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# Senior Debt Availability

## Ethanol and Biodiesel Markets

**Doug Jones - CoBank**  
**June 1, 2007**

# CoBank

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- Part of the Farm Credit System  
(assets of \$162 billion at 12/06)
- CoBank Assets = \$41 billion (12/06)
- CoBank is a cooperative and pays patronage dividends to customer owners

# CoBank

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- CoBank customer-owners include approximately 2,300 cooperatives and agribusiness serving rural agriculture, energy, communication, and water system needs, from across the United States

## CoBank Ethanol Portfolio (4-30-07)

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- First ethanol loan in 1992
- 41 ethanol customers
- 43 plants: 32 in operation and 11 under construction

## CoBank Ethanol Portfolio (4-30-07)

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- \$1.3 billion in gross commitment  
Direct commitment is \$668 million
- CoBank is the Servicing Agent for 28 of the customers
- Another 12 customers “in-process” →  
\$92 million

# CoBank Biodiesel Loans Closed (4-30-07)

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- 4 biodiesel customers
- 4 plants: 3 in operation and 1 under construction
- \$68 million in gross commitment  
Direct commitment is \$36 million

# CoBank Biodiesel Loans Closed (4-30-07)

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- CoBank is the Servicing Agent for all 4 customers
- No customers “in-process”

# Syndicated or Participated Loans

## Example - \$85 M Ethanol Loan

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Agent Bank  
Services \$85M  
Holds \$25M  
Sells \$60M

Bank A buys  
a Participation  
\$25 M

Bank B buys  
a Participation  
\$20 M

Bank C buys  
a Participation  
\$15 M

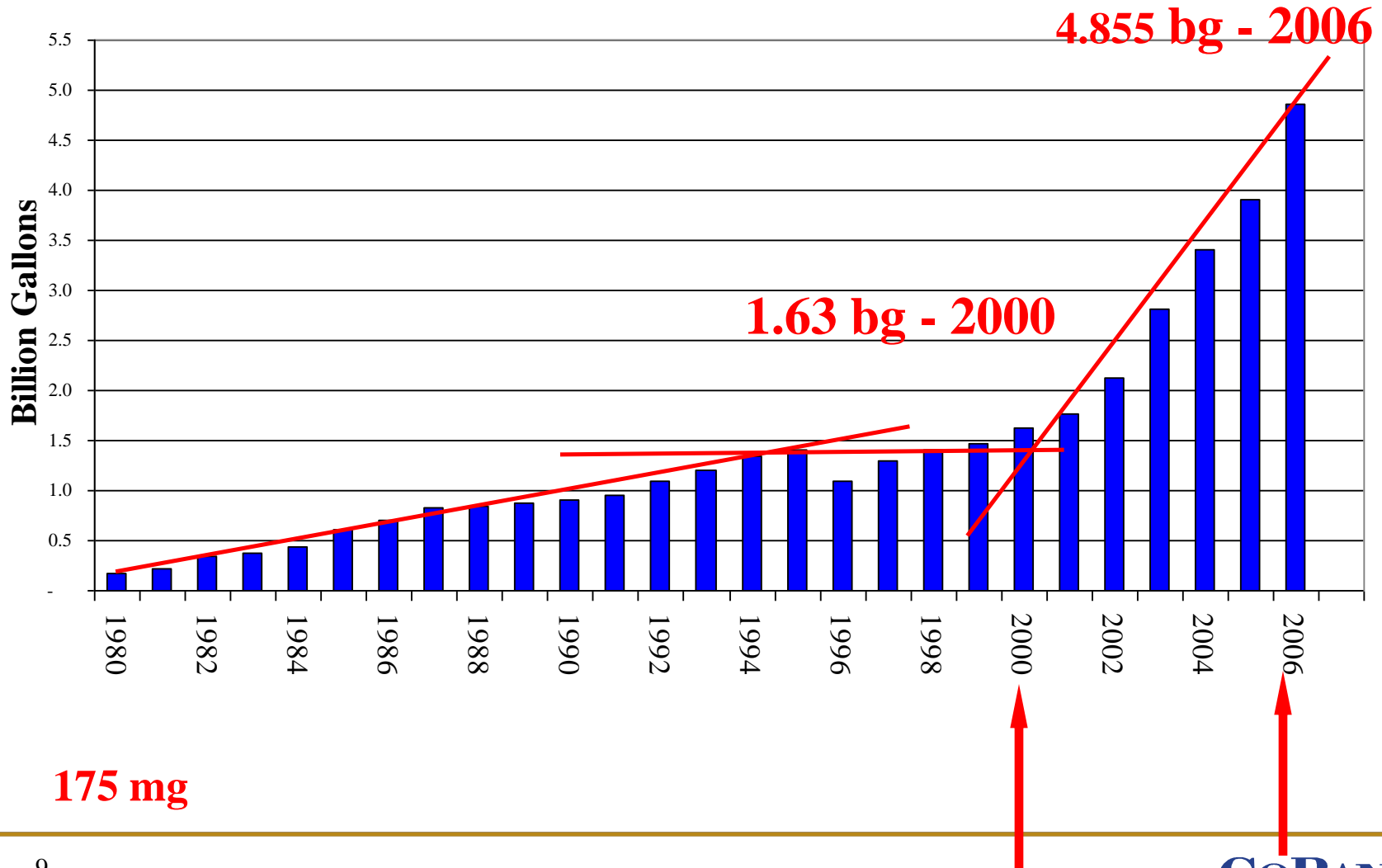
# How are Lenders Reacting?

