

Vineyard Economics Seminar - 2009

Banking Update – What
Growers Need to Know
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June 2, 2009

Overview

- The Party... and the Hangover
- What's Ahead; Lingerin Brain Damage?
- Bank Schizophrenia; How to talk to the Patient

The Party Setting:

■ What Happened?

1999: Repeal of Glass-Steagall Act

- With one stroke of a pen, commercial bankers could begin turning their loans into investment products.
- Glass-Steagall had prevented banks from selling debt-backed securities for which they were the underwriters.
- So Wall Street investment banks were suddenly in the mortgage re-packing business.
- Enormous amounts of risk loans were generated and sold off to investors.
- Limited regulation (oversight).

The Party:

For most of American history, total consumer debt levels have averaged less than 50% of GDP.

From 2000-2008, this skyrocketed up to essentially 100% of GDP...\$13 Trillion.

The only other time this occurred.....1929.

A Bad Hangover...:

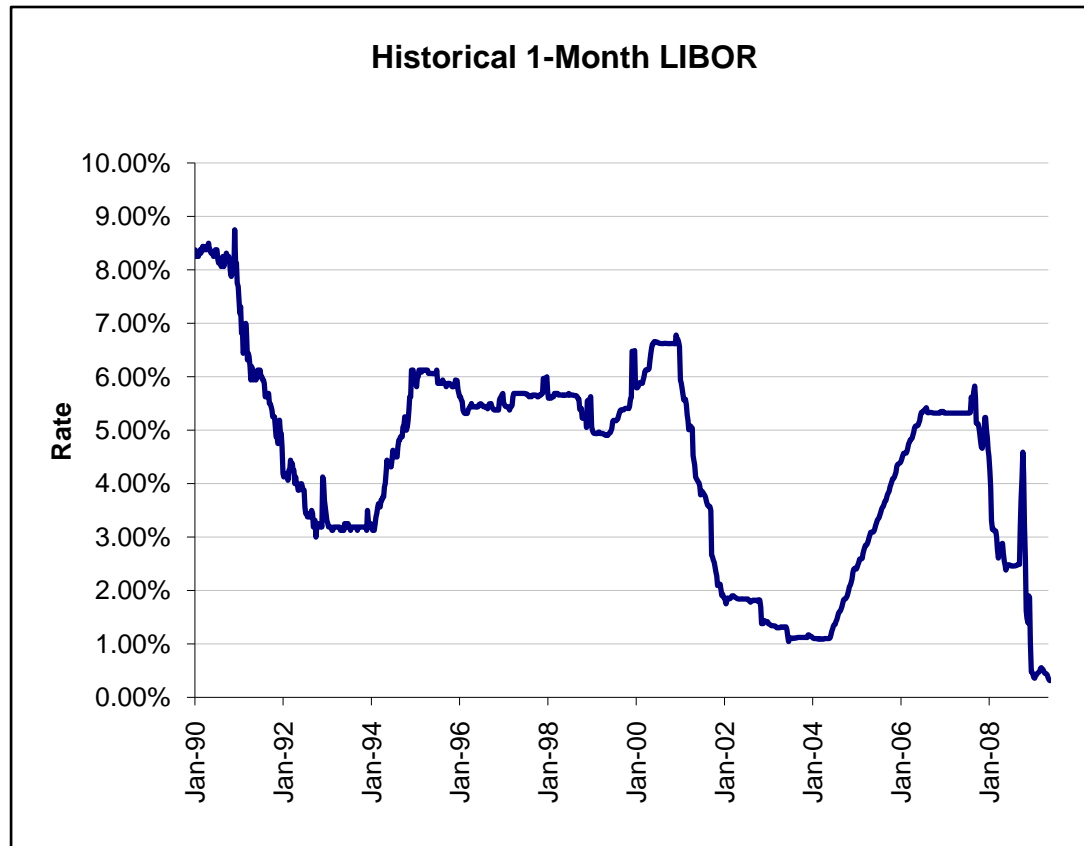
- Worldwide financial losses total \$1 trillion since December 2007 (Bloomberg).
- Predictions on total credit losses from US bad assets range from \$2.7 trillion to \$3.6 trillion
- 5.7 million jobs lost since December 2007.

