



Rapid City 1909.
South Dakota State Historical Society



2014 South Dakota Governor's Agriculture Summit

June 27, 2014
Deadwood, SD

*What Do We Know From the
Past That Can Help Us
Understand What Might Be
Ahead for South Dakota
Agriculture?*

Comments by:
John
Blanchfield
ABA Center for
Agricultural and
Rural Banking
Washington,
DC



Redfield
Bank
Redfield, SD
1908

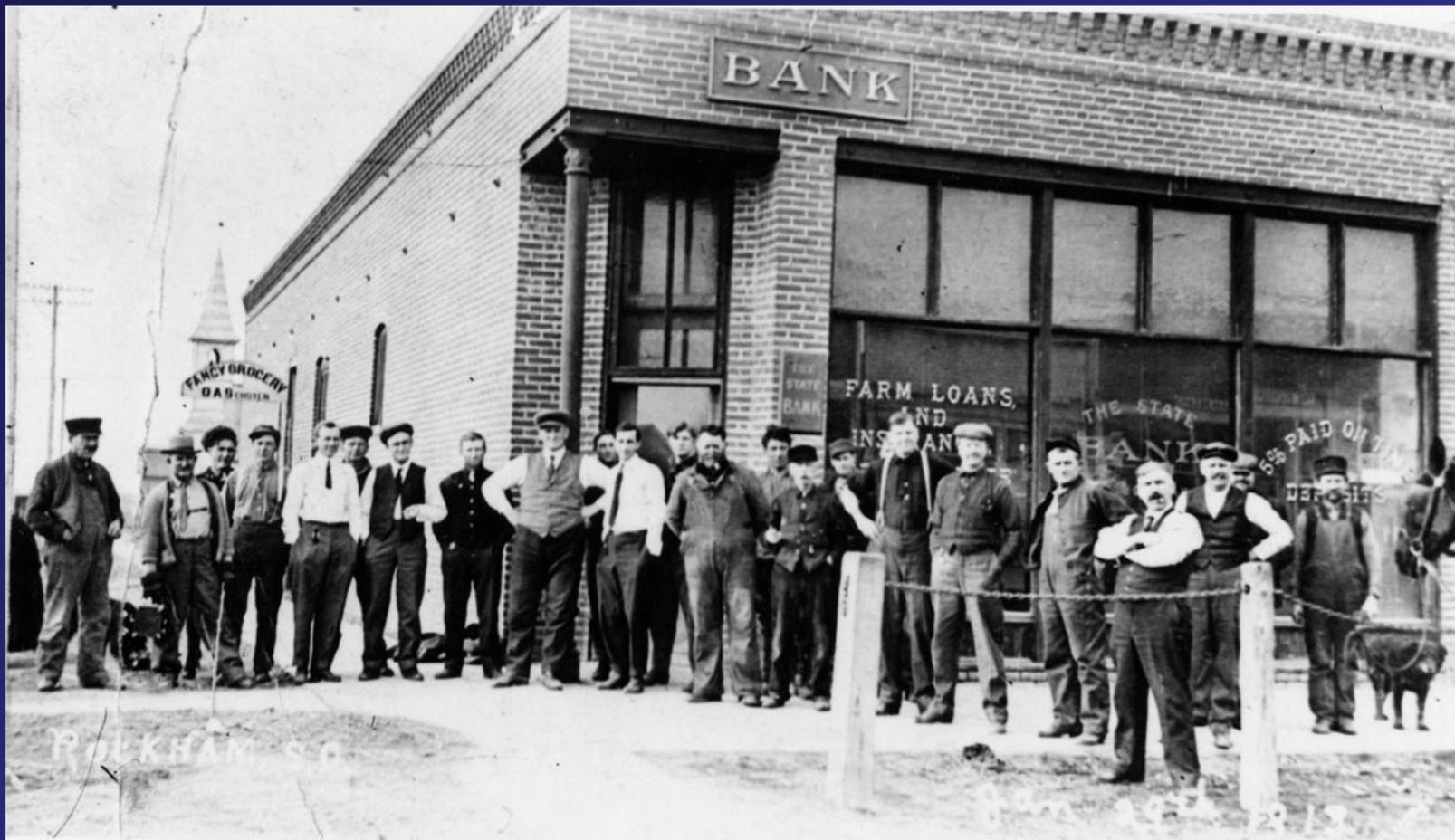
100 years or so ago bankers saw opportunity in Miller



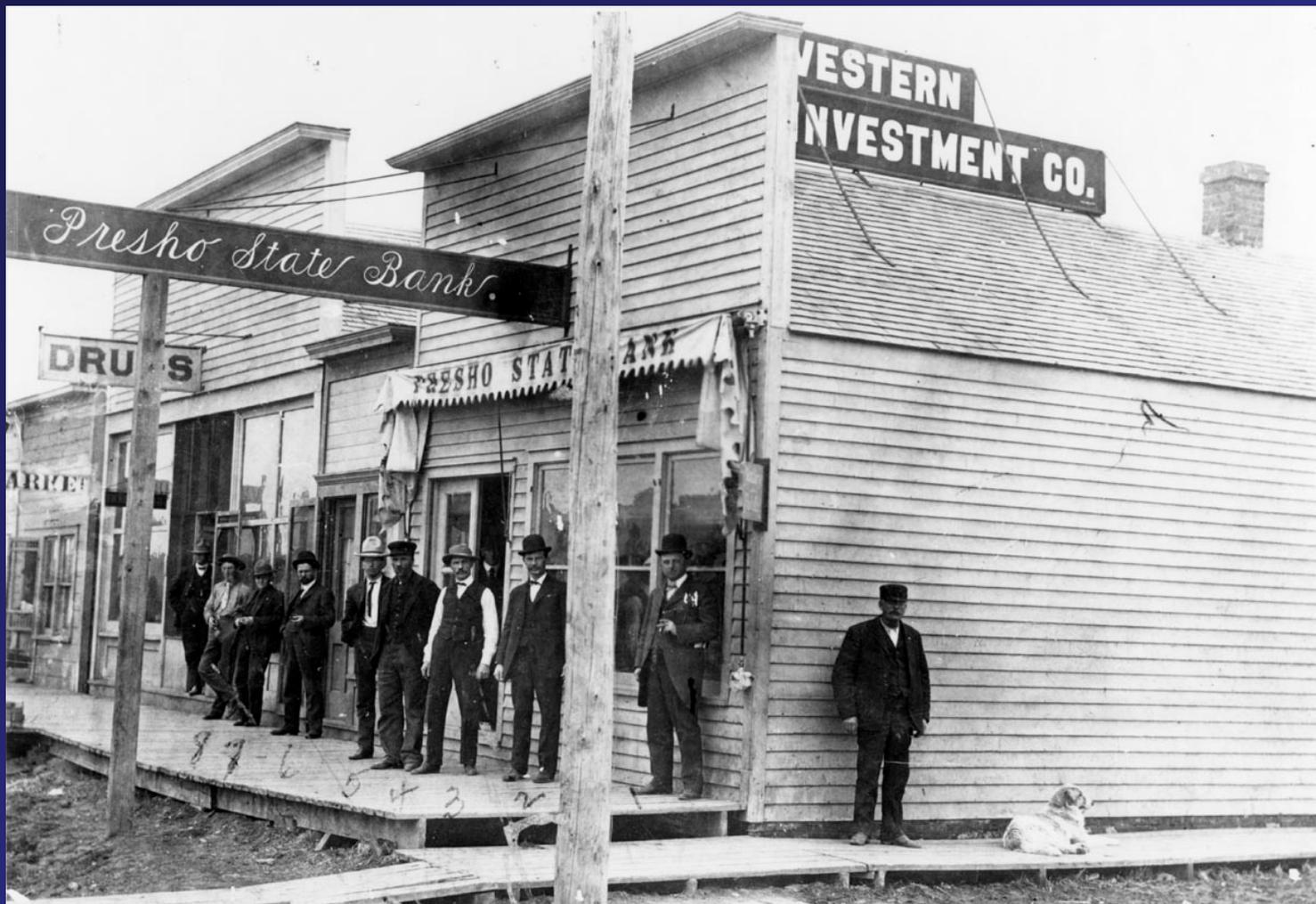
And Watertown



And Rockham



And Presho



And Redfield



And Even Owanka



Things Apparently got Better in Owanka Before They Went Bad



The remains of the bank in Owanka in 2012
Rapid City Journal. Aaron Rosenblatt, photographer

What Does ABA Do?

- GOVERNMENT RELATIONS
- PUBLIC RELATIONS
- BANKER EDUCATION AND PROFESSIONAL DEVELOPMENT



Kearney, Nebraska 1910

The American Bankers Association

Founded in 1875

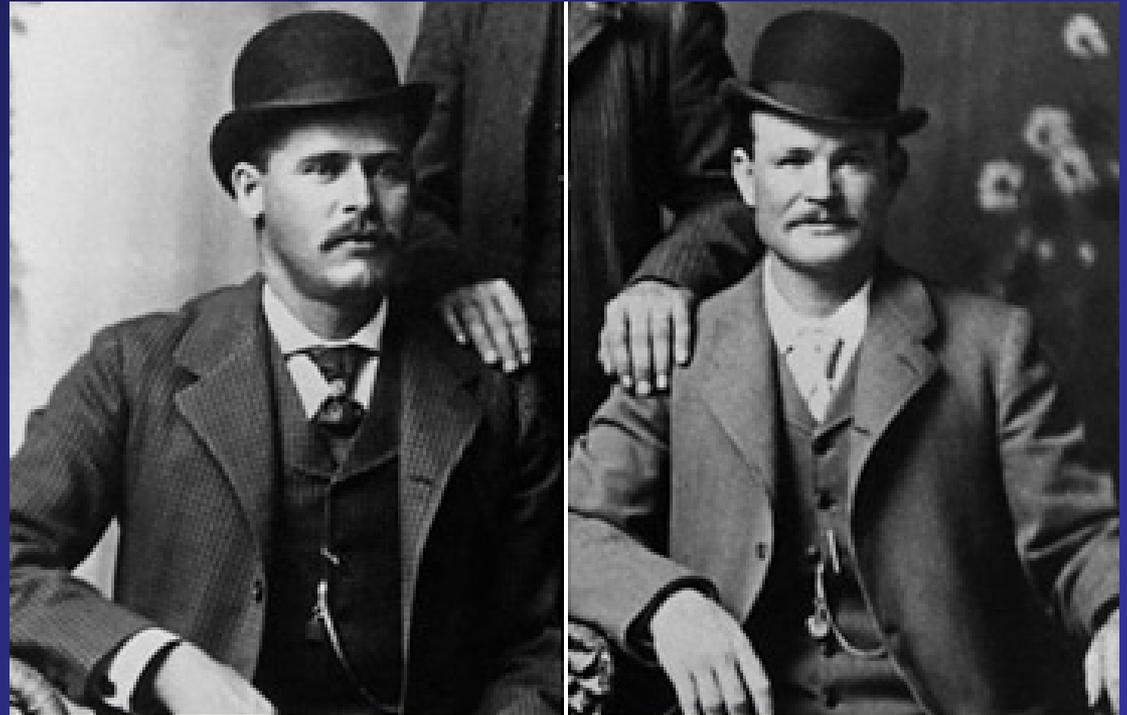
First convention was held in September, 1875 in Saratoga Springs, New York.

The entire convention fit into this building.



The American Bankers Association

One of our earliest endorsed vendors, the Pinkerton Detective Agency, chased these guys all the way to Bolivia.



Sundance Kid

Butch Cassidy

How did a Bankers Association Get into Agriculture?



1906

100 Years Ago the ABA Agricultural and Rural Bankers Committee was Formed

The First National Bank in Champaign, IL was founded by Benjamin Franklin Harris in 1865.

B.F. Harris, the bank founder's grandson, served as the first Chairman of the ABA Agricultural Bankers Committee from 1913-1916.



100 Years later

While there isn't much left in downtown Champaign today, BF Harris' bank building still stands guard on Main Street.

What motivated bankers in 1913 to form the Agricultural Bankers Committee?



There Was a Great Boom in Agriculture

Credit for agriculture in the early 20th century was expensive and hard to get. Farmers, and their legislators, wanted more credit, and they wanted it to cost less. One could argue that agricultural credit was the first piece of the “farm safety net”. Efforts to adjust prices came later – during the bust.

