



# Agricultural Lender Survey

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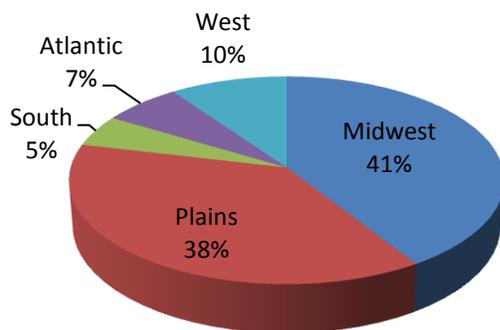
**Results:  
March Survey, 2013**

The 2013 March Survey was sent to a total of 486 lending institutions. Of these institutions, 92 were from the Farm Credit System, 386 were commercial lending institutions whose main specialty is in agriculture according to the FDIC, 5 vendor financiers and 3 insurance companies.

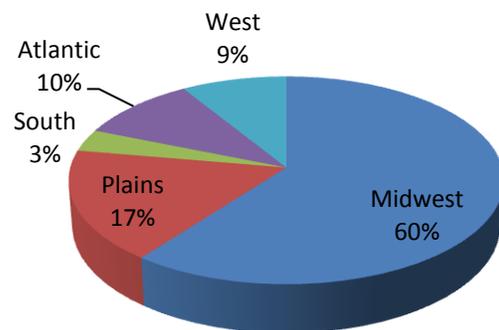
A total of 65 lending institutions responded to the survey for a response rate of 13%. Of those lending institutions, 30% were from the Farm Credit System and 70% were from commercial lending institutions and insurance companies. A total of 50% respondents had a total agricultural loan volume above \$50 million. Please note that this is not the total loan volume of the lending institution but just agricultural loans.

Figure 1 shows the demographics of the survey respondents by main service territory. The five service territories are: Midwest, West, Atlantic, South and Pacific. For a list of the states that are included in each region, see Table 1 at end of the document. Forty one percent of survey respondents came from the Midwest region while 10%, 7%, 5% and 38% came from the West, Atlantic, South and Plains regions, respectively. Three percent of respondents indicated their respective lending institution was national in scope. Total loan volume of all respondents is estimated at \$23 billion. The largest lending institution to respond has \$4.1 billion in commitments and the smallest had \$1.2 million in agricultural loans. When looking at the loan volume of each service territory in Figure 2, the Midwest region, that had 41% of survey respondents, accounted for 60% of total loan volume.

