KANSAS STATE UNIVERSITY

Agricultural Lender Survey

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Results:
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The Department of Agricultural Economics at Kansas State University conducts a semi-annual survey of Agricultural Lenders to gage the recent, short term and long term future assessment of the credit situation for production agriculture. The results provide a measure of the health of the sector in a forward looking manner.

Kansas State University has worked with the National Agricultural Credit Committee (NACC) and the Federal Reserve Bank of Kansas City in developing the questions and assessing the need for this information.

A list of 1,500 commercial lending institutions who are listed with agriculture as their main specialty was obtained from the FDIC data base as well as 92 Farm Credit institutions. This list was then internet searched for the emails of each of the lending institutions. The survey was sent to 500 lending institutions including the Farm Credit System, commercial lending institutions who have a specialty in agriculture according to the FDIC, vendor finance companies and insurance companies.

Each institution surveyed provided their sentiment on the current and expected state of four key areas: (1) farm loan interest rates; (2) spread over cost of funds; (3) farm loan volumes; (4) non-performing loan volumes; and (5) farm land values. Within each of these key areas, different loan types were assessed (farm real-estate, intermediate and operating loans) as well as the different agricultural sectors (corn and soybeans, wheat, beef, dairy, etc.).

The Spring 2013 survey had 68 lending institutions respond and the Fall 2013 survey had 59 lending institutions respond. A total of 27 respondents responded to both the Spring and Fall surveys. Of those lending institutions, 30% were from the Farm Credit System and 70% were from commercial lending institutions and insurance companies. A total of 50% of the respondents had a total agricultural loan volume above $50 million. Please note that this is not the total loan volume of the lending institution but just agricultural loans.

