CHOICES
The magazine of food, farm, and resource issues
1st Quarter 2005 • 20(1)
A publication of the American Agricultural Economics Association

Changing Face of Agricultural Lending

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The structure and conduct of agricultural lending has been changing rather dramatically over the past two decades. However, it took the attempted sale of a large Midwestern agricultural credit association in the Farm Credit System to a foreign bank to refocus attention on the implications of these changes.

Some of the forces causing change have been occurring at the farm level, where farmers and ranchers are changing the way they do business. Other changes have been occurring in global markets for agricultural and value added food and fiber products. Rapidly changing dynamics are occurring in technology embodied in inputs and management of resources and the environment. Finally, evolution is occurring in the credit market serving agriculture and the regulations that govern institutional behavior.

In this issue of *Choices*, we examine a broad range of issues changing the face of agricultural lending. The agricultural lending decision making process is becoming much more complex as a result of contractual and ownership arrangement issues, locational issues, and management quality and risk management issues. The Farm Credit System, with its unique structure, faces a number of of issues as it attempts to maintain its competitive position in light of the evolving farm customer base and activities of competitors providing loans and services in this market. The degree of competition in agricultural lending will influence quantity and quality of loans made.

Particular attention in this theme is placed on examining the recent attempted purchase of Farm Credit Services of America headquartered in Omaha, Nebraska by Rabobank, an international financial services lender headquartered in the Netherlands. Already active in other regions of the United States, Rabobank offered $750 million to purchase this component of the Farm Credit Service last summer. Although this deal ultimately was called off, it raises a number of policy and structural issues that will be debated in the coming months.

Articles in this Theme:

The Basel II Capital Accords, scheduled to be implemented by the end of 2006, has implications for setting capital requirements, supervisory review, and market discipline at banking institutions. The measurement and management of credit risk, operational risk, and market risk lie at the heart of Basel II. While implementation will begin at the nation's largest banks, the more advanced approaches to calculating capital requirements and other management practices will have implications for other banks and nonbank lending institutions as well.

With the many forces changing the face of agricultural lending, this is a good time to examine shifting paradigms impacting agricultural lending as it evolves over the next 15 years from both the customer side of the market as well as from the lender perspective. Other contributors to this theme include Danny Klinefelter, Neil Harl, Michael Boehlje, Allan Gray, Robert Jolly, Josh Roe, Maureen Kilkenny, Roger Ginder, Ani Katchova, Peter Barry, and Alicia Morris. Any remaining omissions or errors are the sole responsibility of the contributors and editors.

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