**Figure 1, Demographics of Survey Respondents**



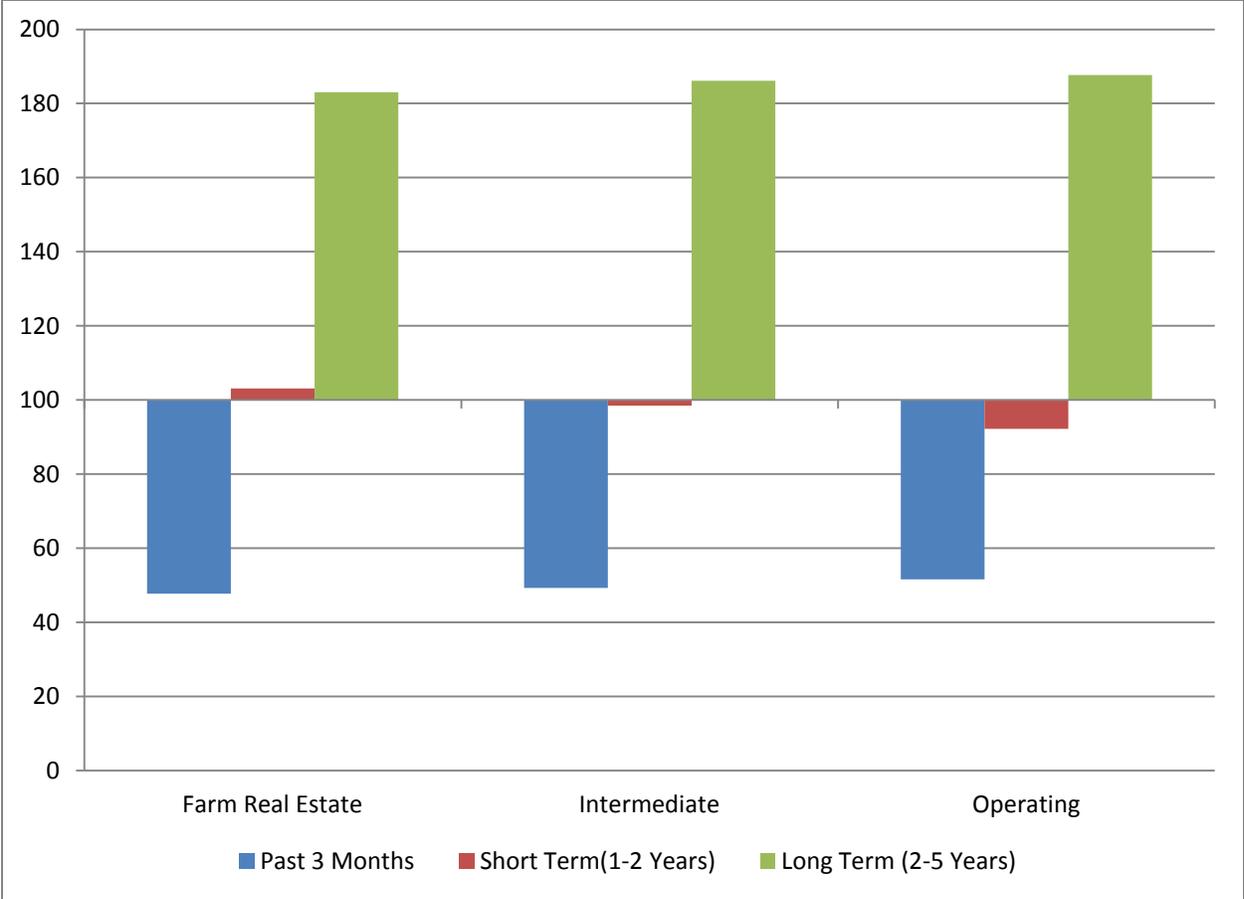
**Figure 2, Loan Volume by Region**



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; and (4) non-performing loan volumes. 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.).

**Farm Loan Interest Rate** – Figure 3 shows the survey results for loan interest rates. Over the past three months, loan interest rates decreased for Farm Real Estate, Intermediate and Operating loans, which is in line with the most recent Agricultural Credit Survey from the Federal Reserve Bank of Kansas City. New information that the K-State Ag Finance Survey provides is expectations for interest rate movements. For all three categories, survey respondents felt that loan interest rates will bottom out in the short-run (1-2 years), and then begin to increase in the long-run (2-5 years). A score of 200 would indicate that all participants are expecting an increase and 0 would indicate that all are expecting a decrease.

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



\*The diffusion index is calculated by taking the percentage of those responding up minus the percentage of those responding down plus 100. Therefore, indexes above (below) 100 indicate a rise (fall) in interest rates, while 100 indicates rates to hold steady.

Below are some selected survey respondent comments related to interest rates:

*“Competition is fierce for ag loans. Grain Farming has been very profitable, but high rents and inputs are putting more risk on farmers, especially if crop insurance guarantees go down. Beef farmers have been struggling with the drought and high feed costs, but higher cattle prices have helped combat those issues.”*

*“The Ag sector has been a bright spot in our economy. All sectors we deal with have been doing well...grain, cattle, & hogs. While farmers have purchased ground at historic high prices, their balance sheets reflect the capacity to do so. We have started to "shock test" some of our customers. For example, what if interest went up 1-2% and corn fell by \$1-2 per/bu. So far, our customers are in good shape. Federal Crop Insurance is a major component of risk management for both the farmer and the bank. We watch with interest as it is debated in Congress.”*

*“Eastern Corn Belt is experiencing positive NFI [Net Farm Income], with low interest rates and favorable revenue insurance in the event of adversity. Leads to perhaps the most profitable decade in (modern) history.”*

