# Agricultural Finance Databook

NATIONAL TRENDS IN FARM LENDING



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# *Agricultural Finance Conditions Improve*

*By Jason Henderson, Omaha Branch Executive*
*and Maria Akers, Associate Economist*

Agricultural finance conditions improved with rising farm incomes at the end of 2010. Stronger farm incomes allowed farmers to pay off debts, which trimmed loan delinquencies and lifted profits at agricultural banks. Agricultural banks continued to outperform their banking peers. Both the return on assets and equity rose for the third straight quarter at agricultural banks and exceeded the returns at other small banks. Bankers reported healthier farm loan portfolios as farmers paid off loans and requested fewer loan renewals or extensions. The decline in noncurrent loans suggests that farm loan delinquencies may fall further.

Farmland values surged with stronger incomes, spurring a modest rise in farm real estate loan volumes. During the past year, farmland values rose more than 10 percent in the Corn Belt and Great Plains regions, with the strongest gains for good-quality farmland. Bankers noted that few farms were for sale, which also supported higher farmland values. With bigger farm real estate loan volumes, total farm debt outstanding rose modestly at commercial banks.


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Robust farm incomes had more mixed effects on non-real estate loan volumes. With higher incomes, crop producers curtailed short-term operating loan demand, limiting the volume of operating loans at commercial banks. Yet, larger profits prompted many crop producers to expand their capital purchases, lifting intermediate-term loan volumes for farm machinery and equipment. Loan volumes also rose for the livestock sector as high feed and feeder cattle prices boosted average loan amounts. Bankers indicated that ample funds were available to satisfy farm sector loan demand at historically low interest rates. Agricultural bankers held collateral requirements at current levels as most farm loans were classified as low to moderate risk.

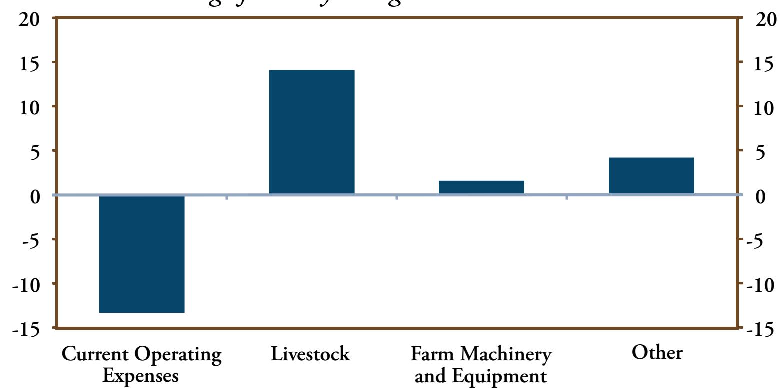
## Section A Summary

Agricultural banks saw their non-real estate loan volumes shrink as farm incomes strengthened. With rising farm incomes, the annual volume of operating loans fell 13.3 percent below year-ago levels as some farmers used profits to pay for production inputs (Chart 1). Operating loan maturities remained near the survey average of nine months, while the average effective interest rate dipped to just under 5 percent (Chart 2). In contrast, annual intermediate loan volumes rose as farmers bought more farm machinery and equipment. The average size of farm machinery and equipment loans rose 6.5 percent from the previous year, with slightly shorter loan terms and an average effective interest rate of 5.1 percent.

## Chart 1: Loan Volume by Purpose of Loan

(2009 to 2010)

*Percent Change from a year ago*

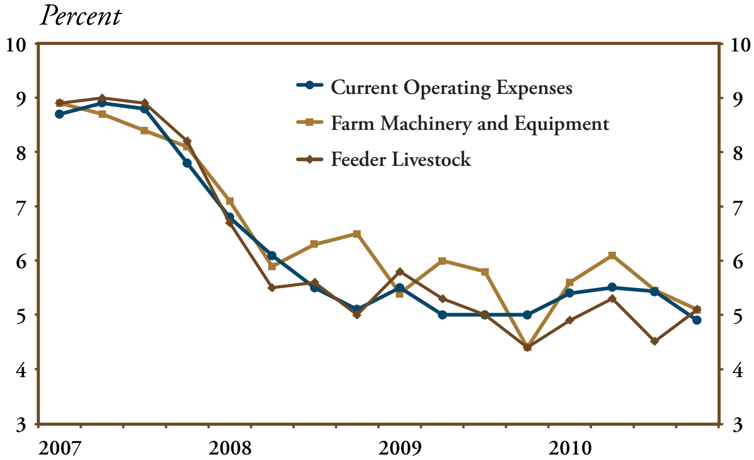



*Source: Agricultural Finance Databook, Section A*

In the face of shrinking livestock profits, commercial banks increased their volume of livestock loans. The average annual loan amount for feeder livestock rose 27 percent, driven by rising feeder cattle prices. The average maturity for feeder livestock loans fell below nine months, and the average effective interest rate held around 5 percent. In contrast, the average maturity for other livestock loans jumped, and the average effective interest rate climbed to 5.3 percent.

