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AEI Presents Nothing Borrowed, Nothing Gained: How Farm Financing Works, and When it Doesn't or The Countercycle and the Future of Ag Lending

Episode 6: The Dark Side of the Ledger

Sarah Mock: This is *Nothing Borrowed, Nothing Gained: The story of ag lending; past, present, and future*. I'm Sarah Mock.
Have you heard about this equipment dealer that's selling pre-owned equipment at a negative interest rate? Heritage Tractor -- with branches mostly in Missouri, but a few in Kansas and Arkansas too, on some of their combines will actually pay you up to 1% interest for the first five years of your loan. Isn't that nuts? Zero percent interest rates are one thing, but Heritage actually offers to cut farmers an annual check for 1% of the amount remaining on their John Deere Finance note. Which naturally had me asking -- What the what?
Of course, vendor financing is nothing new in agriculture. As John Blanchfield mentioned many episodes ago, some of the most prominent uses of credit in agriculture have been granted to farmers by equipment and input dealers. But Cyrus McCormick's original installment plans are, in most ways, unrecognizable from today's world of vendor credit, and more broadly, from all those lenders who fall in the broad category of 'non-bank.'
Today we're going to figure out how those non-banks offer these incredible financing deals and how farmers should be thinking about them. But to do that, we'll first have to understand how non-banks and ag lending work, why they've risen to such prominence, and critically what risks and opportunities they bring to the space. To help guide us through this conversation we've got an ensemble cast, a number of familiar voices from recent episodes, and a few that you're going to hear more from in the coming weeks.

First up, we've tracked down a lender who's been tackling this new, non-bank space head on:

Hollie Bunn: My name is Hollie Bunn, and my title is executive vice president of Growers Edge.

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Sarah Mock: Maybe you've heard of Grower's Edge before or maybe it's new to you but if you've gotten credit from a local retailer or co-op there's a decent chance you've worked with them, even indirectly. Their standard business model is to help these kinds of retailers offer credit to their customers to purchase inputs. They do this by providing a good part of the capital but also by supporting diligence work specifically through what's called a "scoring model."

Hollie Bunn – For a scorecard, you decide what metrics you want to measure and then you weight those metrics and you run the loans through and the scorecarding means you're going to have a very fast answer. Basically, you want something that's been automated so there's no hands-on. Now we do provide an opportunity for our partners to look at those, so it's not like it's blind but the design behind it is that it virtually provides an instant answer without any human intervention.

Sarah Mock: In other words, Growers Edge uses a completely or mostly automated digital system that takes in grower data and spits out a score to indicate their credit worthiness. Compared to the older, more manual, and hands-on systems this can be a game changer to new lenders and the customers they work with.

Hollie Bunn: there is a lot of value to that convenience. It's easy to talk about convenience credit and what it means to partners but when you think of a portal that a grower can go to and not just have their financing, but also see their invoices, and see everything they bought, and see the plan that the agronomist has put together for them – that's a lot of value and a unique grower experience that they can have all of that tied together just in one location. I kind of joke about we all have trouble remembering all the passwords and all the places we need to go in today's age, but if I'm a farmer and I know I'm working the co-op and it can fulfill all of these needs, literally going into one access point. The farmers that are working with a traditional line of credit that is set up to cover your crop input costs as well as other costs that you might have throughout the year. With the volatility that we have going on today, if I know I have a line of credit and I also have access to a direct line for those inputs, I'm probably going to hedge a little bit and give myself breathing room so if the prices get way out of – you know, compared to maybe what they have been – like what we saw this past year on fertilizer – it can give them an increase in access to capital. Obviously, you've got to mitigate that risk so of course that side comes into play, but it depends on whose shoes are you in at the

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moment when you're thinking about that. But if I'm the grower, there's certainly an advantage to being able to have that and then again, the convenience on top of it.