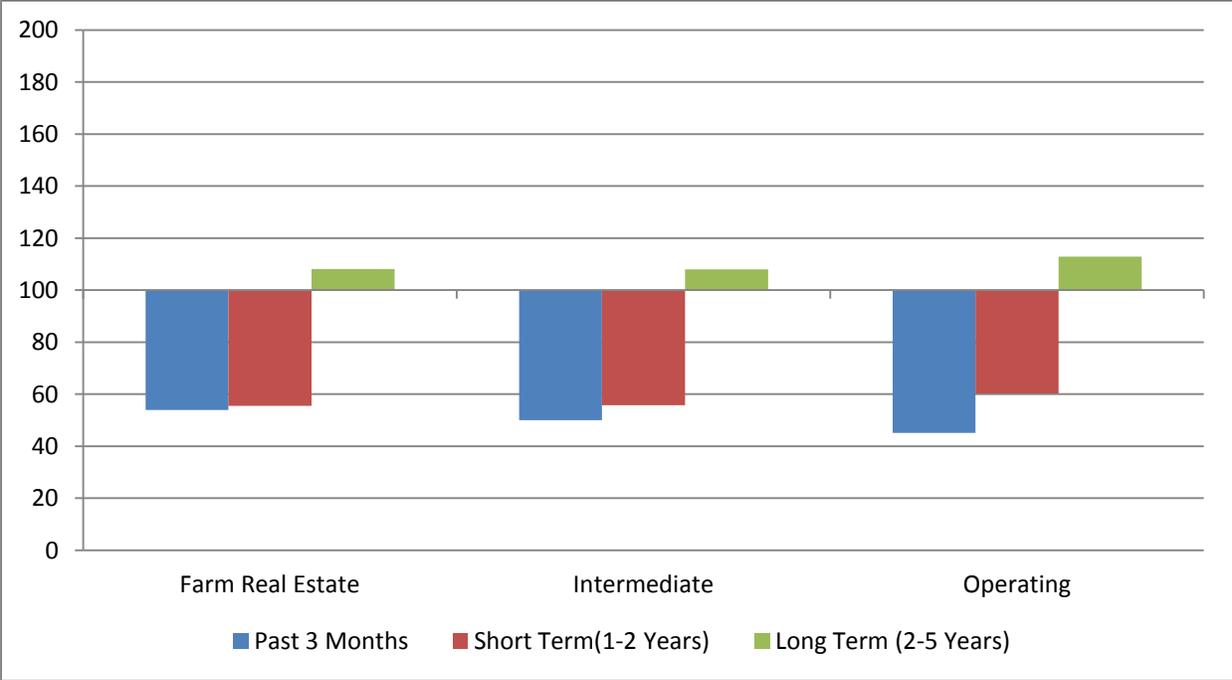
*“Sharp spike upwards in all Ag-related real estate past two years. Ag real estate prices seem to be leveling off so far in 2013, but at all-time highs.”*

*“The current drought will continue to be a factor into the 2013 growing season.....machinery demands will soften in 2013 and 2014.”*

**Spread Over Cost of Funds** – 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 and expect even further decrease in the short term. However, this trend is expected to moderate in the long run. One difference in the results by region is that survey respondents in the Midwest region did not predict an increase in spread over cost of funds in the long run; however, that region still expects some moderation of this trend. This decrease in spread over cost of funds perhaps indicates higher levels of competition for agricultural loans. One respondent noted *“Competition from commercial banks increasing their Agriculture portfolio will cause spreads to decrease.”*

