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CHALLENGES AHEAD FOR AGRICULTURE BANKERS

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**Proceedings of
Regional Research Committee NC-161**

**FINANCING AGRICULTURE IN A CHANGING
ENVIRONMENT: MACRO, MARKET,
POLICY AND MANAGEMENT ISSUES**

**St. Louis, Missouri
October 2-3
1989**

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May 1990

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According to the American Bankers Association, bankers and their banks in 1988 enjoyed a good year. It appears that 1989 may be a good year as well, as many banks see their bottom lines reflect the profitability that we've all needed to rebuild our capital accounts. Indeed, in Kansas, which relies heavily on the fortunes of agriculture, bank capital, as a percent of total bank assets, now is in excess of 9.15%. Other so-called farm states' banks seem to be doing well....Nebraska's banks enjoy a capital to total asset ratio of 9.40%, and Iowa's is even stronger at 9.70%. It's a good feeling to see that there are really is a "tomorrow" after the frightening events of the middle 80's, and that life does go on, at least for most of us and our farm customers. Those of us in agriculture know that weather plays a huge factor in whether we live or die economically. Our "hurricane Hugo's", on a much more isolated scale, come and go annually, affecting our crops with much too much rain, or not enough, too much wind, too much heat, or not enough, year upon end. Farming continues to be a life of hope, if not for this year, then next, or the next after that.

In spending much of my childhood Summers on my grandparents farm in southwestern Kansas, I can remember the thunderstorms and wind that would rip across his farmstead, most often during the night. When a storm would come up, my grandfather would roust me out of bed and we'd all head for the storm cellar, a concrete-lined and covered hiding place near the farmhouse where any storm passed harmlessly, at least to us, overhead. You could hear the storm approach, vent its fury, then pass on, leaving a beautiful silence that said "you've survived another storm, intact, and tomorrow things will be back to normal". The storm may have taken a crop with it, but the sense was strong that we'd just grow another one next year.

Our farm customers, and those of us whose lives depend on them, have come to realize that if a storm devastates us this year, the chances are great that everything will get back to normal next year, and that life as we've all known it will continue to be the same.

On a note of dread, however, I sense that, in agriculture and in financing agriculture, events other than weather cast some sizeable shadows on our future as ag lenders. Agriculture bankers, in particular, have some very troubling challenges ahead of us, and none will be solved by "waiting it out" in our storm cellars.

What are ag bankers' challenges today? I'd like to touch on three.
Challenge One.

The greatest of the challenges many of us, as ag bankers, face is that of where our banks are located, and the sizes of our trade area populations that we serve. In Kansas, where we have about 575 banks, many of them rural and agriculturally oriented, the median size of a bank is slightly above \$20 million in assets, with an average of about \$1.8 million invested in stockholder capital.

Almost 40% of our banks are located in communities of 1,000 people or less, and about a fourth of our banks are located in towns of 500 population or less. Our individual markets are small, and our ag bankers know our populations will continue to shrink for all the reasons we're so aware of... increasing scales of farming, lack of off-farm employment, lack of employment opportunities for our kids as they leave school, shrinking lists of services and products our small communities can

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support and therefore attracting new families and businesses becomes more and more difficult, and the list goes on. There seems to be no challenge more difficult, if we're talking about sustaining our lives as ag bankers and continuing to be a relevant provider of ag credit to our customers, than the challenge that I and many of my banking friends have... that of just plain surviving the slow agonizing withering of many of our rural communities and their economic bases that we serve.

Corporately, our banks have challenges, as well. Especially in the typically small rural ag bank, we're "mom and pop" businesses. Our banks have limited opportunities to set up management succession plans, because of our sizeable, but closely-held capital structures. As deregulation continues, our charters aren't worth as much. Undoubtedly, through mergers and consolidations, though not failures, the number of banks in our rural communities will continue to shrink. If, and as, small rural banks disappear from our communities, our farm customers will need to look further for the financial services they need.

Challenge Two.

Another major challenge to ag bankers is the set of challenges our farm customers themselves face such as appropriate economic scale, farm management succession, technology changes, capital requirements, environmental and conservation issues, and the ever-surfacing question "Is farming a [satisfactory] way of life anymore". While our farm customers must deal with these issues themselves, we are also challenged because we depend so heavily on the ways they're going to meet their challenges and how we help our farm customers survive.

Challenge Three.

Our ag bankers are concerned about the financial environment we compete in and the fairness of the rules of the game, especially the rules about capital. Because we compete in a very broad arena, we find competitors, often on both sides of the balance sheet, to be many. Certainly in agriculture lending, we compete with the Farm Credit System, life insurance companies, farm equipment companies, agricultural input companies and suppliers, and even government farm payment programs. On a broader scale, add to our competitor list the savings and loan industry, the credit unions, insurance companies, security and brokerage firms, as well as other banks themselves.

Whether we in the business of finance should all have the same competitive opportunities, and the same capital requirements, and the same taxation, and the same regulatory supervision continues to be debatable, but without question, there are significant differences in the rules you and we have to observe. Is it fair, for example, that Congressionally sanctioned entities, set up for specific purposes, be allowed to expand at will to compete against privately capitalized and taxpaying enterprises? We don't really need to decide this here today, but we feel its a relevant issue that needs careful and thoughtful examination.

Some other challenges.

There are a lot of other challenges; technical, operational, and financial, but I think we all share equally in many of them, and are together finding solutions. We now, or soon will, have "Farmer Mac", over, I might add, some dead bodies. We as bankers are now even being courted by some of the Farm Credit districts, once (and by some bankers still) considered to be mortal competitors to sell loan participations to their banks. Together, you and we are working on standardized farm financial measurements. These and all our other cooperative efforts to make ag financing better for our customers will be good for all of us, as well, as we continue to compete for agriculture's business.

Meeting the challenges...

I think the challenges today for ag bankers have less to do with agriculture itself, or its technology, or the weather, but more to do with the environment we operate in. And that's really no different than any other competitive enterprise.

And when it comes to competing, I also think ag bankers have an advantage over Farm Credit lenders, and insurance companies, and all of our other lending competitors, because we have the privilege of serving on the front lines of our communities. Our farm customers are literally our neighbors. It's nice to know that we at least have "first chance" for their business, as long as we are relevant and competitive to their needs for financing.

There's an issue of responsibility that needs to be addressed as well. We all need to lend responsibly, lobby Congress responsibly, and compete for customers responsibly. Taking our privileges to serve agriculture will be good for agriculture. Let's hope that never again will fingers be pointed at ag lenders to say "You loaned me too much money."

I think maybe tomorrows ARE brighter for agriculture economies than for manufacturing, or energy, or service economies. Agriculture's fortunes, after all, do come from seeds in the soil, and from livestock in our fields. There are bright tomorrows for agriculture. I hope we, and you, and our farm customers can continue to share them.