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Sustainable Competitive Advantages of Nontraditional Agricultural Credit Suppliers

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Bruce J. Sherrick, Steven T. Sonka and James D. Monke*

I. Introduction

This paper examines the changing nature of the short and intermediate-term agricultural credit markets and applies a strategic marketing management framework to evaluate the competitive effects of these changes. Recently, there has been a marked increase in the incidence of agricultural input suppliers providing credit to producers in addition to, or conjunction with, their primary product lines and/or to finance the producer's entire operation. This practice has put increased pressure on both other suppliers of agricultural credit and providers of non-credit inputs. Some feel these developments have the potential to reshape the "lender landscape".

Entry of new competitors into any market introduces uncertainty. The entry of nontraditional competitors is particularly unsettling to existing firms in the market because the new entrants may or may not follow the established "rules of competition". For example, it is not clear to what extent each input supplier might approach producer credit as a stand-alone profit center or as a means to increase sales of existing products through subsidized credit. In addition, the "market offerings" of new entrants are likely to differ in their form and function from those of existing competitors. In such settings, it is important that competitive responses be based upon solid analysis and careful consideration of marketing principles. Further, because of the unique characteristics of farm firms and the public's interest in the stability of its food supply system, evaluation is warranted as to the competitive changes associated with provision of credit when that credit may be linked to other relationships with the producer.

Two terminology clarifications are needed at this point. First, a distinction needs to be made between types of credit suppliers. We will refer to traditional credit suppliers as those whose traditional (historic) contact with the producers was primarily to provide credit (i.e., commercial banks, Farm Credit System, insurance companies, Farmers Home Administration, etc.). Nontraditional suppliers, on the other hand, are those whose primary contacts with the producers had historically been for goods and services other than credit (i.e. input suppliers, cooperatives, machinery suppliers, processors, etc.). Both input suppliers and output processors have begun participating in such arrangements with extensive and widely varying programs (Monke, et al.).

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The impetus for the nontraditional ag-credit supplier to enter the credit market may be to pursue a profitable lending opportunity, or to stimulate additional sales, thereby generating additional profits on their primary lines of business. Output processors, also may pursue the financing function as a stand-alone profit opportunity, or may use the financing arrangement to solidify a supply relationship.

The second terminology issue refers to "credit". The focus of this paper is on formal credit as distinct from trade credit or other "statement" accounts that are typically employed with terms such as "net-thirty days payable". However, the formality of the application, security, and the repayment terms differ greatly among nontraditional suppliers of agricultural credit and the distinction from typical trade credit may not always be entirely clear. Typically, a separate agreement with specific terms and purposes is executed and the credit agreement is explicitly recognized by both parties.

Strategic Marketing Management (SMM) concepts will be used to analyze the competitive effects of nontraditional suppliers of agricultural credit. Within a firm, SMM is often described as the search for characteristics that differentially enhance the firm's ability to compete and which cannot be easily copied by competitors.

Provision of agricultural credit and differing programs and packages of credit services appear to be an emerging source of differentiation in the agricultural input marketplace. An intriguing feature of this phenomenon is that there are potential competitive implications in two markets--the market for inputs as well as the agricultural credit market. Assessment of competitive reactions, therefore, is not limited to the potential responses of traditional agricultural lenders, but includes the reactions of other input suppliers as well.

The remainder of the paper is organized as follows. First, evidence regarding competitive differences in the programs and purposes of a sample of nontraditional lenders is presented. A brief summary of relevant strategic marketing management concepts is then provided. These concepts are employed in the following section as a framework for evaluation of the entry of nontraditional sources of credit. The paper's final section describes a number of associated managerial and research implications.