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

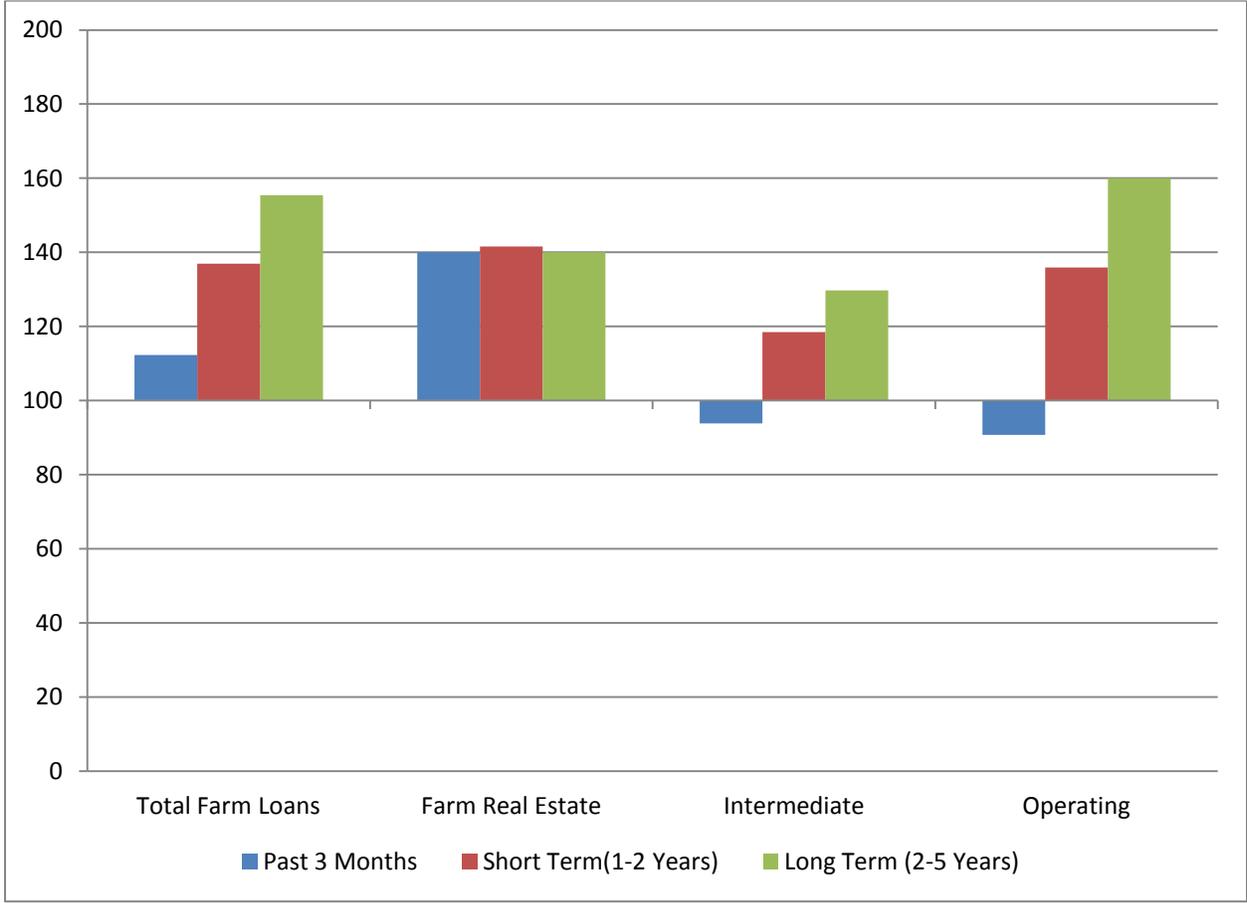


\*The diffusion index is calculated by taking the percentage of those responding up minus the percentage of those responding down plus 100. Therefore, indexes above (below) 100 indicate a rise (fall) in the spread over cost of funds, while 100 indicates spreads to hold steady.

**Farm Loan Volumes** – Figure 5 shows the responses for farm loan volume. 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 agricultural loans is expected to increase for all loan categories in the both the short term and long term, indicating strong expected, demand for agricultural loans. The operating volume has remained steady though it is expected to increase in the future. This will be an important variable to track in the future.

A difference in responses for this question centers around the size of the bank. For lending institutions that have over \$50 million in agricultural loans, those lending institutions reported an increase in loan volume in all categories for the past three months. Lending institutions with less than \$50 million in agricultural loans reported a decrease total farm loan volume, intermediate loans and operating loans for the past three months.

