

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Contracts at a Quicker Pace; Farmland Prices Lower

Overview

Results from the Richmond Fed's latest survey of Fifth District agricultural banks suggested somewhat weaker lending conditions during the second quarter of 2010. Bankers reported that farm loan demand contracted at a quicker pace than in the first quarter. In addition, contacts noted loan repayments rates edged lower and requests for loan renewals or extensions grew more slowly. Moreover, agricultural lenders reported that farm loan availability increased noticeably from first quarter levels, while collateral requirements tightened considerably. Reports indicated that interest rates increased for intermediate-term loans but eased for all other categories. Turning to farmland values, second-quarter land prices fell from both previous quarter and year-ago levels.

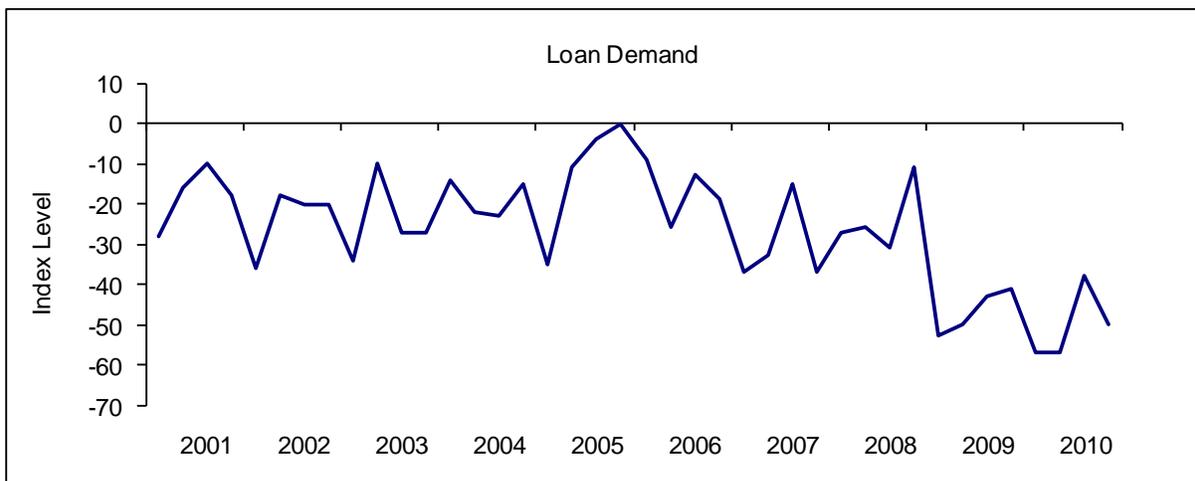
Demand for Farm Loans

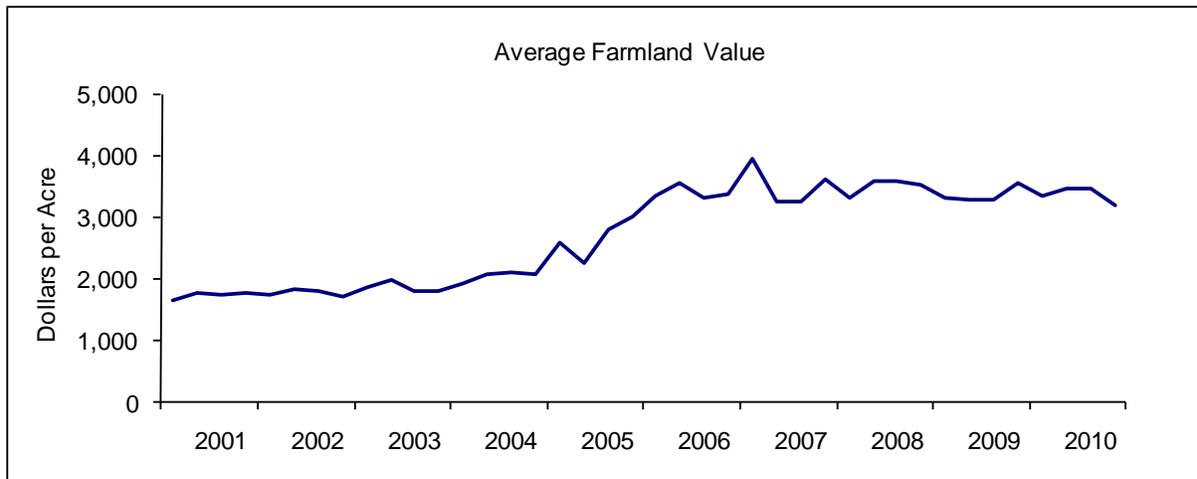
The demand for farm loans moved lower in the second quarter. Lenders attributed the weakness in loan demand to adverse weather conditions, which stalled crop development, negatively impacted crop yields, and damaged nursery products. Additionally, lenders expressed concerns about the reduction in demand for timber goods, which they attributed to the expiration of

tax incentives. On the other hand, bankers noted that favorable prices continued to generate profits for both swine and cattle producers.

