

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY
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LARGE BANKS CUT RATES AND BOOST FARM LENDING ACCORDING TO FEDERAL RESERVE AGRICULTURAL FINANCE DATABOOK

Despite softer national farm loan activity, larger banks cut interest rates on non-real estate loans to boost farm lending in the third quarter, according to the Federal Reserve System's Agricultural Finance Databook.

Large banks, those with farm loan portfolios greater than \$25 million, dropped the average effective interest rate on non-real estate farm loans to 3.6 percent during the quarter, well below the rate charged at small or mid-sized banks. These lower interest rates spurred sharp annual gains in non-real estate loan volumes at large banks, compared to declines at small or mid-sized banks. Large banks originated most of their loans with floating interest rates, whereas small and mid-sized banks extended variable rates on less than half of their loans.

Still, overall farm lending was flat in the third quarter as strong agricultural profits limited non-real estate loan demand. Operating loan volumes held steady with higher input costs, but equipment and livestock loan volumes fell below year-ago levels.

In contrast, farm real estate loans accounted for a larger share of farm lending during the third quarter. National farmland values climbed higher in the second quarter, with anecdotal evidence of further gains during the third quarter. Annual farmland value gains reached record levels in many states, most notably in the Corn Belt and Northern Plains where land prices rose more than 25 percent above year-ago-levels.

The Agricultural Finance Databook is a quarterly compilation of national and regional agricultural finance data. The complete release is available at www.kansascityfed.org/research/indicatorsdata/agfinance.

As the regional headquarters of the nation's central bank, the Federal Reserve Bank of Kansas City and its branches serve the seven states of the Tenth Federal Reserve District: Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

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