

## The Economy and Rural America An Interview with U.S. Senator Tom Harkin

For nearly 35 years, U.S. Senator Tom Harkin has served as one of the leading voices for rural America in the U.S. Congress. A Democrat born and raised in Iowa, Harkin has a keen understanding of the nation's heartland, and he's earned a reputation for working in a bipartisan fashion as an advocate for rural America.

His long tenure in Congress – Harkin was first elected to the House in 1974 to the Senate in 1984 – and respect among legislative colleagues on both sides of the aisle has translated into key committee assignments, giving him a strong voice on federal programs related to everything from defense and labor to health and education. When it comes to policies that impact rural America, however, there are few in Washington, D.C., with more clout than Harkin.

As chairman of the Senate Agriculture Committee, Harkin plays a pivotal role in developing and shaping the nation's agriculture and food policies. Every few years the committee writes the farm bill – the most recent iteration was approved in 2008 – which is fundamentally important to the nation's rural economy. Policies set forth in the farm bill impact agricultural subsidies, environmental and conservation programs, food safety, rural development, international trade, food stamps and other nutritional programs, crop insurance, energy and more.

In addition, the committee provides oversight to the Farm Credit Administration, the executive-branch regulator of the Farm Credit System (FCS), of which CoBank is a member.

Harkin recently sat down with OUTLOOK for an interview focused on the economic health of rural America, renewable energy policy, economic stimulus and regulatory reform of the banking industry.

### ***OUTLOOK: How are U.S. farmers and ranchers – and rural communities generally – faring in the economic downturn?***

**Sen. Harkin:** This downturn has cut across all sectors of our economy and all areas of our country, further straining household budgets and economies in communities of all sizes. The agricultural sector has not been immune to

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#### **About this interview**

Senator Tom Harkin, D-Iowa, has served in the U.S. Senate since 1984. He is chairman of the Senate Committee on Agriculture, Nutrition and Forestry, which provides oversight to the nation's agriculture industry and farm programs. Sen. Harkin was born and raised in Iowa. He is a decorated veteran who served in Vietnam.



There were a number of investments in the stimulus package that were critical to helping rural communities.

the financial downturn. Agriculture has seen commodity prices fall from the high levels of last spring and summer, while input costs have continued to remain high. Exports have also declined. This has begun to squeeze producers' profit margins and has slowed producers' capital purchases of items such as farm equipment.

Most agricultural lenders and rural community banks did not participate in subprime lending, so they have been in a relatively good position to assist creditworthy borrowers. But, lenders are tightening their underwriting standards, and borrowers are paying a little more to access credit. Borrowers are seeing a shift away from fixed-rate loans to variable interest loans, which places somewhat more risk on them.

***OUTLOOK: Where do you see the greatest areas of vulnerability for farmers and our rural communities?***

**Sen. Harkin:** I'm particularly concerned about what is going on in the pork, poultry and dairy sectors. These producers are some of the hardest workers you will find in any segment of the economy. Many of them are finding it very difficult to foresee profits any time soon, as meat consumption is very sensitive to household income decline – more so than other basic commodities. It's clear the longer the financial downturn persists the greater the impact we will see on these producers and the agricultural sector of the economy.

Many farm families depend on off-farm income for health insurance coverage to meet family living expenses and to keep the farm business running. According to a Rural Policy Research Institute analysis, in recent months rural America is beginning to lose jobs at a faster rate than urban areas. We need to make sure that rural communities have the resources they need to overcome this financial downturn. This is why I fought hard to make sure the American Recovery and Reinvestment Act – the economic recovery package passed by Congress earlier this year – included funding to make sure our rural communities receive the assistance they need for a strong, healthy, and prosperous rural economy. As recovery act funding begins to flow, it's my hope that we can reverse this unemployment trend.

## ECONOMIC STIMULUS FOR RURAL AMERICA

The \$787 billion American Recovery and Reinvestment Act of 2009 set aside billions of dollars in direct aid for rural America. Here's a by-the-numbers look where some of the economic stimulus money slated for rural America will be spent:

\$19.7 billion to increase the monthly amount of nutrition assistance to 31.8 million people

\$7.2 billion for rural broadband and Internet access

\$1.15 billion for forest health and hazardous fuels reductions

\$400 million in water and wastewater grants

\$173 million in direct loans to more than 2,000 farmers

\$145 million for natural resources conservation

\$145 million for watershed protection and flood protection projects

\$130 million for rural community facilities

\$14.9 million to more than 10,000 rural families for home ownership financing

### ***OUTLOOK: What are your highest priorities for Congress this year?***

**Sen. Harkin:** As Chairman of the Senate Agriculture, Nutrition, and Forestry Committee and Chairman of the Labor, Health and Human Services Appropriations Subcommittee it's been a busy year with farm bill implementation, nominations and the recovery package.

