



# **2007 Southern Outlook Conference**

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# Overview of Market

- **South Central Tennessee and Northeast/North Central Alabama**
- **Commodities: Crops (Primarily Cotton), Beef Cattle, Equine and Some Poultry**
- **First National Bank Total Loan Portfolio - \$313 MM  
Agriculture Related - \$45 MM**
- **Huntsville, AL - 30 Minutes South  
Nashville / Cool Springs – 45 Minutes North**
- **BRAC Announcement (estimated 10,000 to 12,000 new jobs by 2012 – 2013 including government and government contractor jobs)**



# Looking Into the Future

**David M. Kohl, Professor Emeritus, Agricultural and Applied Economics at Virginia Tech defined 7 business models for agriculture entities in the future:**

- **Super Commodities**
- **Traditional Commodities**
- **Vertically Integrated**
- **Contract Agriculture**
- **Lifestylers**
- **Value Added**
- **Agri-Entertainer**



# Seven Business Models



Traditional  
Family Farm

Super  
Commodity/  
Agribusiness

Traditional  
Commodity

Vertically  
Integrated

Contract  
Agriculture

Lifestylers

Value Added

Agri-  
Entertainer



# **Super Commodity/ Agribusiness**

- **\$1.5 Million Plus In Revenue**
- **Prime Natural Resource Base**
- **Control Assets Vs. Ownership**
- **Multiple Entities (Ag & Commercial)**
- **Multiple Family & Outside Partners**
- **Sophisticated Information Databases**
- **Link Production To Consumption**



# Traditional Commodity

- **\$50,000-\$600,000 In Revenue**
- **Passion To Carry On The Farm Family Legacy**
- **10% Grow To \$600,000-\$1.5 Million Revenue**
- **30% Scale Down To Lifestylers**
- **30% Exit**
- **30% Focus On Efficiency Vs Growth**



# **Vertically Integrated and Contract Agriculture**

- **Hogs, Poultry, Vegetables, Horticulture, Etc.**
- **Technology, Youth, Stability Or Contracts**
- **Contract Patents Copy Rights**
- **Entities Pocketed**
- **Value Chain Convergence Multinationals**
- **Tentacle Risk Financing**



# Lifestylers

- **80% Residence Rural Affluent Zone, Ruralpolitan**
- **20% Destination Part Time Residence**
- **Wage, Small Business, Retirement Income**
- **Alliance Marketing**
- **600 To 1000 Loans Per FTE**
- **Needs And Challenges**
  - **Access To Quick, Convenient Credit**
  - **Lender Who Understands This Model**
  - **24/7 Kiosk Lending, Internet, Cell Phone, Blackberry**
  - **Out Of Area Buyers**
  - **Country Home Loans**



# Looking Into the Future

**Dr. Kohl also identified and defined 2 types of rural markets going forward.**

- Rural Affluent Zones**
- Dying Rural Areas**



# Rural Affluent Zone

- **High Quality Schools**
- **Local Access To Good Health Care / Hospitals**
- **Reliable High Speed Internet Access**
- **Lifestyle Amenities**
- **Affordable Cost Of Living**
- **30 To 45 Minutes “Travel” Time**
- **Adequate Roads And Infrastructure**



# What is the Market I Serve?

- **Model Of A Classic Rural Affluent Zone**
- **Problems Include:**
  - **Appreciating Land Values**
  - **Loss Of Production Land**
  - **Pressures From Non-Agriculture Background Residents About “Nuisances”**



# How It Affects Producers

## **2,000 acres in spring of 2007**

- **“Bidding war” ensued. Two years ago, the average rent was \$55 / acre – average for the 2,000 acres was \$80 / acre.**
- **Land values have appreciated to \$5,000 to \$8,000 per acre if purchasing – agriculture commodities can’t pay for the purchase of land at these prices.**
- **Op. expenses continue to rise, but the availability of production land continues to decline. Producers in somewhat of a “Catch – 22”**
- **Result is that agriculture producers have “diversified”. Land A&D, land speculation, or purchasing production real estate in other parts of the country where real estate prices have not seen the same rate of appreciation.**



# How It Affects Producers

- **Most agriculture commodities are not considered strong “cash flow” businesses, however it appears they are being relied on to provide cash flow while purchasers are located and “profit” from these investments is realized.**
- **Diversification benefits are not necessarily realized because of the inherent risk in these other investments and lack of knowledge / experience in these new ventures.**
- **Cattle producers liquidating herd due to lack of hay caused by drought, and not re-entering the industry due to the problems referenced above.**
- **Little to no new construction of poultry facilities.**



# Challenges / Concerns for Agriculture Lenders

- **With increasing operating expenses, net profit margins continue to decline, and ultimately affect the debt service capacity of the producer(s).**
- **Ability to withstand a “bad” year declines – How do you structure “carry-over” because it will occur.**
- **The increased risk taken on by the producer as they diversify into other industries**
- **Can’t realize the Economies of Size needed to “spread” their fixed costs because of the production land issues.**
- **Emergence / understanding / role of the value-added model into the local economies.**



# Future *of* Agriculture Lending



# Where Agriculture Lending is Headed?

- **FCS alliances**
- **Entrance and emergence of large foreign owned banks (RaboBank, RBC Centura)**
- **New competitors (Wal-Mart's entrance into banking?)**
- **Large regional banks' inability to make it "fit in the box"**
- **Community banks – will these banks be willing to accept the increased risk and decreasing ability to service debt?**



# Farm Credit System

- **25 To 40 Associations Or Alliance Entities**
- **Competitiveness Agriculture, Drivers Board, Driver Management Philosophy**
- **364 Days/Year: Business; 1 Day/Year Cooperative**
- **Credit-Oriented Core Of Services; Demographic-Dependent**
- **Fusion Of High-Tech And High-Touch People**
- **Alliance With Strategic Winners**



# **Regional Money Centers And International Banks**

- Penetrate Agriculture Clusters**
- Deal With Customers With \$1 Million Plus In Revenue**
- Agricultural Champion; Specialized Staff**
- Inconsistency Between Agriculture Department And Senior Management**
- Challenges Between Marketing And Credit**
- Strength: Full Service Option; Execution Challenges**



# **Community and Family-Owned Banks**

- **Agricultural Banks: 2500 To 1000**
- **Community And Family-owned Banks Serve Lifestyle And Traditional Groups**
- **Strategic Advantages: Investors And Management Team; Long Term Outlook; Maximum And Minimum Strategy**
- **Strategic Disadvantage: Family Transition**
- **Quick Decision Making; Human Approach; Baseline Technology**
- **Government Guarantees, Reverse Mortgages, etc.**