

**CoBANK**®

*Rural America's Cooperative Bank* ◉

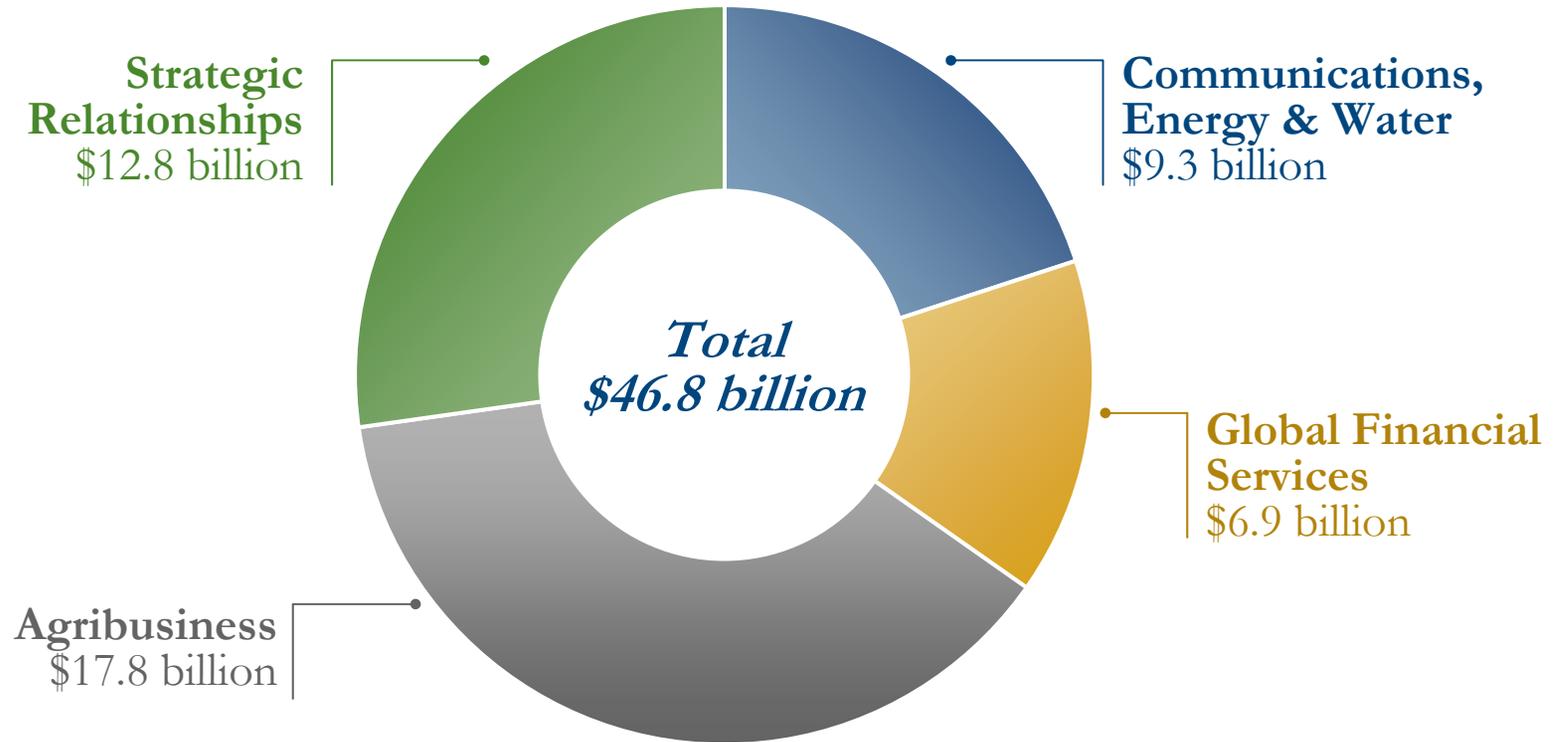
# Commodity Futures Trading Commission Agricultural Advisory Committee Meeting July 29, 2008

