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Financial Crisis in Housing: What About My Agricultural Lender?

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There has been substantial media attention to the recent problems in housing. The banking sector as a whole is slogging through its worst economic times in many decades. Many of the Wall Street financial institutions and large banks have suffered deep losses, cut dividends and sought additional capital. IndyMac Bank failed in July in what regulators called the second-largest bank failure in U.S. history. The government has also provided assistance to mortgage giants Fannie Mae and Freddie Mac. Housing prices in areas of Florida, Nevada and California have declined to 2003-04 levels. So how do these events impact lenders to agriculture?

Although not immune to the economic downturn and consumer stresses of rising gas and food prices, agricultural lenders are generally in strong financial condition. Illinois has a strong tradition of community banks lending to agriculture. Texas and Illinois consistently rank first and second in the number of agricultural banks. As of December 31, 2007 only three of the 496 commercial banks in Illinois that lent money to agriculture were not classified as well-capitalized by the Federal Deposit Insurance Corporation (FDIC). The three banks were classified as adequately-capitalized and had very small agricultural loan portfolios.

Only 31 of the 496 Illinois banks lending to agriculture had negative net income levels in 2007. Moreover, the two Farm Credit System associations in Illinois have very sound balance sheets and strong profitability. Most of the agricultural-related institutions did not participate in the higher-risk housing lending procedures of larger urban banks. Hence, agricultural banks are not incurring the huge losses of the Wall Street banks. However, the economic downturn and declining interest rates have lowered profit margins in 2008 for agricultural lenders. Nonperforming and past-due loans have increased at most financial institutions. The strong management and capital positions of agricultural lenders provides a buffer for these economic downturns.

If you are interested in the historical financial performance of your bank visit :

<http://www4.fdic.gov/IDASP/>.

Farm Credit System institution financial reports can be viewed at:

<https://reports.fca.gov/CRS/search-institution.asp>.

The failure of IndyMac has raised many questions on the security of deposits at banks. The FDIC protects depositors at FDIC-insured banks. It is an independent agency of the U.S. government. In general, if you have \$100,000 or less (\$200,000 for joint-owned accounts) at a specific bank, you are fully insured. You may qualify for higher amounts depending on the type of account you own. The \$100,000 limit relates to

each insured bank in which you have deposits. The FDIC has a tool you can use to determine your insurance coverage at <http://www4.fdic.gov/EDIE/>.

The agricultural lending industry in Illinois is often characterized by strong customer-borrower relationships. The institutions are well regulated in a manner to protect the safety and soundness of the institutions and the safety of the insurance deposit base. You should certainly discuss any concerns you have about the financial performance of the institution with the management of your institution. In these times of higher revenues and costs you should be comfortable with your financial partner.