Survey of Tenth District Agricultural Credit Conditions

First Quarter 2010

FEDERAL RESERVE BANK *of* KANSAS CITY

Farmland Values Rise

by Brian Briggeman, Economist, and Maria Akers, Associate Economist

Survey Summary

In the first quarter, district farmland values rose with strong demand for farmland and improved livestock incomes. Cropland values were above year-ago levels, driven primarily by farmer demand, as well as nonfarm investors seeking higher rates of return. Ranchland values rose with improved profitability in the livestock sector. Over the past year, cropland values have risen faster than cash rents. Looking ahead, most survey respondents expect farmland values to hold steady.

In the first quarter, more district bankers than in the last quarter reported that farm incomes fell slightly. Lower crop prices due to the prospect of additional corn and soybean supplies and an improved winter wheat outlook trimmed banker expectations for crop incomes. In contrast, declining feed costs and rising livestock prices spurred profits in the livestock sector. District bankers expect farm incomes to improve slightly in the second quarter, but remain below year-ago levels.

With rising farmland values and a slight dip in farm incomes, farm credit conditions generally held steady. Loan renewals and extensions were flat even though loan repayment rates fell marginally. Collateral required on non-real estate loans held steady, and district bankers stated that loan-to-value ratios for farm real estate purchases were at year-ago levels. District lenders reported ample funds were available to satisfy rising farm loan demand. Farm interest rates for operating and real estate loans remained historically low.

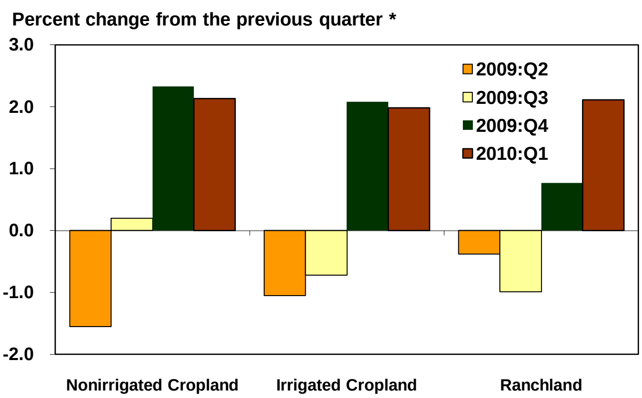
Note: 262 banks responded to the first quarter Survey of Agricultural Credit Conditions in the Tenth Federal Reserve District—an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri.

Please refer questions to Brian Briggeman, Economist, or Maria Akers, Associate Economist at 1-800-333-1040 or Brian.Briggman@kc.frb.org or Maria.Akers@kc.frb.org. The views expressed in this article are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

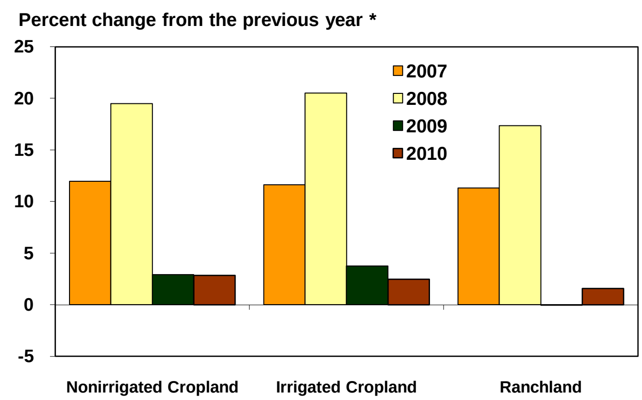
- District farmland values rose in the first quarter due largely to robust demand for farmland and a limited number of farms for sale. Quarterly value gains for the district were around 2 percent for all farmland types. While farmers remained the primary buyers of farmland, several lenders noted a rise in farmland sales to investors looking for competitive rates of return on capital. Despite tight credit conditions, most bankers indicated loan-to-value ratios for farm real estate purchases remained stable over the last year. Interest rates for farm real estate loans edged down, averaging 6.6 percent.

- Compared to a year ago, district cropland values rose 2.8 percent for nonirrigated ground, 2.5 percent for irrigated acreage, and 1.6 percent for ranchland. Led by Nebraska, ranchland values posted their strongest gains in over a year as income prospects for the livestock sector improved. Annual cropland value gains outpaced the uptick in cash rental rates. Over the next three months, 9 percent of survey respondents, mostly in Nebraska, expected farmland values to rise further. However, 5 percent of bankers, mostly in Oklahoma, anticipated a decline in farmland values.

