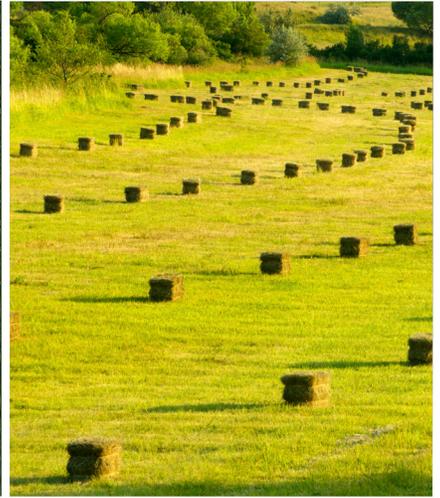


SURVEY of TENTH DISTRICT

Agricultural Credit Conditions



4TH QUARTER 2010

FEDERAL RESERVE BANK of KANSAS CITY

Farmland Values and Farm Income Soar

*By Brian Briggeman, Economist, and
Maria Akers, Associate Economist*

With booming farm income and robust demand for farmland, District farmland values soared in the fourth quarter. Agricultural commodity prices surged in late 2010, boosting farm income, especially for crop and cattle producers. Burgeoning farm profits accelerated District cropland and rangeland value gains, particularly in Kansas and Nebraska. Cropland values posted double-digit gains from year-ago levels, and rangeland values recorded their sharpest increase in two years. Cash rental rates, however, rose more modestly. In fact, some District bankers expressed concern that current rental income may not sustain lofty land values, and they were looking closely at loan-to-value ratios. Still, many survey respondents felt that farm income and farmland values would rise further in the coming months.

Higher farmland values were fueled by strong demand from both farmers and nonfarm investors, despite a slight increase in the number of farms for sale. District bankers reported that farmers remained the primary buyers of

farmland, but many contacts noted an uptick in investor purchases compared to last year. More survey respondents stated that nonfarmers were buying farmland for investment purposes, while recreational or development use was cited less often than in previous years. Farmland values also strengthened with higher land lease revenues from expanded oil and gas activity, especially in Oklahoma and Wyoming.

Farm credit conditions improved and loan demand softened with higher farm

income. More bankers reported lower operating loan demand and commented that many farmers used cash or vendor credit to pay for crop inputs and farm equipment. Survey respondents also noted an uptick in farm real estate cash transactions and a rise in real estate lending by the Farm Credit System. Bankers held collateral requirements steady and reported ample funds were available for farm loans at historically low interest rates. Loan repayment rates rose further, and the number of loan renewals and extensions fell for the fourth straight quarter.

*“Burgeoning farm profits
accelerated District cropland
and rangeland value gains...”*

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FEDERAL RESERVE BANK of KANSAS CITY - TENTH DISTRICT

Chart 1: Farmland Values - Annual Gains

Percent change from the previous year*

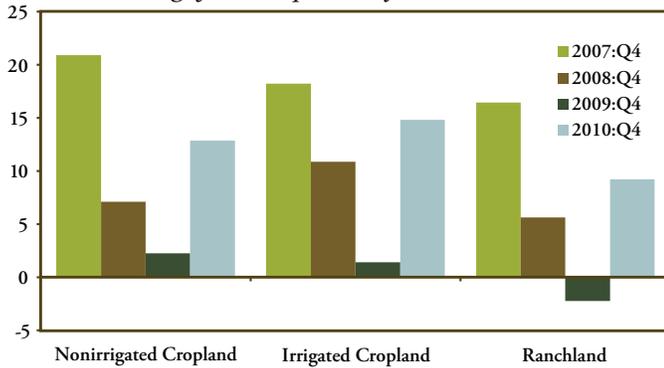


Table 1: Farmland Value Gains by State

Percentage change from previous year*

	Nonirrigated	Irrigated	Ranchland
Kansas	19.5	17.6	14.3
Missouri	6.6	n.a.**	5.0
Nebraska	17.6	17.5	12.9
Oklahoma	5.0	n.a.**	4.4
Mountain States	4.0	9.3	7.4

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

**Not reported due to small sample size.

District farmland values surged at the end of the year, posting their strongest year-over-year gains since the substantial run-up in values during 2007-08. Compared to the fourth quarter of last year, the value of irrigated and nonirrigated cropland in the District jumped 14.8 and 12.9 percent, respectively, and ranchland values rose 9.2 percent (Chart 1). Rising farm income, especially for crop producers, drove nearly 20 percent annual value gains for Kansas and Nebraska farmland (Table 1). In Oklahoma and the Mountain states, annual farmland value gains were not as sharp due to extremely dry conditions threatening crop yields and limiting cattle grazing. Some survey respondents reported record sales prices, and around half expected cropland values would rise further in the coming months.

While farmland values climbed sharply, cash rental rates rose to a lesser extent. Compared to last year, cash rental rates rose more than 6.0 percent for cropland and were up more than 4.0 percent for ranchland. With farmland value gains outpacing the increase in cash rents, some District bankers were concerned that land values may not maintain their torrent pace.