■ ...or a Tequila Hangover:

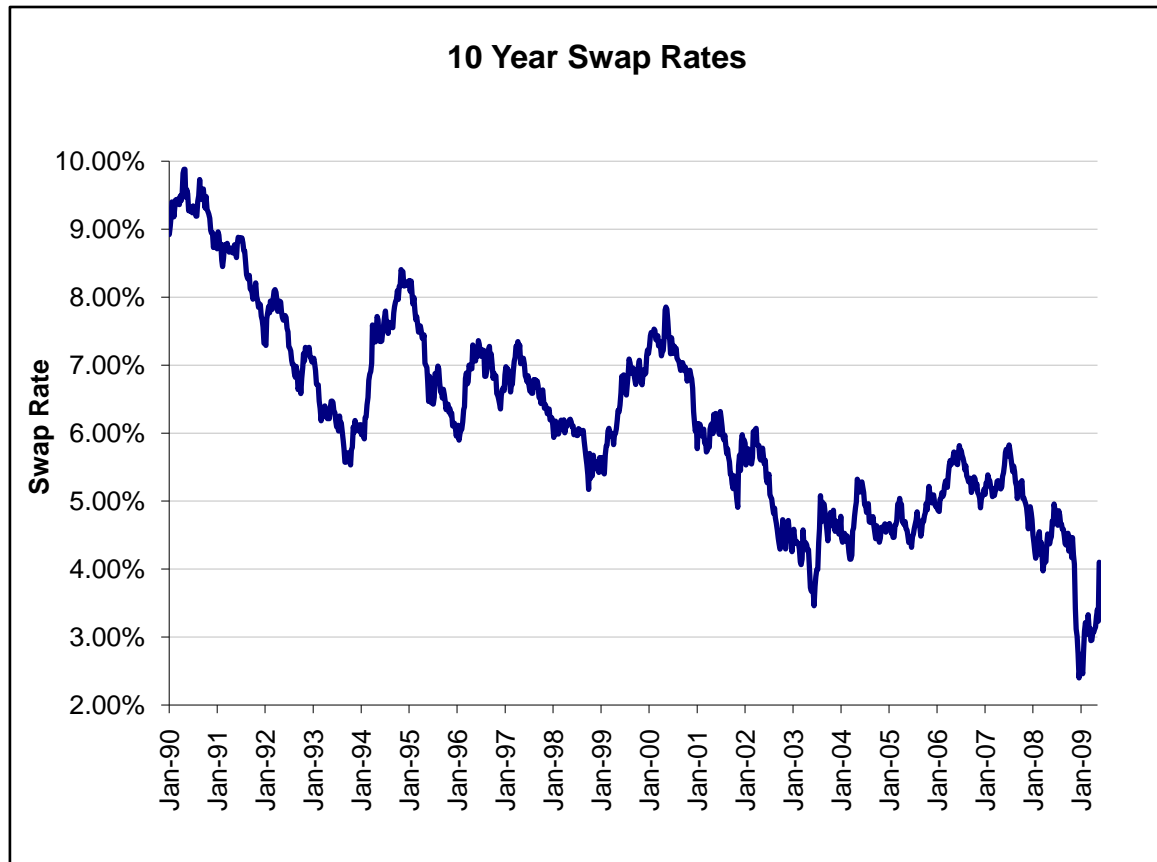
■ What's Next?

- Unemployment vs. housing prices..getting less worse?
- GDP -5.7% Q1; Q2.....?
- Stimulus – seeing some impact, taxpayer appetite for more is dwindling.
- Stressful stress testing. Severe case: Top 19 Banks face \$600 billion more in losses – 9% of loans go bad.
- Credit crunch easing – but no free flow of capital and continued deleveraging.

How Low Can it Go?!



What's That Little Tail on the End?

