Editor of <i>Agricultural Finance Review</i>
	Remarks from Steven Hanson, Administrative Advisor of NC-1014
	Remarks from Jane Schuchardt, CSREES Representative for NC-1014
	Research Subcommittee Meetings
4:30-5:00 p.m.	Research Subcommittee Reports
5:00 p.m.	Adjourn

Tuesday, October 3, 2006

8:30- 9:15 a.m.	Agricultural Economics at the White House <i>Joseph Cooper, Senior Economist at MTED, ERS-USDA and former Senior Economist at White House's Council of Economic Advisors</i>
9:15-9:30 a.m.	Break
9:30-10:30 a.m.	Understanding Behavioral Approach, Exchange Forecasts, and Land Pricing A Behavioral Approach to Agricultural Finance <i>Calum G. Turvey, Cornell University</i> Foreign Exchange Forecasts for Business Decision Making <i>Francisco Fraire and David J. Leatham, Texas A&M University</i> Understanding the Time-Scale Components of Rising Land and Residential Prices: New Evidence from Wavelet Analysis <i>Gabriel J. Power and Calum G. Turvey, Cornell University</i>
10:30-10:45 a.m.	Break
10:45-11:45 a.m.	The 2007 Farm Bill and the Budget: A House Perspective <i>Craig Jagger, Chief Economist, Committee on Agriculture, U.S. House of Representatives</i>
11:45-1:15 p.m.	Lunch Break
1:15-2:30 p.m.	Agricultural Finance and the USDA's Agricultural Resource Management Survey <i>Jim Johnson, Branch Chief, Farm and Rural Business Branch, Economic Research Service, USDA</i> <i>Mitch Morehart, Senior Economist, Farm Sector Performance and Well-Being Branch, Economic Research Service, USDA</i>
2:30p.m.	Summary and Adjourn

Minutes of NC1014
Agricultural and Rural Finance Markets in Transition
Covering: October 2005 – September 2006
Annual Meeting: October 2-3, 2006

Administrative Advisor:

Dr. Steven Hanson
Michigan State University
Department of Agricultural Economics
East Lansing, MI 48824

Chair:

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

Vice-Chair:

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

Secretary:

Dr. Valentina Hartarska
Auburn University
Department of Agricultural Economics
Auburn, AL 36830

Participants:

Bruce Ahrendsen (University of Arkansas), Joseph Anderson (Cornell University), Kenneth Auer (Farm Credit Council), Mary Bohman (ERS-USDA), Brian Briggeman (Oklahoma State University), Brian Brinch (Farmer Mac), Faye Butts (Cornell University, Ram Chandran (ERS-USDA), Sommarat (Pin) Chantarat (Cornell University), Joseph Cooper (ERS-USDA) Theodore Covey (ERS-USDA), Matthew Diersen (South Dakota State University), Bruce Dixon (University of Arkansas), Charles Dodson (FSA-USDA), Jonathan Dressler (Penn State University), Ron Durst (ERS-USDA), Paul Ellinger (University of Illinois), Bert Ely (Ely & Company, Inc.), Ken Erickson (ERS-USDA), James Eaves (Rutgers University), Travis Farley (University of Illinois), Allen Featherstone (Kansas State University), Francisco Fraire (Texas A&M University), Steven Guebert (Farm Credit Administration), Michael Gunderson (University of Florida), Cole Gustafson (North Dakota State University), Steven Hanson (Michigan State University), Valentina Hartarska (Auburn University), Gregg Ibendahl (Mississippi State University), Craig Jagger (U.S. House of Representatives), James Johnson (ERS-USDA), Ani Katchova (University of Illinois), Maureen Kilkenny (University of Nevada), Steve Koenig (FSA-USDA), Rong Kong (visiting scholar, Cornell University), Keith Leggett (American Bankers Association), Sergio Lence (Iowa State University), Dana Marcellino (Purdue University), Daniel Milkove (ERS-USDA), Griffen Moag (Cornell University), John Moore (Farm Credit Administration), Mitchell Morehart (ERS-USDA), Charles Moss (University of Florida), Raphael Onyeaghala (Southwest Minnesota State University), Timothy Park (University of Georgia), Gabriel Power (Cornell University), Josh Roe (Kansas State University), Richard Sawyer (Farmer Mac), Jane Schuchardt (CSREES-USDA), Latisha Settlage (University of Arkansas at Fort Smith), Jack Shaw (USDA), Apurba Shee (Cornell University), Bruce Sherrick (University of Illinois), Agapi Somwaru (ERS-USDA), Jeffrey Stokes (Penn State University), Patrick Sullivan (ERS-USDA), Jackson Takach (Farmer Mac), David Torgerson (ERS-USDA), Calum Turvey (Cornell University), James Webster (The Webster Agricultural Letter), Christine Wilson (Purdue University).