II. Nontraditional Lending Programs

Estimates of the share of non-real estate debt held by nontraditional lenders range from eighteen to over twenty percent (Thompson, USDA). Yet, USDA does not typically provide information that allows direct examination of input supplier credit programs instead reporting only the aggregate level of debt held by "individuals and others". Hence, an intense survey of seven agricultural input suppliers with active credit programs was undertaken in the summer of 1991 in order to gain insights and document the size, features, and purposes of their programs. Interviews were conducted with senior executives coordinating the producer lending programs at the firms' headquarters or at the financing subsidiaries' offices. Information gathered was

both public and private in nature, hence the results that are presented reflect each firm's desire to participate while protecting confidential information. The findings are reported in more detail in Monke, et al., and are summarized in table 1 to reflect the key characteristics of the lending programs of the participants.

With an aggregate loan volume of over \$12 billion and programs poised to increase in volume, this sector of the agricultural credit market deserves more careful examination and understanding. Among the companies surveyed, wide differences exist in terms of their funding sources, volumes, interest rates, collateral, delivery mechanisms and the like. In addition, the organization and purpose of the lending operation differs substantially across firms. For example, the credit operation may operate as a stand-alone business unit and profit center; or it may be highly subsidized and exist with the goal of stimulating sales; or it may have been viewed as a necessary competitive response to other forces in the market. Further, the financing relationship may be used primarily to solidify a supply relationship, or it may be used to gain additional managerial influence in an operation to force the adoption of specific technologies or protect the use of proprietary techniques.

III. Concepts from Strategic Marketing Management

In the early 1980's, Porter made a number of important contributions which had the effect of making *strategy* choices more operational and popular within industry. Of particular note was the concept of generic strategies that arose from this body of work. Within the realm of generic strategies, firms were said to be able to compete based upon: (i) low cost; (ii) differentiation; or (iii) a focused cost or differentiation advantage. An unfortunate implication of this framework, however, is that it gave the impression that low cost firms need not (or should not) attempt to differentiate and that providers of differentiated products did not have to emphasize cost control.

Recently a more comprehensive perspective has begun to emerge in which the selection of a firm's strategy is seen as a process by which the firm attempts to differentiate itself. Of course, there are innumerable means to differentiate, notably by being the low cost producer or pursuing niche markets. Cost reductions are viewed as one of the means to improve value to the customer, discourage potential competitors, or defend against actual competitors while improving the firm's profitability.

A summary of this emerging perspective is that SMM involves choosing to compete in product markets where the environment is favorable and where the firm's offerings have a differential advantage over current and potential competitors. A favorable environment provides customers with the willingness and capacity to purchase the firm's product or services. Offerings that have a differential advantage provide customers a reason to purchase, and create entry barriers.

Successfully offering products or services with differential advantages requires that the firm identify and understand the attributes of those products or services that attract specific customer

segments. Formal customer segmentation exercises have been used increasingly in recent years in attempts to understand potential customers and communicate advantages to them. The focus of customer segmentation has evolved away from demographic or socioeconomic characteristics toward segmentation based on perceived needs and behaviors. Further the firm must be able to employ its distinctive skills and assets to create a Sustainable Competitive Advantage (SCA) to a particular customer segment.

SCAs are linked to those skills and assets within the firm that provide a sustained, relative advantage in the market. SCAs result from a combination of: (i) the manner in which the firm competes (its skills and assets); (ii) who the firm competes against (competitors' skills and assets); and (iii) where the firm competes (specific product/market segments).

This more comprehensive approach to strategy development is proactive, with the resulting implication that a firm selects both their customers and their competitors. Use of this approach focuses competitive analysis on customer needs, differential capabilities of competitors, and the external business environment. Application of this framework to the phenomenon of nontraditional suppliers of agricultural credit is the topic of the following section.

IV. Strategy Variables and Sources of Differentiation

An important feature of strategic thinking is its orientation to the future and to the external environment. As important as these areas are, there can be an unfortunate tendency to lose sight of customer needs in strategic evaluations. As the preceding discussion emphasizes, however, segmentation of customer needs should be a key component of strategic marketing management. As Drucker notes, "Marketing...is the whole business seen through the point of view of its final result, that is, from the customer's point of view." The following discussion links attributes of the credit decision that are potentially affected by the entry of nontraditional credit suppliers with the sources of competitive advantage that generate those benefits.