Sarah Mock: Ease of use and being able to access more credit are two big selling points for working with non-bank financiers like Growers Edge. A big part of the reason why these lenders can and do operate differently than traditional credit institutions is because of their unique sources of funding. Again, we're not talking about depositor funds here or about government-backed bonds. Non-banks, instead, can pull money from pretty much any other part of the economy.

Hollie Bunn – We work with a lot of different types of funding sources within banks and farm credit services, we have to funds through both of them as well as private investors and investors in the company - at the core we're a technology company and very much looking for a digital experience. So, today, we partner with funding sources that are comfortable and knowledgeable in that scoring landscape and putting it together for a digital perspective for both partners and for growers.

Sarah Mock: I'll note that Hollie described these alternative funding sources as "nearly unlimited." In other words, as long as Grower's Edge and its retail partners continue earning competitive returns, their ability to access funds in the marketplace is substantial. There are many factors that set non-banks apart from banks and the farm credit system, but I think there are two in particular that are maybe the most important. To highlight those for us, let's check back in with an old friend – Jim Farrell.
We've heard from Jim a couple of times now. He told the story of getting started farming in 1977 and getting out in 1986 with pretty much nothing. This early formative experience with the dangers of ag debt led Jim to a number of different farm management jobs, and eventually to become the president and CEO of Farmers National Company in 2004. In the meantime, Jim also served on the board of directors of the Omaha branch of the Federal Reserve, and later the Kansas City board. In his 16 years working with the Fed, he's seen a lot of changes, especially in Hollie's world.

Jim Farrell: As an example, Nutrien, which would be the largest, the ag retail companies, they're major lenders. They had a couple billion-dollar portfolios a few years ago and they were pushing to a $5 billion portfolio of ag loans, for instance. So, it varies from, a seed company saying we'll let you carry the seed cost, but the minute you

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harvest, we want our cut out first, or the fertilizer plant saying, “I'll pay for the fertilizer, but then at the end of the season, you have to pay me.”

Sarah Mock: Maybe it sounds like what Jim is describing here is just run-of-the-mill vendor financing, but what’s should be catching your ear is the scale. A $5 billion dollar loan portfolio is huge - 95% of banks in the U.S., for example, have smaller loan portfolios than this.
John Deere Financial Service, by comparison, is 10 times as large, with a reported portfolio size in 2020 of about $47 billion. Since 2008 in particular, non-bank lenders have become major, non-bank sources of credit, holding an increasingly large amount of debt in ag. Why? Here’s Curt Covington, a senior director at Ag America, another non-bank ag lenders, that we met a few episodes ago.

Curt Covington: It has become incredibly difficult for farmers to work with commercial banks any more because of the “know your customer rules,” a lot of this was a result of when we had the attack in New York, and it created all kinds of agencies making sure your borrower was not involved in activities in a banned country. And then the Know Your Customer Bank Secrecy Act and all of these rules came along and somehow it sounds good for regulators and they too say, “we realize we’re overregulating here but our hands are sometimes tied.” So, it has become very bifurcated because it then created a whole third set of lenders, one of which I belong to, which is not regulated at all. We can pretty much, short of our investors not being happy about it, or perhaps the Securities and Exchange Commission if you’re publicly traded.

Sarah Mock: Curt here does a good job highlighting the increasing difficulty that ag borrowers have had working with the banking sector over the last two decades. Alternative lenders and non-banks have filled an important role providing credit to those who banks have left behind. But there’s reason to worry about the scale of these alternatives too. Here’s Jim again:

Jim Farrell: It's unregulated. And the interesting thing to me is it's unmeasured. So, we have hit a record high debt, but that's USDA-measured debt that doesn't even take into account vendor debt.