## CoBank Grain Industry Financing

Presented by:  
Phil DiPofi, Executive Vice President  
Agribusiness Banking Group



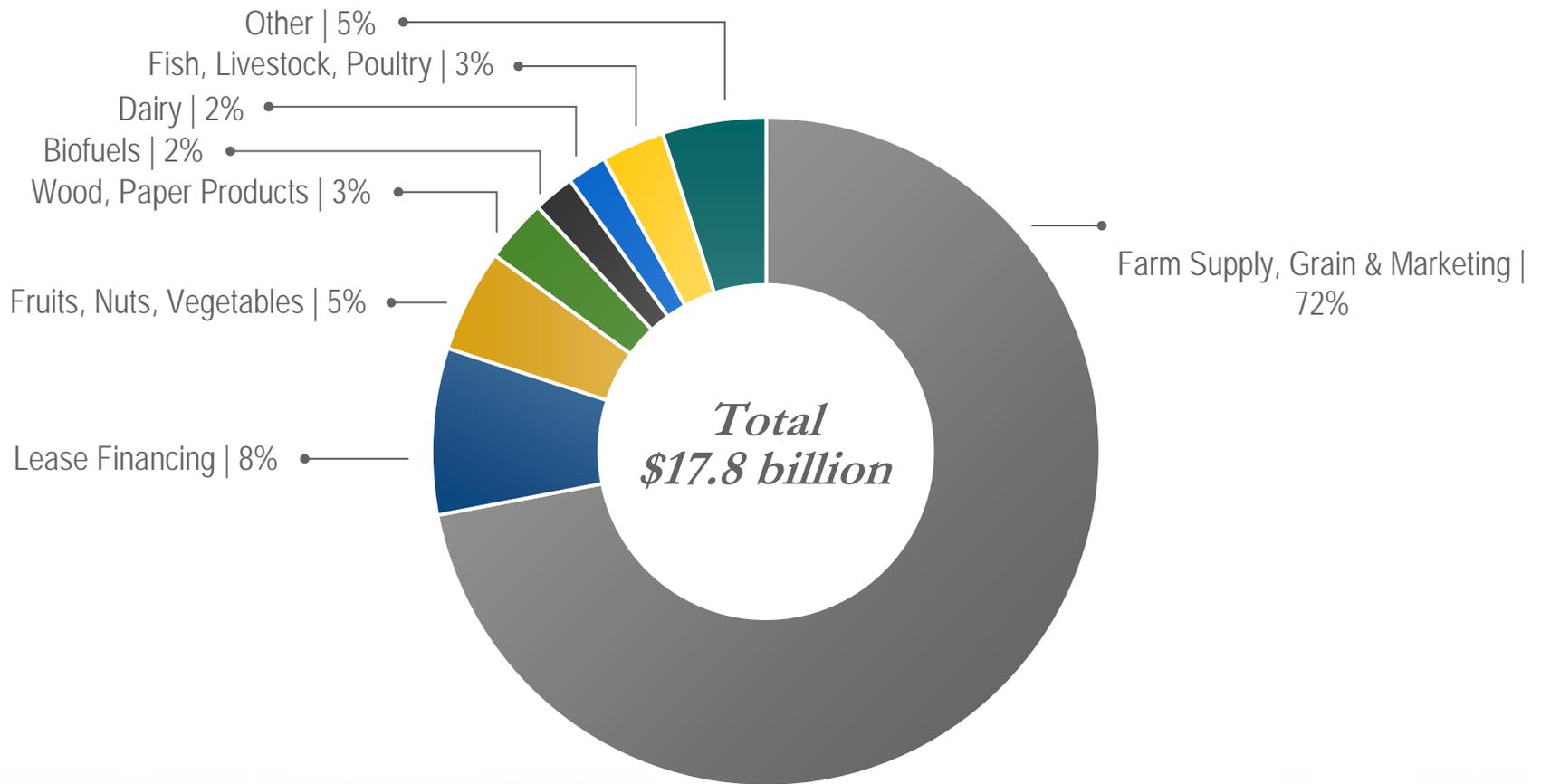
# Loan & Lease Portfolio <sup>(1)</sup>



(1) As of March 31, 2008

# Agribusiness Banking Group

## Portfolio Summary <sup>(1)</sup>

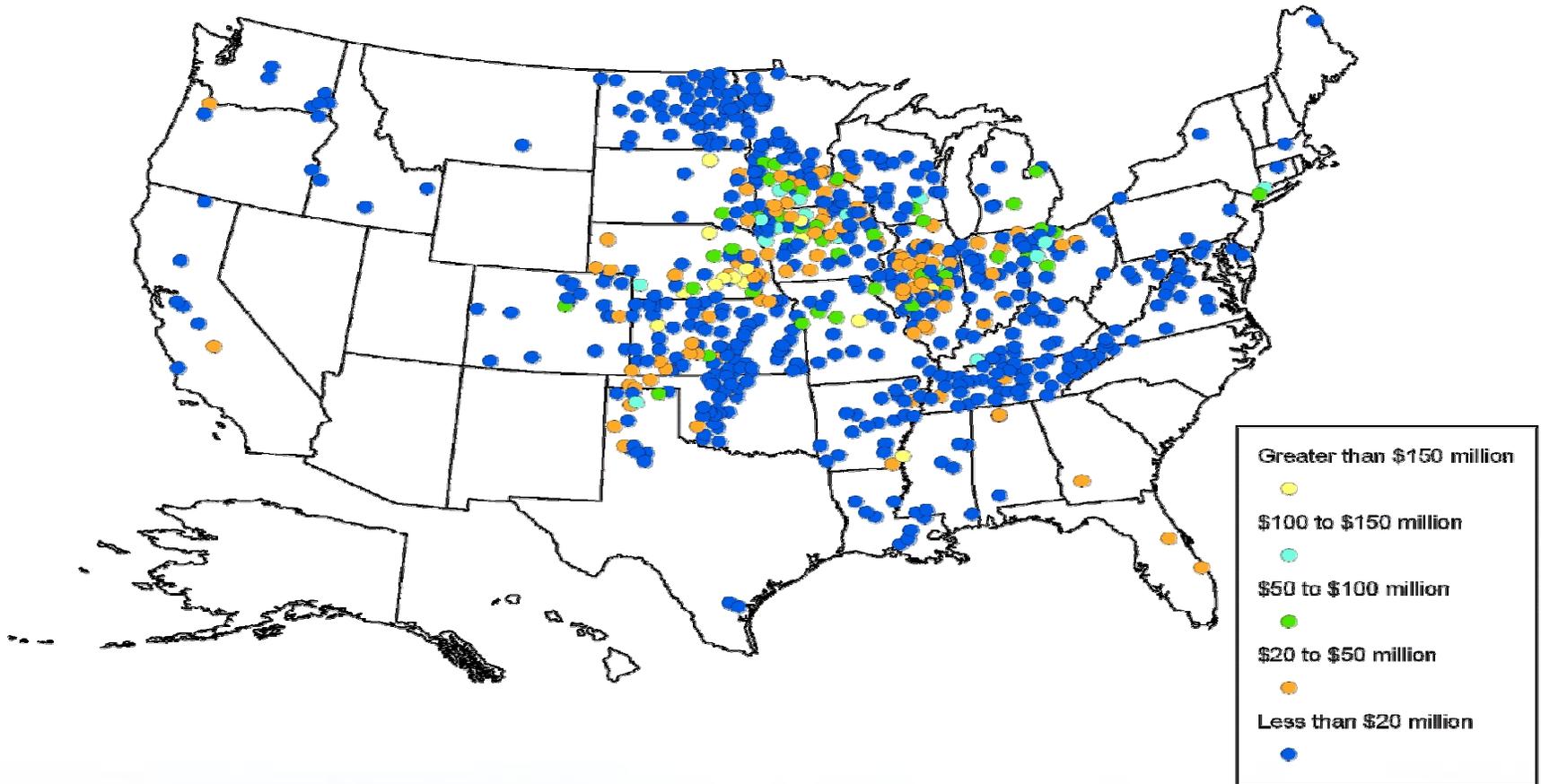


(1) As of March 31, 2008