District bankers also commented on trends in farm real estate loans, including the process of determining prudent loan-to-value ratios. Farm real estate loan-to-value ratios ranged from 50 to 90 percent, and the average was just over 70 percent. Three-quarters of survey respondents reported that loan-to-value ratios at their bank had not changed in the last year; however, almost 20 percent of

bankers indicated a decline in typical loan-to-value ratios used for farm real estate transactions. A few bankers mentioned that loan amounts had been capped at a set dollar amount per acre, regardless of purchase price or appraised value. One District contact emphasized tighter scrutiny when evaluating maximum loan amounts. In addition, survey respondents noted slightly more cash transactions as well as increased lending by the Farm Credit System for farmland purchases.



Chart 2: Nonirrigated Farmland Values

*Percent change from the previous year**

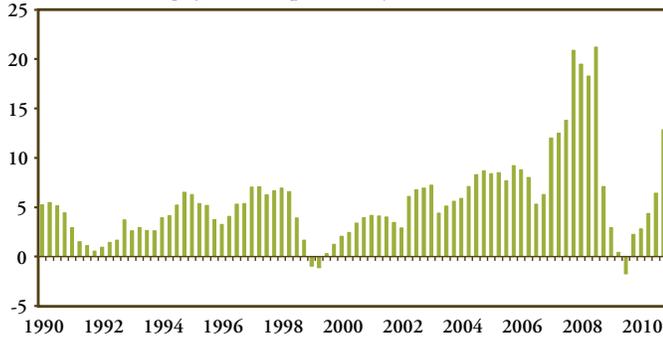


Chart 3: Reasons for Farmland Purchases by Nonfarmers

*Percentage of responses***

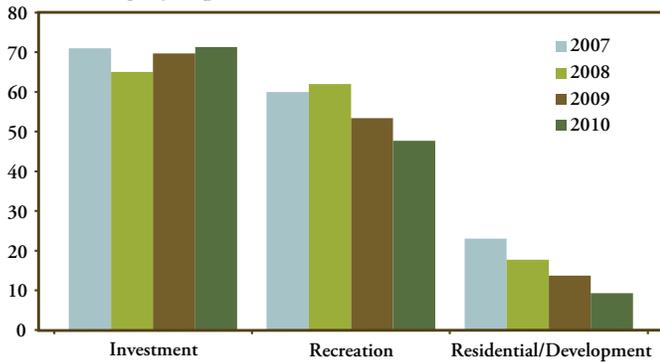
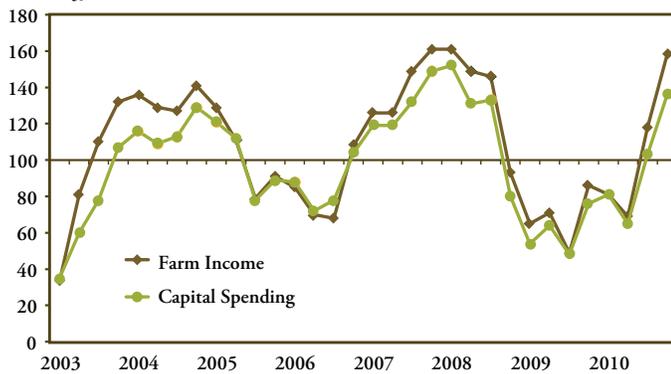


Chart 4: Farm Income and Capital Spending

*Diffusion Index****



Robust demand from both farmers and nonfarm investors continued to support strong farmland values (Chart 2). Even though District bankers noted a slight increase in the amount of farmland offered for sale at the end of 2010, the supply of farms on the market was still low compared to historical volumes. While farmers remained the primary buyers of farmland, District bankers also noted a modest increase in the percentage of sales to nonfarmers during the past year.

Regarding nonfarmer purchases, more bankers reported farmland was bought for investment purposes, such as receiving farm rental income and earning capital gains (Chart 3). Compared to previous years, fewer survey respondents reported farmland sales for recreational use or residential/development projects. However, several bankers in Oklahoma and Wyoming noted increased oil and gas activity, which boosted land lease revenues and contributed to rising land values.

The farm income index soared in the fourth quarter, approaching the record levels seen in early 2008 (Chart 4). Crop prices rose sharply at the end of the year when many farmers were selling their fall crop. Cattle prices also strengthened at year-end, though hog prices weakened. Most bankers reported higher farm income with almost half of the respondents expecting further gains over the next three months. With higher income and new tax rules on depreciation, many producers ramped up capital spending.

*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.
 **Percentages will not add to 100 because respondents could choose more than one category.
 ***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.

