

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Declines; Farmland Prices Lower

Overview

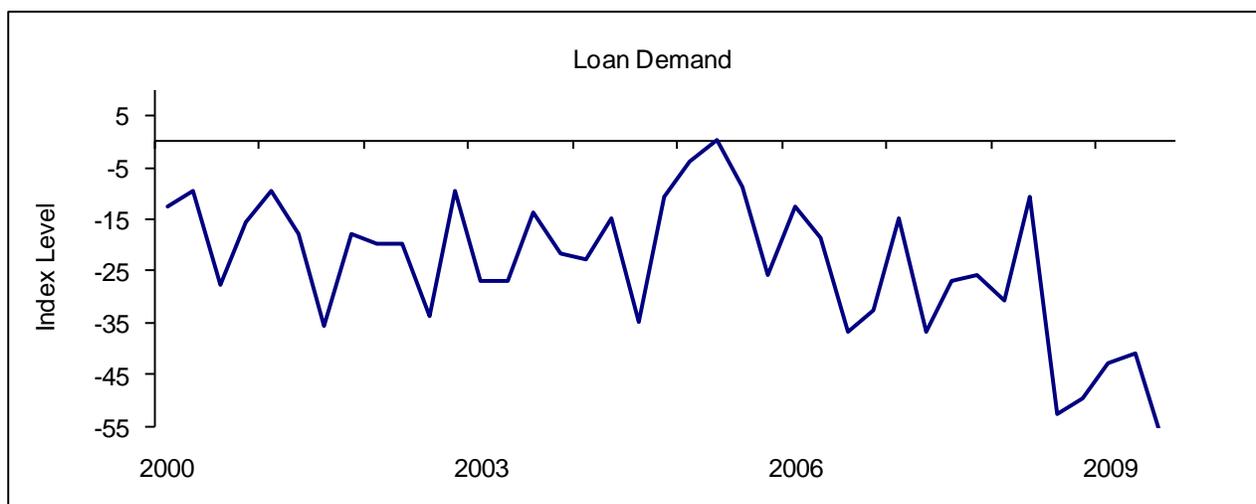
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicate that credit lending conditions deteriorated during the third quarter of 2009. Bankers reported that farm loan demand weakened and noted that the rate of loan repayments continued to decrease, although at a slightly slower pace than reported in our last survey. In contrast, lenders reported that requests for loan renewals or extensions increased at a somewhat quicker rate. Moreover, agricultural lenders reported that farm loan availability steadied, and collateral requirements tightened from second-quarter levels. Reports also indicated that interest rates declined for feeder cattle and operating loans, but increased for intermediate-term and long-term real estate loans since the second quarter of 2009. Turning to farmland values, third-quarter land prices were below the level recorded in the previous quarter but above year-ago levels.

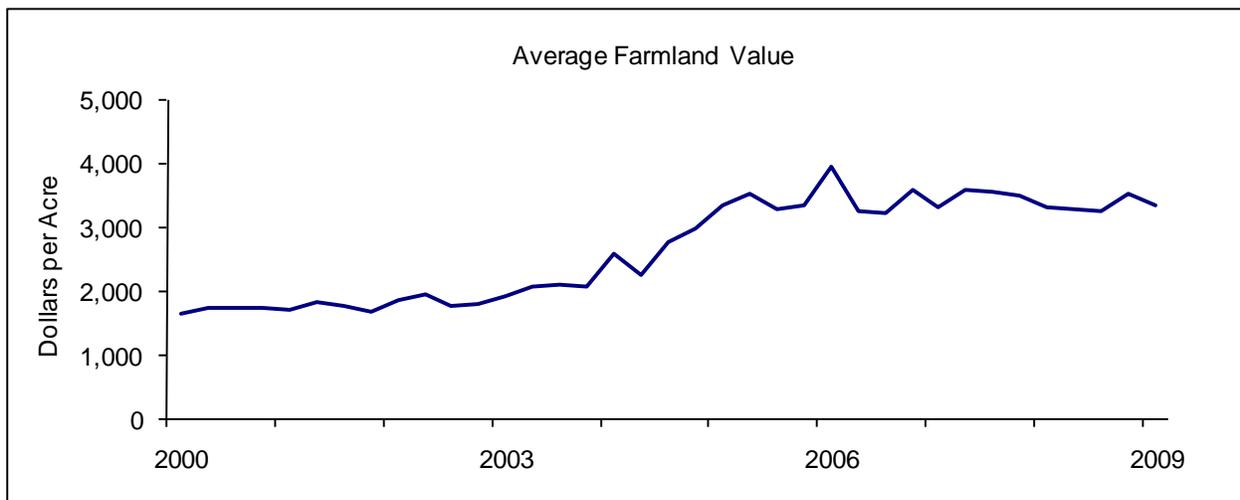
Demand for Farm Loans

The demand for farm loans weakened further in

the third quarter. Lenders attributed the softness in loan demand to substantially lower commodity prices coupled with higher input costs, which they believed would dramatically reduce net farm income in 2009. Moreover, lenders continued to express concern about depressed product demand. In addition, bankers noted that cattle and dairy farms continued to struggle.

A contact in North Carolina told us that considerably lower commodity prices combined with higher input costs would negatively impact net farm income in 2009. Similarly, a South Carolina banker told us that lower cotton prices had reduced the number of acres of cotton planted. Additionally, a contact in North Carolina reported that the continued reduction in meat demand caused swine producers to restructure debt in an effort to endure the financial pressure of the recession. Moreover, analysts in Virginia and West Virginia indicated that cattle and dairy farms remained under a great deal of stress. Although they noted that culling herds could steer prices in the right direction, the benefits from liquidation might be too late for some farmers.





