FALL 2021

AGRICULTURAL LENDER SURVEY RESULTS

FARMER MAC

American Bankers Association

Contents

Key Takeaways

- **Profitability expectations** – For the first time in the history of the ABA/Farmer Mac Agricultural Lender Survey, a majority of ag lenders (69.7%) reported that overall farm profitability increased in the prior year. This was thanks largely to government support, which lenders estimate accounted for 38% of borrowers' net income. This corresponds with a major decline in the number of ag lenders that reported overall profitability decreased, from 79.2% in 2020 to 8.9% in 2021. Lenders expect some deterioration in conditions next year, with 29.7% projecting a decline in farm profitability in the next 12 months.

- **Top concerns for producers** – Lenders cited inflationary pressure (newly added as an option this year) as the No. 1 concern for producers. Liquidity and farm income, the top two concerns in the last few years, fell one spot in the rankings each, to second and third producer concerns, respectively. Lenders were more concerned about weather and farm labor cost or availability in 2021 and less concerned about total leverage.

- **Top concerns for lenders** – Competition with other lenders became the greatest overall concern facing lenders in 2021 (up from the second-highest concern in 2020), though weak loan demand (the second-greatest overall concern) was the most common No. 1 concern for survey respondents. Concerns about credit quality and ag loan deterioration fell from the top concern in 2020 to the fourth highest concern this year.

- **Sector concerns** – Survey respondents expressed the most concern for the dairy, beef cattle, and grain sectors, though concerns declined over the year and lessened somewhat for beef cattle and grains. Lenders reported sustained interest from borrowers in hemp and alternative energy financing; however, this was reported only among a small subset of borrowers (3.0% and 3.8% of customers inquired about hemp and alternative energy, respectively).

- **Economic Downturn** – Lenders ranked a slow or stagnating economic recovery low on their list of concerns facing borrowers. This was likely due to robust government support through 2021. More than 7 in 10 borrowers reported an increase in reliance on government payments in 2021, and only 28.7% expect that to decline next year. Nearly 80% of ag customers have inquired about Paycheck Protection Program (PPP) loans since April 2020. Customers also inquired about the federal Coronavirus Food Assistance Program or Market Facilitation Program (40.6%), USDA crop insurance programs (34.6%), and Economic Injury Disaster Loan support (28.6%). Without these programs, respondents estimate that 16.2% of borrowers would have defaulted.

- **Credit quality** – Survey respondents reported lower ag loan delinquencies and charge-off rates in 2021 across all regions. Most regions expect delinquencies and charge-offs to remain low heading into 2022, while lenders in the West forsee credit quality deterioration.

- **Loan Demand** – Survey results indicate that the demand for loans secured by farmland increased in 2021, though to a lesser extent than in 2020, while demand for agricultural production loans decreased. Respondents anticipate loan demand for both categories will increase over the next 12 months.

- **Land value and cash rent expectations** – Eight in 10 lenders say land values increased in 2021, and 61.7% expect this trend to continue over the next 12 months — a sentiment shared across all regions. Over half of lenders (55.6%) reported cash rental rate increases on average quality farmland in 2021, up from only 4.6% in 2020. Lenders believe that average quality farmland and cash rents are overvalued (38.4% and 22.1%, respectively), more so in the Corn Belt and Western states.

- **Approval rate** – Lenders reported an average agricultural loan application approval rate for new loans of 76.9% in the 12 months leading up to August 2021, and expect the approval rate for renewal requests to be close to 90% in the next 12 months.

