

## Financial Rating Agencies for Agriculture

2009 - Feedgrains and Oilseeds

Recommendation for Board Action:

To review and research the availability of, or the potential for creating a "rating agency/system" designed for rating the financial integrity of agricultural product buyers including such entities as brokers, buyers, elevators, processors, livestock feeders and ethanol plants. This research should also include an assessment of the potential for Kansas Farm Bureau providing this service.



## Financial Rating Agencies for Agriculture

**A credit rating agency** is a company that assigns credit ratings for issuers of certain types of debt obligations (such as companies, state and local governments) as well as the debt instruments themselves.

\* A. M. Best, Moody's, Standard & Poor's

**A credit bureau** is a company that collects information from an array of sources (including lenders, utilities, debt collection agencies and the courts) making the information available through "credit reports."

\* Equifax, Experian and Transunion.



## Financial Rating Agencies for Agriculture

The **Kansas Grain Warehouse Inspection Program** was established to protect producers and their stored grain. Requires entities to be licensed and agree to:

- a) Abide by the laws and regulations of Kansas.
- b) Provide annual year-end financial statements.
- c) Maintain stock insurance, pay the appropriate fees, and maintain either a bond or letter of credit.
- ✓ Does not provide farmers with the ability to check the financial integrity of prospective buyers.
- ✓ Does not apply to entities that don't provide public warehousing such as brokers, feed yards, processors or ethanol plants.



## Financial Rating Agencies for Agriculture

The **Kansas Attorney General's Office**, through its multiple divisions and sub agencies, assists Kansans (including farmers and ranchers) who bring up legal complaints or questions.

Can assist in cases of fraud or other illegal business activities but cannot:

- a) Provide a way to assess financial integrity.
- b) Protect the interests of a farmer if an agri-business legally enters into bankruptcy.



## Financial Rating Agencies for Agriculture

### Credit rating agencies

- ✓ Use financial ratios to assess credit worthiness.
- ✓ Constitutes only a "point in time" analysis.
- ✓ ?? Charge the debt issuers for their services.
- ✓ ?? Closeness with company management, possibly opens them to undue influence or being misled.
- ✓ ?? Historically don't downgrade companies promptly enough.
  - ✓ For example, Enron's rating remained at investment grade four days before the company went bankrupt.



## Financial Rating Agencies for Agriculture

### Credit bureaus

- ✓ Do not report on "financial integrity," but do provide a "score."
- ✓ Do assess credit worthiness by providing information on borrowing and bill paying habits.
- ✓ Is more of an on-going process making it somewhat more responsive.
- ✓ Charges the customer (i.e. farmers and rancher) for their reports.



## Financial Rating Agencies for Agriculture

### The Better Business Bureau

- ✓ Not a true credit bureau (less comprehensive).
- ✓ Two operate in KS (Wichita and Topeka).
- ✓ Does provide "business ratings" reflecting:
  - a) Court and government actions against the business.
  - b) How long the business has been in operation.
  - c) Marketplace practices (i.e. whether any complaints have been processed) which potentially creates a venue for customers (farmers and ranchers) to provide timely feedback regarding the business.



## Financial Rating Agencies for Agriculture

### The Better Business Bureau

- ✓ A benefit to the BBB, is their accreditation process, allowing businesses to voluntarily join and demonstrate their commitment to making a good faith effort to resolve disputes and complaints.
- ✓ A further benefit is that Reliability Reports are available to consumers (farmers and ranchers) free of charge.
- ✓ The costs of administering the BBB comes from member businesses.
- ✓ Very few agri-businesses are currently members.



## Financial Rating Approaches for Agriculture

**Credit bureau** approach is likely the most difficult because it would require the collection of borrowing and bill paying data not just from major retailers, banks, utilities and creditors, but additional data would need to be collected from the vast number of farmers and ranchers who also deal with these regional and local agri-businesses.

**Credit rating agency** approach is workable. A template utilizing standard year-end financial and/or tax return data could be created that provided a financial integrity score but it would only represent a "point-in-time" analysis; and getting agri-businesses to participate may prove difficult.



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## Financial Rating Approaches for Agriculture

**Better Business Bureau** approach, focusing on the business's marketplace practices; summarizing the number of complaints processed and any government actions involving the business, along with documenting the business's good faith efforts to resolve consumer complaints is also workable but again, getting agri-businesses to participate may prove challenging.



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## Alternatives

a) We can create an Ag-based credit rating agency

<u>Annual Subscription Rate</u>	<u>Breakeven Farmers</u>
\$ 30	6,667
\$ 50	4,000
\$100	2,000
\$200	1,000
\$300	667
\$500	400

b) We can create Ag-based BBB

c) We can encourage members and agri-businesses to join the current BBB's in Kansas