Four general credit decision attributes are listed in Figure 2. The remainder of this section describes each of these attributes and the potential to become SCAs for the firms which possess them.

Convenience

Product-line extension to include credit: Rather than view credit as a separate transaction to facilitate a purchase, many nontraditional credit programs offer point-of-sale credit or are nearby in location because of the nature of the business. Other institutional differences exist that reflect the general environment in which these competing lenders operate. For example, one of the authors was able to obtain a John Deere Credit card in less than 12 minutes from time of entry into the dealership until the account was created and debited. Currently few traditional lenders

could match that speed in providing a quick, albeit modest, credit line and accepting a charge.¹ Institutional differences can allow the firms to alter the attributes and mix of credit products offered in attempts to "bundle" the credit decision into the product selection, or reduce the number of transactions required for acquisition.

Anecdotal evidence also suggests that the producer's view of the relationship with input suppliers can differ from that with traditional lenders. For example, it is commonly suggested that a producer in financial difficulty will pay off a tractor loan before making payments on operating loans, because they may need a tractor from the same supplier in the future, but perceive more options on other operating inputs. Or possibly, there exists a "loyalty factor" with input suppliers that does not exist with traditional lenders.

In contrast, if separate credit agreements must be secured to back each purchase, the aggregate transactions costs could outweigh the benefits from bundling credit with the products financed. Traditional lenders are better suited to provide single credit lines that may be used across a large set of purchases and over an extended time period.

Interest rates

Funding sources: Traditional lenders in the agricultural credit market utilize established funding sources; banks have depository authority (as well as access to wholesale funds markets); and the Farm Credit System has a funding agency that sells bonds on Wall Street. Nontraditional lenders, on the other hand, have no such authority to accept deposits, nor do they share in the potential advantage of having a unified funding agency with quasi-agency status. Instead, they must turn to other segments of the financial markets for funding.

One potential source for funding of a nontraditional lender's loan portfolio is the commercial paper market. However, few of the lending operations are large enough or autonomous enough to effectively access commercial paper markets. Instead, the parent company may serve as a "investment banking conduit" for the funding needs of the lending program, with the paper sold remaining as an obligation of the parent company. Of the lending programs that are of sufficient scale to float commercial paper, a capital corporation is typically employed to directly sell bonds in order to fund the lending operations.

The balance sheet of the parent company may also serve as a significant (and at times sufficient) source of funding for the lending unit. In other words, the company may have sufficient cash

¹Incidentally, the credit was also interest-free for 90 days as an incentive to purchase equipment from the same dealer. Investigations of the no-interest credit program revealed that the marketing department for Deere paid the financing unit for the period during which no interest was charged to the customer. The marketing group has been successful at stimulating sales and the financing operation has remained highly profitable.

or capacity to maintain "accounts receivable" on the balance sheet to delay receipt of payments for goods sold. Nontraditional lenders may view the company's balance sheet as ... "a better place to store receivables than inventory". In essence, this type of arrangement transfers the funding function away from the lending operation back to the parent company. An additional avenue the company might pursue is to securitize and sell its accounts receivable. Although the recent growth in this practice has slowed, it remains a viable option, particularly for the nontraditional lenders with the longest histories and largest volumes.

Another possible arrangement for funding the receivables is to maintain a "correspondent banking" relationship whereby a line of credit or open account is maintained on behalf of the nontraditional lending unit by a traditional lender. In this case, the funding source is a traditional lender and the nontraditional lender serves primarily as the originator and servicing contact for the loan. Typical arrangements allow the nontraditional lender to borrow "in bulk" and re-lend to its customers with the collateral being reassigned to the original lender. Similar relationships exist between some cooperatives with lending programs and CoBank which often funds the cooperatives in the first place.