## Chart 2: Average Effective Interest Rates on Farm Loans

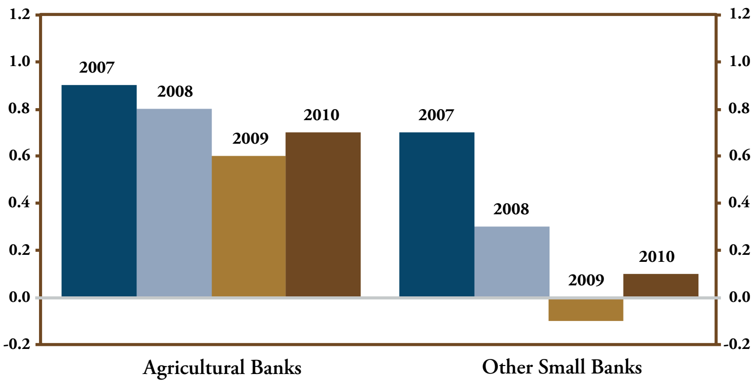
*Percent*




*Source: Agricultural Finance Databook, Section A*

The average size of agricultural loans increased with fewer operating loans and larger loans to the livestock sector. The volume of non-real estate loans less than $25,000 dropped 8.7 percent below year-ago levels, reaching a survey low. The volume of non-real estate loans larger than $25,000 dropped as well, falling almost 4.8 percent compared to last year. In addition, loans less than $25,000 accounted for a slightly smaller share of farm loan portfolios, illustrating a subtle shift from smaller operating loans toward larger livestock and equipment loans.

## Chart 3: Rate of Return on Assets
(Third Quarter)




*Source: Agricultural Finance Databook, Section B*

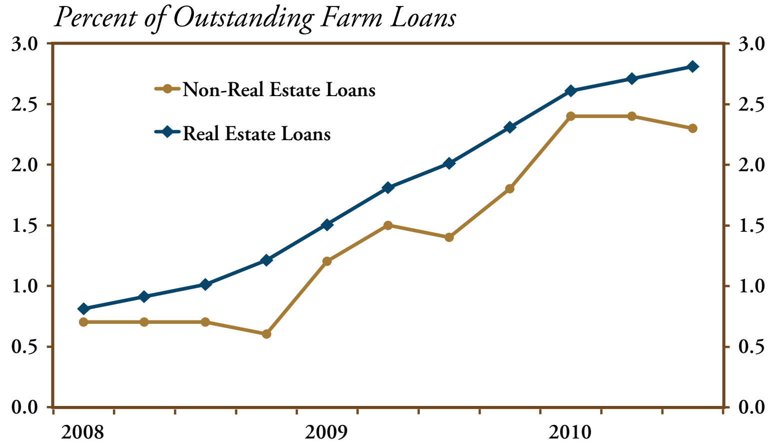
### Section B Summary

Sustained by a strong farm sector, agricultural banks continued to outperform their peers. The average rate of return on equity at agricultural banks rose further, climbing to 6.3 percent in the third quarter and far exceeding the 1.3 percent return at other small banks. The rate of return on assets at agricultural banks was also higher in the third quarter at 0.7 percent, compared to 0.1 percent at other small banks (Chart 3). Yet, average capital ratios at both agricultural and other small banks were similar and continued to edge up in the third quarter.

Bank profits were supported by improved performance measures for non-real estate loans. The volume of outstanding third quarter non-real estate farm loans at all commercial banks dipped 1.8 percent below year-ago levels. After rising steadily since the end of 2008, delinquent non-real estate loans edged down to $1.3 billion, or 2.3 percent of outstanding farm production loans (Chart 4). The volume of non-real estate loans 30 to 90 days past due eased further, indicating delinquency rates may have peaked. Net charge-offs remained near year-ago levels at 0.3 percent of all non-real estate farm loans.