I'm currently working very closely with Senator [Ted] Kennedy [D-Mass.] and other members of the Health, Education, Labor and Pensions Committee on healthcare reform. I've also been working hard to address some key economic issues such as derivative regulatory reform and addressing our national deficit.

### ***OUTLOOK: What issues will occupy the Senate Agriculture Committee's agenda this year?***

**Sen. Harkin:** This year the committee will be focused on the reauthorization of the Child Nutrition Act, Commodity Futures Trading Commission regulatory reform, farm bill implementation and a number of nominations for posts at the USDA and the Farm Credit Administration.

### ***OUTLOOK: Much discussion has been devoted to legislation to reduce carbon and greenhouse gas emissions; do you believe Congress will pass such legislation before the next election?***

**Sen. Harkin:** We'll certainly try to do that, but getting 60 votes in the Senate will be the challenge, as usual.

### ***OUTLOOK: What are your views on a so-called "carbon tax" versus "cap and trade" legislation to reduce greenhouse emissions?***

**Sen. Harkin:** At this time, I am weighing the pros and cons of each.

### ***OUTLOOK: What role will you and the Senate Agriculture Committee play in greenhouse gas reduction legislation?***

**Sen. Harkin:** We will make sure that the agricultural sector is appropriately represented in the crafting of climate change legislation. That would include, for example, offsets for sound emissions reductions or sequestration projects in agriculture.

## FARM CREDIT SYSTEM BY THE NUMBERS

The Farm Credit System was created by the U.S. Congress in 1916 to ensure a stable and dependable supply of credit to rural America. Today, the System provides financing to U.S. farmers, ranchers, agricultural cooperatives, farm businesses and rural communities.

\$214 billion in assets

500,000 customer-owners nationwide

10,000 employees

90 borrower-owned association lenders

4 wholesale banks that lend to associations

1 agricultural credit bank (CoBank)  
serving cooperatives and rural utilities and also as a  
wholesale bank that lends to associations

**OUTLOOK: What issues will our rural electric cooperatives face as a result of the legislation?**

**Sen. Harkin:** To the extent that RECs rely on fossil fuels for power generation, they will see somewhat higher costs.

**OUTLOOK: What opportunities or dangers do you see for farmers and rural communities as a result of the legislation?**

**Sen. Harkin:** Farmers are likely to see higher energy and fertilizer and chemical prices. But to the extent that they can improve the efficiencies of their operations, they will be able to control their total energy bills. Farmers also can help reduce overall emissions by providing offsets, through methane capture or soil carbon sequestration for example, and this could be an opportunity for them.

**OUTLOOK: What were the most important parts of the stimulus package for our rural communities?**

**Sen. Harkin:** There were a number of investments in the stimulus package that were critical to helping rural communities. The act provided funding to develop vital community facilities in rural areas such as hospitals, health care clinics, water and wastewater systems and day care and elderly care facilities through the USDA Community Facility Program. To improve, develop, or finance business and industries that will provide jobs in rural communities, funding was provided for the USDA Business and Industry Program. We were able to provide additional funding for the Farm Service Agency loan programs to help farmers and ranchers with farm ownership and operating assistance.

I especially believe the \$7.2 billion for the broadband program – of which \$2.5 billion will be used for the Rural Utilities Service program at USDA – is vital to ensuring that rural communities have access to high-speed broadband service, which is important to economic growth, jobs, education and health care.

**OUTLOOK: Do you believe the stimulus package will be successful in jump-starting the economy? Why or why not?**

**Sen. Harkin:** I am very hopeful that the American Recovery and Reinvestment Act – often abbreviated as ARRA – and other actions the federal government has taken will help move our economy toward recovery.

It is time that all futures contracts move from over-the-counter markets into the full sunshine of regulated exchanges.