Regulatory differences: Banks are regulated by a variety of groups including the FDIC, the Comptroller of the Currency, the Federal reserve system, state and federal banking regulations, indirectly by the Congress, and through the influence of the organized reporting procedures (Call Reports). Depending upon the organization, they may also be regulated by the SEC, and security rating agencies. The Farm Credit System is overseen by the Farm Credit Administration and indirectly by Congress. These relationships ostensibly exist to protect the safety and the soundness of the U.S. money and banking systems.

Although nontraditional lenders are also bound by property, lien, usury, and security laws, they operate in relative autonomy from formal regulators who can impose capital standards, loan quality ratings and the like. This fact can be viewed as a potential advantage that offsets the firm's exclusion from deposit and other wholesale funds markets. Further, to the extent that the equity of the nontraditional supplier is publicly traded, the "market" is a regulator, if it in fact provides the necessary discipline for prudent and sound management of the lending operation. Given the funding sources used by nontraditional lenders, it may be more appropriate to allow the "invisible hand" of the market to provide price and performance regulation over these operations. This sentiment was reflected in the comment of one representative of a nontraditional lender who remarked that "banking regulations protect depositors and not borrowers" (Monke et al., pg. 7).

Delivery system: Although much is known about the operating and delivery costs of credit among banks of various size and affiliation (Ellinger and Barry, 1991), there are virtually no organized or standardized reporting procedures for the nontraditional lenders. Therefore, considerably less is known about the costs and operating procedures for nontraditional lenders.

However, several apparent differences in operation give an indication of the important components of these costs and how they might differ among traditional and nontraditional

lenders. For instance, nontraditional lenders tend to have a much lower investment in "brick and mortar" that should be charged directly to the lending operations. These programs often share locations with the input supply facility at the customer end and with the other financial operations at the parent company level. Also, nontraditional lenders tend to have very different information and accounting systems than do banks or other traditional lenders. If the credit program exists at the "point-of-sale", the information gathering process can be combined with other activities, or much of the background information may be retrievable based upon previous relationships. For many input suppliers, the relationship with the customer based on the physical product supplied serves to provide much of the "bonding" or underwriting necessary to assess and mitigate credit risks. Further, many of the prominent input supply programs subordinate a portion of the default risk to the local dealer/supplier thereby transferring part of the monitoring function back to the party with a lower cost to perform that function. The local dealer/supplier may have frequent contact with the customer because of the other relationships that exist alongside the credit relationship, thereby simplifying other aspects of servicing. Conversely, the nontraditional lending operations are often less able to deal with problems that arise in an organized and efficient manner - partly due to the discomfort it could create relative to the remainder of the customer's business, and partly due to less experience and less focus on lending activities.

Boehlje suggests that the delivery and design alternatives for agricultural credit will continue to expand. In addition, that study suggests that the efficiencies of origination at the point of sale and the ability to conduct specialized servicing result in point of sale credit delivery costs that are lower than those of traditional lenders by 50 percent or more (Boehlje, pg. 7). In any case, the nontraditional lenders are typically more flexible in the abilities to link the credit to other activities and may generate real economies of scope (through shared facilities, or linkages to sales) that result in real cost advantages in the delivery of credit.

The nontraditional lender also may face a different set of constraints with regard to loan processing and servicing. They may have the opportunity to serve primarily as an originator and to contract much of the loan documentation and servicing work to someone else -- possibly to a traditional lender who can use these activities to generate fee income.

Advanced technology: As has been mentioned, the nontraditional lender may have superior access to information about a potential credit applicant versus a traditional lender because of the other relationships they may have with the customer. Or, there may simply be "economies of information" from having billing records and information from past dealings with the customer that did not involve credit. However, the nontraditional lender may need to make substantial investments in an actual informational system that is equipped to manage the necessary credit documents and servicing information. The profitable (and creative) solution for the nontraditional lender may involve contracting for the backroom services with a traditional lender thereby avoiding an activity that may involve a comparative disadvantage while generating fee income for the traditional lender.