# CoBank Farm Supply & Grain Marketing Financing

- Over 750 customers
- Geographic diversification – customers in 37 states
- Commodity diversification (corn, soybeans, wheat, rice, other)
- Feed manufacturing and marketing
- Crop inputs (seed, fertilizer, chemicals)
- Petroleum and propane
- Most customers are agricultural cooperatives but include an increasing number that are LLCs, S corps. and C corps.

# Grain/Farm Supply Customers by Commitment Size

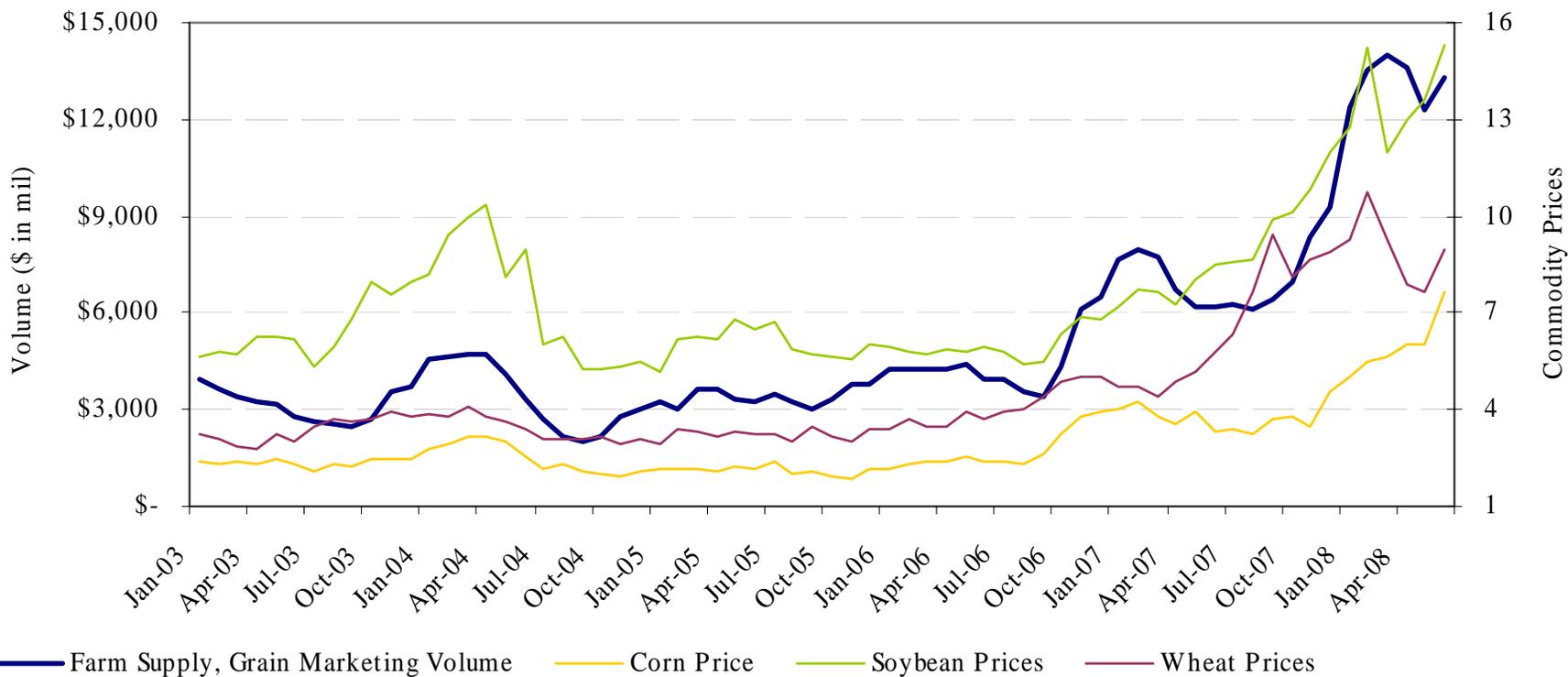


# Grain Marketing and Farm Supply Industry Segment

- 750+ Customers in Grain Marketing and Farm Supply
  - › Feb 2006 Commitments of \$7.6 billion
  - › Feb 2007 Commitments of \$11.1 billion
  - › Feb 2008 Commitments of \$17.5 billion



