Congressional Oversight Panel Field Hearing

Testimony of Lonnie Ochsner

Services offered by New West Bank

The management team at New West Bank has a long history of agriculture lending experience. The CEO and Bank President, as well as the Senior Vice President and Eaton Branch President all started their careers as Agriculture lenders, and have 36, 30, 26, and 24 years of agriculture-lending experience respectively. The bank has a total of 6 ag-lenders. Several of the Board of Directors, as well as a large percentage of the shareholder base are from the agriculture industry.

New West Bank currently has approximately 20% of our loan portfolio in agriculture loans, and is actively seeking qualified agriculture borrowers, that meet the industry lending standards.
The bank has a diverse mixture of ag-loans which includes grain producers, vegetable growers, hay and silage producers, dairy operations, ranchers, and cattle finishing operations. Additionally, the bank has several Agri-business customers as well.

The bank offers operating lines of credit, intermediate term financing for equipment, and ag-real estate loans, in addition to a wide variety of deposit and cash management services.

State of the local Agriculture economy.

To make a general statement regarding the ag–economy is difficult since within the ag economy there are opposing economies at work. This has been true throughout history and will continue to be a dilemma agriculture faces. As an example, when grain prices are high, the grain farmer benefits while the livestock producer is strapped with higher feed costs. When grain prices are low the opposite impact occurs. Unfortunately, supply and demand, exports, and the weather, to name a few, are factors that play a big role in the volatility of these market swings. Additionally, the economics of each individual ag-operation are impacted by the debt level of that operation. Those operations with acceptable levels of debt, and proper structure, are much more capable of weathering these economic cycles.

Crop Producers

With this in mind, the majority of ag-operations have been very profitable over the past several years. Virtually all crop farmers have experienced very good weather and above average prices, which has resulted in record earnings and profitability. This is evidenced in the fact the New West Bank does not have a single crop producer whose loan is adversely classified under the FDIC's risk classification.

Dairy Operations

The dairy industry has suffered a severe decline in milk prices over the past 12 months, but saw record high prices for two years prior to the decline. This industry is able to expand more rapidly than many other ag–sectors. It is much easier to build more corrals and retain heifers, than it is to go out and buy more farm land. Consequently milk production levels can change rapidly. Again, this is nothing new, and those operations with prudent debt levels are able to survive the lows and flourish during the highs. There have been dairy "buy-out "programs in the past that have taken excessive cows out of production, and once again, there are too many cows in production at present. Cows that are coming out of production early will ultimately correct the problem, but this creates another opposing economic dilemma. More dairy cows going to slaughter has a negative impact on the beef cattle market.

New West Bank's dairy operations are definitely feeling the impact of low milk prices at present, but have been cautious with their debt levels and have expanded slowly and carefully which has allowed them to survive this down cycle. At the present time New West Bank has no dairy operators whose loans are adversely classified under the FDIC's risk classification.

Cattle Operations

Within the cattle industry there is another opposing economy, between the rancher and the feeder. Often times the success of one comes at a cost to the other. As mentioned, current prices are weakening, the result of dairy cattle oversupply and liquidation, but in general, the rancher has been profitable over the past few years.

With regards to the feedlot sector, each year more and more small operators are replaced buy fewer and fewer very large operators. Twenty years ago almost every family farm had livestock as part of their operation. Today, the risk and volatility of the markets have unfortunately made cattle feeding a very volatile industry, and the "family farmer" is involved on a rather limited basis. Commercial feedlots and investor feeders are more the "norm" than are family owned feedlots. New West Bank has only 3 remaining farmer feeders. They have been very cautious over the past few years, by using price protection, and "sitting out" of the market when the economics are unprofitable. This is a more specialized type of lending and once again, following industry lending standards is critical to survival in this industry. At present, New West Bank has no cattle feeding operators whose loans are adversely classified under the FDIC's risk classification.

Economic summary

In summary, the agriculture operators in the Northern front range and eastern plains of Colorado have experienced profitability over the past 5 years. This is evidenced by very few liquidation sales, and the high quality of the agriculture loan portfolios of most of the ag-banks in the Northern Colorado.

Recent Trends and Defaults

As discussed, agriculture can be cyclical in nature, and as always, there is concern that factors outside of the farmer's control may impact profitability. At present New West Bank has not experienced a decline in credit quality or increased delinquencies in its ag-loan portfolio.

Loan Restructure during times of economic stress

New West Bank discusses annually with each ag –borrower, their financial progress, there overall risk in relation to the industry averages, and their ability to withstand potential adversity. It is not New West Bank's goal to lend people into insolvency or bankruptcy. Unfortunately the bank must say "no" on occasion, and not all operations remain viable, for whatever reason, be it bad weather, low prices, low yields, or poor management.

The bank's success is directly related to our borrower's success, so it is very important for us to give good, solid counsel to our borrowers and for us to keep them in business as our customers. This, on occasion requires the restructure of debt and possibly the assistance of Farm Service Agency loan programs.

However, the free market system must be allowed to work whether it is in the ag- sector or any other sector of the economy. Strong operations survive and unfortunately, some weak operations fail. Sometimes very honest, hard working people fail, which is very disheartening. The biggest injustice is for a bank to lend people into insolvency, when good counsel may have helped them exit while they still had equity that could be salvaged. When these producers with weak financial positions cannot demonstrate the ability to survive and are falsely kept in business by either aggressive lending standards, and/or tax dollars, it creates a false economy and the entire industry is damaged. Weak and highly leveraged operations can not borrow their way out of a problem.

Troubled Asset Relief Program / New Frontier Bank Closure

It has recently been suggested that one or two local banks would be able to better assist the distressed farm operators previously banking at New Frontier Bank, if they were awarded TARP money. In my opinion, additional TARP money would have little or no impact in helping those distressed ag-borrowers for the following reasons:

1. It is a consensus among the banking community, that after several months of attempting to assist New Frontier borrowers, that 90% of the ag – borrowers from New Frontier Bank do not meet normal and prudent lending standards. Only 10% are considered bankable and many are insolvent. Many of these borrowers are good, honest, hard working people, who have been loaned into positions they now can not get out of. Specifically, they have more debt than they can repay and their debt far exceeds the value of their assets. All the TARP money in the world will not change the credit quality of these loans and the worse sin of all would be to give TARP money to a bank that is already short of capital, and ask them to lend to these very high risk borrowers.

2. Given the performance of the ag–industry in general over the past few years, I submit that most true agriculture banks are not in need of additional capital. Those that are, most likely were heavily concentrated in commercial real estate, speculative construction and land development lending.

3. There has been, and continues to be, an abundance of true agriculture lenders locally and across the nation that are able, and willing to lend to any and all ag operations that meet the industry standards and credit qualify.

4. The banking crisis we are all facing nation wide at present is **NOT** the result of a bad agriculture economy or bad agriculture loans.

Conclusion

TARP money may certainly be warranted and justified for certain banks that are experiencing weak capital positions. I would suggest to this panel that you use the same sound judgment, that good bank's must use with their customers, and selectively help those banks that can survive. A government handout to weak and failing banks only creates a false economy within the banking industry, at the taxpayer's expense.

Finally, I offer my condolences to those people impacted by the gross mismanagement of New Frontier Bank. Perhaps another Congressional Hearing should be conducted to determine how New Frontier Bank management and the regulators failed to protect the borrowers, shareholders, tax payers and the community at large.