Sarah Mock: The brass tacks here is the fact that this credit ecosystem is unregulated and unmeasured makes it very difficult to determine how healthy any

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of this debt is. First, the danger of unregulated debt is, arguably, that regulation in lending is there for a reason. Yes, for depositories, regulators are focused on protecting the funds of depositors, which generally means reining in the riskiest lenders, and ensuring that individual institutions aren't stepping out too far on the risk curve, in a way that's likely to leave FDIC holding the bag. But as we learned in understanding the business case for debt, regulation is also important for protecting borrowers. Regulation in banking helps ensure – or tries to, anyway – that lenders aren't being predatory, that they're not handing out high interest loans on unproven opportunities that are likely to end not with business growth, but with bankruptcy. There is no such regulation protecting borrowers in the non-bank space.
But I'm sure I don't have to tell an audience in the ag world, that regulations tend to be a one-size-fits-all game, which often, don't work out well when it comes to a diverse group of businesses that deal with a lot of different kinds of risk.
Few have worked harder to understand the landscape of non-traditional lenders than Mike Boehljie, our Purdue economist, who's done a lot of research on this type of lending. His work reveals how regulations in banking have left farmers out in the cold.

Mike Boehlje: For example, agriculture still has a very strong focus on using land as a security position, as a collateral position even backstopping operating loans. You'll always hear a banker say, "We can always come back to the land," refinance that loan, if there's a default on say the machinery or whatever loan, et cetera. So, land is still in that collateral position in land is still a really critical part. Of the whole financial picture for the farming industry, the problem then means that those whose growth strategy for their business has been primarily renting land, and don't have a very large land base. They frequently find it difficult to borrow money. They can get an operating line probably without as much difficulty, but particularly in terms of machinery and equipment they're struggling because the lender doesn't feel they've got the collateral position that they can back up on if, in fact, there's a default on insuring them. And particularly for smaller farmers, that's a problem for beginning farmers, that's a problem, and particularly for farmers that have used rental as a growth strategy, that can be a problem. And that's another niche in the market that the traditional lending community has not serviced very well.

Sarah Mock: This example offers an interesting mix of issues – yes, part of this about the conservativeness of banks, but another aspect is the regulation, and

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how banks have to moderate their lending practices in order to follow the rules that protect depositors.
Mike offered another interesting example of a situation where bank regulations create niches for other kinds of lenders to enter the ag credit markets – though, as Mike points out here, these opportunities, and the way these lenders operate is likely to change as interest rates continue to escalate.

Mike Boehlje: I just had a conversation with someone within the last six months who wanted to get my reaction to a program. That was going to be financing farmers who were, what he described originally as “class B farmers,” and what he was saying - these are farmers who have persistently and consistently done well financially, but they've encountered some unexpected event like a major catastrophic windstorm or some weather event like a disease that has just wiped them out or really profoundly hurt their repayment capacity, not permanently, but last year. They would in the long run, be very good customers, and I'm going to be very well secured. The idea is how do I position myself so that if I'm wrong in my presumption that this was only a one-time event that I'm well protected. And there's a strong focus on, again, having some collateral positions there, but traditional lenders, particularly in periods of rising interest rates are probably going to be pretty hesitant to finance this type of organization.

Sarah Mock: Part of the problem for banks in this scenario is the recognition that, though a farmer might have a history of good credit and evidence of a catastrophic, one-time event, the reality is, catastrophic, one-time events are likely to have a big impact on repayment ability. In other words, however much a lender might like to ignore such an event, regulators will often not allow it. Non-regulated, non-banks, of course, do not have to comply with such regulations.

Mike Boehlje: They still will provide by good credit rules, but they don't have to provide by the same rules that a regulated organization would.

Sarah Mock: Overall, I think, Mike believes that non-traditional lenders like non-banks, are playing an important role in the modern farm financial system, and despite the opacity of the sector he believes that non-traditional lenders are getting better at vetting their customers, which offers some confidence for those worried about the solvency of these portfolios. Though he’s still concerned about the level of verification these lenders are pursuing beyond self-reported figures from borrowers themselves.

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Now don't get me wrong, it's still, generally, in a non-bank's best interest not to undermine its portfolio with risky or unverified loans. Here's Curt with more on how non-banks manage the increased risk they take on:

Curt Covington: The rate's higher, the structure around the loan is a lot tighter but, in the end, you get your money fairly quickly and, for those farmers that are in distress, maybe can't quite qualify at farm credit or can't qualify with a commercial or community bank. Often times those lenders will step in and fill that gap.