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

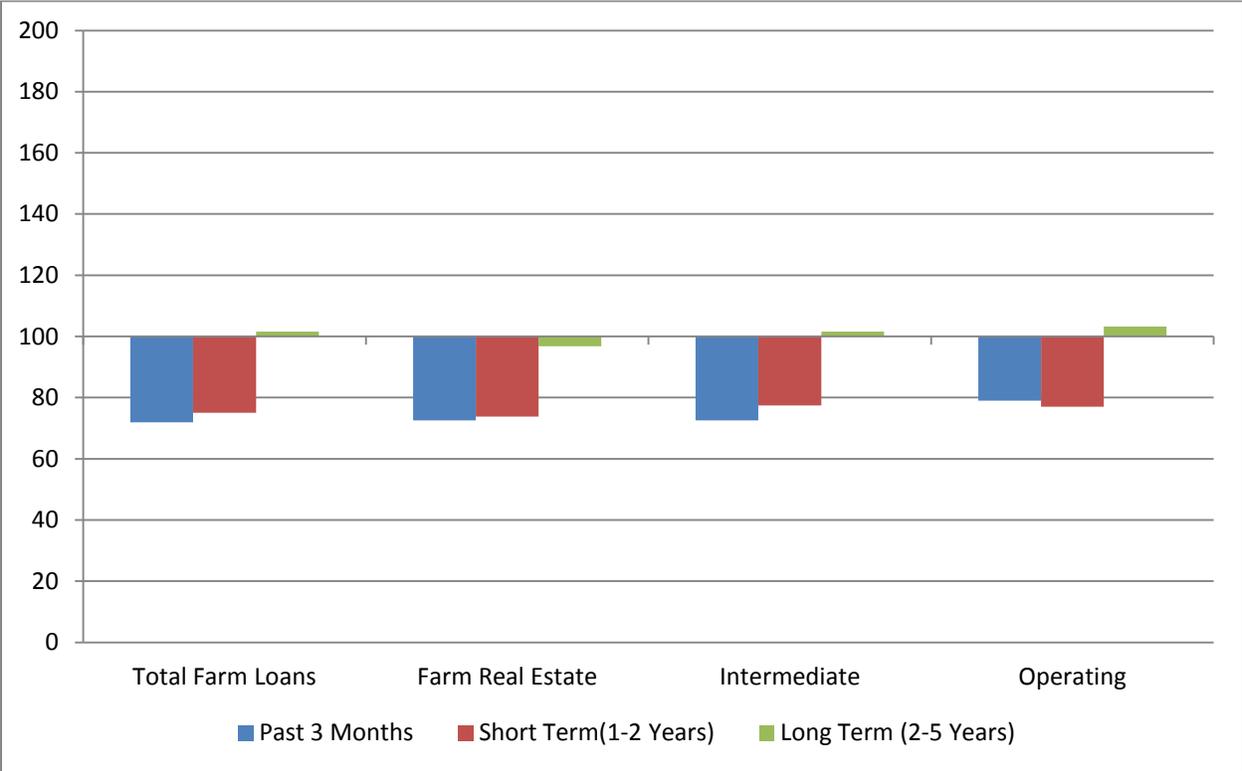


\*The diffusion index is calculated by taking the percentage of those responding up minus the percentage of those responding down plus 100. Therefore, indexes above (below) 100 indicate a rise (fall) in loan volume, while 100 indicates volumes to hold steady.

**Non-performing Loans** – Figure 6 shows when the results are analyzed by loan type, illustrates that all categories of non-performing loans have decreased and are expected to continue to fall in the short run. In the long term, all types of non-performing loans are expected to moderate.

Several respondents commented on the level of non-performing loans for their lending institution: *“I said 'stay the same' on the non-performing due to having no non-performing and not expecting any at this time”* and *“Please realize that my answers to the non-performing loan questions are based on the fact that currently we have virtually no nonperforming loans.”*