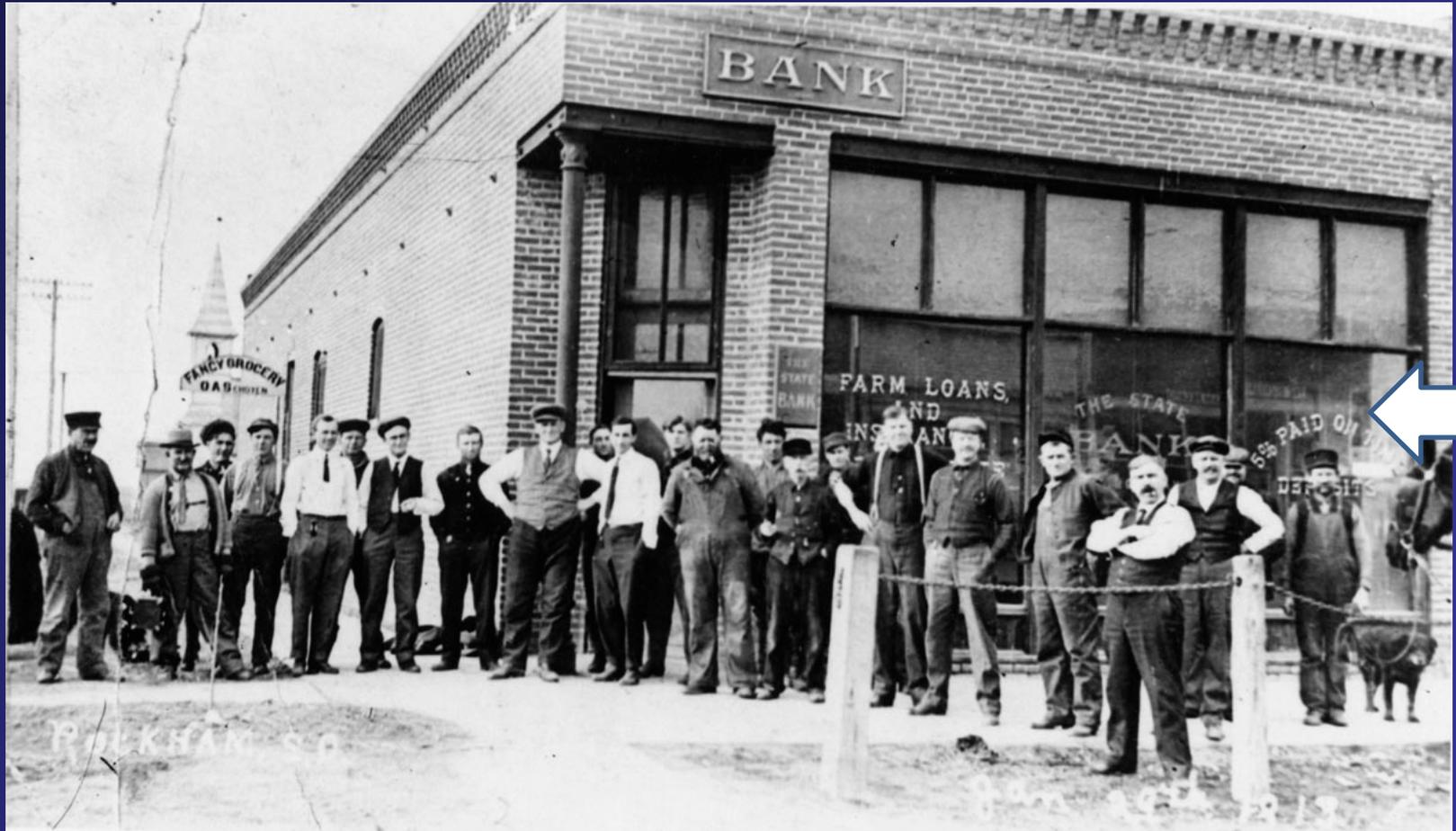


1908 was an Election year. Funny Things Happen in Election years



Photo: South Dakota State Historical Society
1908

What was going on 100 Years Ago that led to the creation of the ABA Ag Bankers Committee?



Rockham, SD 1913

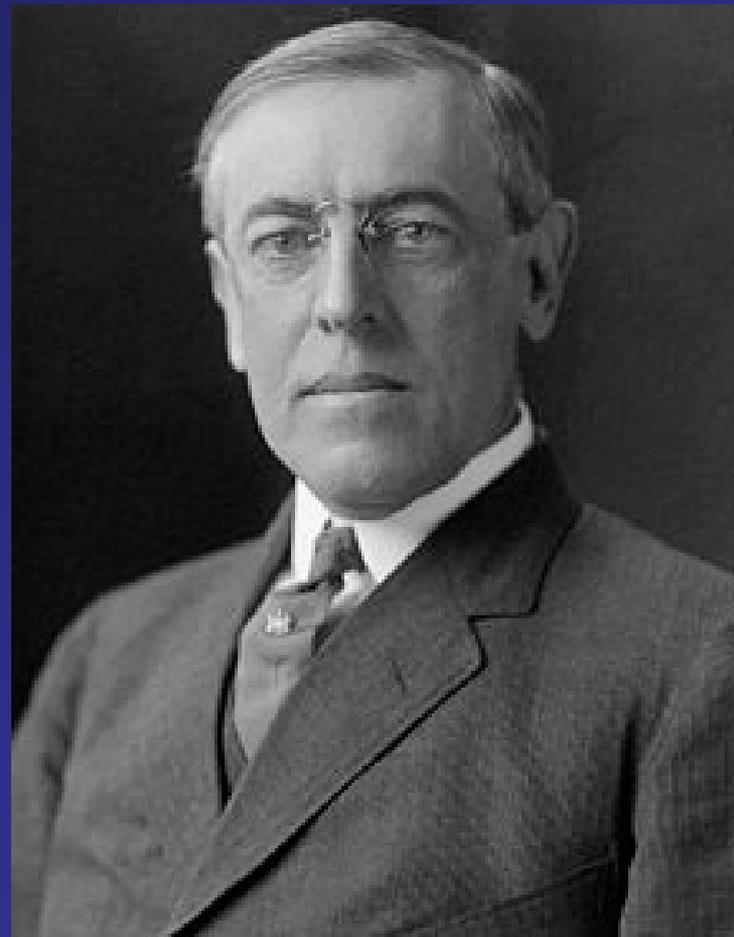
April 26, 1913

Two Commissions Leave the US to Study Rural Credit Systems in Europe



The Public Option for Farm Finance

Once the two commissions completed their reports, much fighting ensued (it was Washington after all). The ABA, which supported some kind of federal involvement in rural credit, became less supportive when it appeared that the new system was going to attempt to displace the banking industry. President Wilson signed the *Federal Farm Loan Act* July 17, 1916



How Farm Policy Helped SD Get a Monument



Rapid City 1927

McNary-Haugen Tariff legislation. Vetoed twice by President Coolidge

One of the early surviving copies of the Banker Farmer magazine that was published by ABA from 1914 - 1926. The depression arrived early in rural America and the association ceased publication of the Banker Farmer in 1926.



Other Examples- the banker-farmer movement encouraged bankers to learn about and to pass on "modern" farming methods to their customers

The
BANKER + FARMER

Reviewing the Banker's Activities for a Better Agriculture and Rural Life
 Conducted by the Agricultural Commission of the American Bankers Association

VOL. I CHAMPAIGN, ILLINOIS, MAY, 1914 NO. 6

TIME TO WAKE UP → THE DAWN OF A NEW AGRICULTURE
 The Commercial Fertilizer Problem—See Page 4

The
BANKER + FARMER

Reviewing the Banker's Activities for a Better Agriculture and Rural Life
 Conducted by the Agricultural Commission of the American Bankers Association

VOL. I CHAMPAIGN, ILLINOIS, APRIL, 1914 NO. 5

ABOVE THE AVERAGE → THERE THE PROFIT LIES.

Farmer NEWKIND makes more profit from 1 acre yielding 80 bu. than Neighbor OLDWAY makes on 4 acres yielding 200 bu. → \$150 land → 46 bu. go for EXPENSES → the PROFIT → the ONLY profit is in the EXCESS YIELD.

SEE SPECIAL NOTICE ON PAGE SEVEN

BANKER + FARMER

Reviewing the Banker's Activities for a Better Agriculture and Rural Life

Conducted by the Agricultural Commission of the American Bankers Association

VOL. II

CHAMPAIGN, ILLINOIS, JUNE, 1915

NO. 7

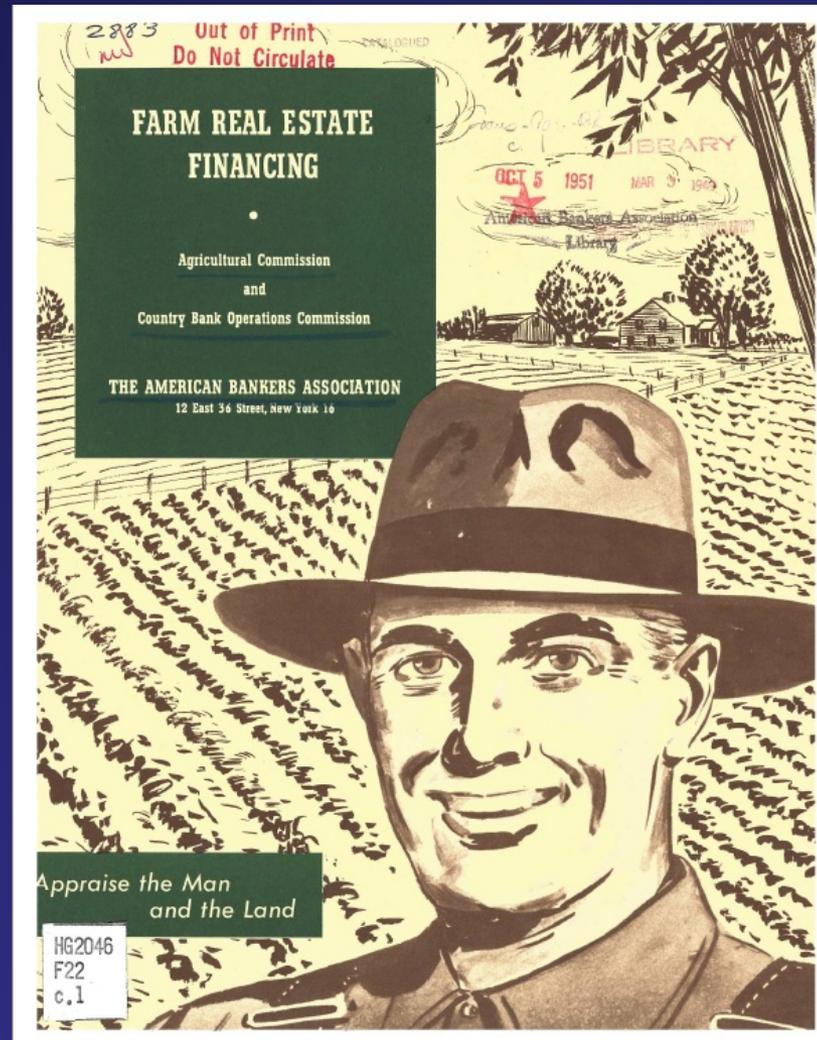
In the old days, ABA got involved in some of the more controversial issues of the day.