Figure 1, Demographics of Survey Respondents

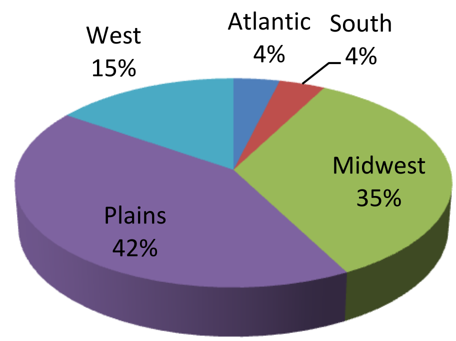


Figure 2, Loan Volume by Region

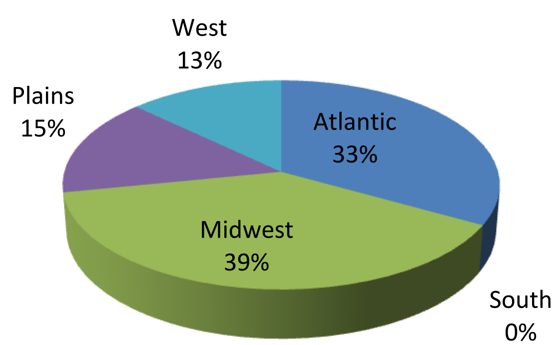
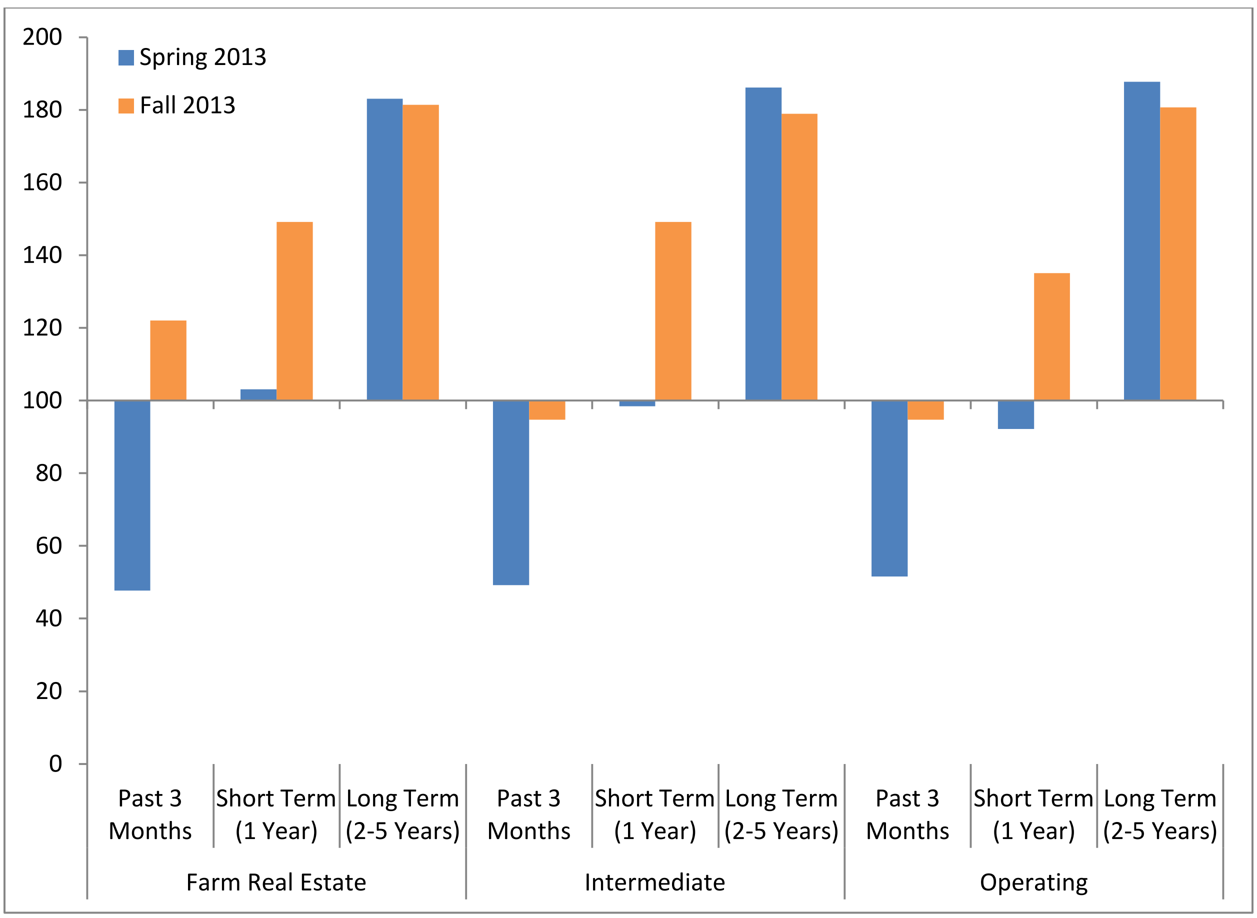


Figure 1 shows the demographics of the Fall survey respondents by primary service territory. The five service territories are: Midwest, West, Atlantic, South and Plains. Table 1 has a list of the states in each region. Forty two percent of survey respondents came from the Plains region while 35%, 15%, 4% and 4% came from the Midwest, West, Atlantic, and South regions, respectively. Six percent of respondents indicated their respective lending institution was national in scope. Total agricultural loan volume of all respondents is estimated at $38 billion. The largest lending institution to respond had $19 billion in commitments and the smallest had $1.6 million in agricultural loans. While the Plains region had the most respondents, Figure 2 shows that it only accounted for 15% of agricultural loan volume. The survey demographics for the Fall survey were similar to that of the spring survey, although a bit more volume was represented in the Atlantic region.

The survey responses are summarized using a diffusion index. This index is calculated by taking the percentage of those responding increase minus the percentage of those responding decrease plus 100. Therefore, an index above (below) 100 indicates respondents expect or experienced an increase (decrease) in the measure of interest. For example, Figure 3 illustrates that the index for expected the long term farm real estate loan interest rates equals 181. This number can be described as 81% more respondents felt farm real estate loan interest rates will go up in the long run than those who felt rates would go down.

Figure 3 shows the survey results for loan interest rates for the Spring 2013 and Fall 2013 surveys. Over the past three months, loan interest rates increased for Farm Real Estate and decreased slightly for Intermediate and Operating loans. Survey respondents indicated that interest rates will increase in the short term and long term for all three types of loans. This position has changed from the Spring survey as respondents said that interest rates would decrease in the short term.

Figure 3, Loan Interest Rates – Diffusion Index of Survey Respondents



The spread over cost of funds is the difference between the loan interest rates given by the lending institution and the interest rate paid by the financial institution for the funds that they deploy in their business. The reason for asking about both loan interest rates and spread over cost of funds is to gauge competition in the agricultural lending market. A decrease in the spread over cost of funds suggests competition for agricultural loans among lending institutions may be increasing. Figure 4 shows that survey respondents saw a decrease in the spread over cost of funds in the past three months. However, this trend is expected to reverse in the long term. Survey respondents indicated a stronger sentiment that the spread over cost of funds for the longer term would increase more in the Fall survey than in the Spring. By region, lending institutions in the plains region felt they would face larger spread over cost of funds than those lending institutions in the Midwest region.