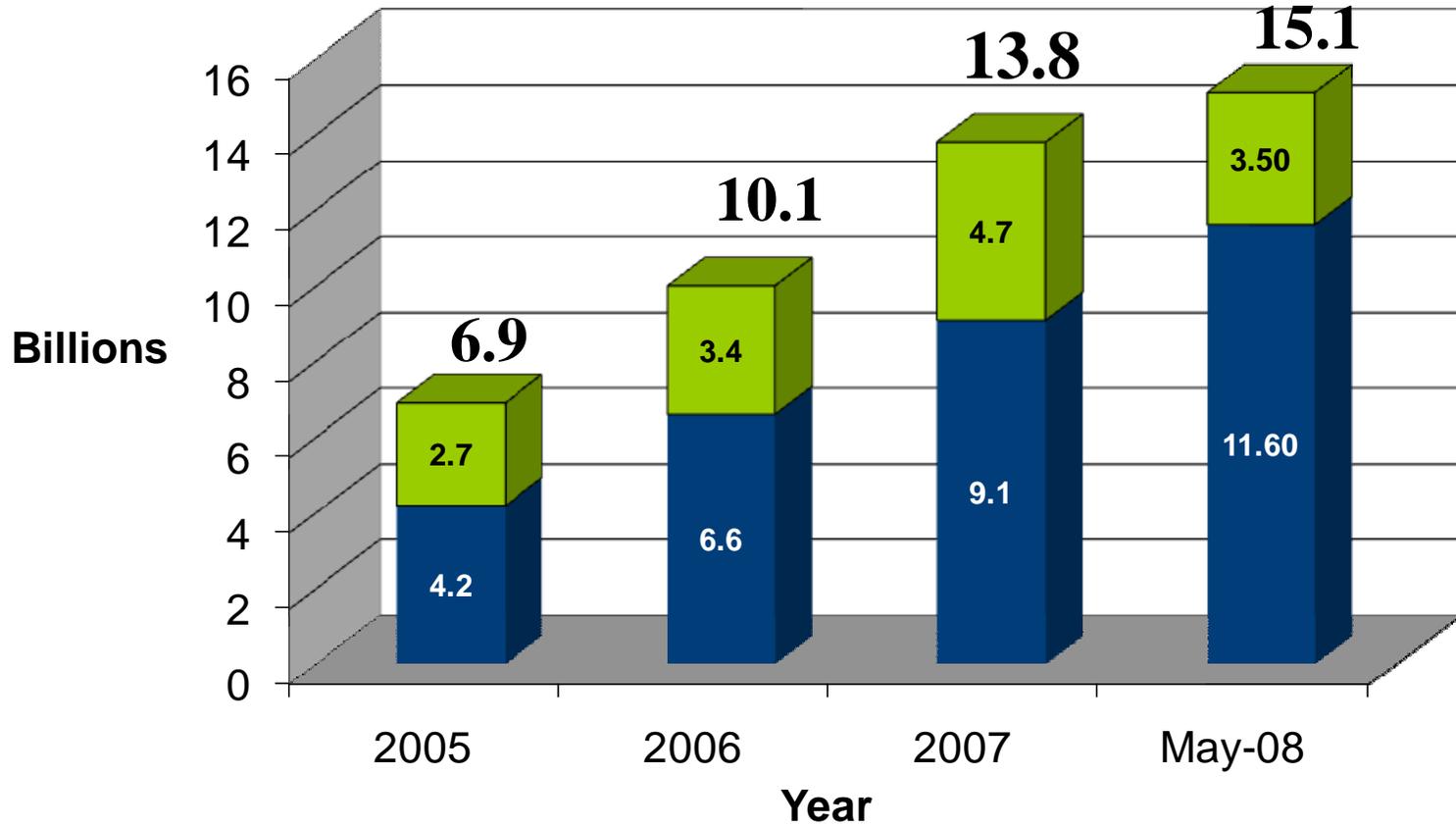
## Agribusiness Volume & Commodity Prices Trend