Marketing subsidies: An input supplier with a producer-credit program may operate the lending operation as a stand alone business unit with separate P&L responsibility, or the operation may be cross subsidized with revenues from other activities, based on the cost and return structure of the company. For example, a marketing department may feel that "low cost" credit is a more effective marketing tool than traditional advertising and promotion channels and may be willing to subsidize the credit department to stimulate sales. It could appear that the nontraditional lender is "underpricing" its credit relative to expenses, but a more detailed accounting would reveal that the appropriate expense lies within the promotion category. Less directly, a cooperative supplying a wide range of producer inputs may find that credit programs enhance sales significantly and generate a larger total profit, even though the credit program is not self-financing if taken alone. Hence, the inclusion of this activity in the total portfolio of the cooperative's business units may be beneficial due to the "cross-subsidization" effects.

Credit Availability

Credit risk assessment: Both traditional and nontraditional lenders must ascertain the credit worthiness of a potential borrower and make decisions on the credit package and terms. While the increased employment of formal scoring models could standardize the process among groups of lenders, current procedures appear to remain highly individualized.

In the case of the nontraditional lenders, there may be access to important information due to the product supply relationship that exists in addition to the credit relationship. In other words, information gathered in the process of marketing the inputs could be of particular value to the credit-risk assessment process. Further, reputation and public information are likely to be more significant in these types of situations. For example, suppose a producer purchases seed, feed, fertilizer, and chemicals from a single dealer. That producer may be less likely to default on a line of credit used to purchase one input for fear of losing access to other services the dealer provides.

The possible fragmentation of credit sources when a producer uses credit from multiple source may increase the difficulty of assessing the credit risk borne by each of the lenders. In addition to the added difficulty of assessing risk, the level of risk born by one lender is potentially influenced by another lender. The difficulty in completely contracting to remove these possibilities increases as the number of different financing sources increases. Further, the asymmetric information inherent in one party making multiple credit contracts increases the difficulty and potential expense in fully accounting for the impacts of various lenders on each other.

Collateral valuation and risk assessment: The nature of the primary lines of business may also confer an advantage of specialized lending due to the ability to dispose of the specialized collateral more effectively than a traditional lender. Hence, the nature of the risk borne differs by type of lender. For example, a machinery manufacturer and its equipment dealer would likely be better able to dispose of a repossessed tractor than would a small community bank.

A nontraditional lender could be able to develop specific expertise in a particular sub-segment of the agricultural credit market. For example, an integrator of swine operations, likely possesses specialized information and expertise about that industry which enables them to better assess the specialized risks of lending to that sub-segment. Or, they may in fact use the credit relationship as a means of introducing new or protected technologies by making the credit contingent upon their management tactics. Likewise, a seed corn company may be better prepared to deal with the specialized needs of a seed farm than would a traditional lender. Just as some traditional lenders have argued that their specialization in the area of agriculture gives an advantage relative to other traditional lenders, the nontraditional lender may argue that further specialization even to the enterprise level confers advantages otherwise unavailable from traditional lenders.

Risk bearing capacity: Banks and other traditional lenders typically employ active asset/liability (A/L) management techniques to deal with interest rate risk; and may employ the secondary market or resale market to deal with particular liquidity and exposure risks; and they may maintain a preferred risk position "within house". Further, security activities and loan monitoring are viewed as part of the lending process by these lenders. Reserve funds are based on active credit risk assessments and are actively managed. In addition, the banks may participate in guarantee programs or may structure the security arrangement to satisfy particular risk bearing constraints. In total, traditional lenders tend to employ rather sophisticated A/L techniques to control their exposure to interest rate risks.

For nontraditional lenders, the credit operation may be viewed as a secondary activity that complements or serves to diversify the remainder of the business activity portfolio. The actual capacity to withstand adversity may extend beyond the loan reserve fund to the viability of the parent company as well. In some cases, this may provide access to "deeper pockets". In others, financial pressures on the parent can reduce the nontraditional lending unit's ability to compete aggressively. Because of the linkages to the market function, the competitive posture of the lending unit may be affected by the viability of other business units in the company. If the company falls on difficult times, the lending operation could be significantly curtailed regardless of its own performance.