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

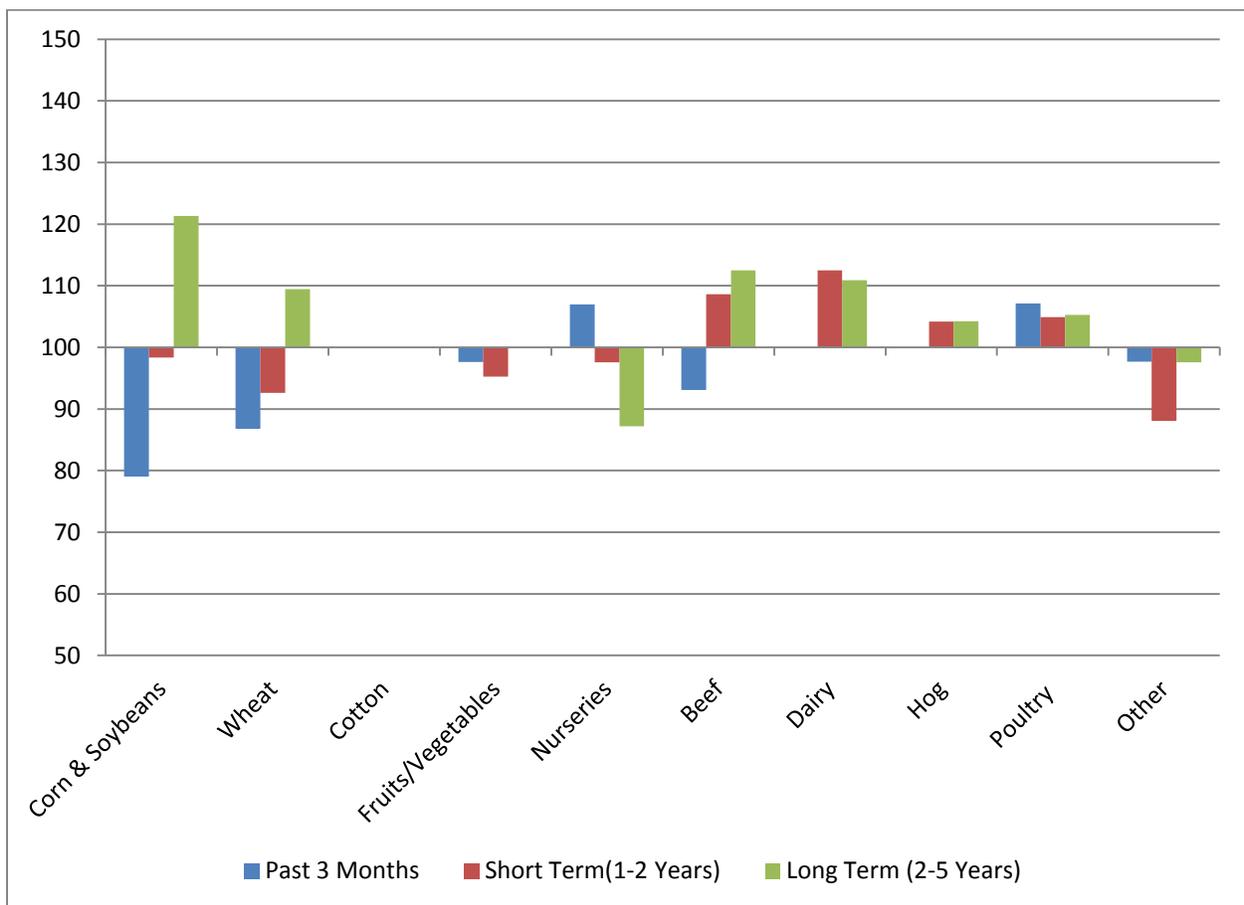


\*The diffusion index is calculated by taking the percentage of those responding up minus the percentage of those responding down plus 100. Therefore, indexes above (below) 100 indicate a rise (fall) in non-performing loans, while 100 indicates non-performing loans to hold steady.

A question that presents itself when combining the responses for non-performing loans and those of spread over cost of funds is that if the spread over cost of funds continues to decrease due to increased competition in the agricultural sector, will lending institutions lower underwriting standards to be more competitive? If so, the lowering of underwriting standards could lead to a higher rate of non-performing loans.