One respondent noted “Increased competition for all types of Agriculture Loans.”

Figure 4, Spread Over Cost of Funds – Diffusion Index of Survey Respondents

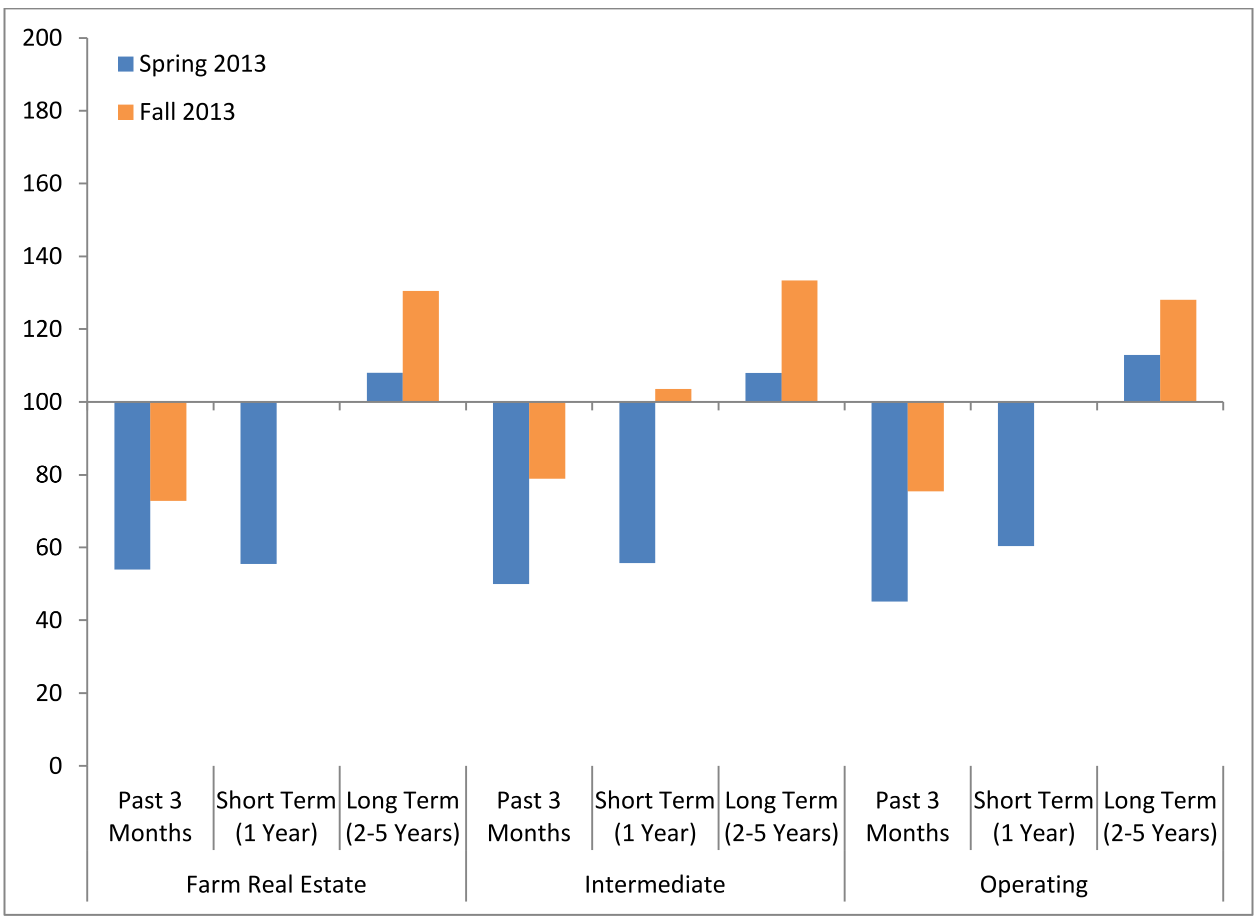


Figure 5 shows the responses for farm loan volume. This question aims to analyze the aggregate amount of agricultural lending. Over the past three months, total farm loan volume rose, which was led by strong farm real estate loan volume. Looking forward, the volume of farm loans is expected to increase for all loan categories in the both the short term and long term, indicating strong expected availability and demand for agricultural loans. Operating loan volume has remained steady though it is expected to increase in the future. Survey responses from the Spring survey to Fall survey did not vary much. When analyzing results by bank size, larger banks indicated that loan volume would increase more than small banks.