Regulatory differences: Same as above.

Marketing subsidies: Same as above.

Synergies

Vertical coordination: If the reason to supply credit is to solidify a vertical relationship, there may exist economies of scope that reduce the cost of supplying the credit in conjunction with the other inputs. Or, the bonding function supplied by the vertical relationship can help guard against adverse outcomes. For example, the integrator may provide financing conditional upon receiving a specific product or having a controlled market. It may be that the risk-sharing via

the financing relationship is less costly than other methods of risk management. Or the guaranteed market for the company's primary products may be highly valuable. For example, the input supplier may finance the hogs in an operation to secure a greater feed market. This type of arrangement can result in reduced transactions costs if the net accounts could be settled rather than involving a third financier through which gross accounts (feed and animals) would be passed.

Substitution for producer credit: In cases where there are other developed vertical relationships, the integrator may "collect" production units into a single operation and, in effect, borrow on behalf of the collective producers. In other cases, where the contractual linkages are less clear, the nontraditional supplier may still change the nature of the credit used in terms of amount and type. In other words, the fungibility of funds may allow a producer to finance, say, feed on favorable terms with a feed miller, and avoid financing the purchase of other equipment. That financing may occur with a nontraditional lender even in cases where the vertical relationship does not mandate use of the alternative sources of credit.

Aggregate impacts on the quantity of credit demanded are, of course, extremely difficult to quantify. However, at least two scenarios are plausible. First, if a nontraditional lender does have a true cost advantage in supplying debt capital, it could lead to a substitution in the firm's financial structure away from equity toward the lower cost debt. Or, vertical linkages tied to debt capital could decrease the aggregate demand for debt because of the use of equity capital by the contractor or integrator in the vertically coordinated production.

V. Summary and Implications:

There are several interesting management challenges issues facing firms considering competing in this arena. Whether to enter or remain in the market with an agricultural credit program or not is a significant first decision. Simply identifying the firm's advantages and delineating the appropriate customer segment pose significant additional challenges. Further, developing a strategy that makes the advantage sustainable poses still another. Although specific firm situations and organizations impose constraints on the feasibility of some solutions, concepts from strategic marketing management can provide guidance to traditional lenders, other nontraditional lenders, customers, industry participants, policy makers, and others. Some of these are briefly highlighted below.

First, consider the implications of competition between traditional and nontraditional lenders. The strategy choice employed by a nontraditional lender may alter the nature of the competition post-sale or post-entry. Hence, new entrants in the agricultural credit markets may in fact be competing *for* a market as opposed to *in* a market. In establishing new credit programs that involve attributes that traditional lenders cannot offer, the nontraditional lenders are recognizing that the "rules of the competition" define the market; and their new terms of competition are created to define a move to a new market. This represents a subtle but important change in the nature of some segments of the credit market. Namely, that competition may not be an attempt

to capture market share of a fixed market, but rather, takes the form of an attempt to create a new inimitable market position. That is, the nontraditional lenders may not be competing for a larger slice of the "pie", but rather may influence the participants to substitute away from the "pie" market toward the "cake" market that contains different ingredients.

Traditional lenders must also decide whether to view the nontraditional lenders as a force to compete against, or as a financial intermediation function to facilitate. It is unclear whether the nontraditional lenders are part of a normal turnover of credit suppliers or whether their entrance represents a long-term change in the structure of the credit supply industry. Under one scenario, traditional lenders lose nearly all contact with borrowers and instead serve as the facilitators of credit programs that exit at the point-of-sale of the inputs. Under another scenario, the nontraditional lenders are simply a niche player and absorb the market share where they hold comparative advantages to traditional lenders.