Annual Meeting Minutes
October 2-3, 2006

The 2006 Annual Meeting of NC1014 was held October 2nd and 3rd at the Economic Research Service, USDA, Washington D.C. The meeting was called to order at 8:30 am on October 2nd by Vice-Chair Ani Katchova. She welcomed participants and commented on the outline and the procedures for the annual meeting. Mary Bohman, Director of Resource and Rural Economics Division, Economic Research Service, USDA welcomed everyone to the meeting and ERS. Kenneth Auer, President and CEO, Farm Credit Council made a presentation about the HORIZONS Project. In his presentation, he discussed the history, recommendations and outcomes of the project. He talked about recent changes in the food system and rural communities and the increasing dependence of rural communities on non-farm businesses. These changes present challenges to traditional agricultural finance institutions, which to meet the demand of their customers, now work with community banks to secure funds for clients' business for which the FCS does not have the authority to provide funds.

The participants spent the rest of the morning and part of the afternoon in three sessions of selected papers. The papers presented in these sections addressed the objectives of NC1014 and were the products of the work of NC1014 members along with invited participants from government research groups. A total of 9 papers were presented during the three sessions. The specific topics covered by these papers and discussions included:

USDA Farm Loan Programs

Comparing the Cost Effectiveness of FSA's Direct and Guaranteed Farm Loan Programs
Lender Participation in the Farm Service Agency Guaranteed Loan Program
Commercial Bank Usage of the Farm Service Agency Interest Assistance Program

Lender Characteristics and Loan Contracts

Factors Influencing Farmers' Preferences for Lender Attributes
The Spatial Extent of Commercial Bank Deposit and Loan Contracts
Determining the Probability of Default of Loans in the Seventh Farm Credit District

Farm Record Keeping, Crop Insurance, and Weather-Linked Bonds

The Current State and Value of Farm Record Keeping
Premium Subsidy Changes and Demand for Crop Insurance
Weather-Linked Bonds

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 2007 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.

Jane Schuchardt, our CSREES-USDA representative, introduced herself and updated us on recent developments within USDA. She suggested that the group considers organizing future NC1014 meetings to coincide with that of new group NC1030 “Family Farms and Policy,” which meets at the approximately the same time. She also suggested that it may be useful for our group to register on E-extension.

Calum Turvey, Cornell University and the editor of the *Agricultural Finance Review* updated the group on recent issues of the journal. He noted that the journal has been, and continues to be, strongly tied with research produced by NC1014. He reported that the AFR has moved to electronic submissions of manuscripts. Cal Turvey also made a call for invited papers on Basel II for the Fall 2007 AFR issue and encouraged participant to try to organize pre-conference workshop on Risk and Finance for the February conference in Innsburg, Germany.

Steven Hanson, Michigan State University, is the new Administrative Advisor for NC1014. He discussed the new role of Administrative Advisors for the multi-state projects and the current requirements for submission of reports. NC1014 is up for mid-term review this year and the 2006 report must be submitted within 60 days of the annual meeting. Ani Katchova will submit the 2005 report and Valentina Hartarska will submit the 2006 report. In addition by November 15, Valentina Hartarska will submit Impact Statement, to include meetings participants, project related publications, including collaborative publications, other collaborations and grant activities, evaluation of technology transfer. We should expect feedback after the mid-term evaluation.

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

The location committee and the rest of the participants recommended that next year's meeting be held October 1-2, 2007 at the Federal Reserve Bank headquarters in St. Louis. An alternative location site will be at the Federal Farm Credit Banks Funding Corp., Jersey City, NJ.

Ani Katchova will assemble the 2006 NC-1014 proceedings. Papers presented at this meeting should be sent to Ani Katchova by December 1, 2006.

The second day of the meeting began with a presentation on Agricultural Economics at the White House by Joseph Cooper, Senior Economist at MTED, and Former Senior Economist at White House's Council of Economic Advisors. He presented an overview of Chapter 8 from the Economic Report to the President, devoted to the US Agricultural Sector.