I think it is clear that ARRA is starting to create jobs and has reduced state and local governments' need to scale back their workforce to meet budgetary pressures.

**OUTLOOK:** *With all the turmoil in the financial markets, what are you hearing about credit availability for agriculture and rural communities?*

**Sen. Harkin:** We're continuing to hear from agricultural lenders that they have adequate funds to assist eligible borrowers. But these lenders have tightened underwriting standards this year. The terms of this credit are much different than in previous years. Borrowers are being offered variable interest rates rather than the fixed rate loans they have been able to secure in previous years.

**OUTLOOK:** *The banking committees seem focused on regulatory reform and managing "systemic risk" to our nation's financial system. What impact, if any, do you see this having on the Farm Credit System?*

**Sen. Harkin:** I believe regulatory reform is needed and likely. Such reform should enhance the financial sector's stability, guard against shocks and help the Farm Credit System and other lenders who rely on financial markets for funds. But I do not believe it is likely to have a significant impact on the Farm Credit System. Partially, that is because of the jurisdictional structure of the Congress but also because most believe that the System is sound.

**OUTLOOK:** *What issues will the agriculture committee weigh in on as part of this effort to reform the financial regulatory system?*

**Sen. Harkin:** The Senate Agriculture Committee has jurisdiction over the trading of futures contracts. Many, if not all, of the financial derivatives that contributed to the current financial chaos are futures. It is time that all futures contracts move from over-the-counter markets into the full sunshine of regulated exchanges.

# Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 05/29/09. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

## KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

## ECONOMIC AND INTEREST RATE PROJECTIONS

Forecasts courtesy of Insight Economics, LLC

US Treasury Securities

| 2008 | GDP    | CPI    | Fed Funds | 2-year | 10-year |
|------|--------|--------|-----------|--------|---------|
| Q4   | -6.30% | -8.30% | 0.51%     | 1.20%  | 3.30%   |
| 2009 | GDP    | CPI    | Fed Funds | 2-year | 10-year |
| Q1   | -5.70% | -2.40% | 0.18%     | 0.90%  | 2.70%   |
| Q2   | -2.50% | 1.00%  | 0.18%     | 0.90%  | 3.20%   |
| Q3   | -3.50% | 2.50%  | 0.20%     | 1.00%  | 3.40%   |
| Q4   | -1.00% | 2.30%  | 0.20%     | 1.00%  | 3.40%   |

## PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

## IMPLIED FORWARD RATES

| Years Forward | 3-month LIBOR | 1-year Swap | 3-year Swap | 5-year Swap | 7-year Swap | 10-year Swap |
|---------------|---------------|-------------|-------------|-------------|-------------|--------------|
| Today         | 0.66%         | 1.60%       | 1.92%       | 2.81%       | 3.35%       | 3.75%        |
| 0.25          | 1.81%         | 1.75%       | 2.17%       | 3.01%       | 3.50%       | 3.87%        |
| 0.50          | 1.79%         | 1.57%       | 2.34%       | 3.14%       | 3.60%       | 3.94%        |
| 0.75          | 2.08%         | 1.37%       | 2.52%       | 3.28%       | 3.71%       | 4.02%        |
| 1.00          | 1.29%         | 1.05%       | 2.70%       | 3.43%       | 3.81%       | 4.10%        |
| 1.50          | 0.96%         | 1.84%       | 3.22%       | 3.80%       | 4.09%       | 4.32%        |
| 2.00          | 2.61%         | 3.09%       | 3.85%       | 4.24%       | 4.41%       | 4.56%        |
| 2.50          | 3.21%         | 3.59%       | 4.18%       | 4.43%       | 4.57%       | 4.69%        |
| 3.00          | 3.62%         | 4.03%       | 4.43%       | 4.61%       | 4.70%       | 4.77%        |
| 4.00          | 4.13%         | 4.43%       | 4.74%       | 4.80%       | 4.84%       | 4.87%        |
| 5.00          | 4.55%         | 4.82%       | 4.89%       | 4.91%       | 4.95%       | 4.93%        |

## HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

## FORWARD FIXED RATES

### Cost of Forward Funds

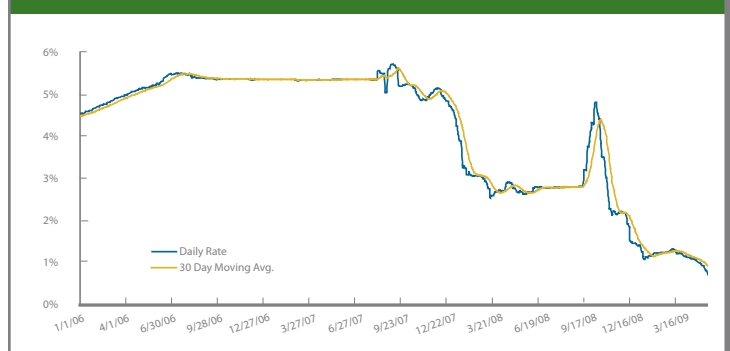
| Forward Period (Days) | Average Life of Loan |      |      |       |
|-----------------------|----------------------|------|------|-------|
|                       | 2-yr                 | 3-yr | 5-yr | 10-yr |
| 30                    | 13                   | 13   | 13   | 7     |
| 90                    | 29                   | 31   | 33   | 18    |
| 180                   | 42                   | 49   | 58   | 30    |
| 365                   | 96                   | 88   | 109  | 56    |

Costs are stated in basis points per year.

## SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

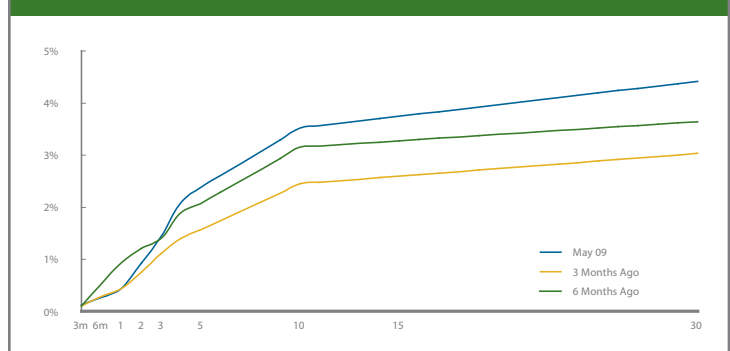
## 3-MONTH LIBOR



## RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

## TREASURY YIELD CURVE





**A New “Outlook”**

CoBank is pleased to be introducing a new and improved Outlook publication for our customers, redesigned for electronic distribution. Each month, Outlook will continue to provide valuable data on interest rates and economic indicators, along with commentary from leading economics and public policy experts around the world. If you or others at your organization would like to be added to our distribution list, please contact your CoBank relationship manager.

**About CoBank**

CoBank is a \$63 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation’s rural economy. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore. For more information about CoBank, visit the bank’s web site at [www.cobank.com](http://www.cobank.com).

*This economic commentary is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.*

**CoBank Reports First Quarter Financial Results  
Net Earnings Increase 7% To \$159.9 Million**

Despite challenging conditions in the credit markets and global economy, CoBank recorded another period of strong financial performance in the first quarter of 2009.

Net earnings in the first three months of the year grew 7 percent to \$159.9 million, compared to \$149.6 million for the same period last year. Net interest income rose 16 percent to \$253.3 million, up from \$217.7 million for the first quarter of 2008. Total loans and leases for CoBank were \$45.7 billion as of March 31, 2009, compared to \$44.6 billion at year-end 2008.

“We’re pleased to report another period of strong financial performance for CoBank despite challenging conditions in the credit markets and the broader global economy,” said Robert B. Engel, president and chief executive officer. “CoBank and its customers are not immune from the impacts of the recession, but our bank remains well positioned to deliver on its value proposition and to continue serving as a stable and dependable source of credit to vital industries throughout rural America.”

Improved margins were a key driver of financial performance in the quarter compared to the same quarter last year, offsetting lower average loan volumes in the CoBank business units that serve agribusiness.

“The overall diversification of the bank’s loan and lease portfolio continues to increase,” Engel said. “That diversification has contributed to our ability to deliver continued net earnings growth amid a sharply lower pricing environment for ag commodities.”

**CoBank Products and Services**

- Tailored loan programs with short-, intermediate- and long-term maturities
- Cash management services
- Leasing through Farm Credit Leasing
- International banking services
- Loan participations and syndications
- Letters of credit
- Interest rate risk management services
- CoLink® online financial solutions
- Equity partnerships
- Private placements
- Tax-exempt bonds