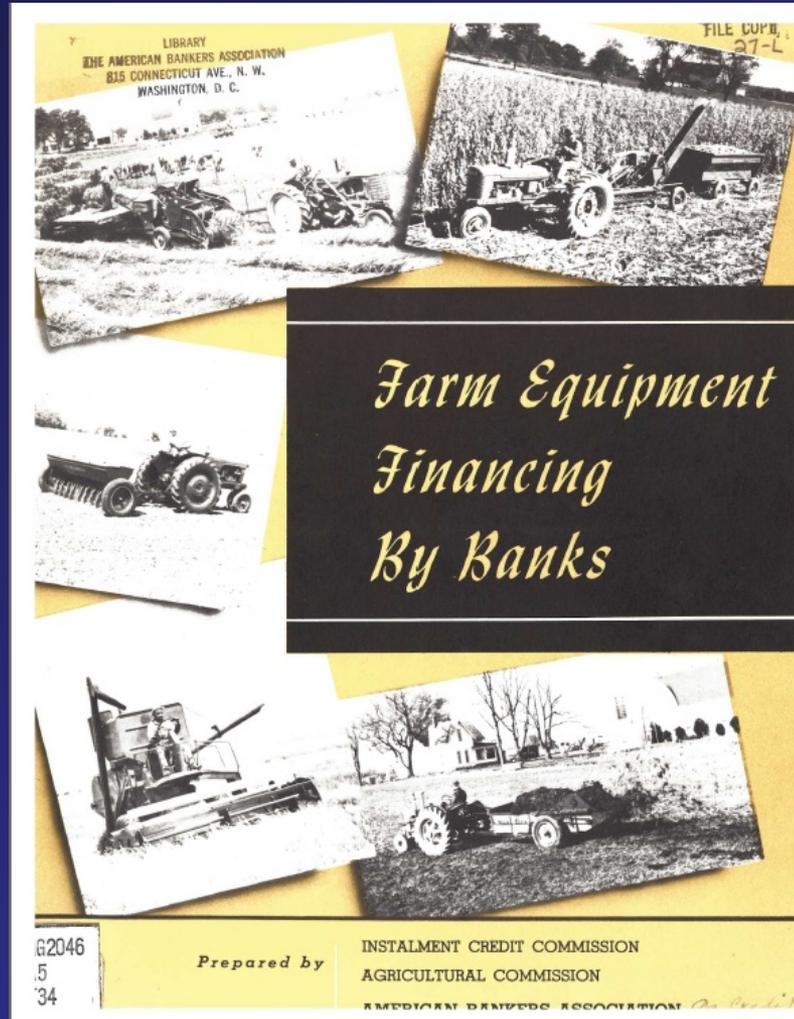
TO KEEP THE BOY AT HOME

Banker-Farmer Conference, Chicago, July 7-8. See Page 4

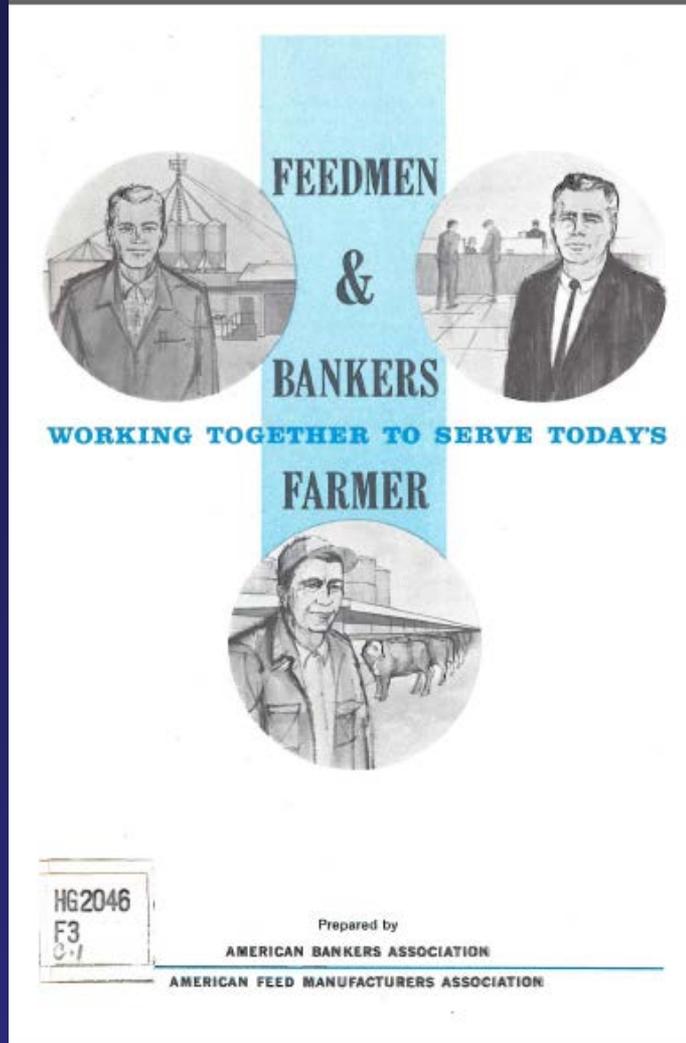
GIs Came Home from WWII and Many of them wanted to Farm



Post War Agriculture was Different and Someone Had to Figure out How to Finance It

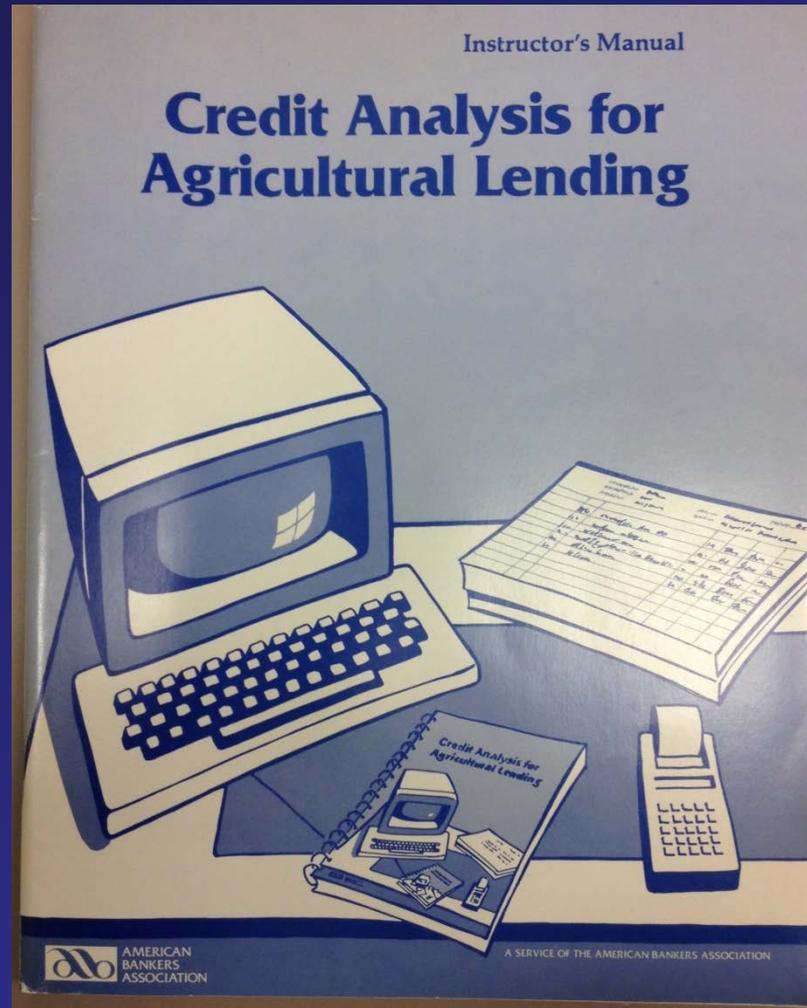


Modern, Capital Intensive Farming Practices Demanded Credit

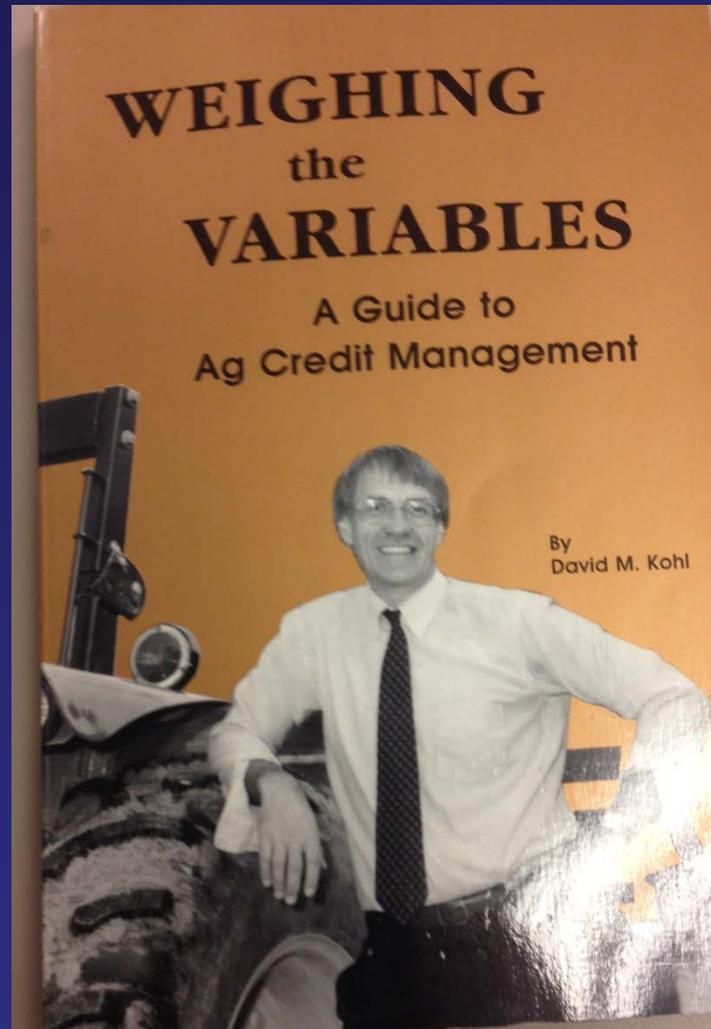


Bankers supplied the credit that enabled modern agriculture to develop and ABA helped

In the 1970s we Recognized that Credit Analysis was going to Change

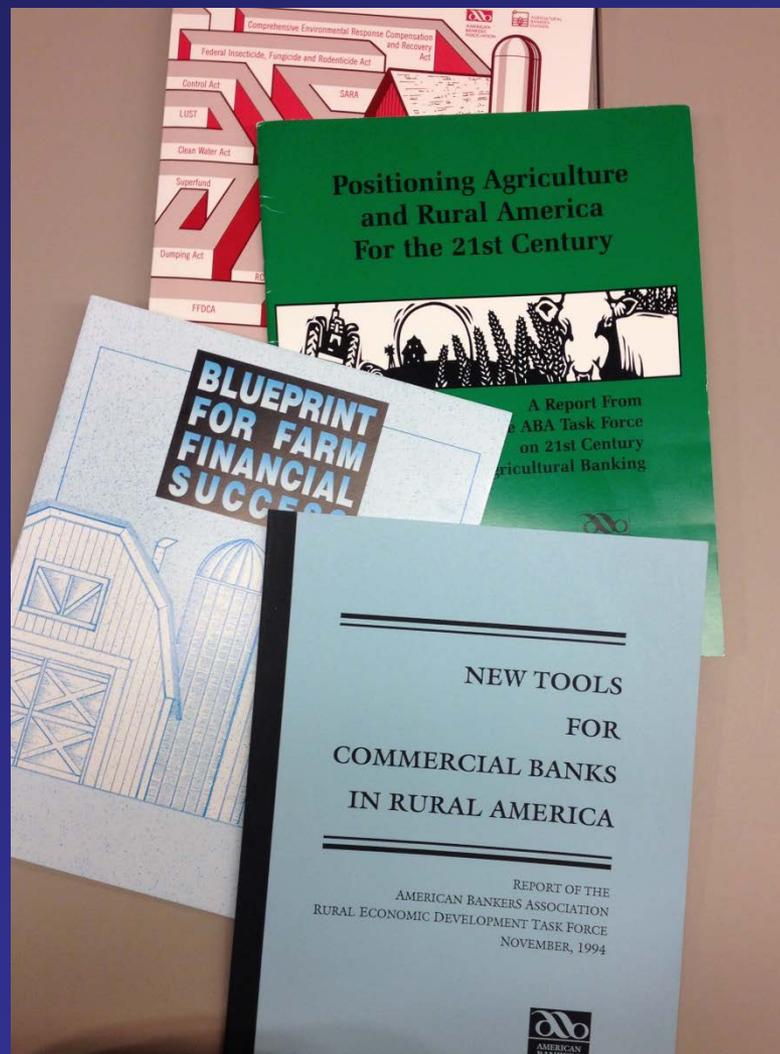
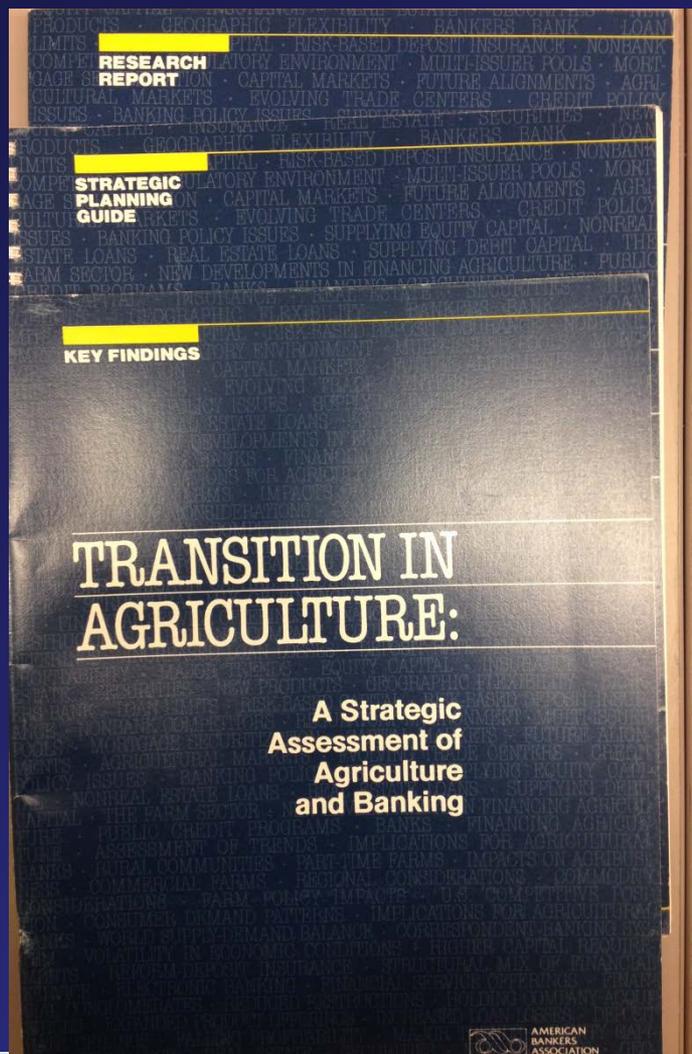


We publish practical information for ag bankers. We have done this for a century.



