Financial Intermediation in Agriculture
Chapter 15, 16 & 17
Who has worked for a financial institution?

- What did you do?
- For whom?
Functions of a financial intermediaries

1. Origination
   • Create the financial asset
   • Loan created by the note
2. Flow of funds
   • Sourcing loanable funds
   • Brokering differences in time, risk and geography
3. Risk-bearing
   • Screening borrowers and savers
   • Price and non-price risk management
4. Liquidity
   • Balancing liquidity needs of borrowers and savers
5. Servicing
   • Backroom functions of financial intermediation
   • Loan application, underwriting, legal documentation etc.
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HOW WOULD YOU GET A LOAN IF THERE WERE NO FINANCIAL INTERMEDIARIES?
Flow of funds and securities

Figure 15.1. Flow of funds and securities in financial intermediation.

Text: p. 442
A quick look at the structure and performance ag finance industry
US Farm Debt Levels: 1960-2009

Real Estate Debt
US Total Farm Debt Market Share by Lender
1961 to 2008
US Non-Real Estate Farm Debt Market Share by Lender
1981 to 2008

- Comm. Banks
- FCS
- FSA
- Ind & Others
- CCC Loans

Year
Market Share Percent

61 63 65 67 69 71 73 75 77 79 81 83 85 87 89 91 93 95 97 99 01 03 05 07
Primary Sources of Loan Funds for Production Agriculture

1. Commercial Banks
2. Farm Credit System
3. Farm Service Agency
4. Commodity Credit Corporation
5. Insurance Companies
6. Input Suppliers, Machinery Dealers
7. Individuals
Commercial Banks

1. Type of organization: Investor-owned firm
2. Sources of funds:
   - deposits
   - purchased funds
3. Types of loans
   - consumer
   - commercial
   - agricultural operating and real estate
4. Management objective: maximize returns to shareholders
Number of Agricultural Banks, United States
1985 to 2008

- **Commercial Banks**
- **Agricultural Banks (FRB)**
Agricultural Credit Provided by Type of Bank, US December 31, 2008

Non Ag Banks 45.7%

Agricultural Banks 54.3%

- <25, 2.2%
- 25-50, 9.1%
- 50-100, 18.4%
- 100-300, 37.1%
- 300-500, 11.9%
- >500, 21.4%

Total Assets
Market Share for Nonag Banks by Size of Bank, US
December 31, 2008

Total Assets
($ Million)

- <25, 0.1%
- 25-50, 0.6%
- 50-100, 2.8%
Percent Share of Ag Loans in Portfolio by Size and Type of Bank, US: December 31, 2008

- Agricultural Banks
- Nonagricultural Banks
Selected Performance Measures for Ag Banks, US 1985 to 2008

- Rate of Return on Equity Capital
- Rate of Return on Total Assets
- Provisions for Loan Losses as a % of Total Loans
- Capital as a % of Assets

Year
- 85
- 86
- 87
- 88
- 89
- 90
- 91
- 92
- 93
- 94
- 95
- 96
- 97
- 98
- 99
- 00
- 01
- 02
- 03
- 04
- 05
- 06
- 07
- 08

Percent

- Capital to Asset Ratio
- Loan to Deposit Ratio
Farm Credit System

1. Type of organization: Farmer-owned cooperative
2. Sources of funds:
   - sales of securities, notes and bonds
3. Types of loans
   - farm operating
   - farm real estate
   - rural housing
   - cooperatives
4. Management objective: maximize value of services to members
Farm Credit System Flow of Funds

* farmers, ranchers, rural homeowners, ag cooperatives, rural utility systems & agribusiness

** CoBank has lending authority to Associations within its District as well as nationwide lending authorities to agricultural cooperatives, rural utilities and other eligible borrowers
Farm Credit System Loan Volume by Loan Type
1991 to 2008

- Long-Term Real Estate
- Short and Intermediate Term
- Loans to Cooperatives
- Total Loans
Farm Credit System Income: 1991 to 2008

- Net Interest Income
- Net Income

Year

1991 1993 1995 1997 1999 2001 2003 2005 2007

Billion Dollars

Net Interest Income

Net Income
Farm Credit System Financial Indicators
1991 to 2008

- Return on Assets
- Return on Capital
- Capital as Percent of Assets
- Allowance for Losses as Percent of Loans

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Farm Service Agency

1. Type of organization: Agency of the Federal Government

2. Sources of funds:
   - appropriations

3. Types of loans
   - Direct and guaranteed
     + farm operating
     + farm ownership
     + rural housing
   - Rural development

4. Management objective: meet Congressional mandates
Farm Service Agency Farmer Program
Obligations: 1986 to 2009

Million Dollars

Year

Direct (Insured) Guaranteed Total
Farm Service Agency Loan Program
Delinquencies: 1986 to 2009

Year

Percent of Total


Direct Farmer Loan Program
Guaranteed Farmer Loan Program
Next topic

• Understanding the management of a financial intermediary