Farmland Values – Quarterly Gains

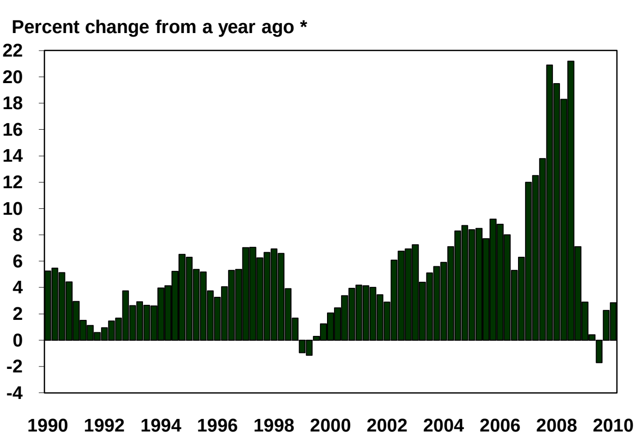


Farmland Values – Annual Gains (First Quarter)

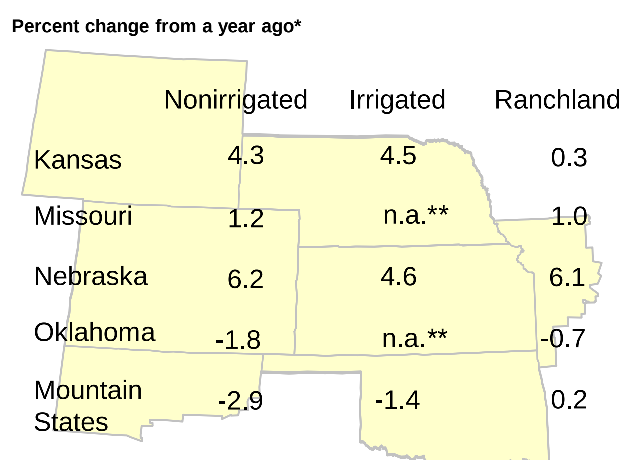


* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

Nonirrigated Farmland Values



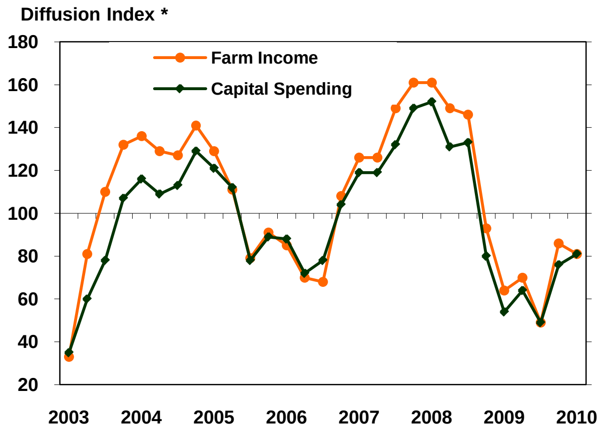
Tenth District Farmland Values



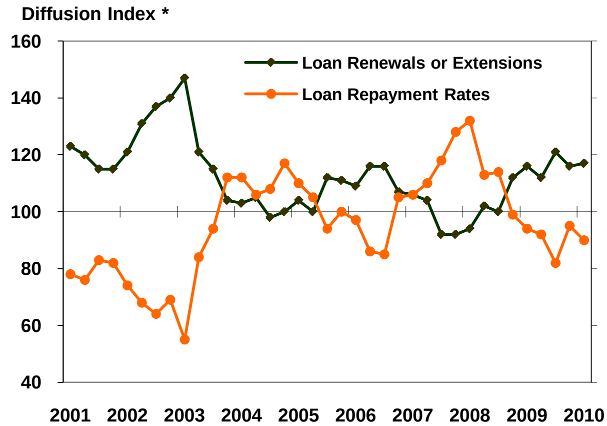
	Nonirrigated	Irrigated	Ranchland
Kansas	4.3	4.5	0.3
Missouri	1.2	n.a.**	1.0
Nebraska	6.2	4.6	6.1
Oklahoma	-1.8	n.a.**	-0.7
Mountain States	-2.9	-1.4	0.2

* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.
** Not reported due to small sample size.