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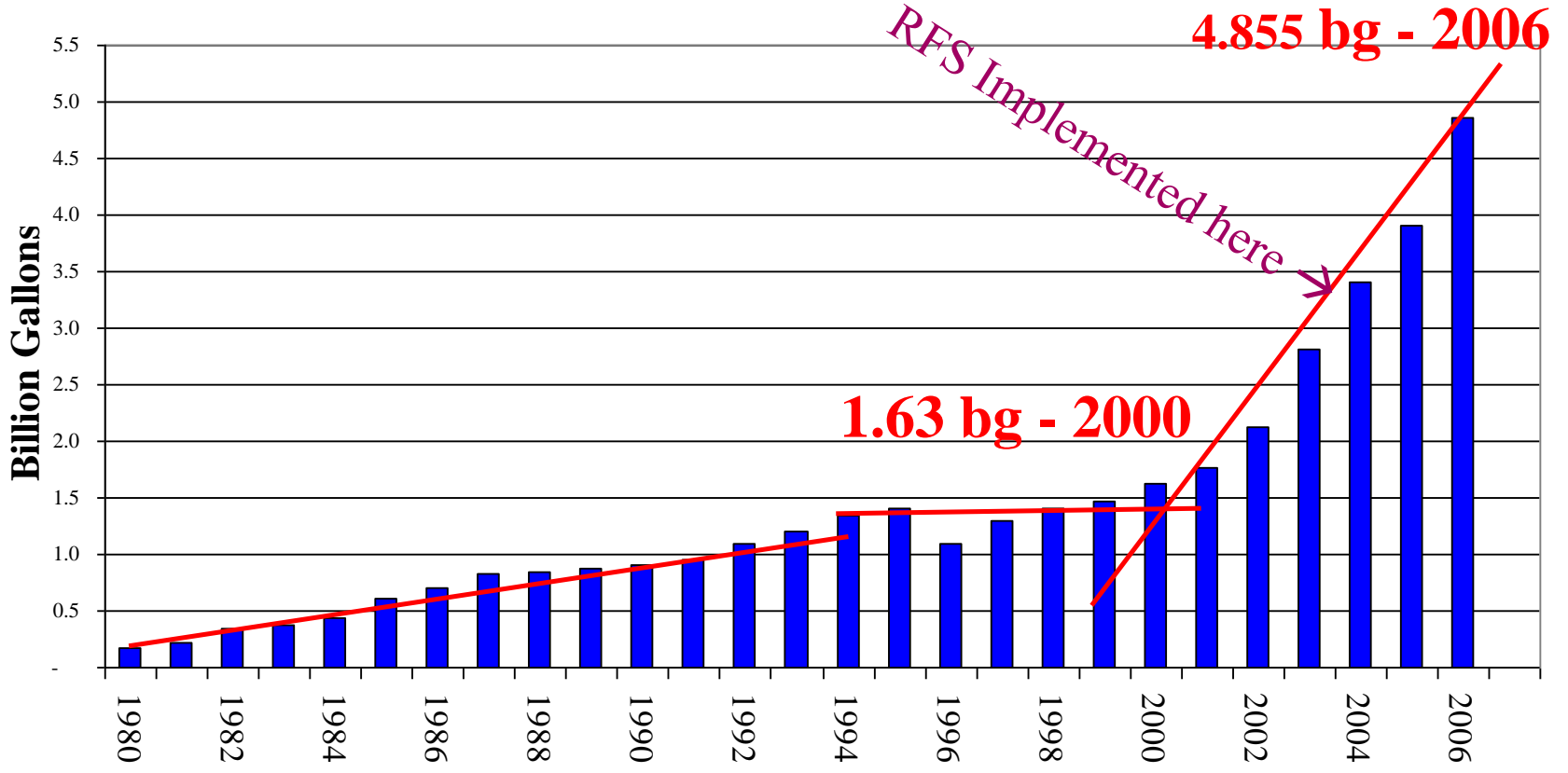
- The rapid growth of the ethanol industry (since 2000) **IS** the most significant event the U.S. Agricultural Community has experienced in a generation
- Volatile corn price & ethanol values
- Lender positions **DO** change with the market