Figure 5, Farm Loan Volume – Diffusion Index of Survey Respondents

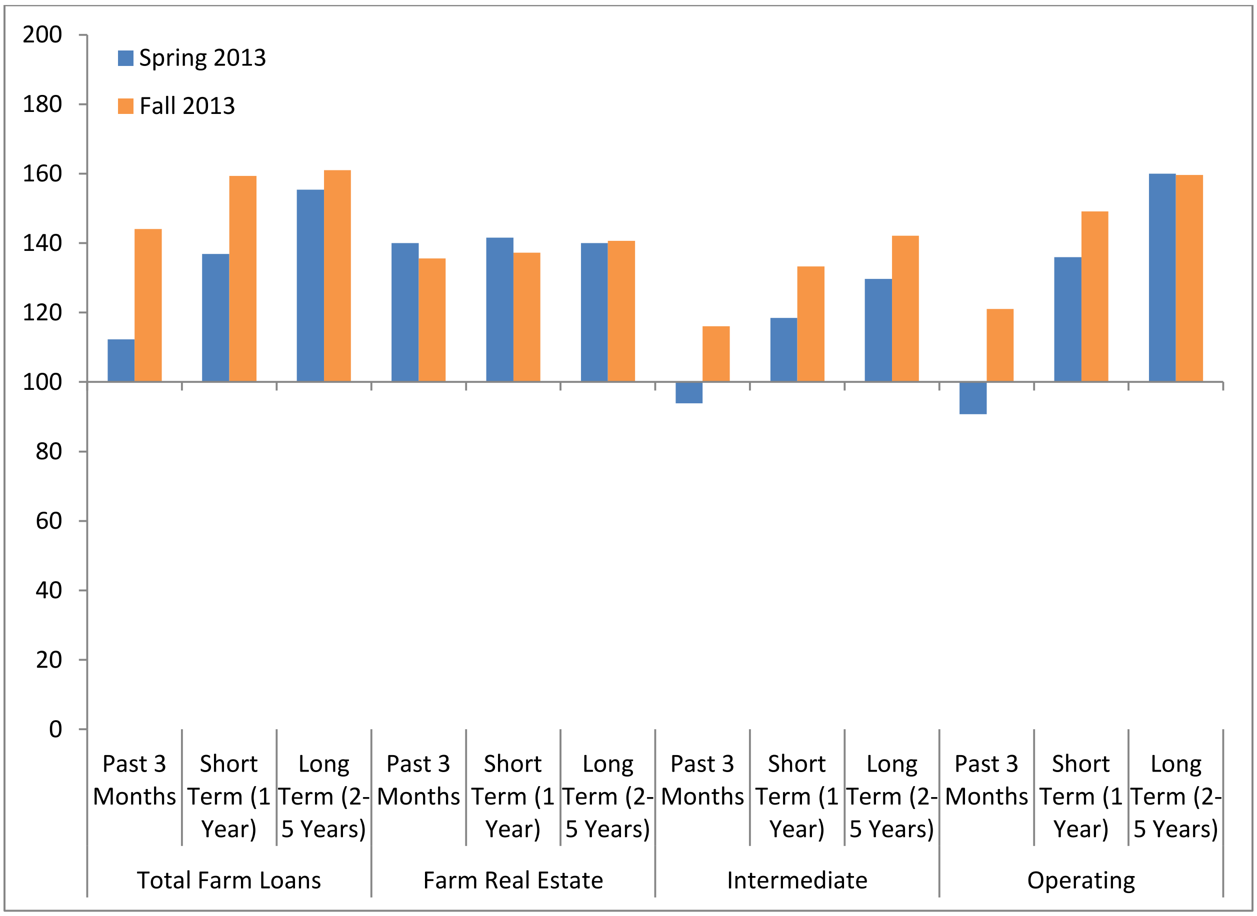


Figure 6 shows the results analyzed by loan type. It illustrates that all categories of non-performing loans have decreased and are expected to continue to fall in the short run. However, in the long term, respondents believe that non-performing loans will increase for all loan categories. This long run trend differs from the Spring survey as respondents in the Spring did not feel that non-performing loans would increase, if at all, in the long run. Larger banks were also more optimistic, indicating that non-performing loans would decrease by a larger amount in the short term and that they would increase by a lesser amount in the long term. Results did not vary by region.