Sarah Mock: Maybe those farmers in distress that Curt referenced just need a little stopgap credit to get them out of a tight spot. Or, maybe, there's a reason they ended up in a tight spot in the first place. Who knows? We, the people outside of these lenders, definitely don't.
This brings us to Jim's second point, that non-ag lending About the fact that this non-bank ag lending is currently unmeasured.

Mike Boehlje, actually, co-authored a recent study that offered some of the best figures we currently have on what might be behind the curtain of the non-traditional lender balance sheet. That study estimates that about 13% of all ag debt is owned by non-traditional lenders, accounting for as much as 30% of all ag loans. This is clearly a significant amount, and the scary part is we can't actually tell if these institutions are being cautious, because there's so little transparency into these private portfolios. We have no way to tell, no third-party audits or confident confirmations, that these $10+ billion-dollar portfolios in ag are sound or not.

I want to bring in John Blanchfield our resident historian, to add a little perspective to this mystery. Because maybe all is well behind the curtain of corporate secrecy. But also, may not.

John Blanchfield: You remember that when the mortgage market crashed in 2008, 2009, there was a lot of talk about the shadow banking industry." And it turned out. It was non-regulated lenders who were making a huge pile of subprime home mortgage loans. In the agricultural credit space, there is a shadow banking industry and its input supplier, machinery manufacturers, individuals - it's a very large market and some are very good. I mean John Deere's been making credit available to farmers since old John Deere went out to Moline and made that plow. But a bunch of the shadow banking

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industry in agriculture is fairly new to credit and may not have the discipline that's required when you are, in credit business.

Sarah Mock: From John's perspective, a big part of the problem here is the motivations behind vendor finance.

John Blanchfield: A lot of times credit is used by manufacturers and input suppliers to move product. Not to finance the operation, it's to move the product from the shelves to the farmer. And you can book that sale.

Sarah Mock: Maybe this motivation feels reasonable, but with a little digging, John points out why this credit can be vulnerable. The problem is that when the same organization that evaluates a borrower's creditworthiness has a vested interested in them receiving the funds - in this case, so that the sale can be booked - then it seems only natural that the lender would tend more towards approval, because the more loans get approved, the more product gets moved.

John Blanchfield: That credit can be vulnerable. When you have either an interest rate shock or a price shock, eventually commodity prices are going to moderate again downward. And when that happens, it's like the tide going out. When the tide goes out, that's when you see who's been swimming naked. We could see that again in the farm economy where today people are building up for a great market opportunity. They're borrowing and they're doing all kinds of stuff, inflation of assets, but eventually that's going to moderate and that's when we might find, some weaknesses, in the farm credit environment.

Sarah Mock: Those swimming naked, in this case, are the over-leveraged, the folks who were overzealous about the value of existing assets, and overly euphoric about the potential in the market. And you'll note, it's not only farmers who might be caught out, lenders too, might find themselves in a tough spot. One of the key enablers of this whole new world of ag credit is something that none of our guests so far have mentioned that is the unprecedented two decades of low interest rates we've just lived through. On that subject I'm going to bring in former Kansas City Fed Chairman Thomas Hoenig.
When we asked him about the precipitous rise of non-traditional lenders, he sees it as a rational result of there being an unprecedented amount of liquidity in the overall financial system. In short, there has been a lot more affordable and

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accessible money around in the last 20 years than there has ever been before. Not least because of the actions of the Federal Reserve. In that way, he sees a pretty straight line from Fed policy to the negative interest rate equipment.

Thomas Hoenig: So, these, non-bank these so-called shadow finance - what is the source of their funding? Ultimately, the source of their funding is the banks, the very largest banks where these reserves have gone to. So, they make loans to hedge funds, to equity funds, to new kinds of sources that then make loans to these special, shall we say, groups that then buy. Whatever asset they can. And they create that risk.