Looking forward, respondents expected farm loan volumes overall to contract at a slower pace in the fourth quarter of 2009. Contacts indicated diminished weakness in the demand for farm machinery loans. The reading for farm machinery loans moved up 24 points to -37. In addition, the expected demand for operating loans picked up 27 points to -6. In other categories, the expected demand for dairy loans advanced 11 points to -36, and the reading for crop storage loans increased ten points to end at -19. In contrast, the expectations for feeder cattle loans edged down three points to -50.

Interest Rates

Interest rates for agricultural loans were mixed during the third quarter. Compared to second quarter levels, rates for long-term real estate loans moved up 22 basis points and rates for intermediate-term loans moved up 11 basis points. In other categories, interest rates for feeder cattle loans dropped 19 basis points and operating loans decreased 13 basis points.

Availability of Credit

In the third quarter, 75 percent of lenders reported that they had actively sought new farm loans, which was virtually unchanged from last quarter's reading of 76 percent. Moreover, the funds availability index stabilized at 0.

Credit Quality

During the third quarter, the quality of agricultural credit was mixed. The index for loan repayment

rates contracted at a slower pace, gaining 10 points to -12, while loan renewals retreated three points to end at 31. In addition, the index of collateral requirements tightened 21 points to finish at 56.

Farmland Values

The market value of good farmland averaged \$3,341 per acre in the third quarter, 5.8 percent below the second quarter reading but 1.1 percent above the mark from a year earlier. Looking forward, however, bankers anticipated that farmland prices would decline at a slower pace during the fourth quarter of 2009; the index of expected land values moved up eight points to -25.

All banks surveyed are within the Fifth Federal Reserve District: the District of Columbia, Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.

Contact

Judy Cox

Senior Economic Analyst
 Research Dept. /Regional Economics
 Federal Reserve Bank of Richmond
 Richmond Office

Ph: 804.697.8152 • Fax: 804.697.8123
judy.cox@rich.frb.org
www.richmondfed.org

Agricultural Credit Conditions

Indicators of Demand

Farm Non-Real Estate Lending

Percent Reporting

	Greater than Usual	Less than Usual	About as Usual
Demand for Loans	6	63	31
Funds Availability	13	13	75
Loan Repayment Rates	19	31	50
Renewals or Extensions	44	13	44
Collateral Requirements	56	0	44

Diffusion Indexes¹

	2009:Qtr.3	2009: Qtr.2	2008: Qtr.3
Demand for Loans	-57	-41	-53
Funds Availability	0	11	-7
Loan Repayment Rates	-12	-22	-21
Renewals or Extensions	31	28	7
Collateral Requirements	56	35	47

Farm Loan Volume Expected: Next Three Months

Percent Reporting

	Higher	Lower	Same
Real Estate Loans	6	56	38
Non Real Estate Loans	13	75	13
Feeder Cattle	7	57	36
Dairy	14	50	36
Crop Storage	19	38	44
Operating	25	31	44
Farm Machinery	13	50	38

Diffusion Indexes¹

	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
Real Estate Loans	-50	-50	-60
Non Real Estate Loans	-62	-67	-53
Feeder Cattle	-50	-47	-36
Dairy	-36	-47	-46
Crop Storage	-19	-29	-21
Operating	-6	-33	-27
Farm Machinery	-37	-61	-47



Agricultural Credit Conditions

Indicators of Credit Availability

Average Loan-to-Deposit Ratio	Level	Change From ²	
	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
	78.7	-5.0 ppt	4.2 ppt

Loan-to-Deposit Ratio Compared to Desired Level	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
	21	36	43

Diffusion Indexes ¹		
2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
-14	-40	-21

Loan Refusal or Reduction Due to Funds Shortage	Level	Percent Reporting "Yes"	
	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
Yes	6	6	0
No	94		

Actively Seeking New Farm Loans	Level	Percent Reporting "Yes"	
	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
Yes	75	76	73
No	25		

Farm Loan Referrals	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Correspondent Banks	0	0	7
Non-bank Agencies	0	0	7

	Level	Percent Reporting "None"	
	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
Correspondent Banks	93	100	100
Non-bank Agencies	93	94	100

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans

	Level	Change From ³	
	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
Feeder Cattle Loans	6.67	-19 bp	-20 bp
Operating Loans	6.44	-13 bp	-30 bp
Intermediate-term Loans	6.73	11 bp	-19 bp
Long-term Real Estate Loans	7.06	22 bp	-1 bp

Farm Real Estate Values

	Level	Percent Change From	
	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
Average Farmland Value (per acre)	\$3,341	-5.8 %	1.1 %

Expected Farmland Value: Next Three Months

	Percent Reporting		
	Up	Down	Stable
	0	25	75

	Diffusion Indexes ¹		
	2009: Qtr.3	2009: Qtr.2	2008: Qtr.3
	-25	-33	-20

- ¹ Diffusion indexes are calculated as the percentage of banks reporting increases minus the percentage of banks reporting decreases.
- ² Change in loan-to-deposit ratio from previous periods measured in percentage points (ppt).
- ³ Change in average interest rates from previous periods measured in basis points (bp). Basis points are defined as 1/100th of a percentage point. Percentages may not add to 100 due to rounding.