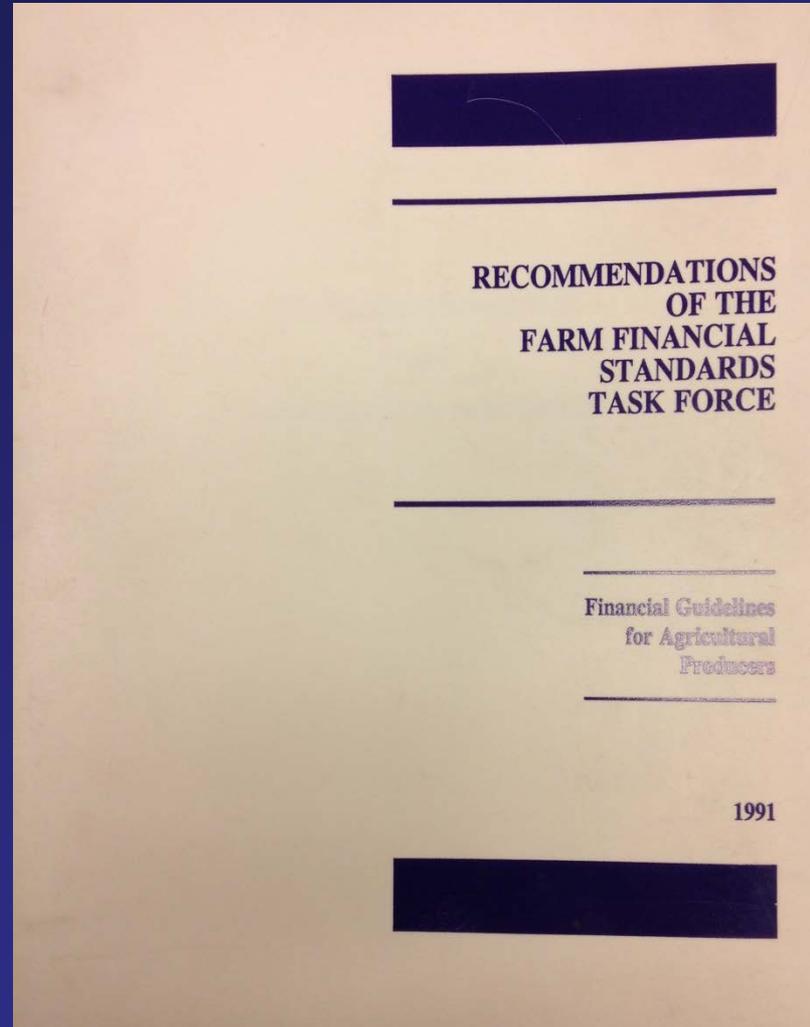
One of the most popular books on ag credit analysis. Published by ABA in the 1990s

We have always brought bankers together to discuss the future of the industry



1980s and 1990s

We Continue to Help Standardize the Ag Credit Industry

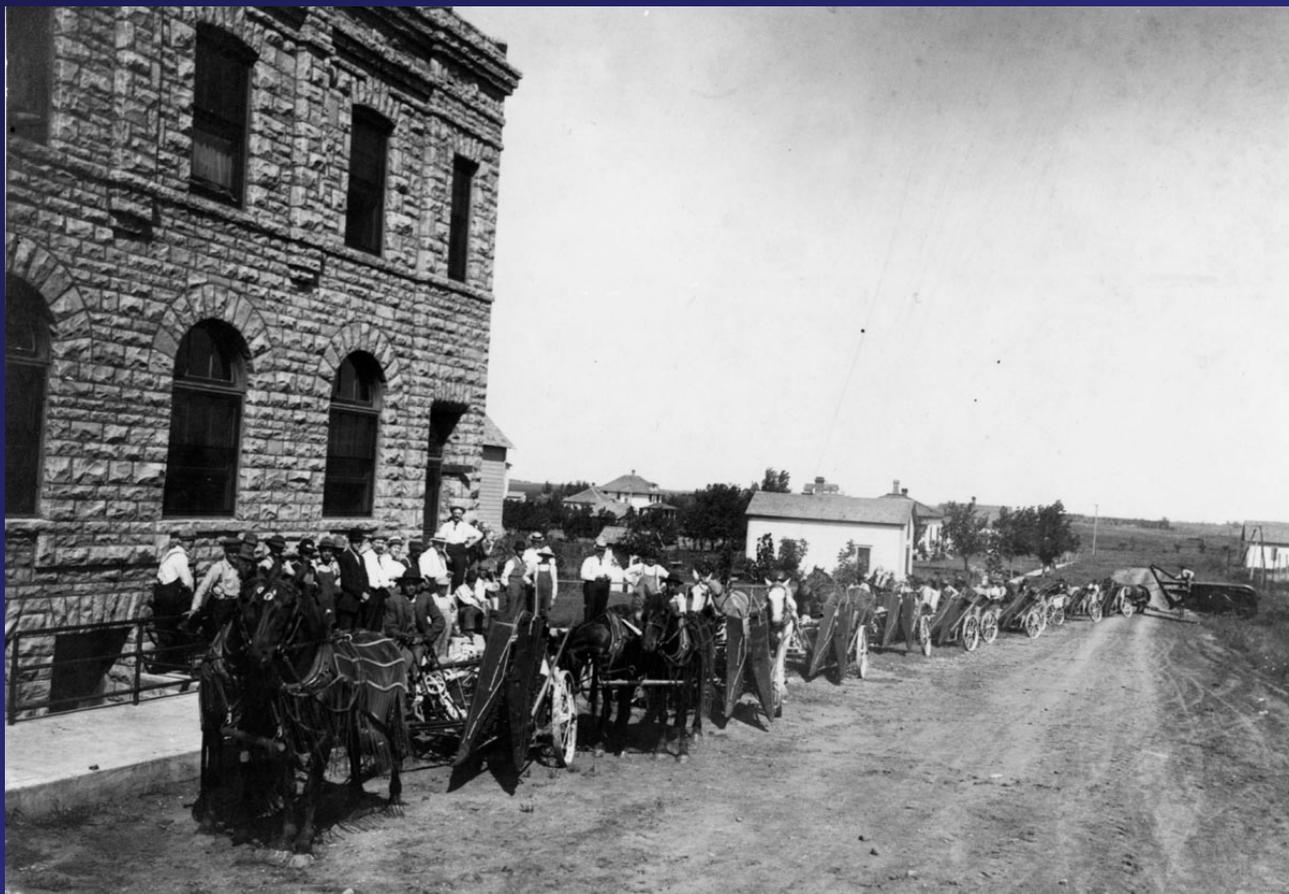


We have held an annual Agricultural Bankers Conference for 62 consecutive years



2000s

That was Then, This is Now



Corn harvesters in front of Humboldt Farmers Bank, Humboldt SD. Around 1900

Outstanding Bank Credit to Farmers

(\$Billions)

- Farmland Loans
- Farm Production Loans

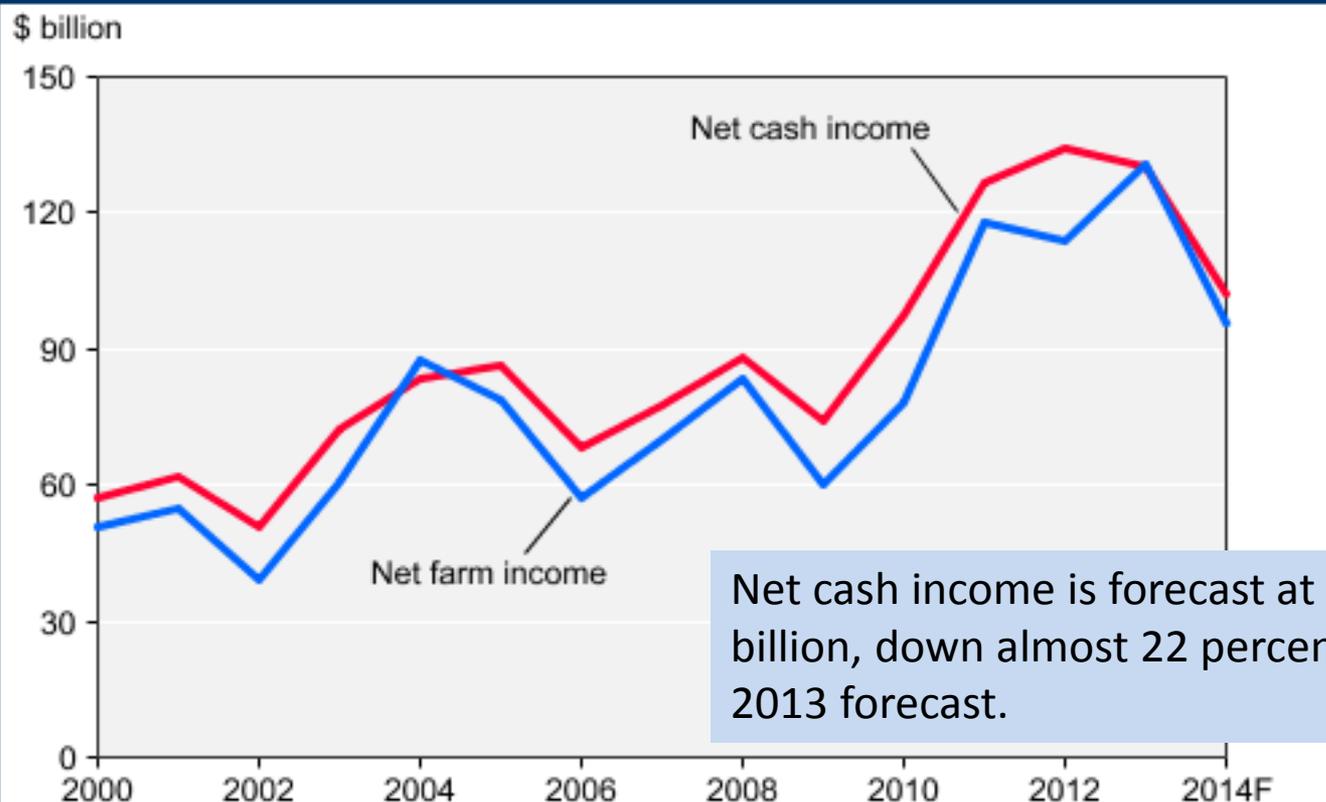


\$149 billion total bank farm loan portfolio

Source: Federal Deposit Insurance Corporation

Most Recent USDA 2014 projection

Net farm income and net cash income, 2000-2014F



Net cash income is forecast at \$101.9 billion, down almost 22 percent from the 2013 forecast.