Sarah Mock: Tom, I think, is talking well beyond the loan from the local equipment dealer here, referring to all the non-banks that have grown up in the ag sector. From Tom's perspective, the risk that all of this unregulated lending brings to the sector is its own systemic problem.

Thomas Hoenig: So, what we're doing is leveraging the industry. We're leveraging all parts of it, and it will turn out badly in the long run, as this continues on. And that's what I worry about with this shadow financial system. It all comes out and ultimately from the banking system initially, and then you lever and lever on top of that. Until you cannot lever anymore. And then when the correction comes, it comes by in a very harsh manner. That's the risk we run going forward with the shadow banking.
And I don't blame those who engage in this. It's the incentives that the market gave them. And it's the incentive that easy money gives them to do these sorts of things. So, the sources of funds for these different shadow finance that's going to become more difficult for them. They're going to have increased amount of difficulty acquiring that, and you'll see that reflected in future prices for assets, generally as we see that develop.

Sarah Mock: What Tom is referring to here at the end is that the prices of assets, potentially, could go down due to rising costs of credit, but it's actually more likely, at least in the short run that they'll simply plateau, and farmers will be caught handing over their margin to pay interest on funds that have suddenly become much more expensive. And that's the thing, according to Tom, vendor credit and non-banks might not be regulated, but they are inextricably linked to the banking sector, whether they like it or not.
I hope, at this point, you've gotten the idea that non-bank lending is not a simple phenomenon. Its rise in agriculture has been driven by our country's recent financial past both in terms of regulation and interest rates and by turns it has

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been both helpful and important in helping more people access credit in agriculture and it has introduced a significant amount of risk to the farm financial system. What does all this mean for a farmer when they have an offer of zero percent financing on a product or implement sitting on the desk in front of them? That's after the break.

[Commercial break]

Sarah Mock: To understand what's happening with that zero-percent interest rate loan you might be thinking about we really have to get into what the motivation for offering credit is for a lot of non-banks.
Curt points out that there are some significant upsides for companies that offer credit that go well beyond making sure their customers have cash to buy their products.

Curt Covington: That's how fertilizer companies. How they create a very sticky relationship - sticky in a good way for them, maybe not so sticky for you, right? It's, "Hey, not only am I willing to sell you this fertilizer at, whatever the price is, right? $400 bucks a ton, I'll carry it, you don't have to pay me until harvest." Lo and behold. If he hadn't asked them to carry you, they may have sold the team for $375 a ton. So, there's always an implicit cost in doing that. If I'm the richest farmer in the world and I have all the cash I need, if I'm the Warren Buffet of farming, the first thing I'm going to do with my supplier is say, "Look, I'm not paying you $400 a ton, that's for the average guy out there that wants you to carry it until the end of the year. What's the best deal you can do for me, cash on the barrel head?"

Sarah Mock: In that way, it's pretty clear why vendor financing has had such a renaissance. For one, capital has been cheap, so if the biggest barrier farmers have to making purchases is affording the product, offering credit is an incredibly valuable marketing tool, it gets customers in the door, gets product off the shelves, and keeps them coming back year after year, because the relationship is deeper than just customer-seller.
Of course, relatively cheap and abundant credit leads to more than just more lending from less traditional sources. Especially when those lenders are selling products themselves, when vendors can offer very good terms on borrowing, They can also press up on their prices because they know that they're customers aren't going to pay cash for it anyways.

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Jim Farrell: My gut perception is that yes, it definitely allows you to increase prices and continue to sell product if you've got low interest rates. The question becomes, how long are they going to want to deploy capital at that level? Am I going to continue to offer, 0% interest rates for the first three years You own your vehicle, for instance? There was a lot of that, at one time and in the equipment manufacturing, they did that as a way to incentivize people to buy the equipment and with the increasing interest rate environment we're in right now, depending on how high it goes and how long it lasts. I think that's going to have an impact on it. So short answer is, “Yes,” I think it does drive prices up some by the ability of being able to offer way lower terms, because at the end of the day, it almost becomes how much is my cost per acre?

