



NAEDA Update

NORTH AMERICAN EQUIPMENT DEALERS ASSOCIATION e-newsletter

Thursday, November 17, 2011

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CEO Blog

How stressed is the Fed over land prices?

November 2011

Back in the day (the 1970's), higher land prices meant more equity on the landowners balance sheet. More equity meant no problems (in most cases) obtaining a loan to purchase more land since loans were equity based at the time! But history taught us a very important lesson – what goes up – does come down! The crash in land values back then wreaked havoc in the agricultural community. Personal tragedies were on the nightly news with people losing their property and some sadly taking their own lives or the lives of others who they blamed for the crisis. The crash brought about another significant change, how loan decisions were made by the lending institutions – no longer was equity enough. Now, most of the emphasis for the lending decision was changed to a cash flow formula, or in other words, what would that land support in terms of repayment for the purchase.

Well, the other day I read about a recent record sale on a 120-acre parcel of land in Iowa that sold for a reported \$16,750 per acre. Yes, that's right, over two million dollars for 120 acres of farmland! It wasn't that long ago when I read about a record set at just over \$14,000 an acre on another Iowa tract of land last spring. The very next day I read another article, but this one was discussing how concerned the Federal Reserve is about – you guessed it – the price of farmland being too high. They referred to it as the "dark-horse bubble candidate" for the next decade.

The Fed is concerned enough that their regulators are asking rural banks to conduct a "stress test" to show how a bank's portfolio would fare if rural land prices dropped 25, 50 or even 75 percent. Why? Because rural land values in some parts of North America have escalated 30 percent compared to a year earlier. Why? They are

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Legislative & Regulatory News

Two depreciation bonus extension bills introduced in Senate

Two bills related to depreciation bonus extension were introduced in the Senate on Tuesday. Senator Richard Lugar's bill (S. 1873) would extend 100 percent bonus depreciation and increased Sec. 179 levels for one year. Senators Chris Coons and Marco Rubio's AGREE Act (bill number not yet available) would extend the capital investment incentives and includes other job creation proposals. The coalition's collective efforts are clearly having an impact. Both Senator Lugar's press release and the summary of the AGREE Act cite the recent coalition letter as evidence of the broad support for depreciation bonus/Sec. 179.

In other news, Reps. Sam Johnson and Richard Neal recently introduced a bipartisan, technical correction bill (H.R. 3366) to resolve the percentage of completion issue that has limited the efficacy of the depreciation bonus in certain industries. And Rep. Pat Tiberi last month introduced H.R. 3123, a bipartisan proposal to allow companies to use more corporate AMT credits for activities that would otherwise qualify for bonus depreciation.

As a reminder, there's plenty of information to help you understand the capital investment incentive laws available at <http://www.depreciationbonus.org/>

For a copy of the coalition letter [click here](#)

House passes withholding tax repeal, veterans' initiatives

The House voted overwhelmingly (422-0) to temporarily set aside its partisan standoff over President Barack Obama's jobs plan and move toward giving a modest economic spark to two potent interest groups: veterans and businesses. The house voted to pass a measure repealing a requirement that federal, state and many local governments withhold 3 percent of their payments to contractors. That bill has been lobbied by a wide swath of industry groups large and small and has no significant opposition. The bill also contains provisions to assist veterans employment opportunities. The bill now goes to the President where it is expected to be signed into law.

Conference committee passes Senate agriculture appropriations

The conference committee deliberating the bills containing agriculture appropriations, among others, came to an agreement last night. The agreement funds through the end of FY2012 the Departments of Commerce, Justice, Transportation and Housing and Urban Development, in addition to the Department of Agriculture (USDA) and the Food and Drug Administration (FDA).

USDA, FDA and related agencies will receive a total of \$136.6 billion, \$19.8 billion of which is discretionary. The discretionary total is \$350 million less than FY2011 and \$2.5 billion lower than the President's request. Among the notable funding areas, the conference [agreement](#) provides \$98.6 billion for food and nutrition programs, \$2.5 billion for FDA, \$2.5 billion for agricultural research, \$1 billion for food safety and inspection programs and \$844 million for conservation.

Attached to the bill, which was filed Monday evening, is a continuing resolution (CR) to keep the government operating until December 16th, by which time Congress will have to have passed the

remainder of appropriations bills or another CR. The House is expected to vote on the appropriations package Thursday and the Senate is expected to follow suit on Friday. The current CR expires Friday.

Source: NASDA

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Yet another article I was reading discussed the distinct potential for U.S. farmers to lose several billion in payments due to cuts in the Federal budget at the hand of the congressional “Super Committee”. The “Super Committee” you may recall is charged with reducing spending by 1.5 trillion dollars before the end of this year. Grant you, it is an election year and it has been my observation that rural legislators attempt to buy rural votes vis-a-vis payments of one type or another and are unlikely to cut such spending when push comes to shove. The question remains – is this time different? Are they really serious about cutting spending?

In no way am I suggesting that land values are going to fall off the edge of a cliff or that the sky is falling. Instead, I am merely making a comparison at this point and reminding us of historical facts that often get lost in the exuberant times such as we find ourselves in today. Perhaps a reminder and a quick reality check. As equipment dealers, we have enjoyed this bounty for the past several years. This is unusual compared to the past 40 to 45 years when everything was driven by the supply side versus now where it is coming from higher demand for food, fiber, feed, and fuel.

So, if the banks are doing a “stress test”, should we follow suit and conduct one of our own? Construction dealers and OPE dealers have indeed encountered a stress test of their own as a result of a housing bubble that according to some was never going to end. Unfortunately, I have talked with some of them whose business is off anywhere from 50 up to 90 percent. That is a lot to absorb if you are not prepared for it. The old saying about bad habits being formed in good times and good habits from bad times may apply here. It certainly isn’t a time to panic, but maybe just a good old fashioned reality check to insure you are still keeping a tight management reign on things in these good times so bad habits don’t form and catch you off-guard if things should shift sometime down the road.

Simply be aware of what the Fed is doing with the rural banks. If they are starting to pay attention to the potential impact if land values should fall, maybe you should as well. And that’s the way I see it!

PAUL KINDINGER is president/CEO of the North American Equipment Dealers Association. The association provides educational, legal, legislative, and financial services to approximately 5,500 retail agricultural, construction, large

Tip of the Month

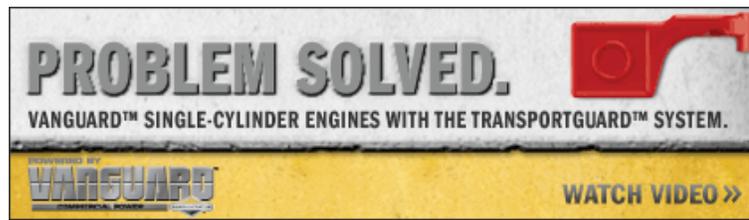


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