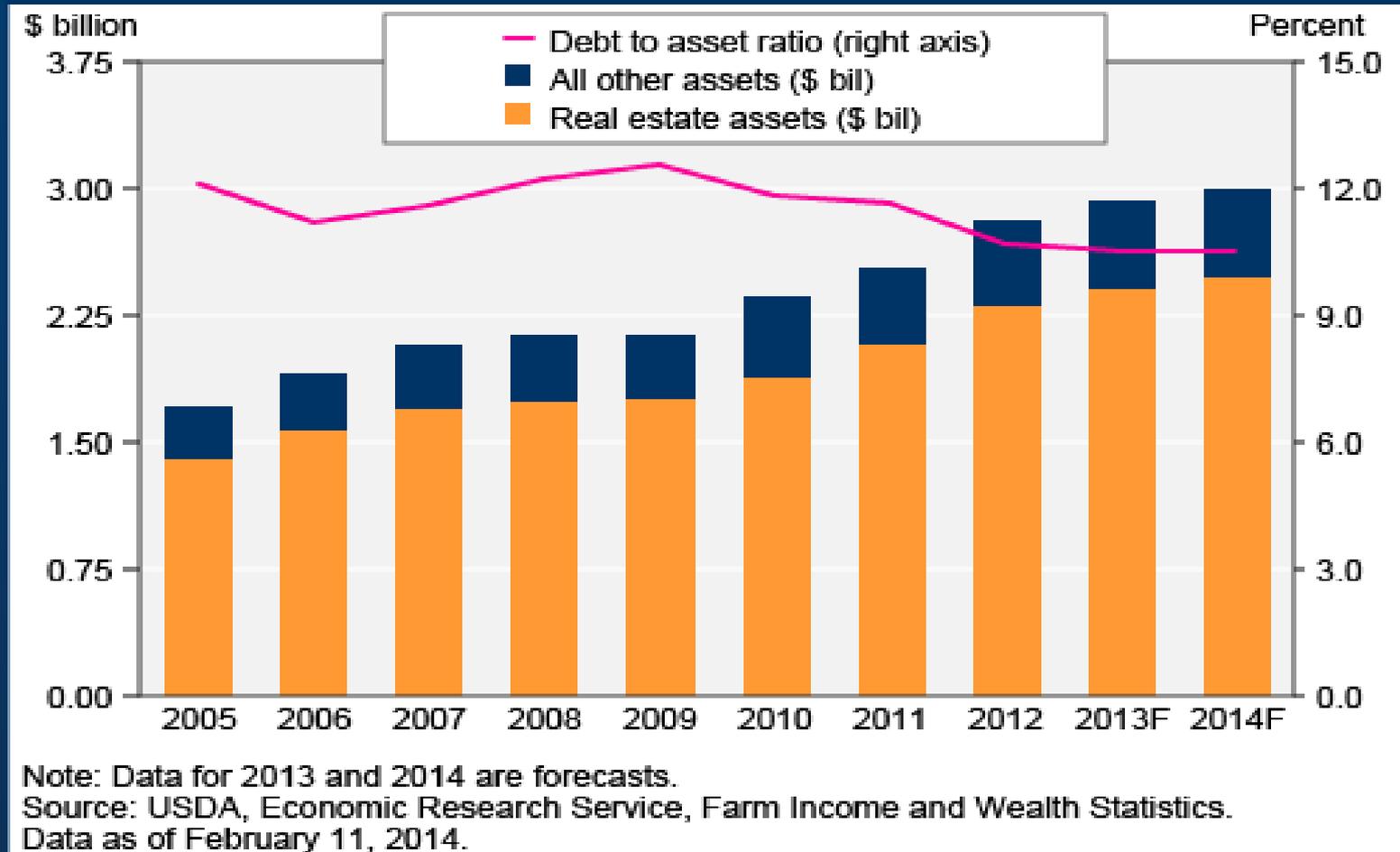
Note: Data for 2013 and 2014 are forecasts.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

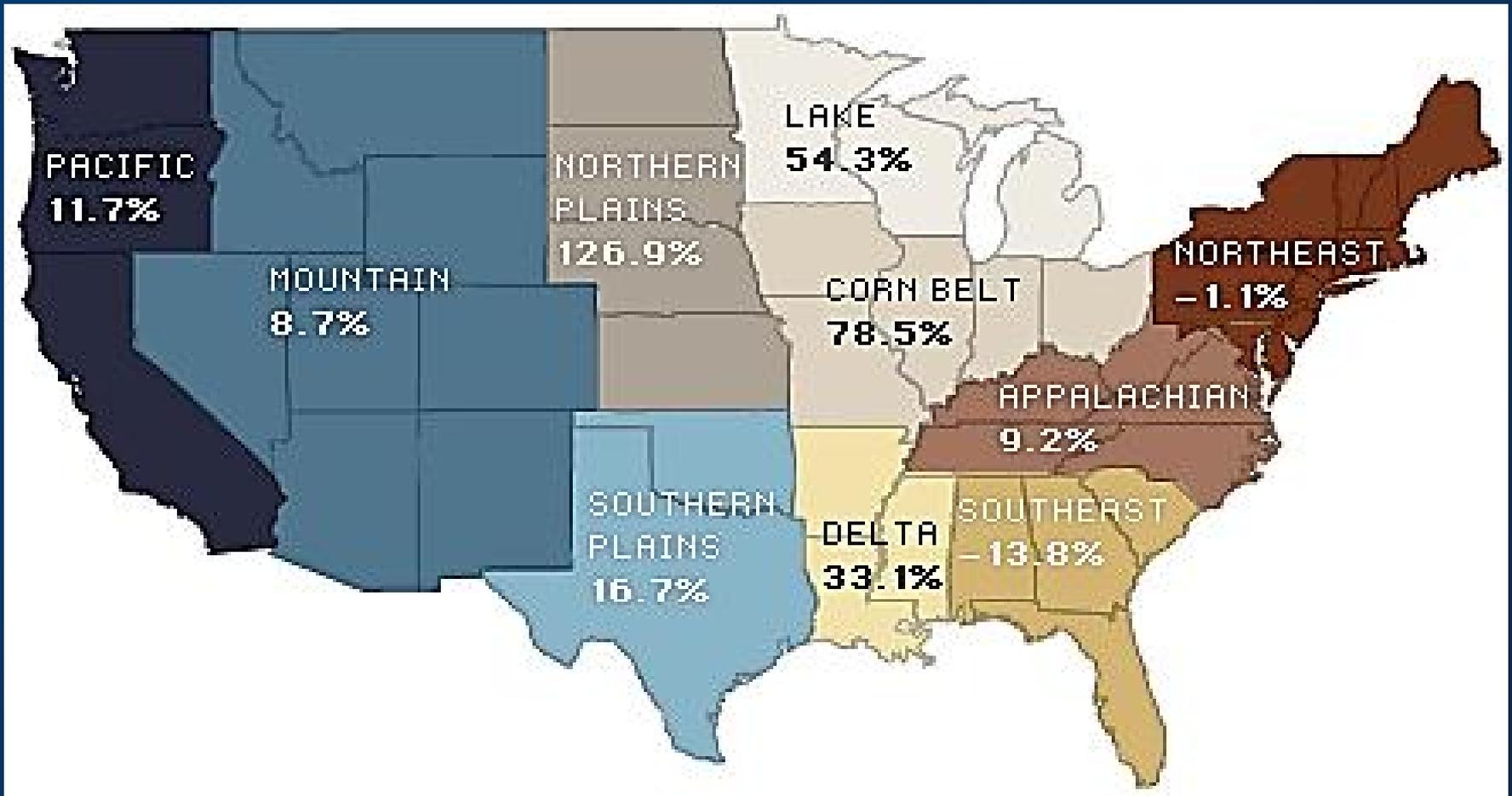
Data as of February 11, 2014.

Real estate: 82% of All Farmer Assets in 2014

Farm sector assets: real estate and all other, 2005-14F



Change in cropland prices 2009 - 2013



A sobriety test...

“The 1980s farm crisis followed a period of rapid farmland price increases similar to what has occurred since 2007.

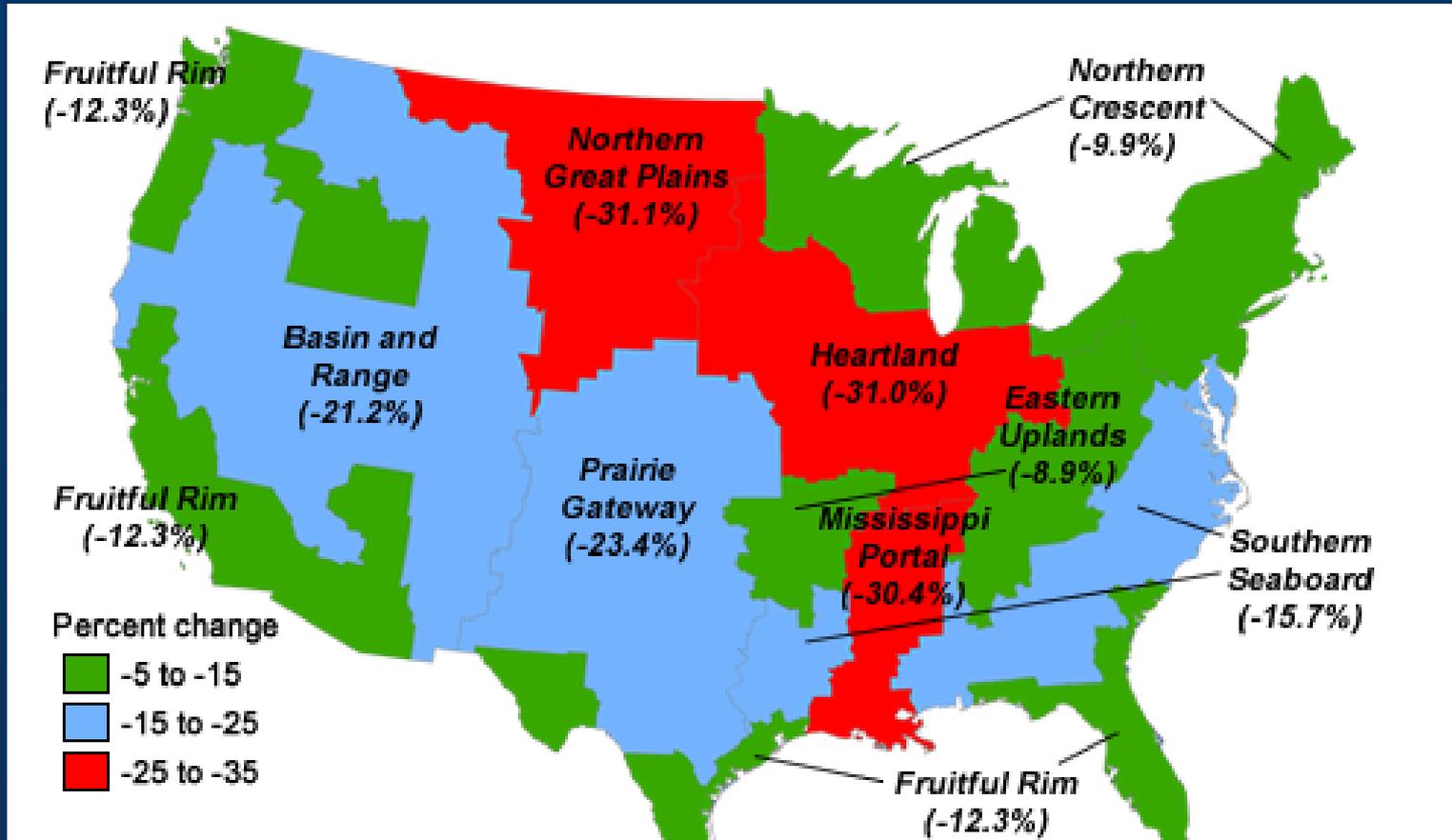
Although the stronger balance sheets of today’s farm sector may be better able to withstand a 1980s-type price correction, **a 30 percent price decline would still destroy most of the land-centric wealth created since 2007.”**

Gary Corner, Senior Examiner, Federal Reserve Bank of St. Louis, *Central Banker* Winter 2013