Figure 6, Non-Performing Loans, By Loan Type – Diffusion Index of Survey Respondents

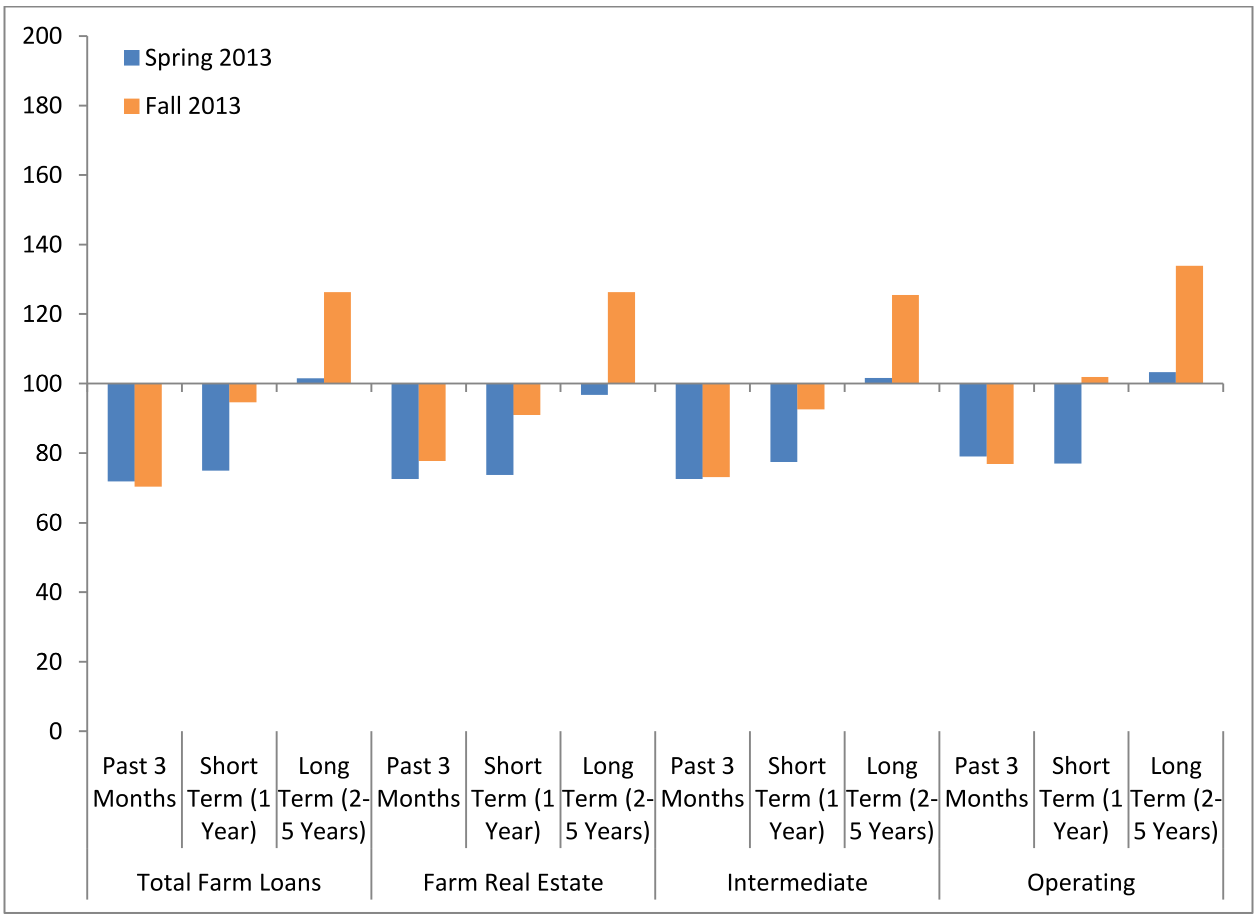


Figure 7 shows the non-performing loans by crop industry sector. The crop sectors of corn and soybeans, wheat and nurseries saw a decrease in non-performing loans the past three months; however, non-performing loans are expected to increase in the long term for these sectors. It should be noted that one reason for the increase in non-performing loans in the long run is that currently many lending institutions have few non-performing loans. Results did not vary much from the Spring to Fall surveys or by region and bank size.