Sarah Mock: What Jim is describing here comes back to the example we talked about a few episodes ago, about the car dealer who only wants to know about your monthly payment. In other words, the $500,000- or million-dollar price tag on a new combine doesn't much matter, to your salesperson all that matters is whether or not you can afford the payment.
It’s worth taking a moment to consider what happens when a borrower can’t repay a loan to a non-bank lender. I asked Hollie from Grower’s Edge this question, and notably, these alternative lenders tend to be in lower positions on the repayment hierarchy in that situation. In other words, their loans are, inevitably, a little more risky to them than a bank’s loans are to the bank.

Hollie Bunn: We file upon default, so basically, you’re putting in a blanket lien if a loan is going to have trouble repaying. So, do we account for that risk further up before you would get to that point – absolutely. Again, that’s part of our assessment of the ag retailer and the assessment of the individual grower and then what does that particular loan look like. So, our standard product is we’re not attempting to get first position, we file upon default. Historically, we can look back and know there are these key indicators that should tell you if an account is going to pay back or the value of the land is it going to skyrocket or is it going to go down?

Sarah Mock: Of course, one way to wave away concern about whether or not the farmers who hold all this debt will actually be able to pay it back, is to look to the Farm Bill – and the way that federal programs, essentially, de-risk agricultural borrowers both for banks and for non-banks.

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Jim Farrell: Our crop insurance today you're able to, in most cases, not only cover your expenses, but also come away with money, come away with profit. If you buy the right insurance at the right levels, depending on what you're growing and where you're at. I know it's not the case with everybody. But that's a much more stabilizing factor. Just look at 2012 in the drought. If we hadn't had crop insurance, that environment would've been upside down, from what it was the crop insurance, made that in fact, is it wasn't even a blip in the radar. It was actually a really good year. Even though it was a major drought when you look at the overall farm income as a general sense, it was a pretty good year.

Sarah Mock: Though stabilizers like crop insurance and 20 years of relatively low interest rates have created a good environment in which vendor credit has flourished, this accessible and affordable credit has had other consequences as well. But Jim says the better explanation for high implement prices might have a more complicated explanation, but one with roots in the 1980s.

Jim Farrell: The other thing we saw on the high inflation period that I haven't noticed yet, but I think we're on the verge of it. Two things were really common back at the peak or the valley of the farm prices. Farmers were still trying to farm, for taxes. And so, I had a friend who was very excited he'd gone in, and he paid all of his interest off, which was substantial, but then he had to turn around and borrow a living expense. From the bank because he had no money and he was really pleased that he had been able to pay that off and he didn't really make the equation that, this can't go on. And the other one was, people that were not able to repay operating capital, but yet still we're showing a profit. And so, through their tax advice had decided they need to buy a new tractor or a new pickup or a new whatever, and so that, that was driving purchases and it still is today, to a degree. So, you get a low enough interest rate. I don't like to pay taxes so I could buy new paint, avoid paying taxes. I could make this pay on a per acre basis. Something that makes sense. Yeah, the manufacturer over time has the ability to pump the prices up, probably quicker than if everybody was doing a straight cash transaction.

Sarah Mock: Taking stock of Jim's insights here, I think there's three big takeaways to hold onto about the recent history of non-bank financing and what it might mean going forward.
First, the unregulated and unmeasured nature of vendor and non-bank financing makes it incredibly difficult for us, people on the outside, to understand how healthy those loans are. The lack of transparency in the non-traditional vendor

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space is a risk for the entirety of the ag finance system and one that shouldn't be ignored as more and more ag debt comes into this space.
But second, that doesn't mean that vendor financing is a bad thing. It's filled it a niche and has been part of a suite of tools that's created additional stability in ag finance and agriculture more broadly. There's a feedback loop at play here, and one that should make farmers think very carefully about, say, a zero- or negative-interest rate loan. Cheap money has made credit a valuable marketing tool and in turn allowed farmers to afford much higher prices for inputs, especially assets like equipment. These three factors – the higher prices for inputs, the growing amount of unregulated credit extended to what is likely a higher risk pool of borrowers, and all of it existing out of view - that is quite the cocktail of factors to have prepared as interest rates begin to rise and the economy becomes more uncertain. The problem is, we don't really know how likely or unlikely these non-traditional lenders are to get into trouble in this new environment. And that fact adds a whole other level of uncertainty.