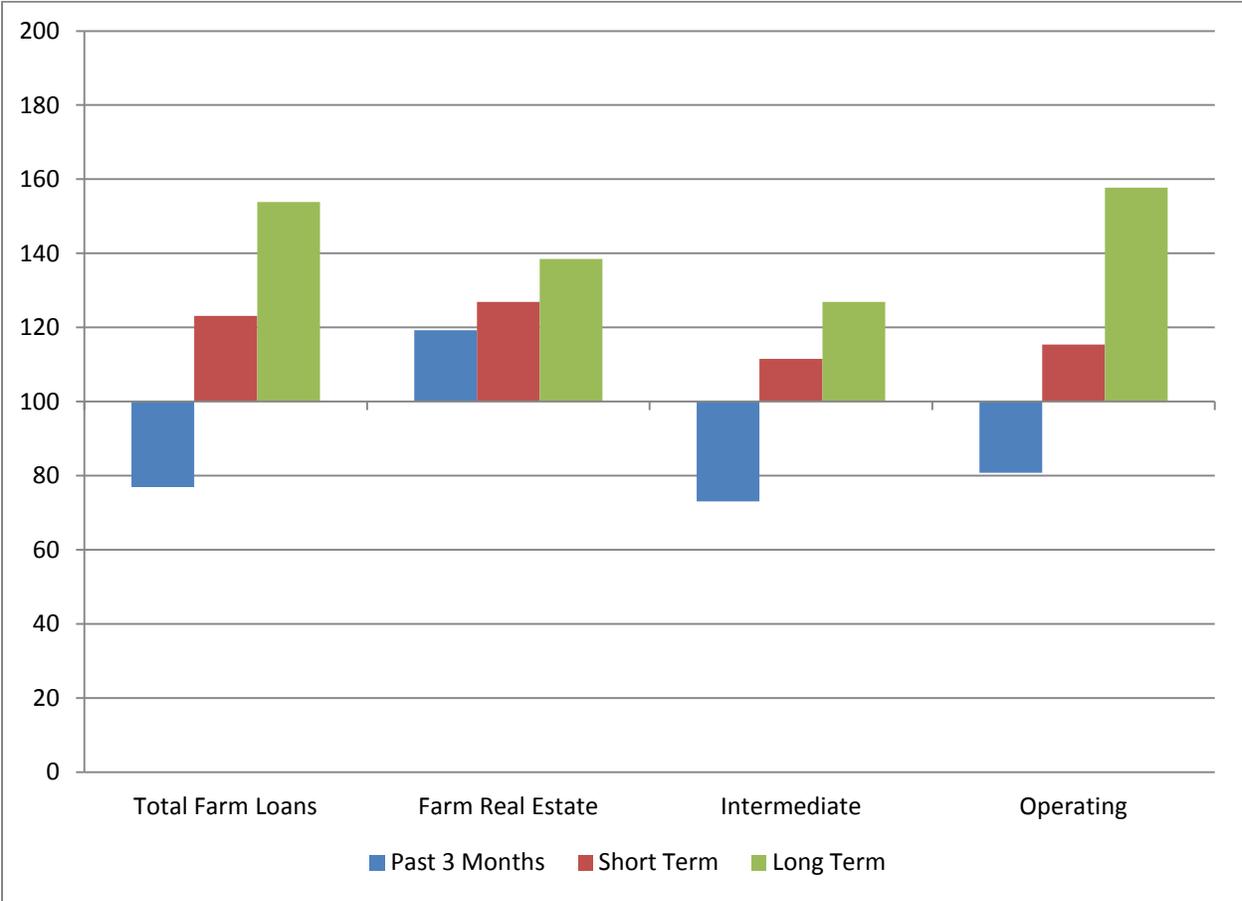
Breaking non-performing loans down by industry sector, shows varied levels of sectorial stress. Figure 7 shows the livestock sectors of beef, dairy, hog and poultry are all expected to increase the number of non-performing loans in the short and long term. The crop sectors of corn and soybeans and wheat 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, though the sentiment is not strong. One potential reason for the increase in non-performing loans in the long run is that currently many lending institutions have very few non-performing loans.