# U. S. Annual Ethanol Production

## “Rapid Growth” since 2000



# U. S. Annual Ethanol Production



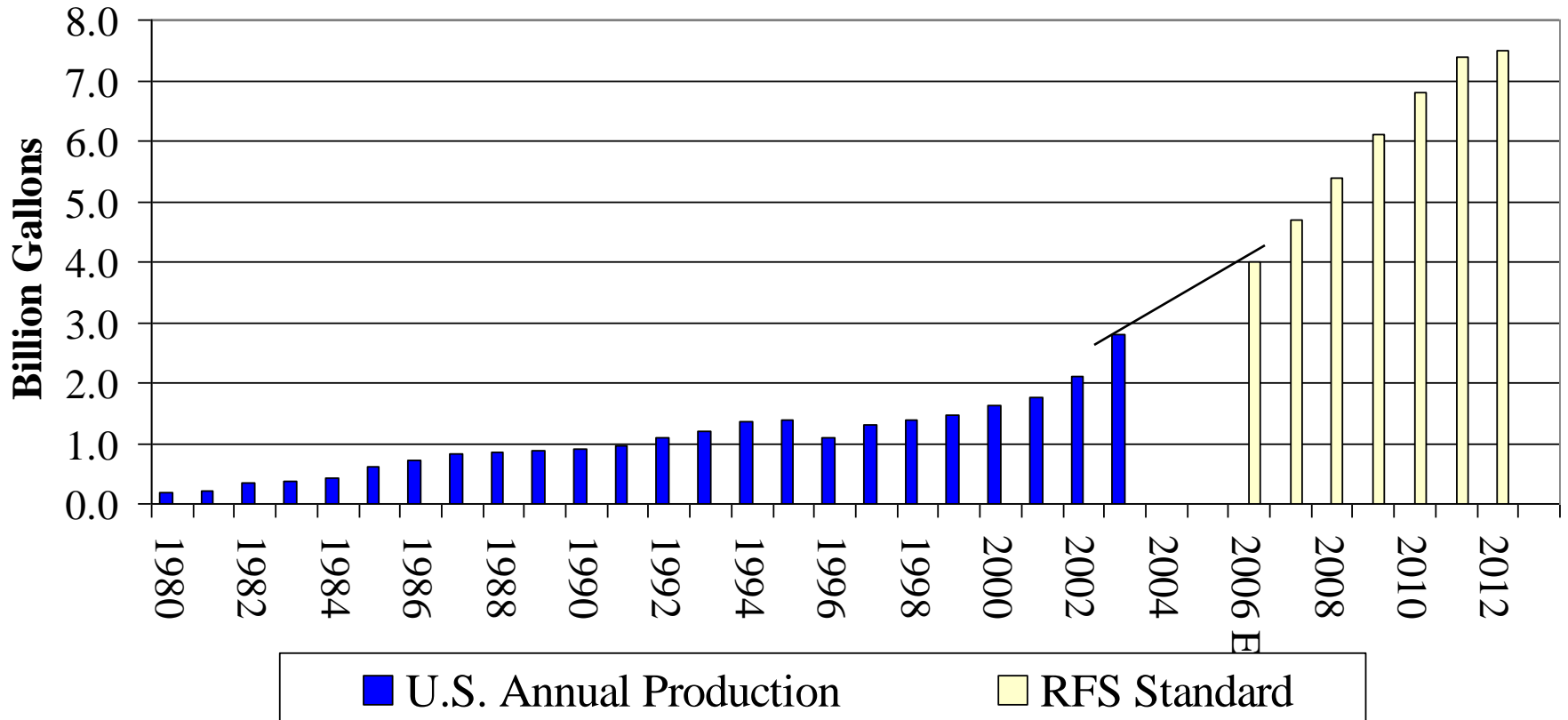
175 mg

# Future Ethanol Production