Contacts in Maryland, the Carolinas and Virginia said that excessive hot, dry periods had stalled crop development and negatively impacted expected yields for most row crops. A banker in North Carolina told us that many counties in major grain growing areas will likely qualify for disaster status, with corn yields estimated to be in the 50 percent range or lower. Analysts in Virginia and Maryland reported that exceptionally hot and dry weather resulted in very poor corn crops and noted that, while crop insurance would cover cash operating expenses, net income will be lower in 2010.

Several contacts said that the increase in seasonal demands for nursery products gave way to the excessive heat and dry conditions. They also noted that the expiration of tax incentives diminished increases in the housing sector, which dampened demand for construction materials. Accordingly, lower demand for forestry products caused log prices to slip. In contrast, a contact in North Carolina mentioned that favorable prices continued to generate profits for both cattle and





swine producers, which he attributed, in part, to decreased inventory levels coupled with increased global demand.

Looking forward, farmers expected farm loan volumes generally to contract at a slower pace in the third quarter of 2010, led by more weakness in the demand for dairy and feeder cattle loans. The reading for dairy loans moved down twenty-one points to -46, and the expected demand for feeder cattle loans lost seventeen points to end at -42. In other categories, the expected demand for crop storage loans edged up four points to -15 and the reading for farm machinery loans fell eight points to -25. In contrast, the forward looking index for operating loans remained positive but grew at a slower rate, shedding twenty-two points to 6.

Interest Rates

Interest rates for agricultural loans by category were mixed during the second quarter. Compared to first quarter levels, rates for feeder cattle loans moved down 30 basis points and rates for operating loans decreased 11 basis point. Interest rates for long-term real estate loans was virtually unchanged, losing only 1 basis point. In contrast, rates for intermediate-term loans gained 16 basis points.

Availability of Credit

In the second quarter, 69 percent of lenders reported that they had actively sought new farm loans, up somewhat from 59 percent in the previous quarter. Moreover, the funds availability index increased fourteen points to 31.

Credit Quality

During the second quarter, the quality of agricultural credit was mixed. Loan repayment rates contracted at a slightly quicker pace, as the index edged up two points to -13, and the loan renewals index retreated fifteen points to end at 13. In addition, the index for collateral requirements picked up fourteen points to end the second quarter at 38.

Farmland Values

The market value of good farmland averaged \$3,181 per acre in the second quarter, 8.2 percent below the first quarter reading and 10.2 percent under the mark from a year earlier. Looking forward, bankers anticipated that farmland prices would grow at a slightly slower pace during the third quarter of 2010; the index for expected land values moved down nineteen points to -13.

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.

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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	56	38
Funds Availability	31	0	69
Loan Repayment Rates	0	13	88
Renewals or Extensions	19	6	75
Collateral Requirements	44	6	50

Diffusion Indexes¹

	2010:Qtr.2	2010: Qtr.1	2009: Qtr.2
Demand for Loans	-50	-39	-41
Funds Availability	31	17	11
Loan Repayment Rates	-13	-11	-22
Renewals or Extensions	13	28	28
Collateral Requirements	38	24	35

Farm Loan Volume Expected: Next Three Months

	Percent Reporting		
	Higher	Lower	Same
Real Estate Loans	13	38	50
Non Real Estate Loans	0	36	64
Feeder Cattle	0	42	58
Dairy	0	46	54
Crop Storage	8	23	69
Operating	25	19	56
Farm Machinery	13	38	50

Diffusion Indexes¹

	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
Real Estate Loans	-25	-11	-50
Non Real Estate Loans	-36	-19	-67
Feeder Cattle	-42	-25	-47
Dairy	-46	-25	-47
Crop Storage	-15	-19	-29
Operating	6	28	-33
Farm Machinery	-25	-17	-61

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
Average Loan-to-Deposit Ratio	79.7	-4.2 ppt	-4.0 ppt

	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	8	62	31

Diffusion Indexes ¹		
2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
-54	-25	-40

	Level	Percent Reporting "Yes"	
	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
Loan Refusal or Reduction Due to Funds Shortage			
Yes	0	11	6
No	100		

	Level	Percent Reporting "Yes"	
	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
Actively Seeking New Farm Loans			
Yes	69	59	76
No	31		

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

	Level	Percent Reporting "None"	
	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
Farm Loan Referrals			
Correspondent Banks	87	93	100
Non-bank Agencies	80	88	94

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans

	Level	Change From ³	
	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
Feeder Cattle Loans	6.65	-30 bp	-21 bp
Operating Loans	6.41	-11 bp	-16 bp
Intermediate-term Loans	6.65	16 bp	4 bp
Long-term Real Estate Loans	6.91	-1 bp	6 bp

Farm Real Estate Values

	Level	Percent Change From	
	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
Average Farmland Value (per acre)	\$3,181	-8.2 %	-10.2 %

Expected Farmland Value: Next Three Months

	Percent Reporting		
	Up	Down	Stable
	0	13	88

	Diffusion Indexes ¹		
	2010: Qtr.2	2010: Qtr.1	2009: Qtr.2
	-13	6	-33

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.