“COMMERCIAL BANKING, AGRICULTURE, AND THE FINANCIAL CRISIS”

The financial crisis originating in geographic dispersed housing markets is undoubtedly spreading into a broad based and deepening recession affecting the lives of millions of people worldwide. The discussion of the role of financial institutions in this crisis has been predominantly on the largest banks, quasi-governmental lending, mortgage insurance companies, and government recovery packages. As we move forward, an important area of focus is likely to be on the health of the entire financial system, which includes thousands of small and medium sized thrifts, banks, and credit unions. To address these and other concerns, the Food System Research Group invited Michael K. Young, senior executive from Fiserv, Inc. of Brookfield WI. to the University of Wisconsin-Madison for a day of discussions and other activities. Fiserv is a Fortune 500 company and world leader in providing information management e-commerce solutions for financial institutions of every size and type.

Young’s presentation and discussions focused on three interrelated themes: the status of the financial crunch, structural adjustment in the banking sector, and emerging trends in financial technology. According to Young, the small and medium sized financial sector is stressed but largely in state of acceptable health. Banks that proceeded along prudent lines in developing their loan portfolios are in particularly good shape and may be in position to acquire institutions that took on too much risk. Indeed, Young anticipates a significant wave of mergers and acquisitions that should reduce the number of banks in the U.S. The structural implications of such mergers will take time to sort out, but the role of financial technology is likely to have a major impact in shaping the industry. Banking is expected to continue to move toward less and less paper and more
reliance on hand-held devices to obtain information and purchase goods and services. Exactly how consumers see the need for a local bank in this environment is quite uncertain but younger consumers and the businesses they operate will certainly expect their bank to deliver more and better products in the virtual marketplace. These trends blur the traditional concept of market boundaries, and measuring the competitive impacts from a merger wave of this sort requires new and better ways of thinking about market concentration.

Obviously, the depth of the growing recession is an area of great uncertainty. Its impact on agricultural lending will depend on many factors. While agricultural markets are holding up reasonably well, some parts of the agricultural economy are facing significant challenges. Corn ethanol plants are operating at losses and closing down because the recession based collapse of oil markets did not translate to equivalent drops in corn prices. Branded food manufacturers are likely to be squeezed due to a significant and permanent shift by many consumers to lower-priced private labels (i.e. store brands). Food retailers may enter a phase of price competition not seen in many years. The march toward healthier foods through a variety of means (organics, genetics, local markets, etc.) is likely to continue but in a much tougher and more competitive environment. Financial institutions that lend to the ag sector will of course develop a loan portfolio that recognizes these risks.

Mike Young operates from the Information Technology, Inc (Fiserv ITI) campus in Lincoln, Nebraska. He overseas the 4,400 employees who make up Fiserv’s bank and credit union businesses, which provide technology solutions to more than 7,000 financial institutions nationwide.

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