Another session of selected papers followed. It included the following topics

Understanding Behavioral Approach, Exchange Forecasts, and Land Pricing

A Behavioral Approach to Agricultural Finance

Foreign Exchange Forecasts for Business Decision Making

Understanding the Time-Scale Components of Rising Land and Residential Prices: New Evidence from Wavelet Analysis

Next, Craig Jagger, Chief Economist, Committee on Agriculture, at the U.S. House of Representatives made a presentation on the 2007 Farm Bill. He discussed the process of developing the bill, the jurisdiction of the Agricultural Committee, and highlighted major challenges that the new Farm Bill will have to address.

During the afternoon of the second day, Jim Johnson, Branch Chief, Farm and Rural Business Branch, Economic Research Service, USDA and Mitch Morehart, Senior Economist, Farm Sector Performance and Well-Being Branch, Economic Research Service, USDA presented the 2005 Agricultural Resource Management Survey and highlighted some newly introduced question designed to collect information that may be of interest to our group such as the use of farm and off-farm funds.

Date and Location of Next Year's Meeting

The new Vice-Chair Valentina Hartarska will work to secure the meeting location and dates. Tentative plans are that the meeting will be held on October 1-2, 2007, at the Federal Reserve Bank headquarters in St. Louis.

Current and Future Officers

New officers for the upcoming year are: Chair, Dr. Ani Katchova, University of Illinois; Vice-Chair Dr. Valentina Hartarska, Auburn University; and Secretary Dr. Michael Gunderson, University of Florida.

The meeting was adjourned.

Submitted by:

Valentina Hartarska
NC1014 Secretary

NC-1014 Agricultural and Rural Finance Markets in Transition
2006 Annual Meeting
List of Participants

<u>Last Name</u>	<u>First Name</u>	<u>Affiliation</u>
Ahrendsen	Bruce	University of Arkansas
Anderson	Joseph	Cornell University
Auer	Kenneth	Farm Credit Council
Bohman	Mary	ERS-USDA
Briggeman	Brian	Oklahoma State University
Brinch	Brian	Farmer Mac
Butts	Faye	Cornell University
Chandran	Ram	ERS-USDA
Chantarat	Sommarat (Pin)	Cornell University
Cooper	Joseph	ERS-USDA
Covey	Theodore	ERS-USDA
Diersen	Matthew	South Dakota State University
Dixon	Bruce	University of Arkansas
Dodson	Charles	FSA-USDA
Dressler	Jonathan	Penn State University
Durst	Ron	ERS-USDA
Ellinger	Paul	University of Illinois
Ely	Bert	Ely & Company, Inc.
Erickson	Ken	ERS-USDA
Eaves	James	Rutgers University
Farley	Travis	University of Illinois
Featherstone	Allen	Kansas State University
Faire	Francisco	Texas A&M University
Guebert	Steven	Farm Credit Administration
Gunderson	Michael	University of Florida
Gustafson	Cole	North Dakota State University
Hanson	Steven	Michigan State University
Hartarska	Valentina	Auburn University
Ibendahl	Gregg	Mississippi State University
Jagger	Craig	U.S. House of Representatives
Johnson	James	ERS-USDA
Katchova	Ani	University of Illinois
Kilkenny	Maureen	University of Nevada
Koenig	Steve	FSA-USDA
Kong	Rong	Cornell University (visiting scholar)
Leggett	Keith	American Bankers Association
Lence	Sergio	Iowa State University
Marcellino	Dana	Purdue University
Milkove	Daniel	ERS-USDA
Moag	Griffen	Cornell University
Moore	John	Farm Credit Administration
Morehart	Mitchell	ERS-USDA

Moss	Charles	University of Florida
Onyeaghala	Raphael	Southwest Minnesota State University
Park	Timothy	University of Georgia
Power	Gabriel	Cornell University
Roe	Josh	Kansas State University
Sawyer	Richard	Farmer Mac
Schuchardt	Jane	CSREES-USDA
Settlage	Latisha	University of Arkansas at Fort Smith
Shaw	Jack	USDA
Shee	Apurba	Cornell University
Sherrick	Bruce	University of Illinois
Somwaru	Agapi	ERS-USDA
Stokes	Jeffrey	Penn State University
Sullivan	Patrick	ERS-USDA
Takach	Jackson	Farmer Mac
Torgerson	David	ERS-USDA
Turvey	Calum	Cornell University
Webster	James	The Webster Agricultural Letter
Wilson	Christine	Purdue University