# Working Capital Impact

- No-one anticipated the higher WC requirements from tight world grain inventories and rising prices
- From September, 2006 to June, 2008 the corn price increased by more than \$5/ bushel
- A typical advance against grain inventory is 85-90%, meaning the customer needs liquid assets to fund the other 10-15%
- A \$2 bushel of corn requires \$.20-\$.30 of working capital
- A \$7 bushel of corn requires \$.70-\$1.05 of working capital
- \$.50-\$.75/bushel additional working capital needed for grain receivables and the accrued gains/losses on forward purchase and sale contracts
- Takes several years to generate this additional WC from earnings if invested 100% in WC!
- At 5/31/08 CoBank customers had 2.3 billion bushels of short future contracts (1.725 corn; .4 soybeans; .175 wheat)

## Commercial Agribusiness Loans Outstanding



■ Farm Supply & Grain    ■ Other

# Impact on the Industry/CoBank's Portfolio

- CoBank has supported its customer-owners through this period of unprecedented price inflation
- Loans to this customer-owner segment have increased from \$4.2 billion (as of 2/28/05) to \$11.6 billion (as of 5/31/08)
- Risk, as measured by our established methods, has increased as total leverage has increased to support the buildup of current assets
- CoBank has or is changing its traditional methods of credit extension and administration in response to these unexpected and rapid events
  - › Closer scrutiny and assessment of Forward Purchase Contracting practices and positions, and contract management
  - › Consulting with customer-owners to manage their way back into compliance if an “under collateralized” condition exists
  - › Most have the need and capacity to increase earnings
  - › Many also have capacity to increase working capital levels by obtaining term financing from under-leveraged fixed assets

