

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Remained Weak; Farmland Prices Higher

Overview

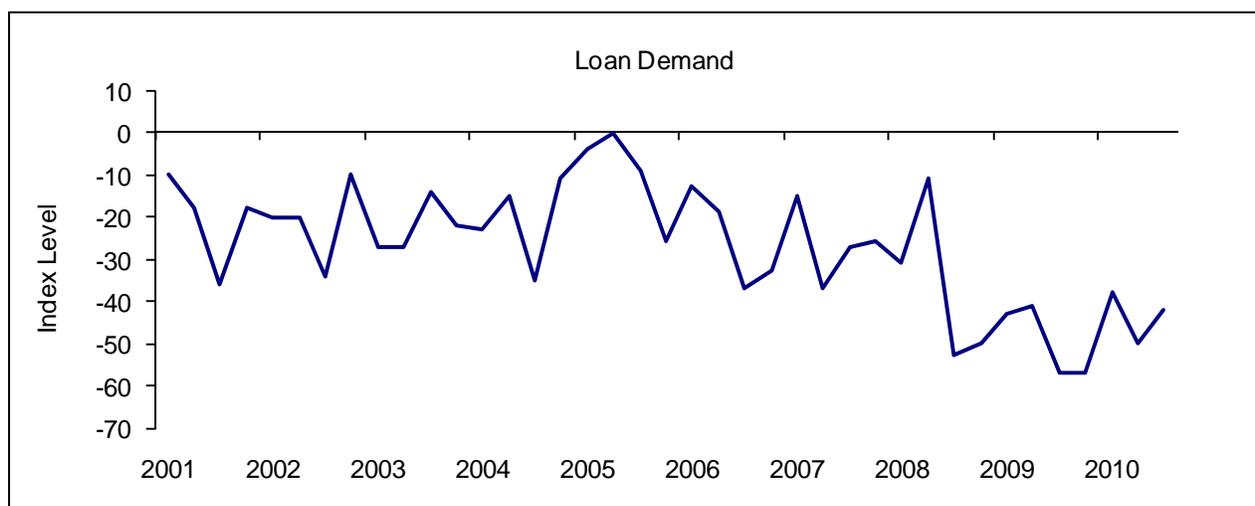
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicated diminishing weakness in credit lending conditions during the third quarter of 2010. Bankers reported that demand for farm loans contracted, but at a somewhat slower pace than in the second quarter. In addition, contacts noted that loan repayments rates, while still weak, moderated slightly in the third quarter. However, requests for loan renewals or extensions edged somewhat higher. Moreover, agricultural lenders reported that farm loan availability increased from second quarter levels, while collateral requirements continued to tighten. Reports indicated that interest rates increased for intermediate-term loans but eased for all other categories. Turning to farmland values, third-quarter land prices rose from both previous quarter and year-ago levels.

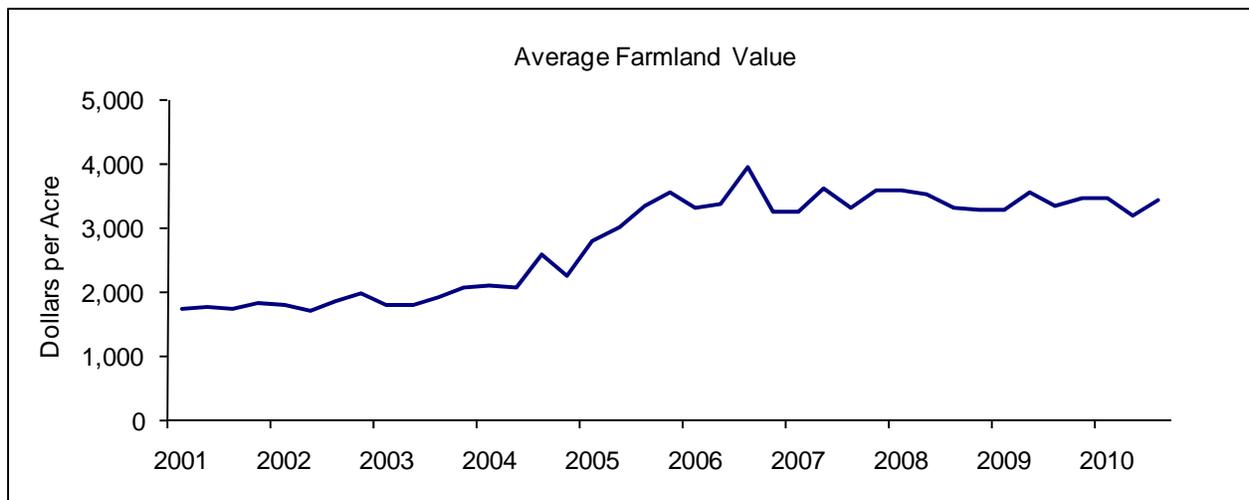
Demand for Farm Loans

The demand for farm loans remained weak in the third quarter, although the pullback in demand was less pronounced than in the second quarter.