Among the nontraditional lenders, the competition *in* the market involves strategic decisions that often link particular products or output relationships to the credit agreement. Although the use of these vendor-finance programs appear attractive as a means of solidifying market share in the primary product lines, it also leads to greater exposure to producer-level problems. There may also be a significant "cliente" effect whereby credit users effectively signal their credit worthiness through their selection of credit sources. Some have argued that the result of a cliente effect would be the eventual aggregation of poor credit in the portfolio of the lenders with the highest product margins (for examples, see Brennan, 1991). Further, the nontraditional lenders are typically less prepared to deal with the origination, servicing and back room functions of a lending program. To overcome the relative inexperience, some have chosen to buy a captive finance unit or have established relationships with a traditional lender. These choices, however, can impact the credit program and hence, impact the ability to compete with other nontraditional lenders that have organized differently.

From the customers' viewpoint, increased competition is generally viewed favorably; but the increased linkage to potentially less stable credit sources may mitigate the apparent advantage. Further, use of nontraditional credit may entail a loss of flexibility in input selection or management practices. In the case where the nontraditional lender is an integrator, an entirely different set of risks emerge for both the borrower and the lender (for discussion, see Featherstone and Sherrick, 1992). And, as the number of separate credit relationships increases, so do the transactions costs. Hence, the advantages of point-of-sale financing are likely offset if there are several points of sale involved. Further, the credit underwriting and qualification standards with nontraditional lenders are often such that the aggregate availability of credit is changed for a specific producer (often increased if purchasing vendor products and decreased if not).

The industrial organization (number, size, and concentration of suppliers) has already begun to be impacted by the increased use of dealer-supplied financing. One needs only to look at the impact of GM, Chrysler, and Ford Acceptance Corporations to understand the potential impact of vendor financing on the structure of the industry. While it is unlikely that the agricultural

Table 1. Summary of farmer lending programs.

	GROWMARK	Pioneer	Farmland	Purina Mills	DEKALB	Case	Deere
Credit Programs	Agri-Finance	Deferred Pmt (DP) Producer Loan (PL)	Input Financing (IFP) Direct Loan (DL)	Prompt, Commercial hog. Hog House, Loan guarantees	DEALER FINANCING Early cash discounts	Equipment (Ag & construction)	Equipment (Farm, industry, marine, recreation)
Approval authority	Central	Central	IFP: Field & central DL: Central	Central & area	Central & area	Dealer recommends Central	Dealer recommends Central
Application analysis	Comprehensive	Comprehensive but uses risk rating	DL: comprehensive, 3 yr fin stmt & cash flow projection	Credit score High quality	Subjective Comprehensive	NA	NA
Approval guides	Debt/Asset < 70% Collateral > 1.7 loan	DP PL CA/CL > 1 1.5 D/A < 67% 40%	50% equity Good financial ratios	Credit score Overall analysis	NW > \$30,000 D/A < 70%	NA	NA
Collateral	1st position, MPCI	1st position, MPCI assigned	1st position, MPCI assigned	1st position in livestock	Dealer seed inventory	Equipment	Equipment
Rates: Summer '91	10.25% variable Coop increase or buy down rate, make fixed, or take full (not 50%) recourse. No.	DP PL 12.03% 11.03% variable	IFP DL 10% ~10% variable	Feed only: 12% Commercial hog: fixed 10.5%	0% until due. State maximum if in collection	13.5% < \$25K 12.0% > 100K 14.25% if zero recourse to dealer Yes. Dealer income	NA fixed & variable
Tier to quality/size	No.	No.	No.	No.	No.	No.	No.
Annual Volume 1988 1989 1990 est 1991 est 1996	13.7 M 21.5 M 32.3 M 45.4 M 75.0 M	1.3 M 2.5 M 8.9 M 21.0 M 150 M	1.0 M 6.3 M 11.0 M 50 M	55 M	43 M peak	Portfolio value: 1.4 B 1.7 B	Portfolio value: 3.1 B 3.6 B
Funding Sources	Deposits (10%) Capital credits (1%) GROWMARK CoBank	Pioneer Proposed: outside capitalization source	Farmland Rabobank CoBank	Purina Mills, British Petroleum. Offers Guarantees.	DEKALB Bank lines of credit	Tenneco	Deere & Company Commercial paper Bonds

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