

# Survey of Tenth District Agricultural Credit Conditions

*Second Quarter 2009*

FEDERAL RESERVE BANK *of* KANSAS CITY

## Farmland Values Stabilize as Farm Incomes Firm

by Jason Henderson, Branch Executive, and Maria Akers, Assistant Economist

### Survey Summary

The District farm economy remained solid in the second quarter after softening from last year's boom. Farmland values held firm as farm incomes improved with higher commodity prices. While the supply of farms for sale remained limited, renewed interest from non-farm investors along with robust farmer demand helped support farmland values. Compared to last year, nonirrigated cropland values were flat, while irrigated cropland and rangeland values posted slight increases. The majority of survey respondents felt farmland values would hold steady over the next few months, with very few contacts expecting further value gains.

Farm income prospects improved with the spring rebound in commodity prices. Income expectations, however, varied by region and agricultural sector. Bankers anticipated stronger incomes in corn and soybean producing states, aided by lower energy prices and above average rainfall that reduced irrigation costs and improved growing conditions. In contrast, bankers in states where the wheat crop suffered from weather damage and areas with high concentrations of livestock operations expected lower farm incomes. This contributed to a rise in loan demand and further declines in loan repayments.

Farm credit conditions were little changed in the second quarter and expected to improve somewhat in the next three months. Though still elevated, collateral requirements eased since the first quarter while referrals to non-bank credit agencies held steady. District bankers indicated ample funds were available to satisfy a modest increase in loan demand. Survey respondents overwhelmingly reported no change in fundamental lending philosophies in response to the financial crisis. Cash flow and collateral remained the primary considerations for non-real estate loan approval decisions.

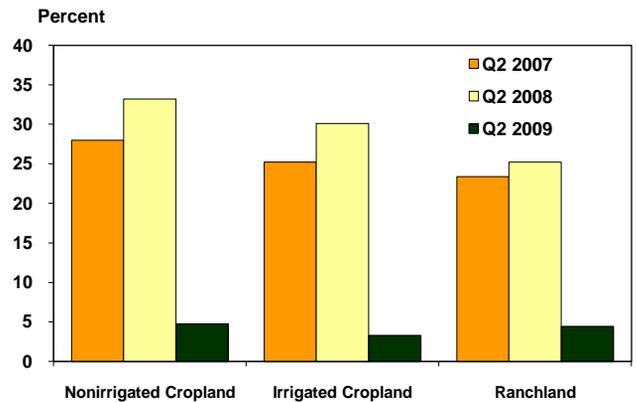
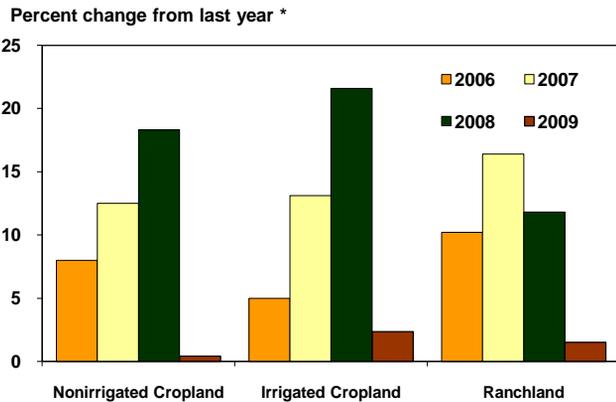
Note: 256 banks responded to the second quarter Survey of Agricultural Credit Conditions in the Tenth Federal Reserve District—an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri.

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[Jason.Henderson@kc.frb.org](mailto:Jason.Henderson@kc.frb.org) or [Maria.Akers@kc.frb.org](mailto: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.

**Farmland Values – Annual Changes  
(Second Quarter)**

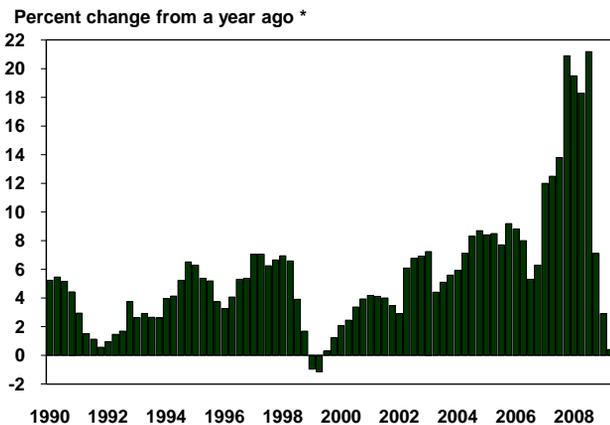
**Percentage of Survey Respondents  
Expecting an Increase in Farmland Values  
Over the Next Three Months**