2014 Pain Felt Mainly on the Plains...

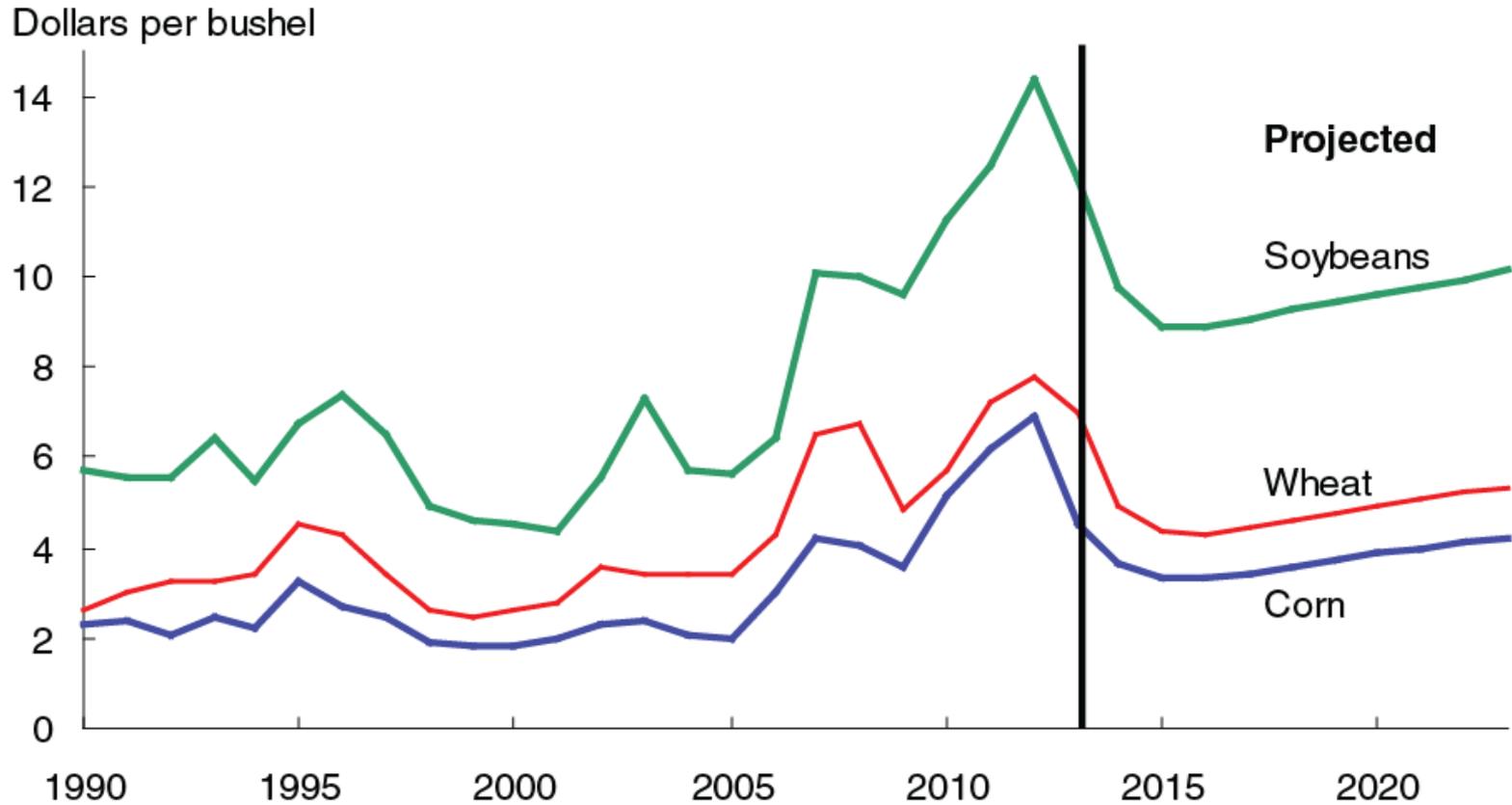
Farm business net cash income, 2014F compared with 2013F

“Average net cash income for farm businesses is expected to decline 21+ percent in 2014.”
USDA,
February
2014



IF USDA is right, lower prices are here for a while

Nominal U.S. farm-level prices: Corn, wheat, and soybeans

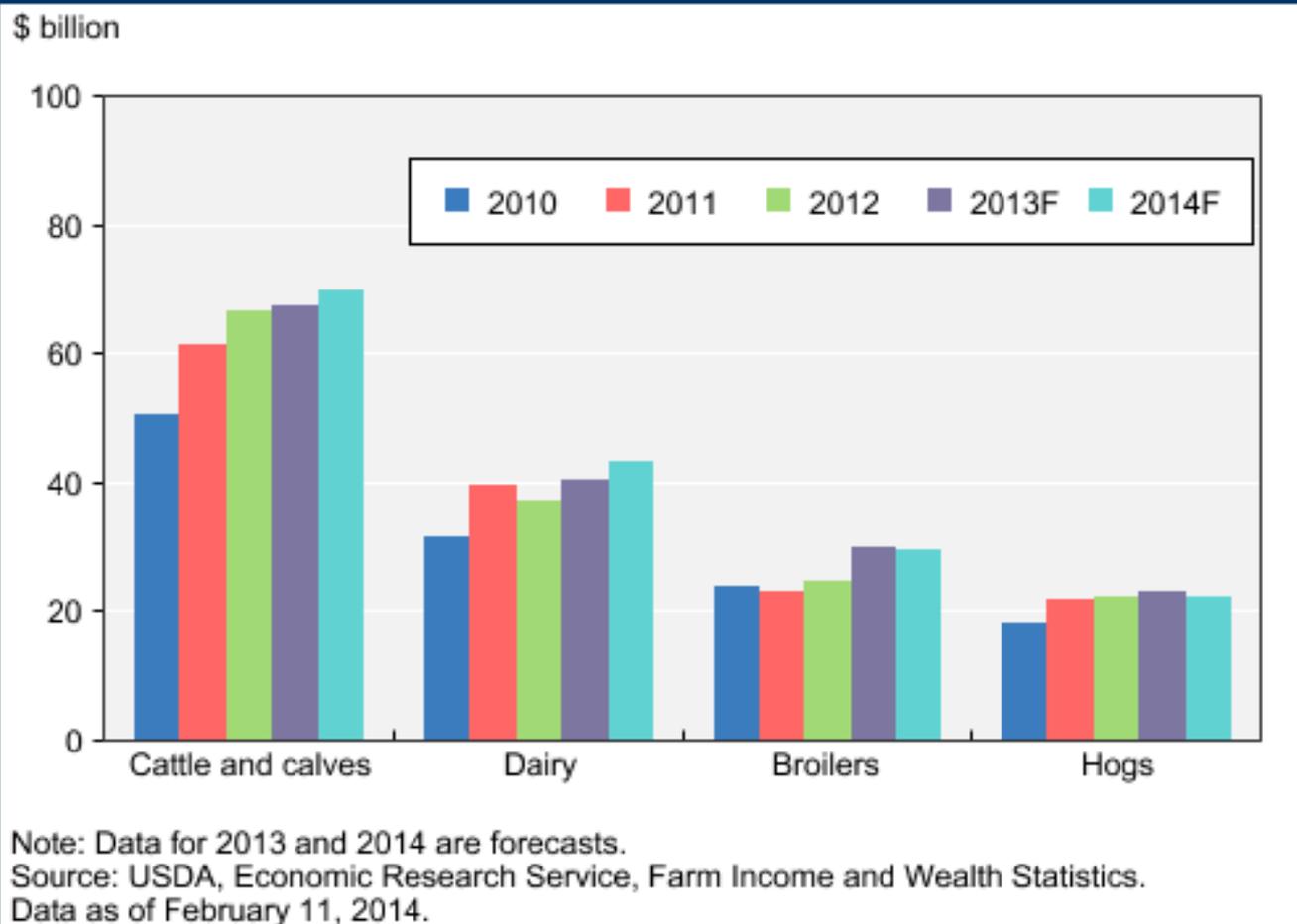


Source: USDA Agricultural Projections to 2023.

Booms come, booms go. USDA thinks this one is gone.

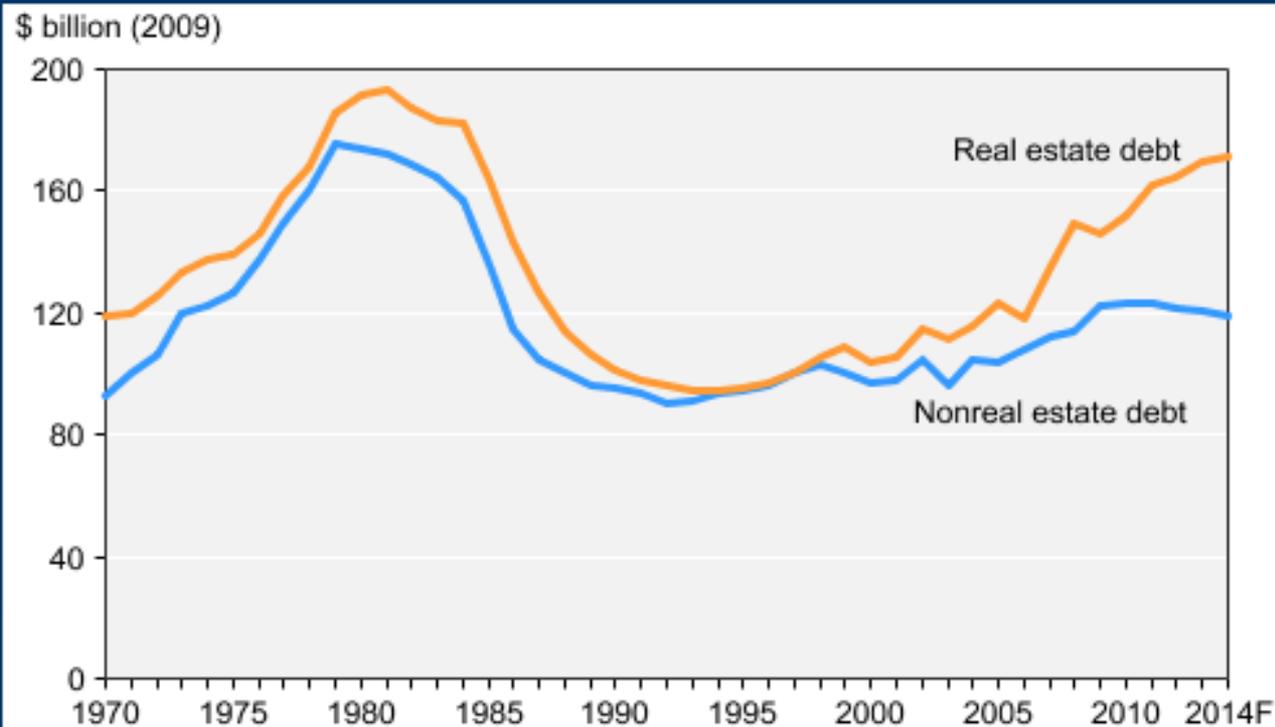
Livestock sector does better than crops

U.S. value of production for selected livestock, 2010-2014F



USDA Continues to Adjust Farm Debt *Upward*

Farm sector business debt, inflation adjusted, 1970-2014F



Note: Data for 2013 and 2014 are forecasts. The GDP chain-type price index is used to convert the nominal (current-dollar) statistics to real (inflation adjusted) amounts (2009=100).

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of February 11, 2014.

\$316.2 billion is estimated 12/31/14 total farm debt

2012, 2013, 2014 Farm Bill

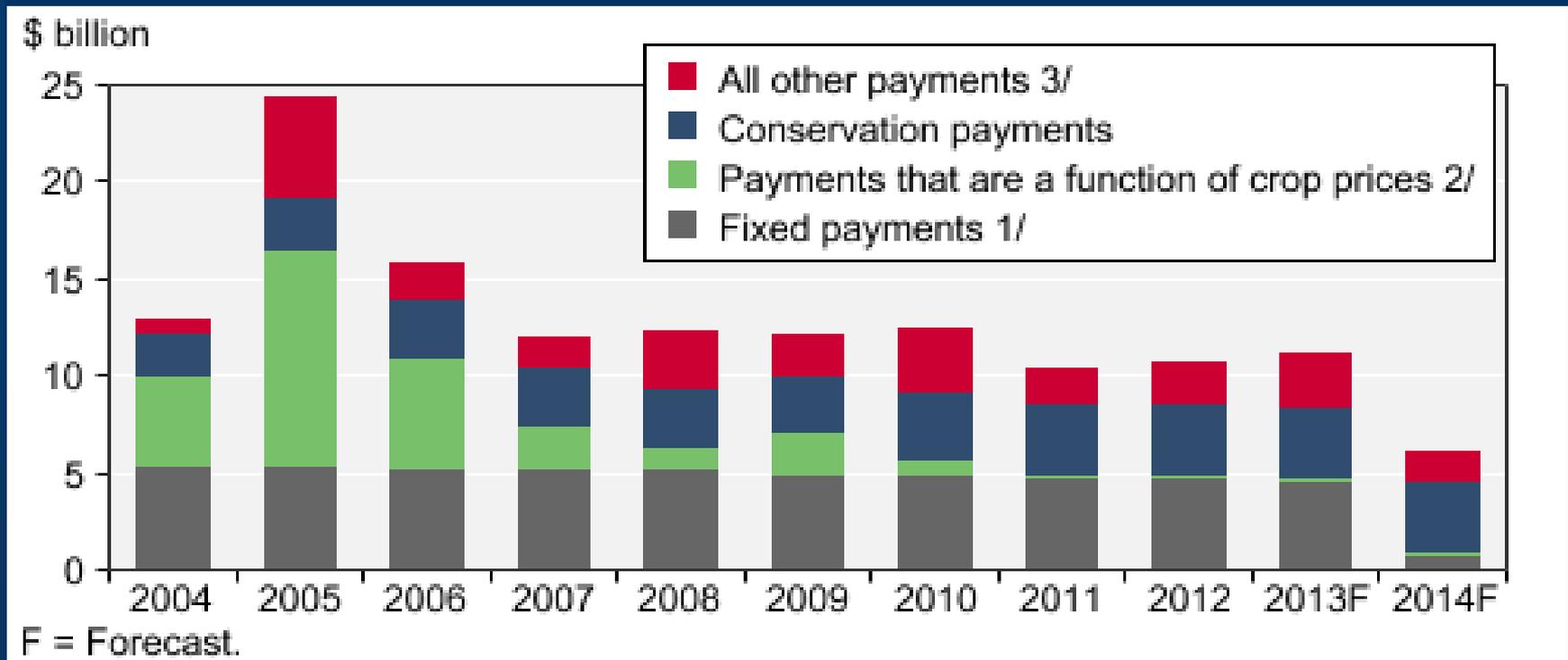


Agricultural Adjustment Act of 1938
Fred and Ginger were twerking
– or something like that

- A long and contentious debate that combined all of the worst aspects of regionalism and partisan politics
- Are there any ponies in all of this?
- What should bankers know?
- Can we expect that Congress will continue to try to shape the agricultural economy through legislation?