Farm Income and Capital Spending



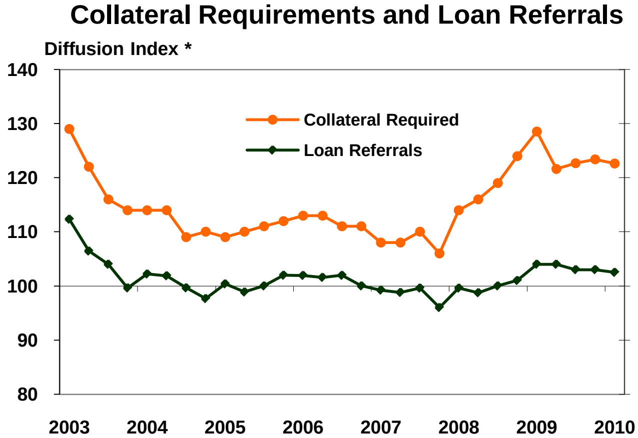
Loan Repayment Rates and Loan Renewals and Extensions



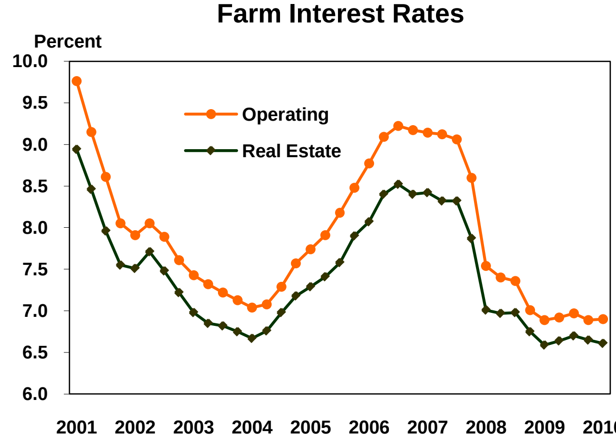
* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

- After strengthening in the fourth quarter, farm incomes edged down as crop prices moderated from their year-end highs. Crop prices moved lower with the prospect of increased corn and soybean plantings and anticipation of an above-average winter wheat harvest. Though livestock prices rose further, most operators did not realize profits until the end of the first quarter. While farm incomes edged down, the capital spending index improved slightly in the first quarter.
- Farm credit conditions generally held steady after improving in the last survey. Over the past year, collateral requirements were relatively flat. Referrals to non-bank credit agencies were stable and farm interest rates remained historically low. During the first quarter, loan renewals and extensions were little changed, although the loan repayment index eased slightly with lower farm incomes. Looking ahead, survey respondents felt that loan repayment rates could slide further for crop farmers, but improved profit opportunities for cattle and hog producers are expected to raise repayment rates for the livestock sector.

Collateral Requirements and Loan Referrals



Farm Interest Rates



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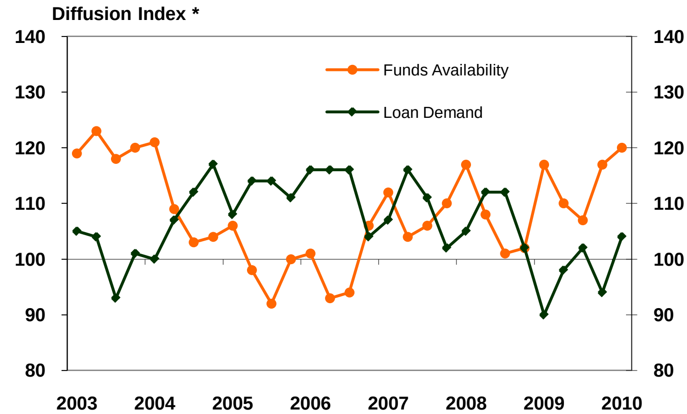
- During the first quarter, loan demand rose as farmers purchased crop inputs for spring planting. Interest rates held steady at an average of just under 7.0 percent on operating loans. More bankers indicated having funds available for farm loans, boosting the funds availability index to its highest level since early 2004. However, bankers expected the amount of funds available for loans to decline with an anticipated rise in loan demand over the next three months.

Farm Loan Demand and Funds Availability



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Selected Comments from District Bankers

"Ag land values have remained strong. Investors are looking for a safe harbor for their money that offers a higher return than low interest bank deposits." – *SE Colorado*

"After 4 straight years of profitability, our farmers are more liquid than ever. They have paid down debt, bought land for cash, and updated their lines of equipment." – *Western Nebraska*

"2010 cattle prices are increasing, and we expect borrowers to regain profitable margins this year." – *Southern Wyoming*

"Lower grain prices over the past 3 months have affected, and will continue to affect, repayment of debt." – *Central Missouri*

"Debt will increase with borrowing for operating expenses and some additional equipment purchases." – *SE Nebraska*

"Moisture is good. Expect wheat to be off to a great start, and cattle prices higher. All in all, things are in good shape for now." – *Central Kansas*

"The Oklahoma panhandle has had significant rain over the last 3 months. This should positively affect production in both crops and cattle." – *Western Oklahoma*

"Cash grain farmers have had some very good years, built working capital, and paid down debt. But we do expect farm income to be down in 2010 because of expected weaker grain prices." – *SE Nebraska*

For more information or to view past survey results, visit:
www.kansascityfed.org/agcrsurv/agcrmain