Precarious Times in the Mid−Atlantic Region

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Dairy producers in the mid−Atlantic region of the country−−southeast Pennsylvania, Maryland and the Shenandoah Valley of Virginia−−are holding on as well as any in these less than prosperous times, says Bob Frazee, CEO and President of Mid−Atlantic Farm Credit. On the plus side, feed costs have declined. "Farmers are amazing, and it's one of the reasons I like working with them. They are resilient and are able to streamline costs in their operations in times like these, " he says. But, like in other regions, one more shock to the dairy economy, be it higher costs or lower milk prices, could be a death knell for a percentage of his dairy borrowers, he told Dairy Today in an exclusive interview this afternoon. Frazee estimates about 13% of his dairy loan portfolio of $230 million is classified as substandard or problem loans; about half that number is at greatest risk. "One more significant hit will make it very difficult for borrows to meet loan performance requirements, "he says." They won't have the borrowing capacity to borrow more. "Even so, all of his dairy borrowers were able to obtain financing to put in crops this spring. "We classify loans in three categories: necessities, needs and wants. Getting a crop in is an absolute necessity for the business to continue, and if we can't provide credit for that, it's a pretty clear sign we don't think the business is able to perform long term, "he says. One thing that has helped borrowers this year is low interest. So even though producers have had to borrow money just to meet cash flow needs, the lower interest rates mean loan repayments aren't as big as they might be. The worry is that interest rates could climb before those loans are repaid, jacking up payment rates and squeezing cash flow even more. Locking in lower interest rates now is prudent, says Frazee. For the credit worthy, capital is still available. "The biggest driver is repayment capacity. Most aren't able to meet debt service coverage on new loans. But if they have the management and adequate solvency, our institution has lending capacity to meet those needs, "he says. Longer term, dairy producers in the region will have to continue to find creative ways to winnow costs and improve revenues. Much of the mid−Atlantic is in the Chesapeake Bay drainage area, which has its own unique set of environmental challenges. Plus the sheer number of people living in the area means the region is becoming increasingly urbanized. That makes dairy farming increasingly challenging and more costly. Expansion in many cases is impossible. Finding niche markets, such as on−farm processing, might be an option for some. Mid−Atlantic Farm Credit has financed, either completely or in partnership with government programs, some of these niche marketing efforts. "We have proximity to market, which makes on−farm processing and direct sales possible, " he says.