- District farmland values were relatively flat in the second quarter as real estate activity slowed during the summer growing season. Nonirrigated cropland values settled near year-ago levels, edging up 0.4 percent over the past year, with wide fluctuations across District states. Irrigated cropland values remained 2.4 percent higher than year-ago levels as lower energy prices helped reduce irrigation costs. District bankers reported a 1.5 percent average annual gain in ranchland values. Cash rents on District cropland slid below year ago levels, while cash rents on District ranchland edged up. Less than 5 percent of survey respondents felt farmland values would increase over the next three months, well below last year's levels.
- While farmer purchases still dominate the agricultural real estate market, several District contacts noted renewed investor interest in farmland. Even taking into account the typical slowdown in farm sales during the summer months, survey respondents commented that the number of farms being marketed has declined over the last year. This contraction in supply along with solid demand for good quality acreage is contributing to a strong farm real estate market.

**Nonirrigated Farmland Value Changes**

**Farmland Value Changes by State**

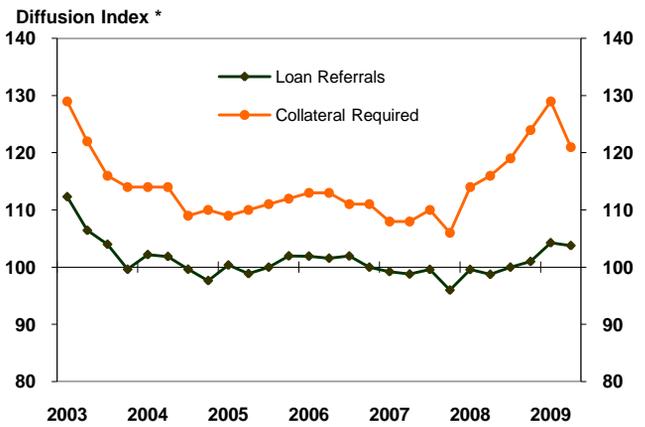
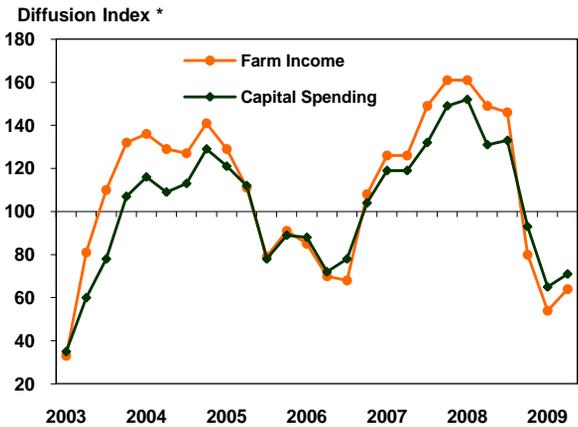


	Nonirrigated	Irrigated	Ranchland
Kansas	5.1	7.5	4.2
Missouri	0.9	n.a.**	-1.8
Nebraska	-1.3	0.4	0.4
Oklahoma	-0.8	n.a.**	5.3
Mountain States	-3.0	3.9	-0.5

