Impacts of the Financial Crisis on Agriculture

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Outline

• Terms

• Causes of Crisis

• Government Responses

• Affects to Ag Industry
Terms

- Subprime mortgage
- Asset-Backed Security (ABS)
- Investment Banks
Cause of Crisis

- Too many “bad” mortgages
- Assumption that housing market always increased
  - Led to increase in subprime loaning
- Requirements for loans began to diminish
  - Banks began to give out 125% value on subprime mortgages
Cause of Crisis

• In 2006, house sales stall, prices begin to fall
• Recipients on subprime mortgages cannot sell for profit, begin to foreclose
• Banks begin losing money as they are not able to recoup costs of mortgages
• Credit becomes strained as banks are unwilling to loan to each other
Government Solutions

- Fed lowers interest rates from 5.25% to 2%
  - Discovered that it was not a liquidity problem
- Offers $75 billion of private money to buy “bad” loans
- Bush Admin passes $700 billion bank bailout in Oct. 2008
Government Solution

- The recession kept on after the bailout
- Obama admin passes a $1 trillion stimulus in Feb 2009
  - Attempt to stabilize economy
Affects on Ag Industry

Real Estate

Non-Real Estate

Real Estate Farm Debt, 2007

- Commercial banks: 38%
- Farm Credit System: 42%
- Life insurance companies: 10%
- Individuals and others: 8%
- Storage facility loans: 0%

Total: 107.8 $Billion

Nonreal Estate Farm Debt, 2007

- Commercial banks: 53%
- Farm Credit System: 31%
- Individuals and others: 13%
- Farm Service Agency: 3%

Total: 103.7 $Billion

Source: USDA, Economic Research Service
Affects on Ag Industry

- Commercial Banks are the majority of lending to Ag
  – Among those, most are small banks

<table>
<thead>
<tr>
<th>Asset Size ($ Million)</th>
<th>% of Ag Loans at Commercial Banks</th>
<th>Number of Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 100</td>
<td>16.09%</td>
<td>2,507</td>
</tr>
<tr>
<td>100-500</td>
<td>33.96%</td>
<td>2,677</td>
</tr>
<tr>
<td>500-1,000</td>
<td>10.44%</td>
<td>474</td>
</tr>
<tr>
<td>1,000-10,000</td>
<td>17.85%</td>
<td>347</td>
</tr>
<tr>
<td>Greater than 10,000</td>
<td>21.66%</td>
<td>66</td>
</tr>
</tbody>
</table>
Affects on Ag Industry

• Ag products generally have fairly inelastic demand
• Ag products have also been relatively high in recent years
• May have hurt expansion in the short-run with limits in financing credit
• All-in-all low impact to agriculture compared to many other industries
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