Lenders attributed the weakness in loan demand to unrelenting drought conditions followed by excessive rains, which resulted in undesirable growing conditions and dramatically impacted yields. Moreover, lenders noted that the reductions in yields and crop quality will significantly reduce farm income in 2010 and could require the restructuring of many operating and term loans. Also, lenders indicated that the forestry and nursery industry remained relatively flat due to overall economic conditions.

Contacts in Maryland, the Carolinas and Virginia said that drought conditions had stalled crop development and negatively impacted yields. A banker in North Carolina told us that many tobacco producers were experiencing reductions in yields of 75 percent or more from prior-year averages. An analyst in South Carolina reported that exceptionally hot and dry weather really hurt the soybean crop and expected soybeans to be only 10-15 bushels per acre. In addition, contacts in Maryland and Virginia mentioned that there was a good possibility that farmers in these regions would post decreases in liquidity, which could





cause operating lines to be drawn earlier in 2011. Furthermore, a contact in North Carolina indicated that demand for forestry products continued to fall due to relatively low housing starts.

Looking ahead, lenders expected farm loan volumes generally to contract at a slower pace in the fourth quarter of 2010, led by less weakness in the demand for dairy and feeder cattle loans. The reading for feeder cattle loans moved up 35 points to -7, and the expected demand for dairy loans gained 15 points to end at -31. In other categories, the expected demand for operating loans eased one point to 5, while crop storage loans moved down eight points to -23. Moreover, the reading for farm machinery loans fell 17 points to -42.

Interest Rates

Interest rates for agricultural loans by category were mixed during the third quarter. Compared to second quarter levels, rates for long-term real estate loans fell 25 basis points and rates for feeder cattle loans moved down 12 basis points. Interest rates for operating loans lost four basis points, while rates for intermediate-term loans gained four basis points.

Availability of Credit

In the third quarter, 68 percent of lenders reported that they had actively sought new farm loans, which was virtually unchanged from 69 percent in the previous quarter. Moreover, the funds availability index increased six points to 37.

Credit Quality

During the third quarter, the quality of agricultural credit was mixed. Loan repayment rates contracted at a slightly slower pace, as the index edged up two points to -11 and the loan renewals index moved up three points to end at 16. In addition, the index for collateral requirements picked up four points to end the third quarter at 42.

Farmland Values

The market value of good farmland averaged \$3,416 per acre in the third quarter, 7.4 percent above the second quarter reading and 2.3 percent higher than a year earlier. Looking ahead, bankers anticipated that farmland prices would grow at a slightly slower pace during the fourth quarter of 2010; the index for expected land values moved down 11 points to -11.

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	11	53	37
Funds Availability	37	0	63
Loan Repayment Rates	0	11	89
Renewals or Extensions	21	5	74
Collateral Requirements	42	0	58

	Diffusion Indexes ¹		
	2010:Qtr.3	2010: Qtr.2	2009: Qtr.3
Demand for Loans	-42	-50	-56
Funds Availability	37	31	0
Loan Repayment Rates	-11	-13	-13
Renewals or Extensions	16	13	31
Collateral Requirements	42	38	56

Farm Loan Volume Expected: Next Three Months	Percent Reporting		
	Higher	Lower	Same
Real Estate Loans	5	42	53
Non Real Estate Loans	11	33	56
Feeder Cattle	8	15	77
Dairy	0	31	69
Crop Storage	12	35	53
Operating	26	21	53
Farm Machinery	5	47	47

	Diffusion Indexes ¹		
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
Real Estate Loans	-37	-25	-50
Non Real Estate Loans	-22	-36	-63
Feeder Cattle	-7	-42	-50
Dairy	-31	-46	-36
Crop Storage	-23	-15	-19
Operating	5	6	-6
Farm Machinery	-42	-25	-38

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
Average Loan-to-Deposit Ratio	83.9	4.2 ppt	5.2 ppt
	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	6	56	38
	Diffusion Indexes¹		
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
	-50	-54	-14
	Level		Percent Reporting "Yes"
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
Loan Refusal or Reduction Due to Funds Shortage	0	0	6
Yes	100		
No			
	Level		Percent Reporting "Yes"
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
Actively Seeking New Farm Loans	68	69	75
Yes	32		
No			
	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Farm Loan Referrals	0	0	6
Correspondent Banks	0	0	6
Non-bank Agencies			
	Level		Percent Reporting "None"
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
Correspondent Banks	94	87	93
Non-bank Agencies	94	80	93

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From ³	
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
Feeder Cattle Loans	6.53	-12 bp	-14 bp
Operating Loans	6.37	-4 bp	-7 bp
Intermediate-term Loans	6.69	4 bp	-4 bp
Long-term Real Estate Loans	6.66	-25 bp	-40 bp

Farm Real Estate Values	Level	Percent Change From	
	2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
Average Farmland Value (per acre)	\$3,416	7.4 %	2.3 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	0	11	89

Diffusion Indexes ¹		
2010: Qtr.3	2010: Qtr.2	2009: Qtr.3
-11	-13	-25

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.