Agricultural Credit Conditions



4TH QUARTER 2010

FEDERAL RESERVE BANK of KANSAS CITY - TENTH DISTRICT

Chart 5: Farm Loan Repayment Rates and Renewals and Extensions

Diffusion Index*

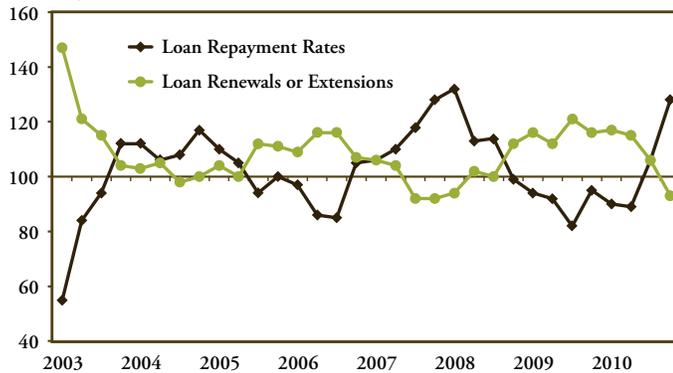


Chart 6: Farm Loan Demand and Funds Availability

Diffusion Index*

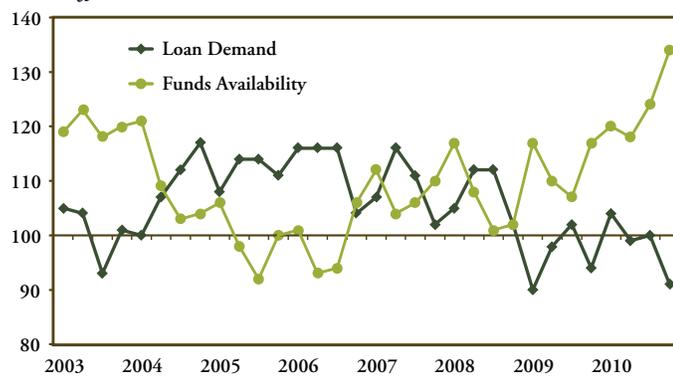
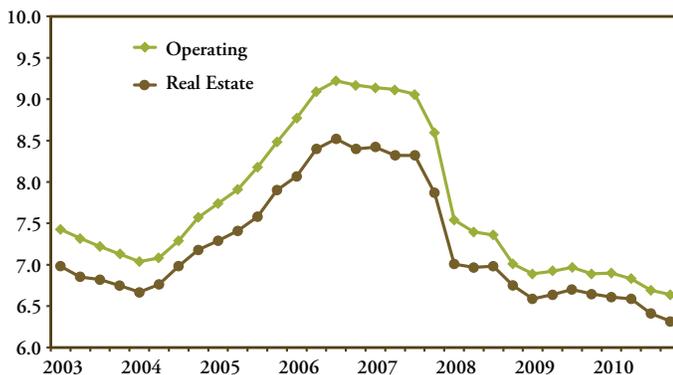


Chart 7: Farm Interest Rates

Percent



Farm credit conditions improved further with rising farm income. During the fourth quarter, bankers reported more farmers paid down debt, pushing the loan repayment index to its highest level in three years (Chart 5). In addition, bankers reported fewer requests for loan renewals and extensions, collateral requirements held steady, and the number of referrals to nonbank credit agencies fell. With expectations of higher farm income, bankers anticipated loan repayment rates would remain elevated over the next three months.

With stronger farm income, farm loan demand weakened (Chart 6). Survey respondents reported that farmers used a portion of their elevated income to pre-pay for next year's crop inputs. District bankers also noted increased use of vendor credit to finance seed, fertilizer and equipment purchases. However, survey respondents expected loan demand would pick up before spring planting.

With lower farm loan demand, the funds availability index reached a new high. More than one-third of survey respondents indicated a rise in funds available for non-real estate loans. Even with an expected rise in loan demand, most bankers anticipated ample funds would be available for well-qualified borrowers. Farm interest rates continued to trend down, averaging 6.6 percent for operating loans and 6.3 percent for real estate loans (Chart 7).

*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.



BANKER COMMENTS *from* *the* TENTH DISTRICT

“Cattle and grain prices have increased in the last few months allowing farmers to make needed capital improvements and reduce debts.”

– Western Missouri

“High grain prices and low interest rates are fueling land prices and competition for cash rents is high.”

– Northeast Nebraska

“The rapid appreciation in land values is concerning.”

– Northwest Kansas

“With land prices going up, our bank is looking closely at appraisals and loan-to-value ratios.”

– Western Missouri

“Land sales picked up in the fall of 2010, land prices will likely rise with mineral leasing and extraction.”

– Northeast Wyoming

“Loan demand is slow but the ag sector still looks promising.”

– Central Missouri

“Area farmers are looking to upgrade farm equipment and agricultural real estate is in strong demand by local farmers.”

– Northeast Kansas

“If dry conditions persist in northeast Colorado, that could have an adverse effect on dry cropland and pasture land values.”

– Northeast Colorado

“Oil and gas leasing, drilling and production over the last year keeps our land values up.”

– Western Oklahoma

“Land values continue to hold strong.”

– Western Kansas

“Our bank has been limiting land loans to about \$2,500/acre regardless of price or appraised value.”

– Eastern Nebraska

Note: 253 banks responded to the fourth 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.Briggeman@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.



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