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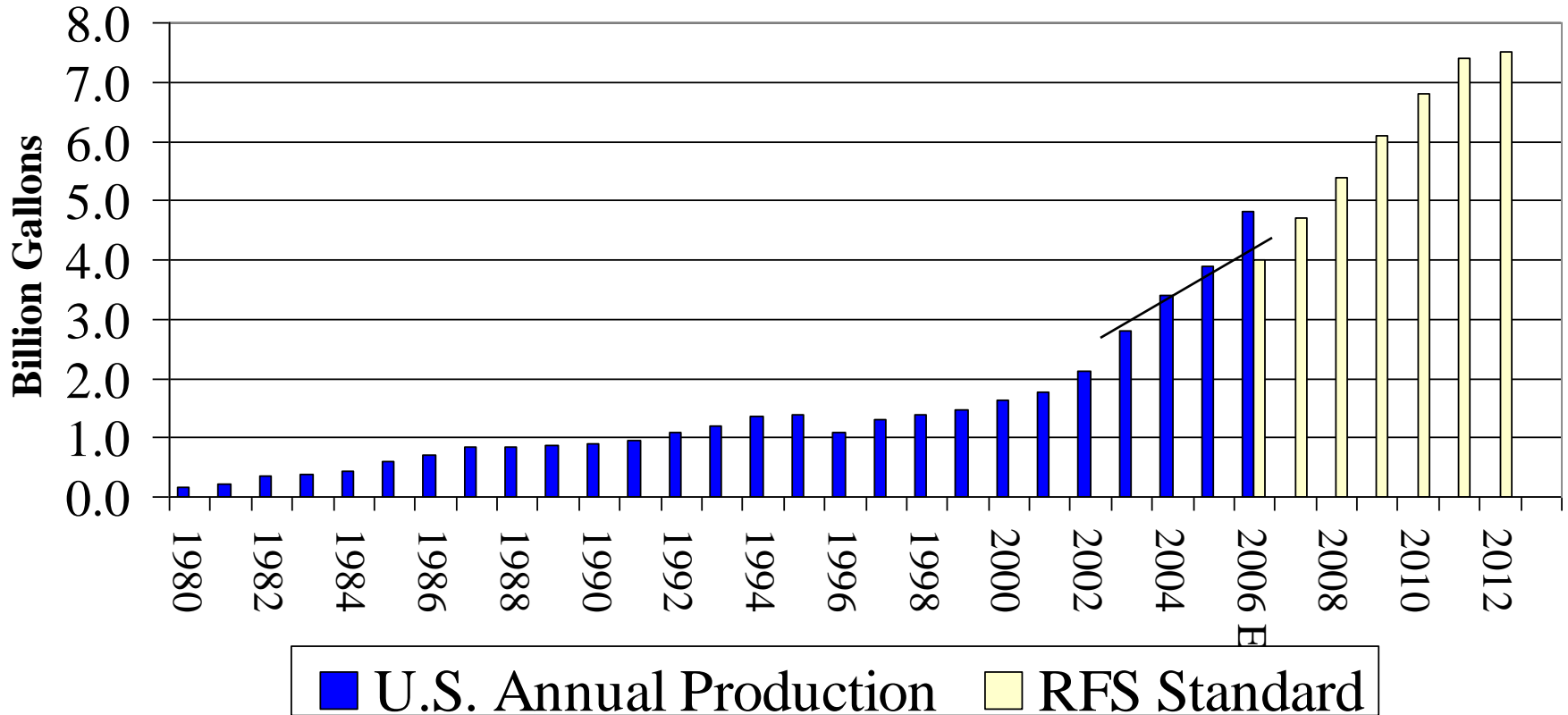
<u>Year</u>	<u>RFS (bgpy)</u>
2006	4.0
2007	4.7
2008	5.4
2009	6.1
2010	6.8
2011	7.4
2012	7.5