Loan performance measures for real estate loans held relatively steady in 2010. Farm real estate loan volumes at all commercial banks rose 1.8 percent above year-ago levels. Net charge-off amounts for farm real estate loans remained low, holding at $70 million, or 0.09 percent of outstanding farm real estate loans in the third quarter. After edging up in the third quarter, the share of nonperforming farm real estate loans climbed to 2.8 percent, its highest level in the past two decades. However, the volume of real estate loans 30 to 90 days past due edged down, which could stabilize delinquency rates in the coming months.

## Chart 4: Share of Nonperforming Farm Loan Volume at Commercial Banks



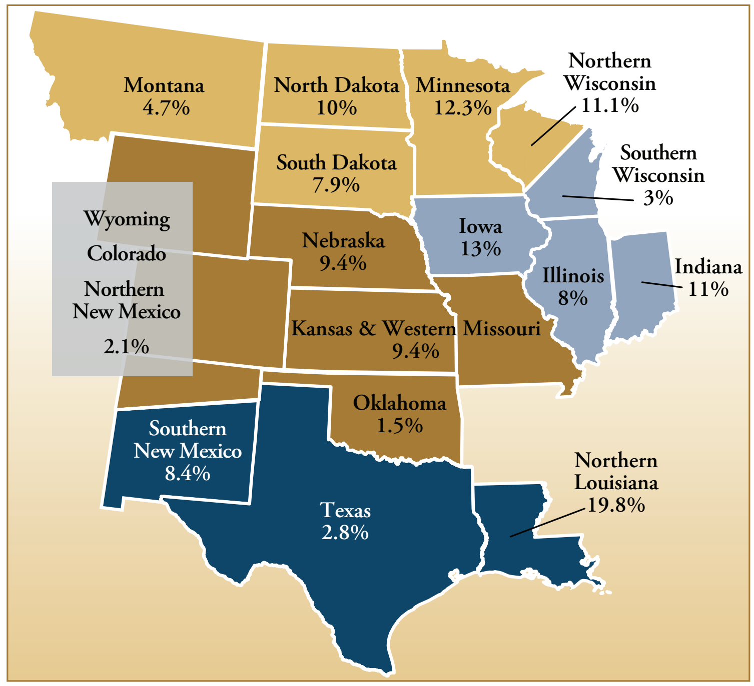

*Source: Agricultural Finance Databook, Section B*

## Section C Summary

Higher farm incomes fueled further gains in farmland values. After a slight dip at the end of 2009, farmland values rebounded sharply, with double-digit annual gains in many regions. Iowa recorded the strongest year-over-year growth at 13 percent, followed by Minnesota, Indiana, North Dakota, Nebraska and Kansas (Map 1). However, ranchland values posted more modest gains. Competition between farmers and nonfarm investors for good-quality acreage was robust, and the number of farms for sale remained limited. Most survey respondents expected rising farm incomes and the dynamic farm real estate market to drive further land value appreciation.

## Map 1: Good-Quality (Non-irrigated Cropland) Values

(Percent change third quarter 2009 to third quarter 2010)




*Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)*

Farm loan demand fluctuated as stronger incomes prompted farmers to upgrade equipment and use profits to pay for current operating expenses. Federal Reserve surveys noted a rebound in capital spending, especially for farm machinery and grain storage facilities. While this encouraged intermediate-term loans for equipment purchases, bankers noted a drop in demand for short-term operating loans as farmers used cash to pay for crop inputs. Bankers in the Chicago District expected further declines in operating loan volumes over the coming quarter, in contrast to stronger expectations in the Dallas District. Bankers in the Chicago, Dallas, and Richmond Districts also expected fewer dairy loans heading into 2011. While most Reserve Banks reported limited use of referrals, bankers in the Dallas District reported strong gains in referrals to nonbank agencies.

Farm credit conditions improved as farmers paid off debts with stronger incomes. Agricultural bankers reported rising loan repayment rates and fewer loan renewals and extensions. Bankers in the Chicago and Minneapolis Districts reported the strongest gains in farm loan repayments and the sharpest declines in loan demand. Most bankers, but particularly those in the Chicago and Minneapolis Districts, noted ample funds were available for loans, and very few loans were refused or reduced due to a funds shortage. Collateral requirements generally held steady or eased slightly. Interest rates continued to trend down, reaching historic lows in several Federal Reserve Districts.