Figure 7, Non-Performing Loans, By Crop Industry Sector – Diffusion Index of Survey Respondents

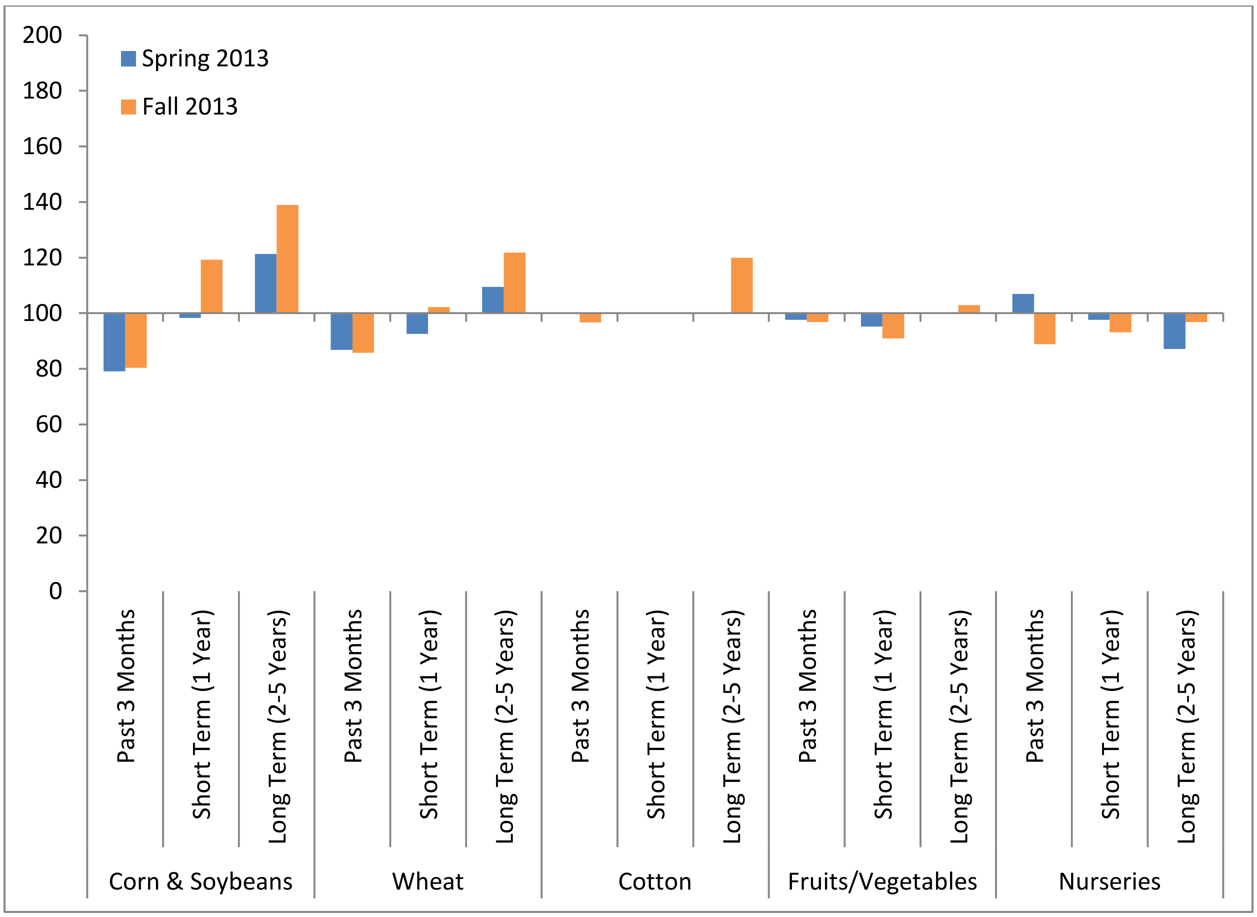
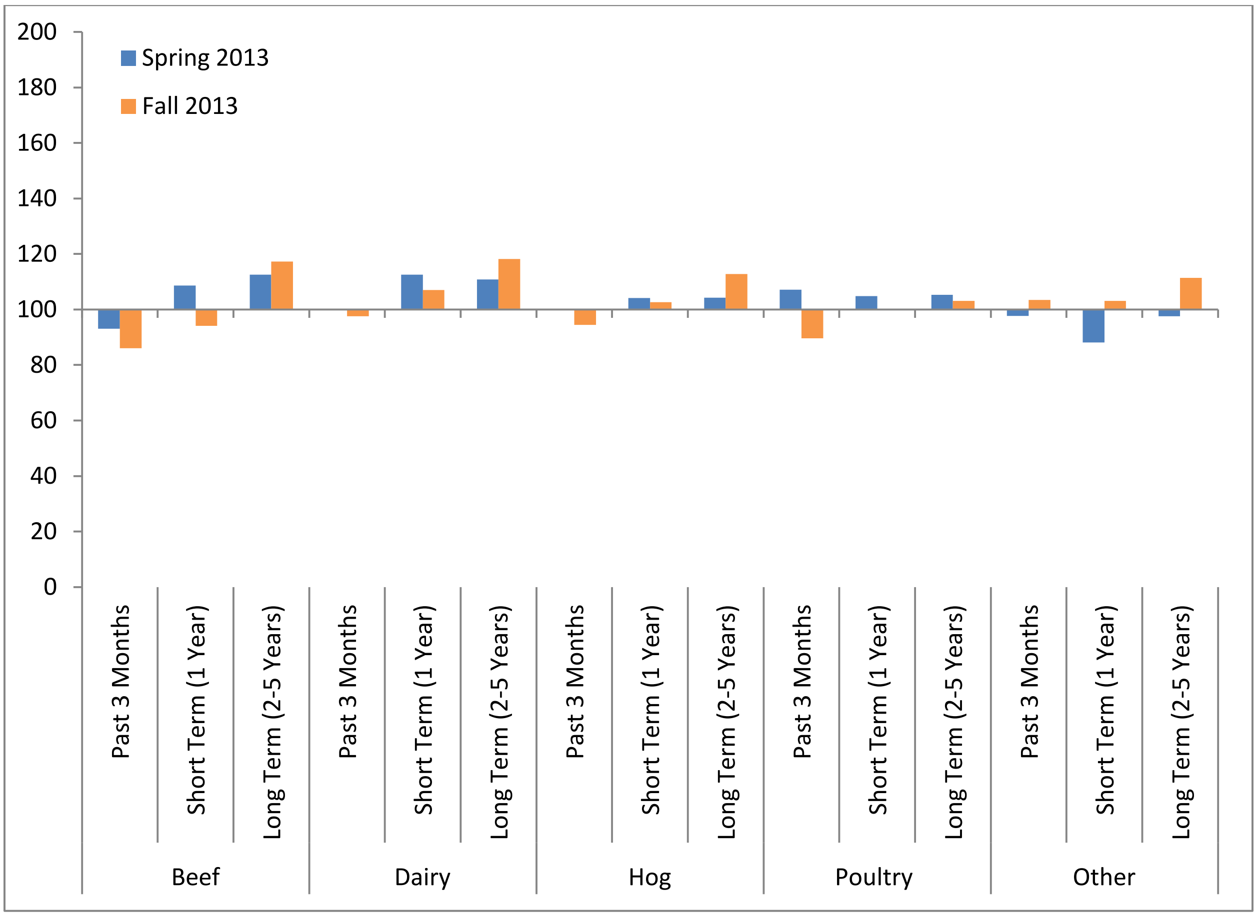