The Big 2014 Farm Bill Reform: 2014 Payments Come in 2015

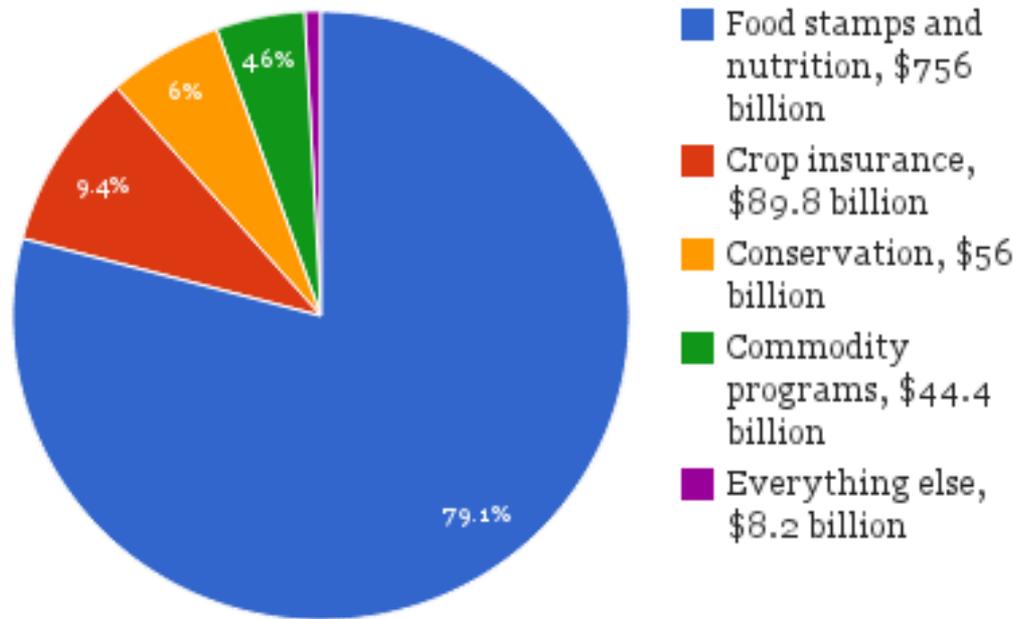
Government payments to farm producers, 2004-2014F



Does this look like a lot less money to you?

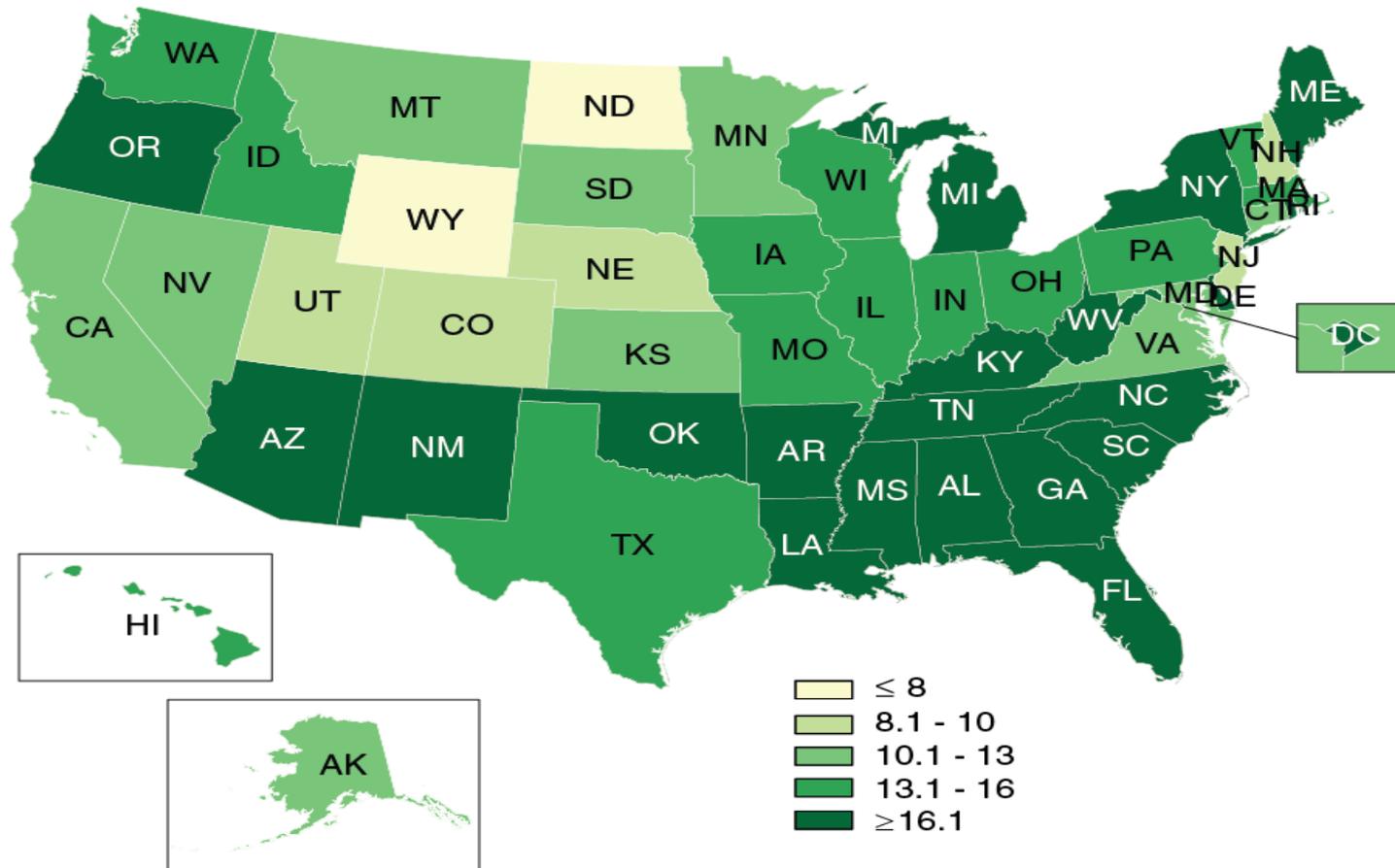
What is the Real Money in this Farm Bill??

What's in the farm bill? (Costs from FY2014-2023)



SNAP Benefits Are Mostly Regional

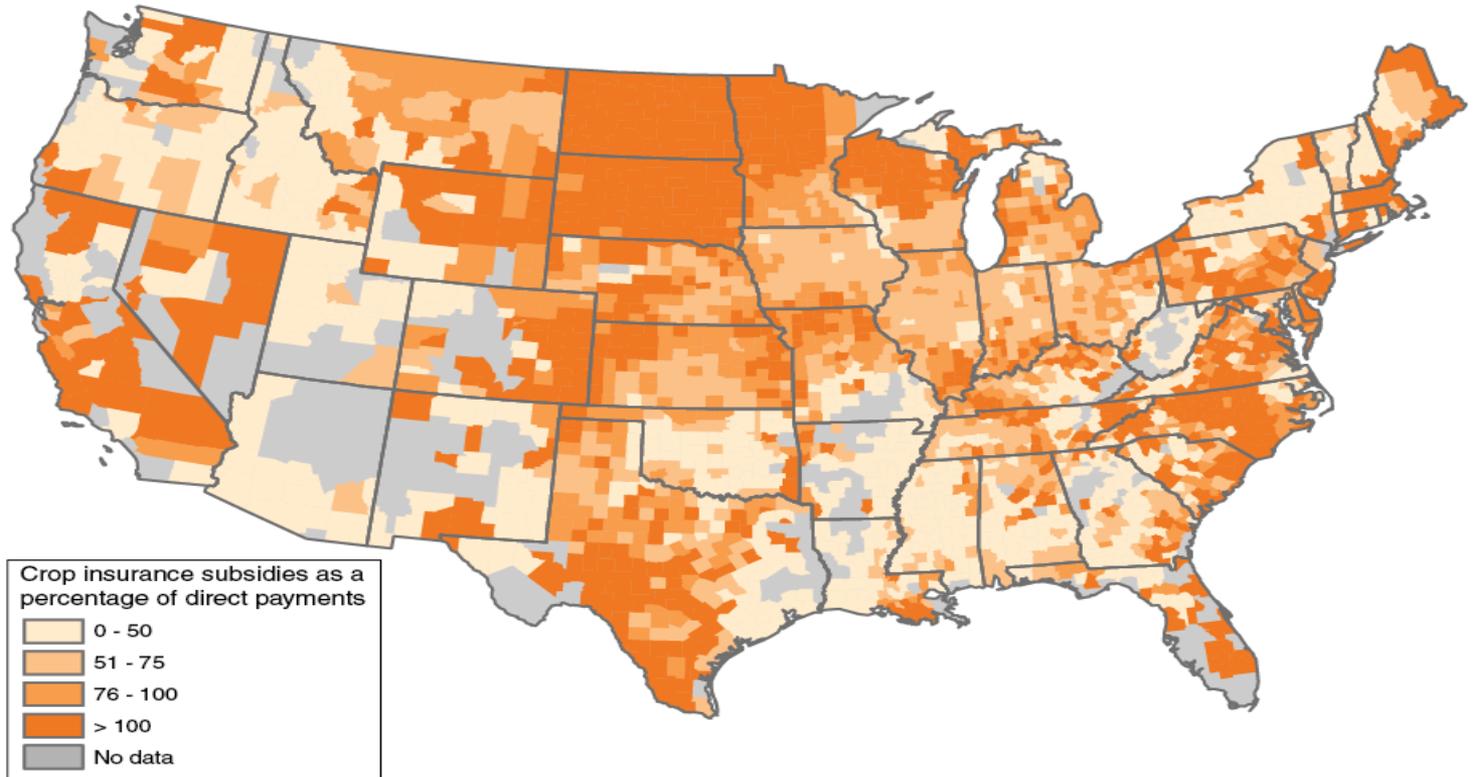
Percent of population receiving SNAP benefits in FY 2013



Source: USDA, Economic Research Service using data from USDA, Food and Nutrition Service.

Farmer Benefits Are Mostly Regional

County-level crop insurance subsidies and direct payments, 2005-10



Notes: County-level estimates based on average direct payments and crop insurance subsidies for 2005-10.

Source: USDA, Economic Research Service calculations based on USDA, Risk Management Agency, *Summary of Business Reports and Data* and USDA, Farm Service Agency, Commodity Credit Corporation (CCC) data.

What is in the Farm Bill For Bankers?

- Eliminates term limits on USDA guaranteed loans
- Trusts will be eligible USDA borrowers, but expect lengthy rulemaking by USDA
- Crop Insurance survives quite well
- Conservation compliance in crop insurance
- There will be some increased “insurance” on revenue
- Target prices remain with slight boost
- Increased scrutiny on farmer incomes and “actively farming” definitions – USDA gets this job
- Dairy title most interesting? New world for dairy farmers

This is Really in a Post Office in Iowa



So, Everything is Great ... Right?



