NONTRADITIONAL LENDERS

JUNE 1ST, 2022

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Overview

What is a Nontraditional Lender?

- Typically their sole purpose is to not provide credit. Sell other agricultural inputs and use credit as a complement
- Examples include equipment dealers, cooperatives, seed dealers, etc.
- Nontraditional lenders have gained market share here recently
  - Some estimates put their market share as high as 15% to 25%.
- The two papers we will be discussion today:
  - A profile of nontraditional agricultural real estate lender activity in the secondary market.
    Click HERE for a copy of this paper
  - Strategic behavior of nontraditional lenders in agricultural credit markets.
    Click HERE for a copy of this paper.

A profile of nontraditional agricultural real estate lender activity in the secondary market

[redacted]

Click HERE for a copy of this paper.

Authors: Greg Lyons, Jackson Takach

Agricultural Finance Review, 2022

Vol 82. Issue 2

Center for Commercial Agriculture

Nontraditional Ag Real Estate Lenders (NARELs): How Do Their Loans Stack Up?

Jackson Takach & Greg Lyons

Analysis from Their Recently Published AFR Paper

Methodology/Goals

- Clarify ‘Nontraditional’
  - Does our experience match what researchers are seeing?

- Establish a baseline
  - *“Data is near-nonexistent”*
  - Follow the loans from application to performance

- Follow the research
  - Novel data + existing research = greater acceptance of results

Data Used
Farm & Ranch loans
3 datasets – purchases, approvals, periodic
Full-time farm loans only, no revolving lines
2011 – 2020 vintages
Purchases: no additional changes
Approvals: submitted loans with terminal status only
Periodic: Censor for prepayment, timeframe

Findings – Borrower Characteristics

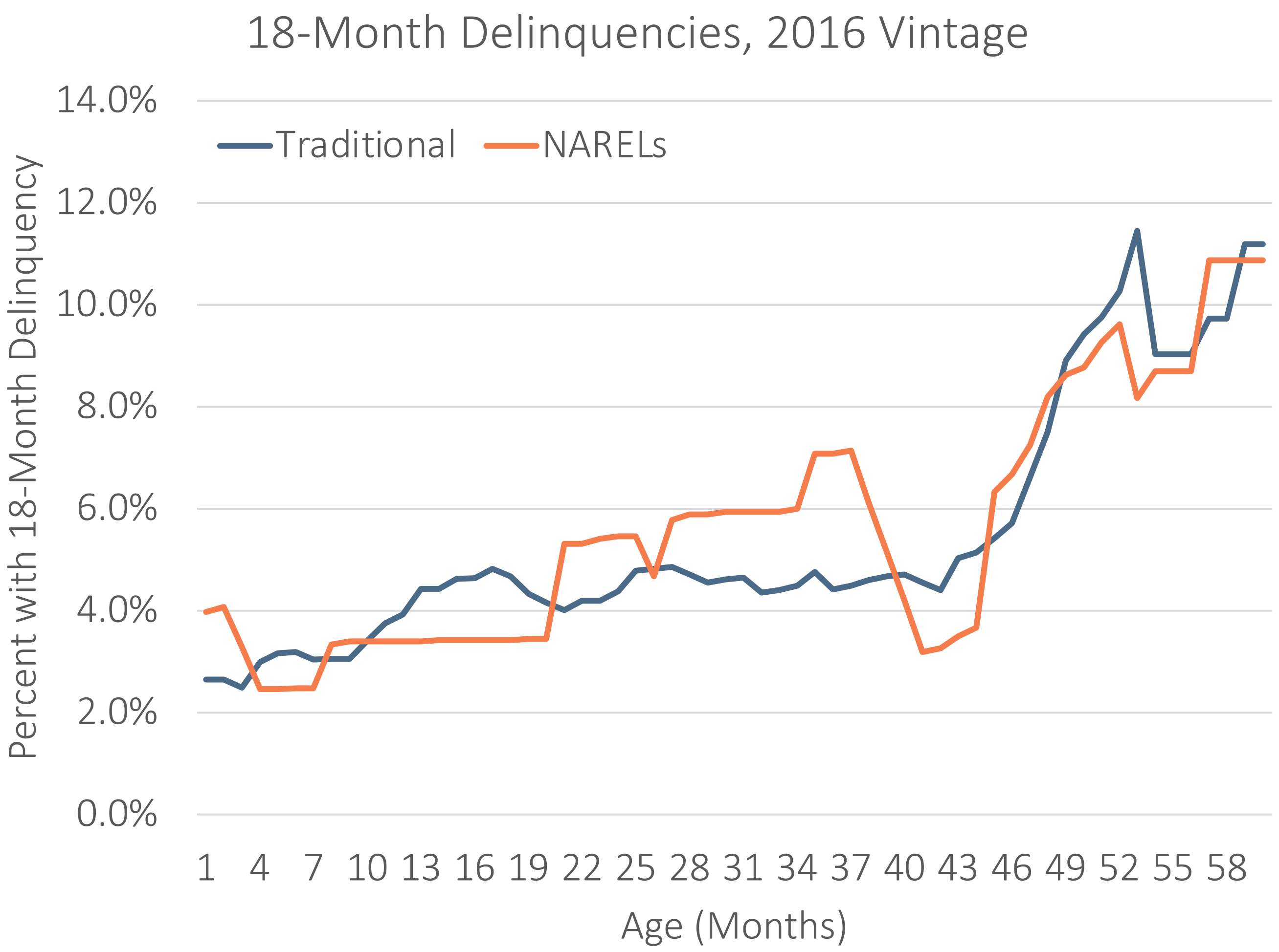
- Most core financials are not materially different
- Many differences in loan structure
- Farmer Mac standards are a filter