We started today's episode talking about negative interest rates at an implement dealership. And I think at this point, we have a better understanding of how exactly, that kind of offer is possible, here's John Blanchfield for an additional insight there.

John Blanchfield: When a manufacturer of say a combine advertises zero interest until next year, anybody who believes that there's not an interest price or costs built into that combine, needs their head examined. Okay. So, when I worked at the bank, farmers would come in and say, "I can get this at zero rate for a year." And frequently I would say, take advantage of that and then when the year's up, come and see me.

Sarah Mock: Hollie from Grower's Edge shared a similar perspective, sharing what she understands when she sees a super low interest rate made available to growers for a purchase.

Hollie Bunn: Rebates from manufacturers is actually where that's coming from, it's really not the ag retailor it's going to be transferring on a rebate that they have received from someone who is manufacturing a product and wanting to move a product at that level from what I've seen. By and large, the partners that we talk to, we don't get in to talking about zero percent, it doesn't even come up. They do have the ability to price up a loan or buy down a loan. So, if they have an individual they see as risky they can add

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an interest rate to that just before they pass it on to us or if they have a farmer who is buying a certain kind of seed they do want to promote or inventory that they want to move they can certainly do that very surgically and go in by grower and make adjustments by grower if they want to. It's that frustrating space that we all get in as a consumer – any place you go to get ridiculous sales, you're not offering this product at this retail price all the time. It's the same thing because the spread on the product is there for someone and it's not often directly with that ag retailer, it's going to be with supplier that is coming to them. I'd bet growers don't realize that and you have to if you're getting a zero percent, because is that particular grower who got the zero percent actually paying for it in another way – and I'm not so sure they are. I think others are, but I'm not sure that grower is.

Sarah Mock: I think Hollie's takeaway here really hits home – in short money is never free, which means credit is never free. If you're not paying to borrow money by way of an interest rate – you're probably paying for it in another way. Maybe directly by way of an inflated retail price, maybe in brand or product loyalty or potentially quality. Or maybe someone else in the supply chain is paying. It's worth wondering why they would do that – what they get out of the deal.
As we're winding down, I asked David and Brent for their reflections on this whole story.

David Widmar: I don't know, Brent, don't you think the local co-op giving you free money to buy their products is an innovation? I just feel like there's a lot of money…

Brent Gloy: It's just vendor credit. I think there's always been vendor credit for as long – you can go to the company store. That's how all the miners went broke, right. They would go in and have to buy the claim and then they'd have to buy all the products from the general store and pretty soon like the guy would take the mine away from them after you'd done all the work and gotten almost to the gold but not quite there. He'd take it for the food bill and then go dig up the gold, I don't know.

David Widmar: Tennessee Ernie Ford "16 tons and what do you get? One day older and deeper in debt."

Brent Gloy: Yeah, there you go. "Sold my soul to the company store."

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David Widmar:: My family farm sits on an old camp town and my grandfather tells a story that was passed down through the family, that his grandparents owed the company more money every week because their living expenses for the house that was a company house and company store they got script – they didn't get paid cash, they got paid in script, which was a piece of paper that said "this is what you earned" it wasn't until the second child could go work in the mine at a ridiculously young age that they were getting enough money per week that they could get themselves into working off their debt at the company store.