Photo by Larry Dewitt, a banker in Cherokee OK
Kid, dog, and photographer all lived

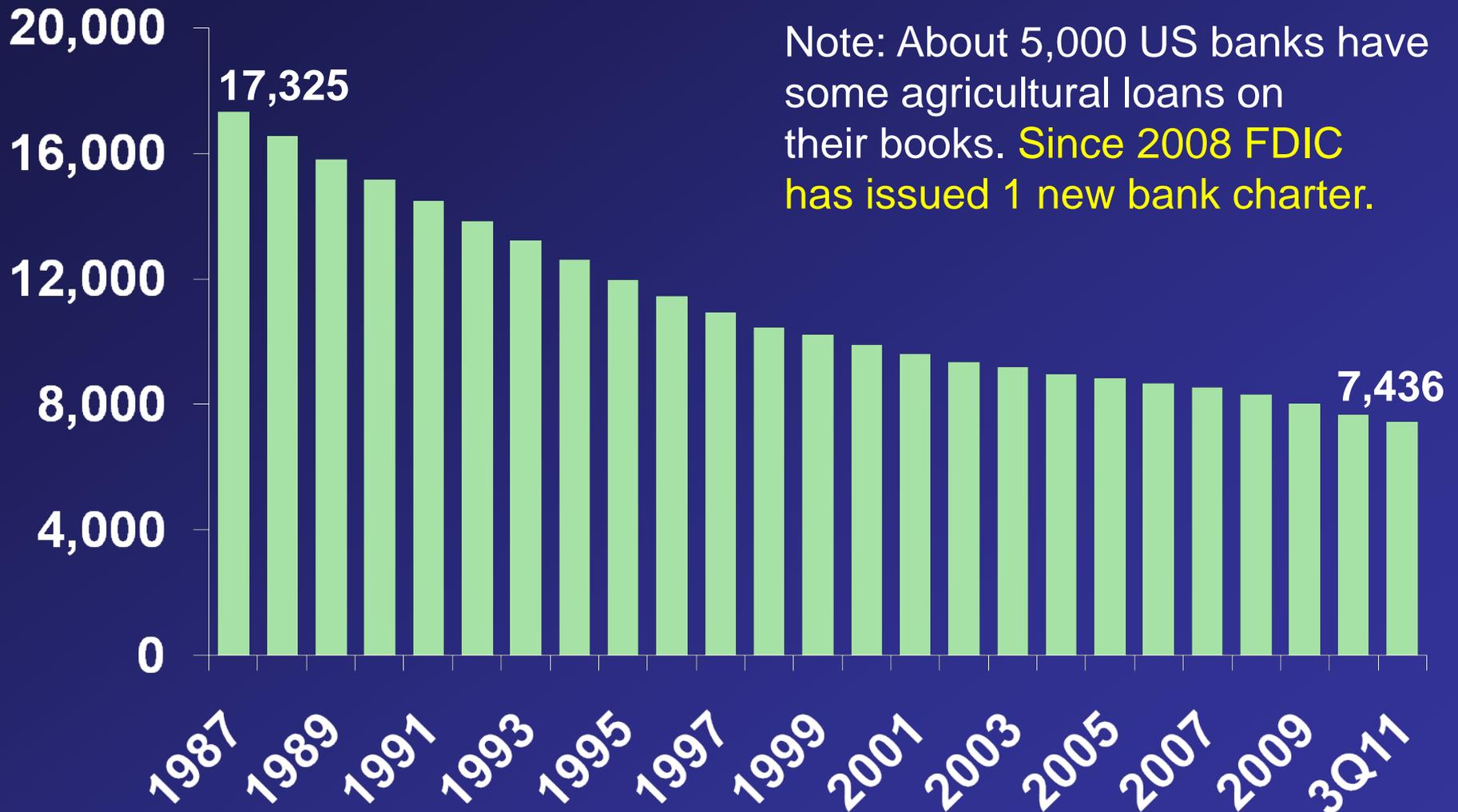
Some Thoughts About the Future



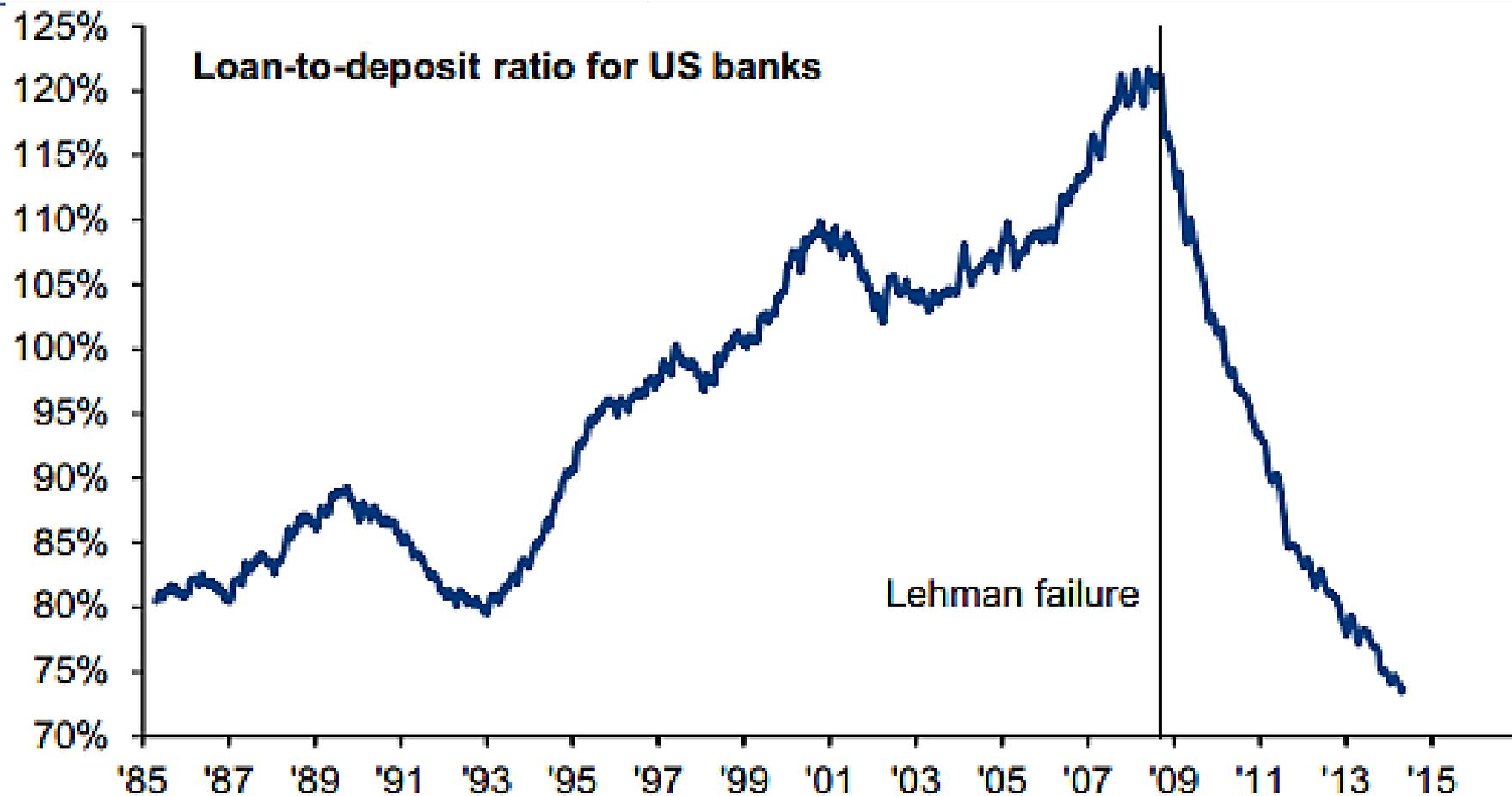
Interior of Belvidere Bank, Belvidere, SD. Undated photo, but around the 1920s

What Does the Future Look Like For Banking?

Number of FDIC Insured Banks



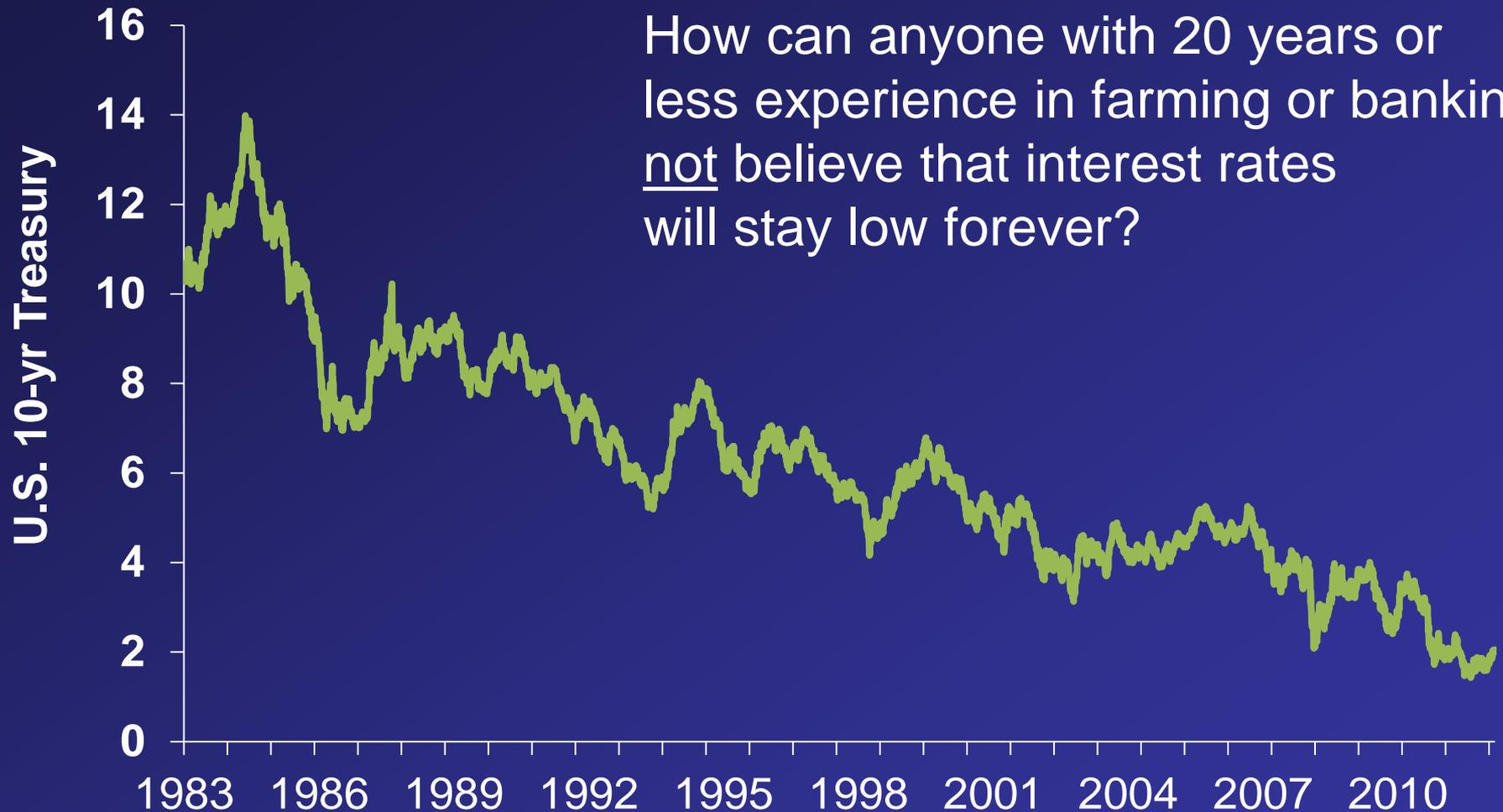
We Continue to de-leverage; Banks have a lot of Liquidity



Source: BofA Merrill Lynch Global Research, Federal Reserve Board, Haver

Market Yield on U.S. Treasury

10-yr Securities. Is This a Forever Thing?



How can anyone with 20 years or less experience in farming or banking not believe that interest rates will stay low forever?

Where to from Here?

- A slow down will occur; they always do
- How farmers and their bankers react is key
- Many lessons learned the last time – but that generation of farmers and bankers are leaving the stage
- Maybe the next generation is smarter – that is what they tell us anyway
- Agriculture was, is, and will always be the American miracle

QUESTIONS?



Humboldt Farmers Bank, Humboldt, SD. April 7, 1917

Many Thanks to:



The South Dakota Digital Archives can be found via the archives website at: history.sd.gov/archives with a link to “SD Digital Archives”. They have over 500 digital images of banks available.

John Blanchfield

ABA Center for
Agriculture
And Rural
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Association
Washington, DC
jblanchf@aba.com