# Future Ethanol Production Inception of RFS Standard



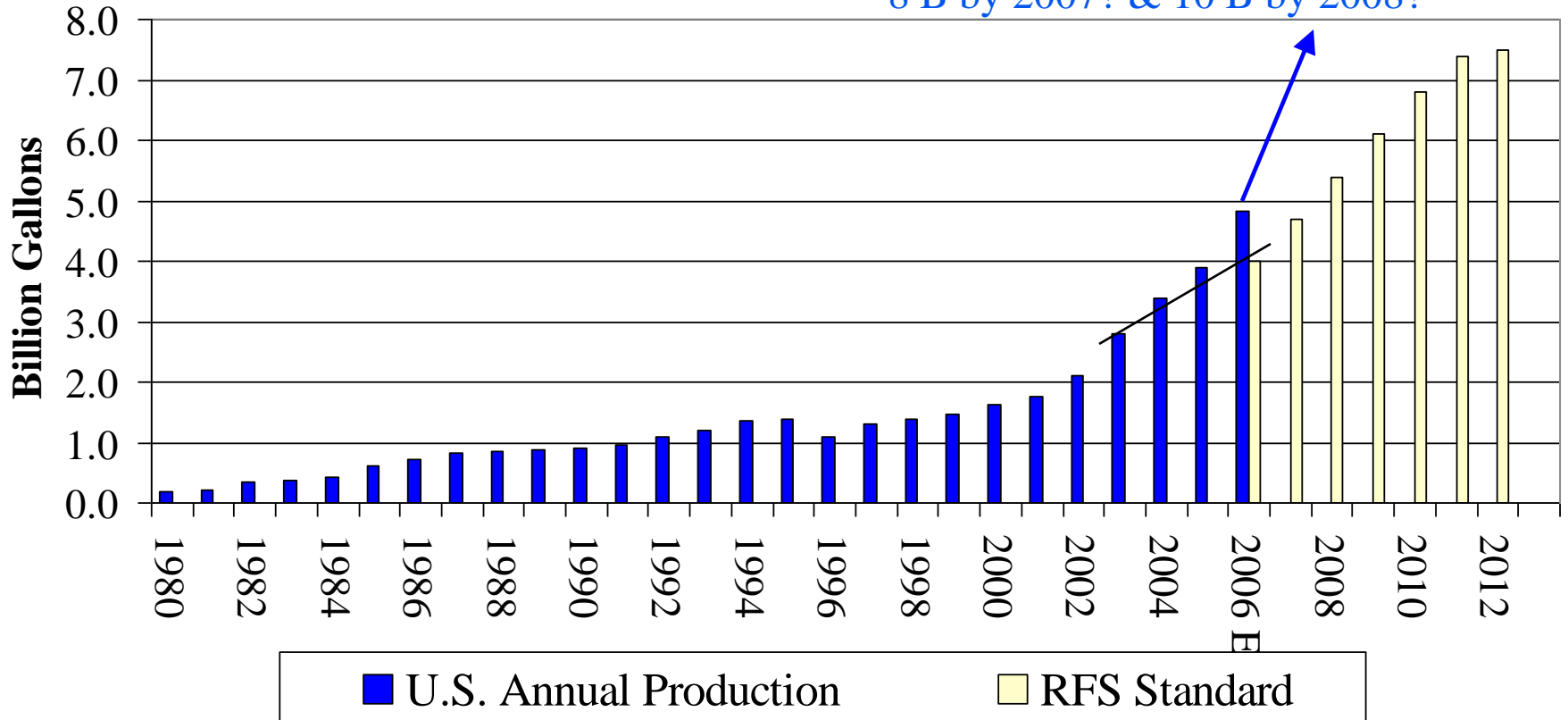
# Future Ethanol Production

## Same chart – 2 ½ years later



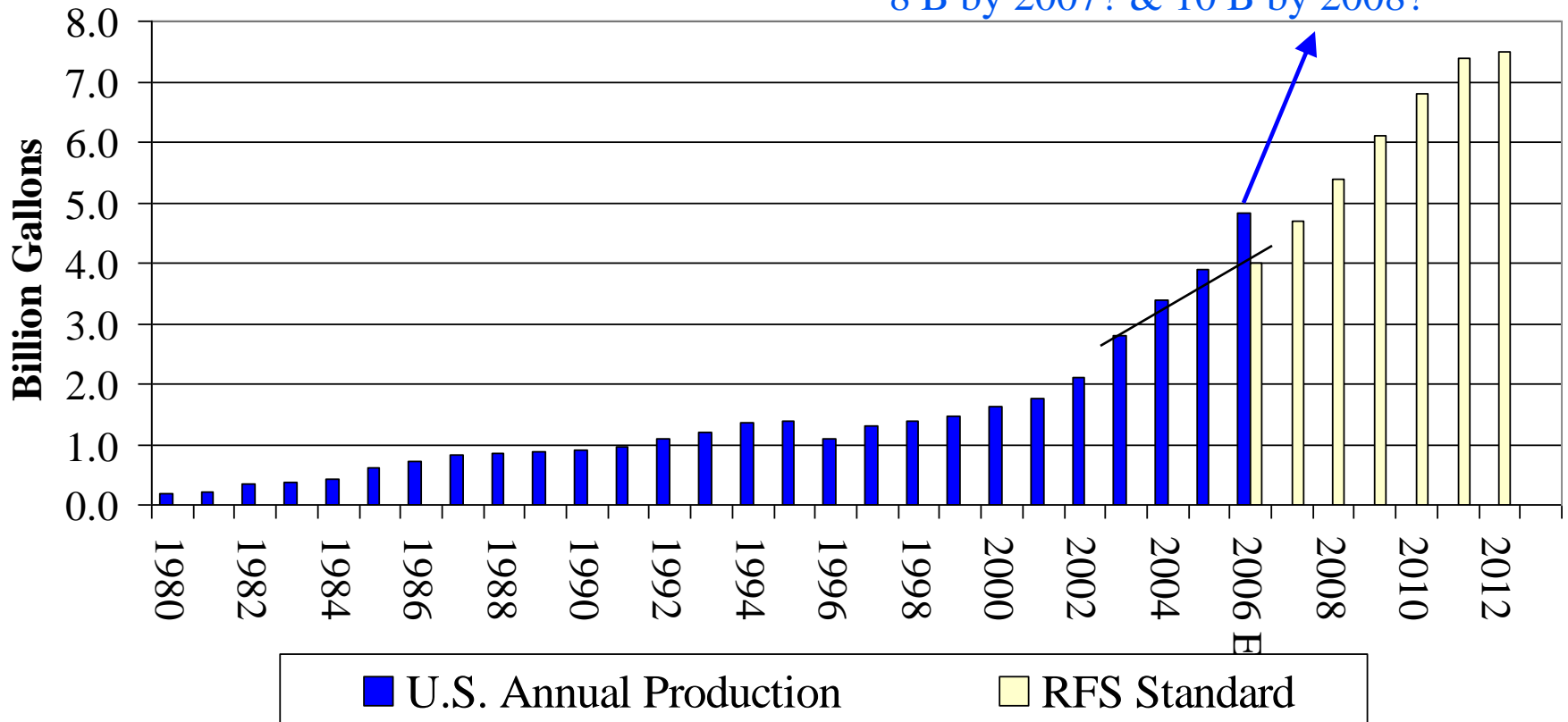
# Future Ethanol Production

8 B by 2007? & 10 B by 2008?



# Future Ethanol Production

8 B by 2007? & 10 B by 2008?



## How are lenders reacting?

# Debt Financing – Recent History

- Prior to 2003, ethanol plant profitability was marginal & lenders were hard to find
- Lender interest grew with modest plant profitability and increased political support in 2004 and early 2005

