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USA - Bankers paint a gloomy future 21 Nov 2009

Grim financials for dairy and pork producers are casting a pall over proceedings of the National Agricultural Bankers Conference in San Antonio, Texas, this week. Between sessions titled "Organizing for Loan Workouts," "Stress Testing Your Portfolio," "Farm Service Agency Guarantees--Are They Right for You?" and "Will Your Bank Survive?" many of the 225 farm lenders here seem deeply troubled by what they expect will be a wave of livestock industry failures over the next few months. Not many foreclosures or bankruptcies have gone public yet, but voluntary liquidations are definitely on the rise, lenders say.

In eastern Pennsylvania where 90 percent of his clients are plain sect Mennonites or Amish, "the hardest part of my job is telling customers they might have to carry a lunch pail for a living when their whole life has been based on farming," says Mike Firestine, senior vice president of Fulton Bank in Lebanon, Pa. "I don't think it's fair to take every last cent of their assets. Land values are still holding up and they could get out of debt and still come away with a nice house and some savings" if they liquidated now.

Between dairies and confinement poultry and pork production, there's more agriculture under roof in Lancaster County than any other county in the nation, Firestine adds. Yet that capital-intensive farming has come under assault by a collapse in global protein demand and high feed costs the past 24 months. At one local dairy meeting this summer, he estimates "1,000 farmers in straw hats" showed up to vent their anger with their congressman.

"It's hard to put a number on it, but with a 40 percent drop in income for dairy and higher feed and fuel bills, it's not a good scenario. No dairy farmers are generating black right now," he adds. Key to surviving is to cut expenses and get breakevens below \$16 per cwt., he adds. Even then, growers will need milk prices to stay high long enough to recoup months of losses.

Contract pork production--once the entry route for newcomers with excess labor and little equity--is undergoing a rapid and perhaps permanent transformation, Firestine and other ag lenders believe. Many say that packers will be the main beneficiaries and increase their market share of pork production once all the dust settles. "Pork will look much like the poultry industry when this is all over," Firestine says.

Contract farrowing and finishing agreements "are being shredded as fast as they were written," says Mark Nowak, a senior loan officer with Farmers State Bank, Freeborn, Minn. Though the late 1990s prompted an exodus of independents, "this might be the last push," he adds.

Troy Broers of American State Bank in Sioux City, Iowa, says producers who farrow under contract "are the ones getting a beating right now." He serves the top dairy, hog and cattle county in the state and estimates that the rate of broken hog contracts is 30 percent or higher.

"There haven't been a lot of loan defaults or foreclosures yet, but people are refusing to buy contracted pigs and want to renegotiate payment terms," he says. Long-term, this part of the country will retain its competitive advantage in the swine business because of its access to relatively low cost feed and a plethora of packers. However, Broers expects to see a lot of empty 30-35-year old confinement hog buildings this winter and operators without heirs who chose to concentrate on grain production instead.

In Minnesota, the state's mandatory farm debt mediation services are reporting a tripling in the caseload just since spring, and most all of those 400 borrowers involve dairy and pork producers. **Michael Stewart**, an agricultural lawyer specializing in debt restructurings with **Faegre & Benson LLP** in Minneapolis, thinks more farmers are declaring it quits rather than opting for Chapter 11 or 12 bankruptcies. "Bankruptcy [reorganizations] only help if you can make money after you've received some debt concessions. A lot of these producers just can't cash flow at current prices, so they liquidate their assets and there's one less family farmer," Stewart says.

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