

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Remained Stable in the Second Quarter; Farmland Prices Edged Lower

Overview

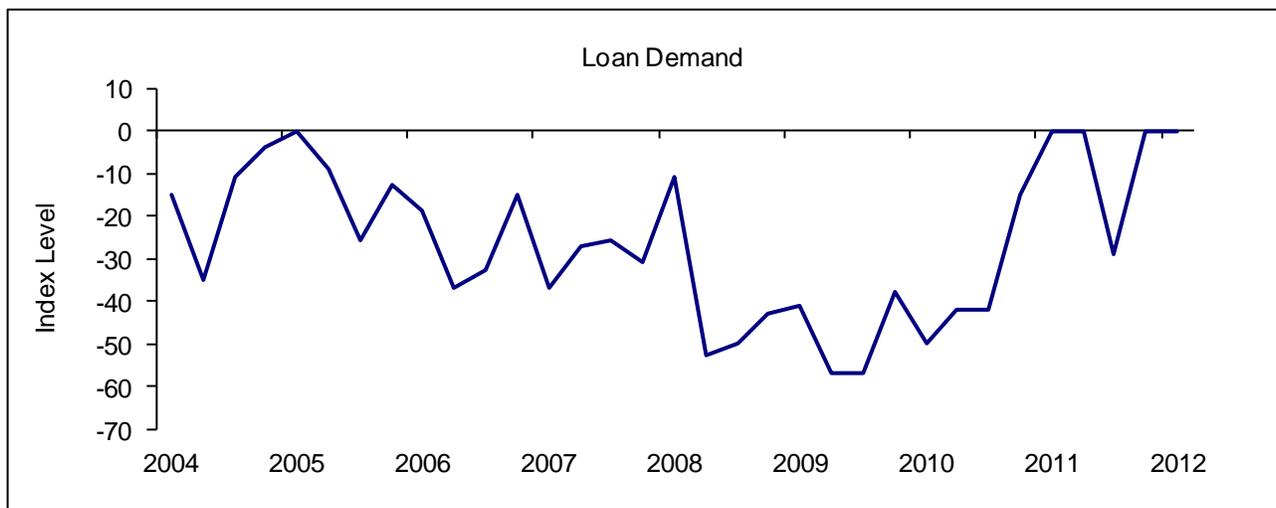
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicated a steady lending environment during the second quarter of 2012. Bankers generally reported that farm loan demand held firm after plateauing during the previous quarter. They also noted that requests for loan renewals or extensions declined, while the rate of loan repayment steadied. Respondents also said that farm loans were generally more available and that collateral requirements eased notably since our last report. Reports also indicated that interest rates for long-term real estate loans inched lower, while all other agricultural loans rose. Turning to farmland values, second-quarter land prices were slightly below the previous quarter, but were somewhat above year-ago levels.

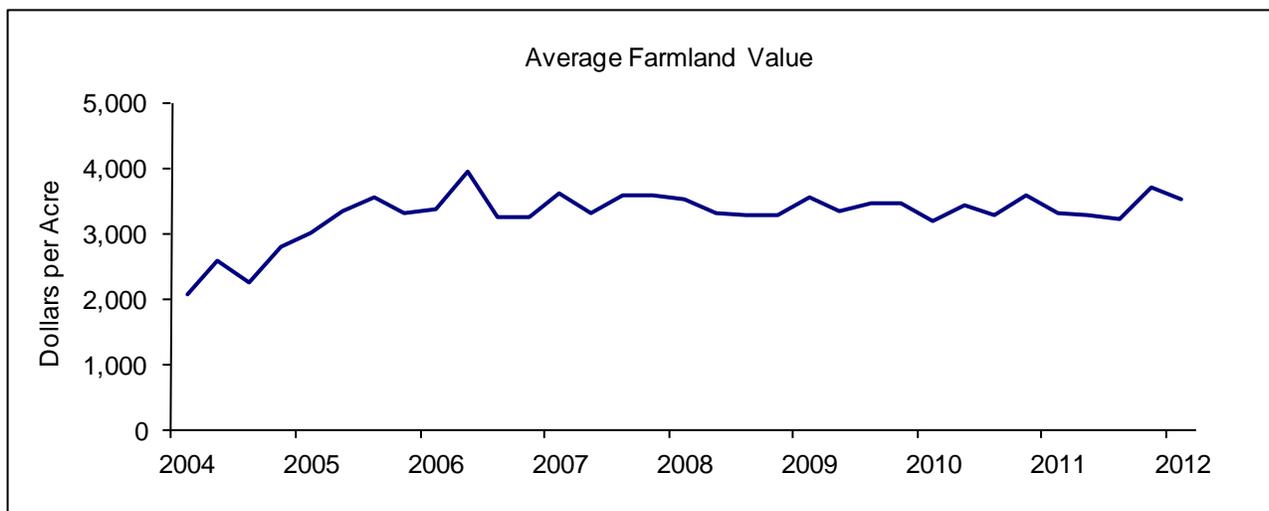
Demand for Farm Loans

The demand for loans held steady in the second quarter. Bankers attributed the consistency of the lending environment to volatility in weather conditions, higher input costs, and predictions of

good yields for a number of crops in some areas of the District.