Variable	NAREL	Traditional	Difference
Number of Entities on Loan (***)	**2.3**	1.8	0.5
Loan Size (***)	**1,510,173**	799,237	710,935
Acres Pledged as Collateral (***)	**1,741**	571	1,170
LTV (***)	**50.20%**	46.80%	3.40%
Average Borrower Age (**)	55.1	54.4	0.7
Percent with Young Borrower	9%	9%	0%
Debt-to-Asset - Proforma (***)	**30.10%**	29.30%	0.80%
Debt-to-Asset -Previous Year	24.70%	24.80%	-0.10%
Total Debt Coverage - Proforma (***)	**2.05**	1.97	0.09
Total Debt Coverage - Previous Year	2.27	2.24	0.03
Return on Assets - Proforma	1.50%	1.60%	-0.10%
Return on Equity - Proforma	2.20%	2.10%	0.10%
Percent of Cash Flow from Off-Farm Sources (***)	**73.90%**	81.40%	-7.40%
Distance from Loan Originator (***)	**637.7**	333.6	304

Note(s): * means different at $\alpha = 10\%$; ** means different at $\alpha = 5\%$; *** means different at $\alpha = 1\%$

Findings - Performance

- Review of 18, 36, 60-month delinquency
- Limited difference in financial measures
- No difference in delinquency, defaults



Interpretation and Implications

Underwriting Standards Matter

Borrower Credit Profiles Similar

Regulation Happening Through Secondary Market

Market Development in Areas with Fewer Traditional Lenders

Strategic Behavior of Nontraditional Lenders in Agricultural Credit Markets

[redacted]

Click HERE for a copy of this paper.

Authors: Iuliia Tetteh, Michael Boehlje, Anil Giri, Sankalp Sharma

Agricultural Finance Review, 2022

Vol 82. Issue 2

Center for Commercial Agriculture

Overview of the paper

- Background: Farmers tend to turn to NTLs when their financial conditions deteriorate (Brewer et al., 2019). Critical to understand current developments in the agricultural credit market during prolonged periods of economic downturn in the farm sector.
- Motivation: growing market share of NTLs; farmer reliance on credit from NTLs; very limited research on NTLs (supply side of credit).
- Objectives: better understand nontraditional lenders in particular their credit programs, business models and operational activities.
- Methods: executive interviews with senior executives from 5 NTLs (one vendor financing and four collateral-based NTLs); interview tool included questions on products offered, customer base, credit evaluation process and collateral requirements, loan volumes and interest rates, funding sources, competitors, etc.

Findings

- Results support the original classification of NTLs. A distinction exists between the categories of NTLs and within a category itself (particularly the collateral-based segment of the market).
  - Some NTLs serve as "pass-through" entities challenging the credit from a funding partner to the customer (e.g., input provider interviewed in the study).
  - High specialization is observed within the collateral-based NTLs (e.g., production-secured vs. real estate-secured NTLs). These two types of NTLs differ in geographic footprint/scope, loan approval guidelines, and sourcing of funds.
- All NTLs compete broadly (with other traditional lenders in the region) and narrowly (with other NTLs operating in the same category). There does *not* appear to be a lot of cross-category competition.
- NTLs grow market share by effectively closing gaps in ag credit markets.
- Contrary to common misconception, NTLs extend credit to mostly financially strong and stables operations.

So what?

- Rapidly changing farmland ownership and tenure patterns in the US ag sector (growing reliance on rented acres) may create other gaps in credit supply markets as limited equity and lack of collateral restrict traditional lenders' ability to fund these producers' operating capital needs. NTLs can potentially be well-positioned to successfully identify and fill in such gaps.

- Changing farmer demographic and potential implications on producer loyalty to credit providers.

- Structural changes and financial condition in the U.S. farm sector and regulatory environment in ag credit markets may create more opportunities for partnerships between traditional and nontraditional lenders.