



- CMAS has done Repos 3 different times with AIG
- Last transaction:
 - Began September 15, 2007
 - Concluded April 15, 2008
- Most recent transaction involved 1,050,000 bushel of Soybeans and a bit less than \$8,000,000.00



The basic concept is you sell the commodity in store and have an un-priced basis contract to purchase it back at some point in time in the future.

Typically the implied interest rate is a bit higher than you might be paying on a loan that is indexed to LIBOR or some other instrument

But it is quite attractive if you are concerned about a runaway market.



Pricing

	May 08 futures	\$9.65
	Basis	\$2.14
9/15/2007	1,050,000	\$7.51



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	Basis	\$2.14
9/15/2007	1,050,000	\$7.51
	May 08 futures	\$12.55
	Basis	\$1.60
4/15/2008	1,050,000	\$10.95



Pricing

	May 08 futures		\$9.65
	Basis		\$2.14
9/15/2007		1,050,000	\$7.51
	May 08 futures		\$12.55
	Basis		\$1.60
4/15/2008		1,050,000	\$10.95
Difference in basis			\$0.54
7 months storage			\$0.21
Implied interest cost			\$0.33
Implied Interest rate			7.5328%



During the course of the transaction my borrowing cost on my normal credit line fluctuated between :

6.3% at the beginning of the term

6.48% was the high a few days later

4.15% by the time the transaction concluded





On this particular transaction, there was \$6,000,000.00 that I didn't have to finance at one point over the course of the deal



What have I learned??? What can go wrong ??????

1. This particular transaction was margined at 90% like you would do a collateralized loan.
2. AIG didn't file bankruptcy, but we all know how close they came to it.
3. Verisun filed Chapter 11 and we learned that a trustee can be selective about which contracts might be honored. In this particular case my \$1.60 under basis purchase contract was really worth about \$0.20 under.



So how do I compensate?

- Only do a 100% deal.
- Get condition in the contract with a load out rate that is punitive to the holder of the grain so long as I am not in default.
- Some other restriction on the counter partys ability to load it out.



Long and short of it is these transactions really aren't loans, and they carry a whole different set of risks than a loan would carry.

The counter party risks for the Borrower/Seller are somewhat different than we are used to with a commercial bank.