Brent Gloy: I won't say it, but one area where I don't see it so much as a trade credit – equipment. I think equipment has gotten extremely expensive and I've started to feel like there are more offers coming at me that are what I would call creative, in the sense of here's a creative way for you to get all new equipment every year and here's why it's a good deal. We'll just set that up on a note, and I'm like, "wait a second, why would I need a note?" You've got to do this and that and so what you're telling me is if I get new equipment every year, if I can't write a check for it, I've got a big problem because the ends will not be good. If you replace your equipment every year, all if it, and you can't write a check, you're working yourself into a hole that you're never going to get out of. I think sometimes vendors come up with creative ways to convince you that that is not the case and that you should do this and that is the area, on the equipment side, because the dollars are bigger, and the stuff wears out that I think people can make some bad decisions at times and not really understand exactly what they're doing because it's complicated. And I think there is some elements of so-called "financial innovation" there that are making people – like, "Oh, this is a magic bullet and a way to solve this problem," and it's probably not.

Sarah Mock: Cheap and abundant credit is certainly a powerful tool, but if you've been listening to this podcast for a while, you'll understand the skepticism around the idea that anything is a magic bullet. A decent argument that non-bank credit is probably not the magic bullet that some believe it is – the fact that the days of ultra-cheap credit are probably numbered. As interest rates in the economy continue to climb it will become more and more expensive for companies and non-banks to run programs where credit is used as a marketing tool and, more importantly, if banks are charging 6%, 7%, or 8% interest a retailer can offer well above zero and still make a pretty compelling deal.

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Over the course of the last six episodes, we've covered a lot of ground. We've covered some history of ag lending and how less has changed than we might have hoped, we've learned how lending works for ag banks and farm credit and Farmer Mac and with vendors and non-banks. We've learned a lot about the unique risks and opportunities of each of these lenders. We've learned about how they've work together for the last 20 years -- arguably, during the best of financial times. But there are actually more -- two more to be precise, big arenas were farmers and ranchers can go to fulfill their credit needs. The first I'll let Mike Boehljie say a bit more about:

Mike Boehlje: The insurance industry has been a long-term player in this market. Much of the early lending in agriculture came from insurance companies. So, insurance companies have this just kind of fundamental structure here. They get proceeds right from people paying on insurance policies. So, they have money that they need to invest some place so, they can pay out on the premium, but they got a lot of money. They got a lot of carry in the market. They have a whole lot of cash they need to do something [with]. So, an insurance company will have somebody at the highest level say, "Okay, here is the portfolio balance we want to have - we'll put so much of our money into commercial real estate lending activity, so much of our money into farmland lending activity, so much of our money into all sorts of different investments."
And so, historically what they've done is they have had of a part of that investment policy has included farmland lending. In that context, they don't make operating loans. They don't make generally machinery or equipment loans. It's all based on farm loans secured with real estate as their collateral position. And it's been actually a pretty successful business for them. It's a relatively low risk - farmers have a history of always paying unless they are absolutely in a terrible position.

Sarah Mock: Insurance companies have been lending to agriculture for almost as long as banks have, and though their practices and policies have changed somewhat over time, including during and in the aftermath of the 1980s, they've remained a big investor in the ag real estate lending space, seeing ag lending as a sector with competitive rates and relatively low risk given the time horizon they are operating on.
We don't have a whole episode for you on the insurance investment space, in a lot of ways, insurance companies also act like the non-banks we spoke about today. But there is one other place that farmers can go to access loans,

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especially if they've been turned down from one of the many other lenders we've discussed

Brent Gloy: The farm service agency and the United States Department of Agriculture makes a lot of loans to agriculture themselves they also provide loan guarantees for a lot of borrowers. So that, if you can qualify, you can go and get a guarantee that tells the lender if this loan doesn't work out the government is willing to basically insure it, and there's co-insurance and all that kind of stuff on it, but they intervene a lot in these credit markets.

Sarah Mock: Checking in on ag's lender of last resort. Next time, on *Nothing Borrowed, Nothing Gained.*

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If you've enjoyed the show, please rate, review, and subscribe wherever you listen to podcasts, and lookout for Ag Economics Insights, on social media @ag economists or email us directly at askus@aei.ag.
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Until next time, remember.

Curt Covington: The good times. Never last.

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