# Agribusiness RUSH Credit Actions through 6/30/08

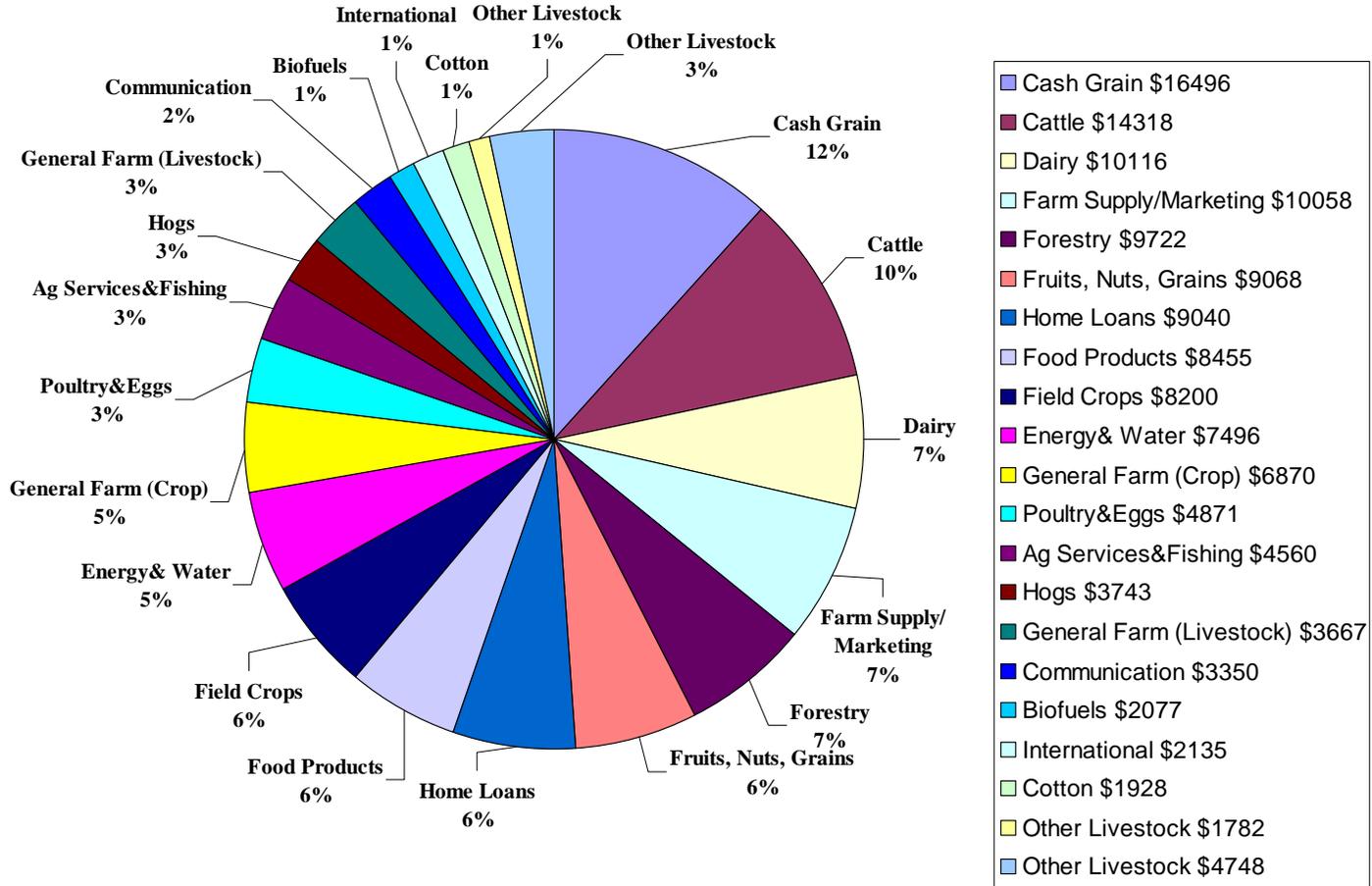
<u>Year</u>	<u>Credit Actions</u>	<u>RUSHes</u>	<u>% of Credit Actions</u>
2005	1878	256	13.63%
2006	2190	503	22.97%
2007	2709	766	28.28%
6/30/2008	1677	649	38.70%

# Syndication of Grain and Farm Supply Loans

- Loans to this segment have generally been held 100% by CoBank
- As loans have increased, we've sold or prepared to sell participations for risk management purposes
- Additional requirements for sell-down
  - › Preparation of borrower to have additional lenders in his deal
  - › Pricing to ensure market levels (while market has also been changing)
  - › Reporting procedures: financial, collateral, risk policies, etc.
  - › Documentation
  - › Appraisals
  - › These are being addressed on all loans, but require earlier focus on sold deals

# Farm Credit System Loan Portfolio Diversification(\$ in thousands)

\$142.8 Billion as of 12/31/07



# Where We Are Going

- More of an asset based lending approach
- Increased reporting and monitoring
- BBR will define credit availability
- Additional term debt to enhance working capital
- Independent appraisals to value fixed assets
- Higher pricing for servicing and risk
- Increased participation with FCS and other lenders to add diversification
- Look forward to working in a collaborative fashion on alternative financing arrangements such as loan guarantees, credit margin swaps, grain repo program, etc.

# Summary and Implications

- The industry (farm supply, grain marketing, processors, livestock, etc.) is in an adjustment phase as business models evolve to manage significantly higher and more volatile prices
- Grain and farm supply companies serve a vital need for farmers in rural America and now more than ever are essential to the success of the U.S. grain producer
- There will be significant opportunities for those that successfully make the transition
- CoBank will continue to work collaboratively as the industry adjusts its practices related to hedging grain/risk management