\* 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**

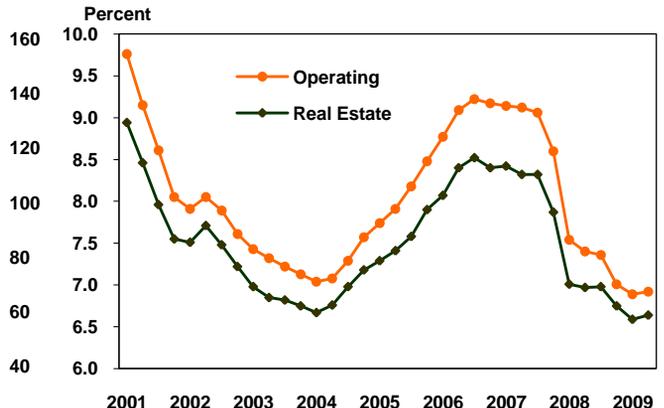
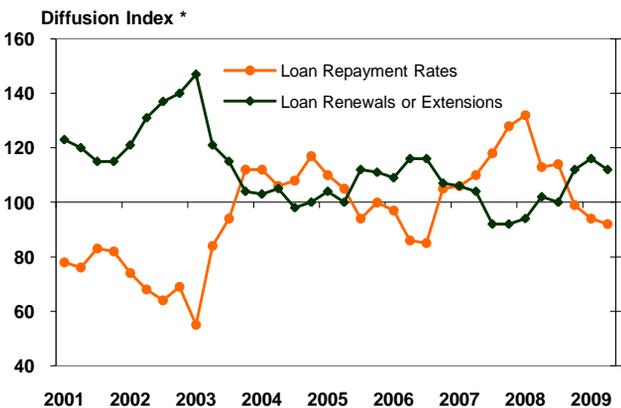
**Collateral Requirements and Loan Referrals**



- District farm incomes edged up in the second quarter with a modest rebound in commodity prices. However, income expectations varied by region and remained subdued compared to last year’s record highs. Ample rainfall bolstered farm income prospects in corn and soybean growing areas whereas below average wheat production dampened farm income expectations in southern regions of the District. Soft demand for meat continued to put downward pressure on livestock prices and producers responded with further herd liquidations. Capital spending plans strengthened marginally on improved farm income expectations.
- Farm credit conditions held relatively steady and were expected to improve slightly in the coming months. While credit standards remained high by historical standards, the percentage of banks that reported an increase in collateral requirements fell in the second quarter, reversing an upward trend that began in late 2007. The number of referrals to non-bank credit agencies dipped slightly and was expected to drop further. Despite a continued decline in the rate of loan repayments, there were fewer reports of loan renewals and extensions. Farm interest rates held steady.

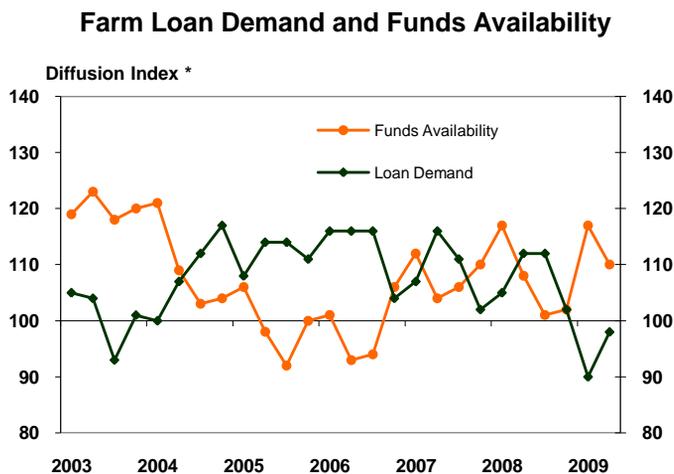
**Loan Repayment Rates and Loan Renewals and Extensions**

**Farm Interest Rates**



\* 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.

- Demand for farm loans rose from a first quarter low, driven by Oklahoma and Kansas where wheat production suffered from a weather damaged crop. Even with an increase in loan demand, the funds availability index remained well above 100, indicating lenders had ample funds for credit worthy borrowers. Survey respondents reported their lending philosophy had not changed in the last year. The most common reasons for denying a non-real estate farm loan remained insufficient future cash flow and not enough collateral.



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## Selected Comments from District Bankers

“Real estate values are tough to gauge right now . . . values appear to be steady but there are not many sales.” – *SE Wyoming*

“Real estate values have cooled off somewhat, but are still what we consider to be very high.” – *NW Kansas*

“In this area the poultry farm is the only real estate that has declined in value over the last year or two.” – *Eastern Oklahoma*

“Fall row crops are growing well with good moisture conditions.” – *Western Kansas*

“Our cow/calf operators are struggling the most.” – *SW Kansas*

“Cash flow and collateral have always been the main focus of loan determination.” – *NE Colorado*

“Our lending philosophy has not changed from where it was a year ago.” – *North Central Kansas*

“We’ve seen some cases where overall debt level was high relative to assets – the margin for error is relatively small.” – *Eastern Kansas*

*For more information or to view past survey results, visit:  
[www.kansascityfed.org/agcrsurv/agcrmain](http://www.kansascityfed.org/agcrsurv/agcrmain)*