# Debt Financing – Recent History

- By the 2<sup>nd</sup> half of 2005 and 1<sup>st</sup> half of 2006, with corn generally less than \$2.00/bu. and ethanol at well over \$2.00/gal., the industry was **VERY** profitable, bringing many new lenders to the ethanol debt market
- This euphoria carried into late 2006

# Debt Financing – Current Situation

## Lender Interest Has Softened

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### ECONOMICS

- Corn prices are higher (since fall '06)
- Ethanol values have come down from 2005-2006 highs
- Acknowledgement of increase in number of plants capacity (actual & announced); will supply outpace demand?

# Debt Financing – Current Situation

## Lender Interest Has Softened

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### ECONOMICS (Continued)

- Technology uncertainty and risk is more significant than it ever has been

**Result:** Lenders with weak stomachs have quickly exited the ethanol market

# Debt Financing – Current Situation

## Lender Interest Has Softened

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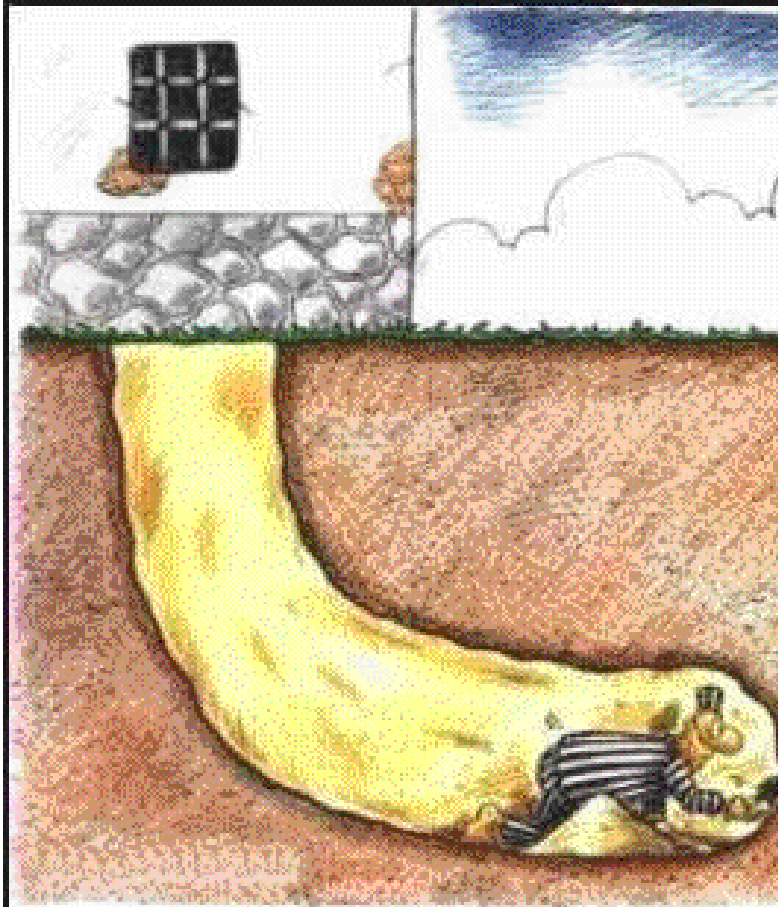
### PORTFOLIO ISSUES – Capacity and Concentration

- Many lenders participating in the flurry of lending in 2003-2006 “filled” ethanol industry established limits.