A banker in Maryland reported that drought conditions could force some loan extensions, noting that higher input costs meant credit line increases. A lender in North Carolina said that extremely high temperatures coupled with dry conditions in late spring delayed crop development. He noted that recent storms resulted in some property and crop damage, but that rains accompanying the storms relieved moisture conditions for most of the state. He also indicated that the corn crop suffered the most in the region. In contrast, a banker in South Carolina reported that the crops looked good in that area due to ample rainfall over the last several weeks. He mentioned that the area had a good overall wheat crop, and that corn looked like it will produce excellent yields. A contact in Virginia said that high prices for feed ingredients had affected their livestock producers, while the price of livestock declined. Similarly, a banker in North Carolina cited skyrocketing prices for feed ingredients due to the drought in the Midwest, and noted that profits for





both swine and poultry will be squeezed, with negative margins predicted in the near future.

Looking ahead, lenders' expectations for farm loan volumes in the third quarter of 2012 were mixed. The reading for crop storage loans moved up eight points to 0, and the expected demand for operating loans was virtually unchanged at 20. In other categories, expected farm machinery gained eight points to 13, and dairy loans added 11 points to -22. Feeder cattle loans, however, declined 40 points to finish at -40.

Interest Rates

Interest rates for agricultural loans rose for all categories except long-term real estate loans during the second quarter. Compared to first quarter levels, rates for feeder cattle loans moved up 26 basis points and rates for operating loans picked up 17 basis points. In other categories, interest rates for intermediate-term loans gained five basis points, while rates for long-term real estate loans eased seven basis points.

Availability of Credit

In the second quarter, 89 percent of lenders reported that they actively sought new farm loans—up from 82 percent in the previous quarter. Moreover, lenders reported that demand for farm loans steadied, and that the funds availability index increased 11 points to 47.

Credit Quality

During the second quarter, the quality of agricultural credit demand was mixed. Loan repayment rates held firm at 0, while the loan renewals index dropped moving down 22 points to -14. In addition, the index for collateral requirements eased 30 points to end the second quarter at 13.

Farmland Values

The market value of good farmland averaged \$3,523 per acre in the second quarter—5.0 percent below first quarter, but 6.3 percent higher than year earlier readings. Looking ahead, bankers anticipate that growth of farmland prices will slow during the third quarter of 2012; the index for expected land values lost 15 points to 0.

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	13	13	73
Funds Availability	47	0	53
Loan Repayment Rates	7	7	87
Renewals or Extensions	13	27	60
Collateral Requirements	33	20	47

Diffusion Indexes¹

	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
Demand for Loans	0	0	0
Funds Availability	47	36	13
Loan Repayment Rates	0	0	-7
Renewals or Extensions	-14	8	7
Collateral Requirements	13	43	53

Farm Loan Volume Expected: Next Three Months

Percent Reporting

	Higher	Lower	Same
Real Estate Loans	13	20	67
Non Real Estate Loans	20	20	60
Feeder Cattle	0	40	60
Dairy	0	22	78
Crop Storage	27	27	45
Operating	27	7	67
Farm Machinery	20	7	73

Diffusion Indexes¹

	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
Real Estate Loans	-7	0	-40
Non Real Estate Loans	0	0	-21
Feeder Cattle	-40	0	-23
Dairy	-22	-33	-17
Crop Storage	0	-8	-33
Operating	20	21	7
Farm Machinery	13	21	-27

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
Average Loan-to-Deposit Ratio	77.5	8.2 ppt	-3.1 ppt

	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	0	67	33

	Diffusion Indexes ¹		
	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
	-67	-71	-57

	Level	Percent Reporting "Yes"	
	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
Yes	0	0	0
No	100		

	Level	Percent Reporting "Yes"	
	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
Actively Seeking New Farm Loans			
Yes	89	82	60
No	11		

	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Farm Loan Referrals			
Correspondent Banks	0	0	7
Non-bank Agencies	0	0	13

	Level	Percent Reporting "None"	
	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
Correspondent Banks	93	67	86
Non-bank Agencies	87	83	86

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From ³	
	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
Feeder Cattle Loans	6.48	26 bp	-39 bp
Operating Loans	6.05	17 bp	-32 bp
Intermediate-term Loans	6.10	5 bp	-41 bp
Long-term Real Estate Loans	5.86	-7 bp	-75 bp

Farm Real Estate Values	Level	Percent Change From	
	2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 1
Average Farmland Value (per acre)	\$3,523	-5.0 %	6.3 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	7	7	87

Diffusion Indexes ¹		
2012: Qtr. 2	2012: Qtr. 1	2011: Qtr. 2
0	15	0

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.