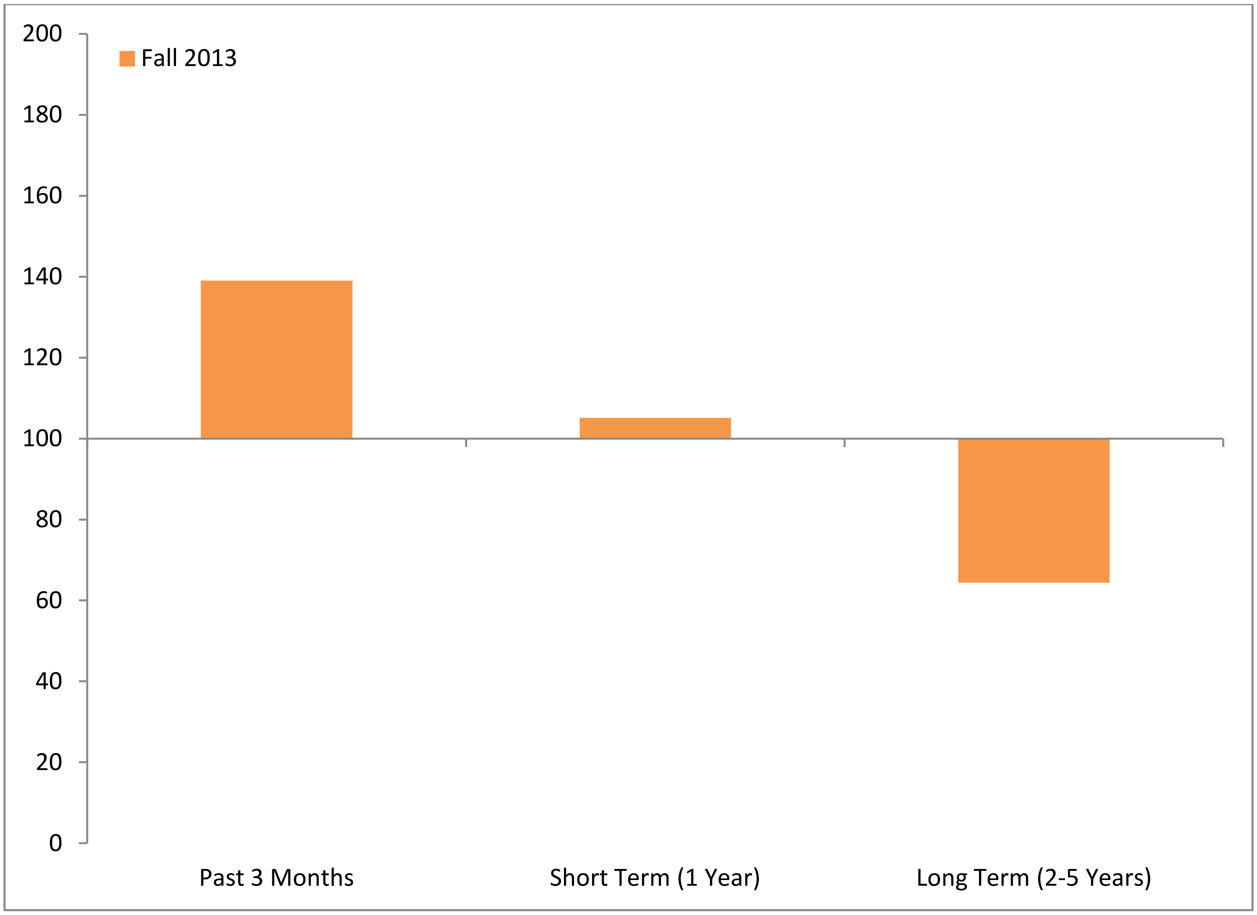
Figure 8 shows the non-performing loans by livestock industry sector. It is expected that the number of non-performing loans in the livestock sectors of beef, dairy, hog and poultry will increase in the short and long term, though the sentiment is not particularly strong as all indices were under 120. Results did not vary from the Spring to Fall surveys or by region and bank size.

Figure 8, Non-Performing Loans, By Livestock Industry Sector – Diffusion Index of Survey Respondents



A new question for the Fall 2013 survey was added that asks for expectations of land value movements. Respondents indicated that land prices have increased in the past three months. This trend will moderate in the short run and respondents believe land prices will start decreasing in the long run.

Figure 9, Land Values – Diffusion Index of Survey Respondents



Overall, there is less longer-term optimism among agricultural lenders. Land values are expected to decrease in the long term. Interest rates are expected to increase and the spread over cost of funds is expected to increase in the long term. However, non-performing loans which are currently at low levels are expected to increase in the long run, especially in the row crops. The sentiment for the increase in non-performing loans grew stronger from the Spring to the Fall Survey. Total loan volume is expected to increase.

Table 1, States in Each Region

Atlantic	CT, DE, KY, ME, MD, MA, NH, NJ, NY, NC, PA, RI, TN, VA, VT, WV
South	AL, AR, FL, GA, LA, MS, SC
Midwest	IA, IL, IN, MI, MN, MO, OH, WI
Plains	KS, NE, ND, OK, SD, TX
West	AZ, CA, CO, ID, MT, NM, NV, OR, UT, WA, WY