# Lending in the Ethanol Market

Keep “digging” or back away?

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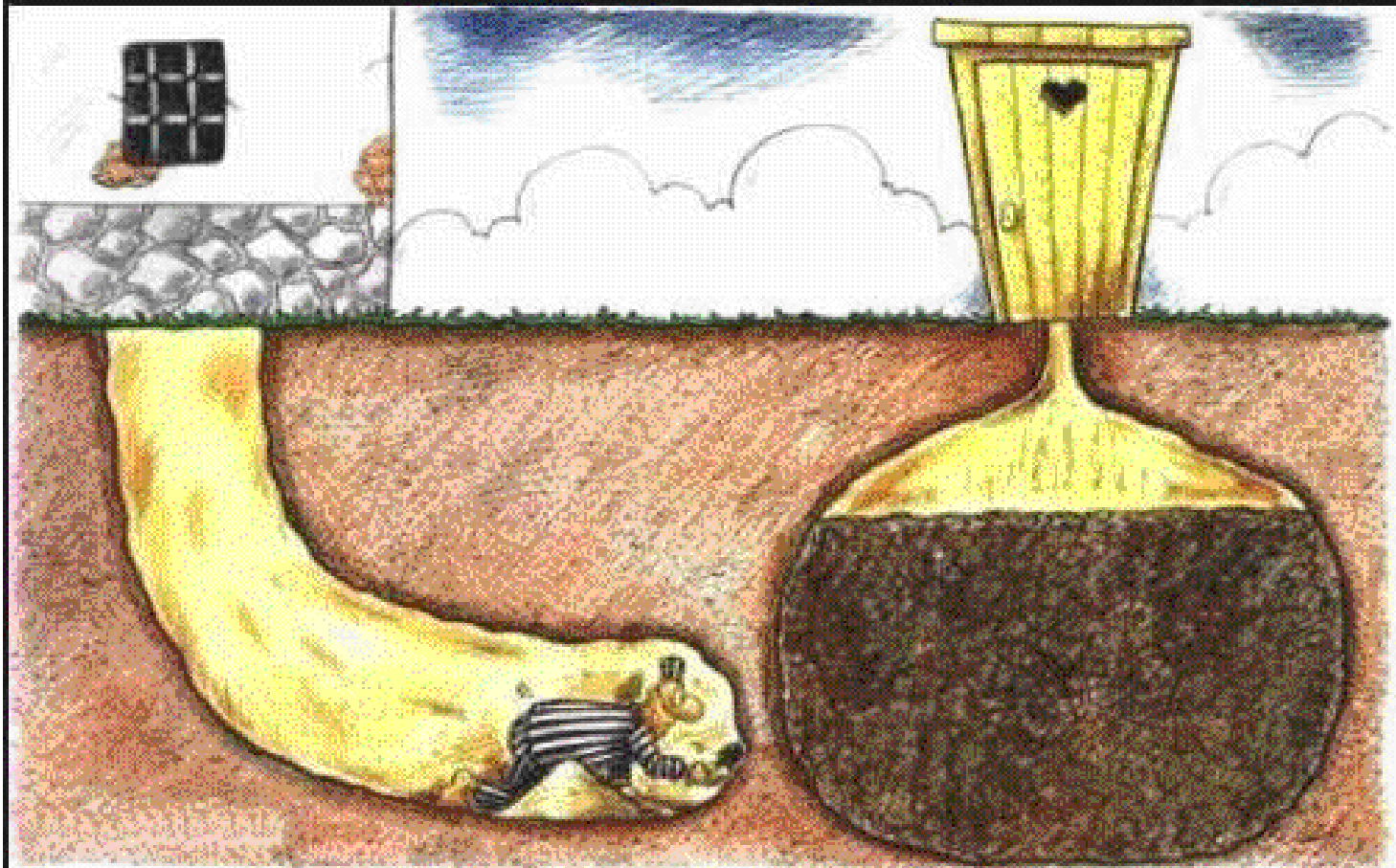
How clear is your  
crystal ball?

What lies ahead?

# Lending in the Ethanol Market

Keep “digging” or back away?

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**Doug Jones**  
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