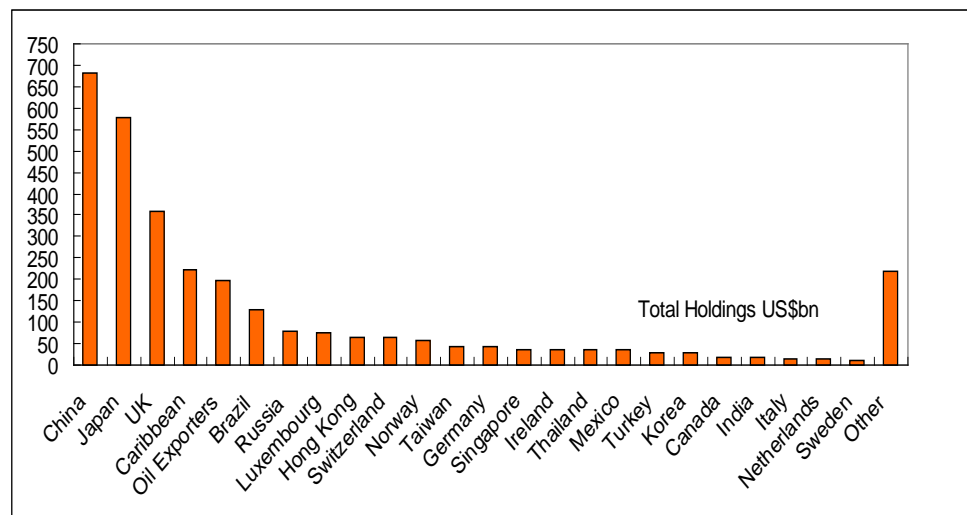


■ Bonds on Steroids

US still attractive

- The US still generally remains an attractive “safe haven” for cash and foreign investment (China – 22%, Japan – 19%).
- Total Gov't debt levels are 73% of GDP ...vs 250% during 1929-33.

■ Foreign Holders of US Treasury Securities



■ Bank Schizophrenia:

Outlook for credit markets/banks

- Capital to remain scarce
- Closer monitoring from regulators – government and internal.
- Banks will increasingly be “Internally Focused.”
- But.... The hunt for Good Deals and Market Share is On.

■ Credit :

What does this mean for growers?

- Tighter loan underwriting requirements
 - More collateral (lower advance rates)
 - Higher spreads
(with all-in rates still near historical lows)
 - Stricter covenants
 - Increased monitoring/reporting




■ Implication for Borrowers:



- Increased focus on Loan Covenants + more emphasis on timely accurate Financial Reporting.
 - Need to understand Loan Documents – what triggers Loan Default.
 - Need to understand Financial Statements – what scenario impacts Loan Covenants.
 - Things to Strengthen you Banking Relationship:
 1. More Frequent Contact/Meetings
 2. Avoid Surprises
 3. Understand where You fit in with Your institution.
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Our Foundation



Bottom line.

Whether it's scored on a Swiss cheese pie or a champion bull, a Blue Ribbon at a State Fair means the best of the best. Same with our triple A credit rating. It means we have met the highest standards for financial stability, and that we have resources equal to any challenge, in any economic climate. As the world's premier food and agri business bank, our bottom line isn't a number. It's the way we do business - when you need to bank, that's where you'll find us. Rabobank. If you're not talking to us, you're not getting the whole story.

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▪ Standard & Poor's: AAA

▪ Moody's: Aaa

▪ 100+ years of profitability

GLOBAL
FINANCE

▪ *Ranked Rabobank among the world's safest banks since 2001, (ranked 5th safest in 2009)*

■ Rabobank, N.A. 2009

- 90 Branches, 13 Financial Service Centers from Imperial Valley to Sacramento
 - Community bank, focus on non-metropolitan areas
 - Regional model
 - Continuous coverage across 700 miles
- Total assets of \$8 billion
- 1850 employees
- Part of the Rabobank Group:
 - Founded 110 years ago by farmers in the Netherlands
 - 27 years in US
 - \$25 Billion in commitments to North American agriculture
 - \$850 Billion in assets, the largest privately held AAA rated bank in the world