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

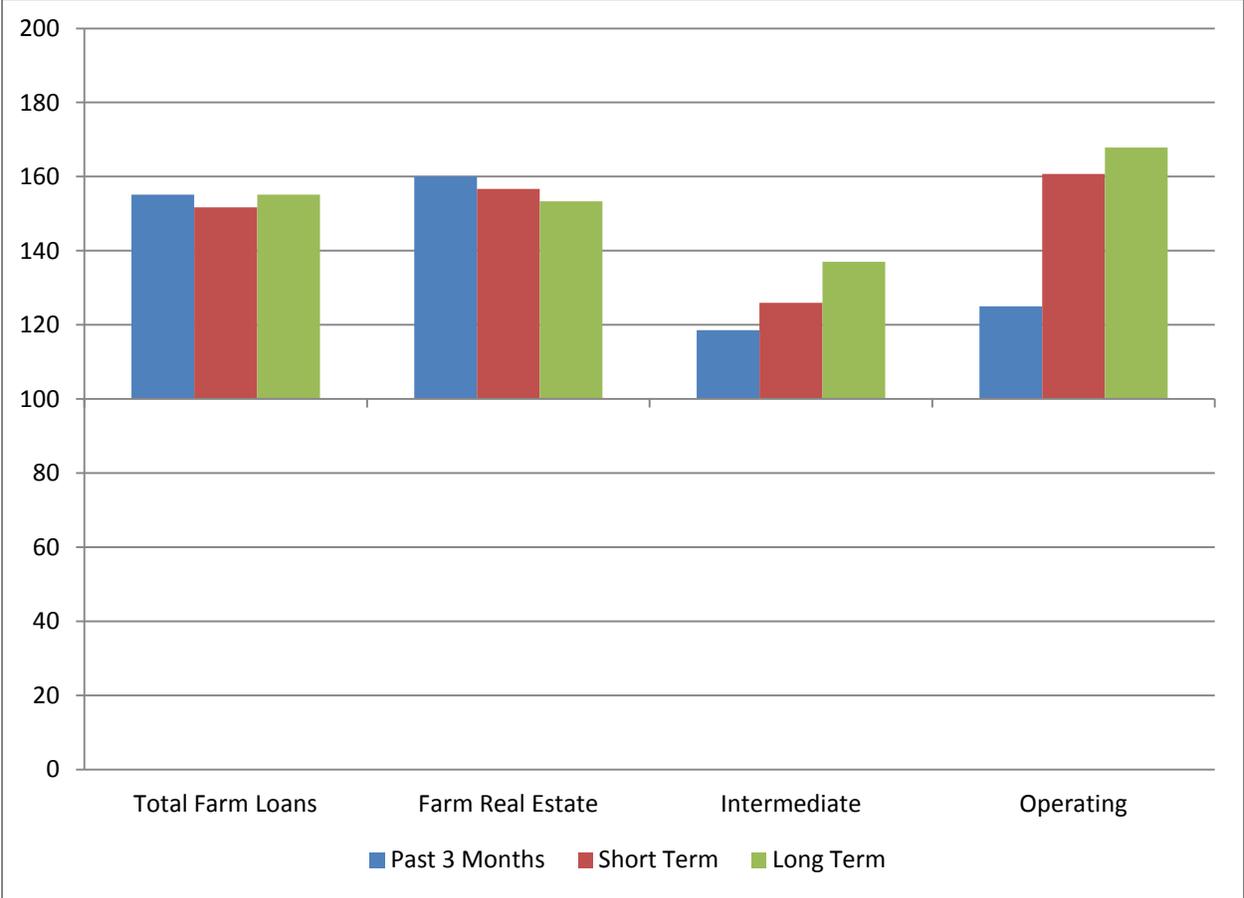


Farm loan volumes have varied across lending institutions of different sizes. Figures 8 and 9 show the diffusion index for farm loan volume of lending institutions with less than \$50 million and those with more than \$50 million in agricultural loans, respectively. The level of \$50 million in agricultural loans represents the median agricultural loan volume of all survey respondents. Over the past three months, those lending institutions below \$50 million reported a decrease in their agricultural loan volume. This decrease was led by a fall in intermediate and operating loan volume, while farm real estate loan volume rose. For larger lending institutions, 55% more lending institutions reported an increase in agricultural loan volume than those that saw a decrease. Both lending institution types expect farm loan volumes to increase in the future.

**Figure 8, Farm Loan Volume, Lending Institutions with Less than \$50 Million in Agricultural Loans – Diffusion Index of Survey Respondents**



**Figure 9, Farm Loan Volume, Lending institutions with More than \$50 Million Agricultural Loans – Diffusion Index of Survey Respondents**



In summary, the responses indicate an expected increase in loan interest rates in the future. Spread over cost of funds is expected to decrease, indicating perhaps increased competition for agricultural loans. Survey respondents commented on the increased competition for agricultural loans and the effect on the spread over cost of funds. The rate of non-performing loans is currently low; however, an increase is expected. The sectors of corn and soybeans, wheat, beef, dairy, hog and poultry are expected to increase in non-performing loans. The total loan volume is expected to increase, indicating a strong demand for agricultural loans in the future. Currently, the agricultural lending situation is very strong and expected to remain so.

**Table 1, Regions and Respective States**

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