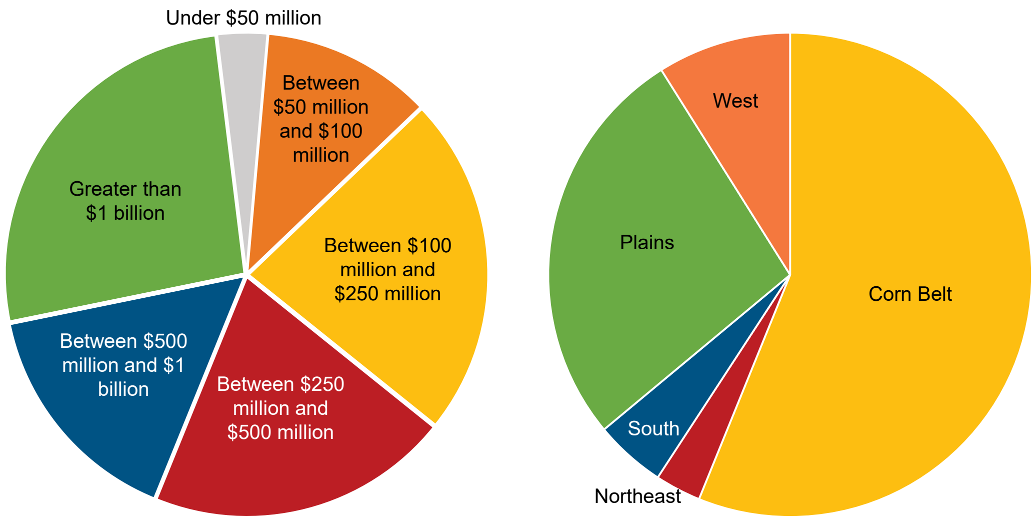
Introduction

Agricultural lenders can provide a unique outlook on circumstances in the farm economy. Farmers and farm businesses that use short- or long-term financing are routinely required to present financial updates to their loan officers, giving lenders a distinct opportunity to evaluate local farm economy conditions. These insights are particularly valuable during times of transition when the agriculture sector is cycling through economic troughs and peaks and times of uncertainty such as the COVID-19 pandemic and resulting economic downturn.

In December 2016, the American Bankers Association (ABA) and Farmer Mac collaborated on their first joint survey of agricultural lenders to gauge overall industry sentiment on the farm economy, expectations on land values, prospects for the coming year, and issues facing the broader economy. This collaboration has continued every year since its inception. These joint studies expand upon data collected by Farmer Mac from 2014 through 2016.

The survey was distributed via email between July 27 and September 10, 2021. More than 450 loan officers, managers, and executives responded to the questionnaire. Responses represent a range of institutions by size — from less than $50 million in assets to more than $5 billion — and by geography. This analysis breaks down results by general agricultural economic insights and by factors affecting lending institutions. The report concludes with a broader description of the respondent demographics.

Respondent Size and Primary Market Region



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021

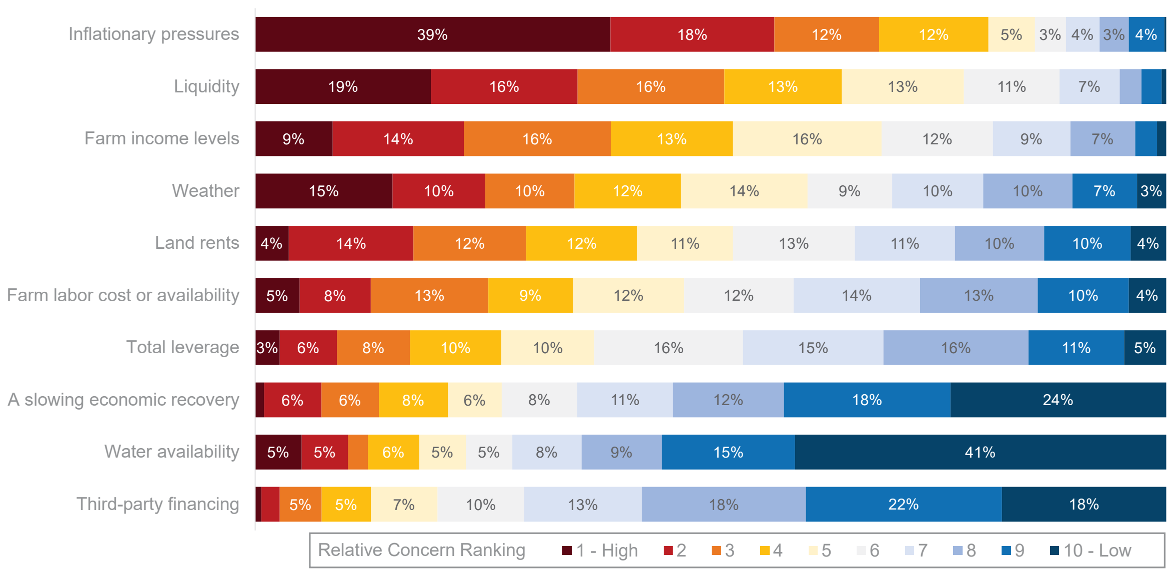
Agricultural Economy

Farm Income and Profitability

Over the past 12 months, lenders and producers have seen a turnaround in the agricultural economy unlike any year in recent memory. Cash grain producers started the last crop marketing year just off five-year price lows and went on to see prices elevated near supercycle levels. Animal protein producers saw more volatility in pricing, but commodities like dairy milk and hogs also had periods of high prices. Combined with spillover payments from ad hoc government programs in 2020, the USDA's Economic Research Service forecasts that 2021 sector net cash income will be at its highest level since 2014.

This environment appears to have changed what agricultural lenders view as their borrowers' top concerns. In prior years, lenders have been most focused on issues related to borrower-specific immediate risks to repayment, such as liquidity or farm income. While these risks remain paramount, many lenders are giving more thought to production-related risks, such as weather and farm expenses. Respondents also indicated that they were more interested in broader issues like inflation. These changes reflect the shifting scope of lender concerns, from immediate to longer term and from individual to systemic challenges.

Lenders' Top Concerns for Producers



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q3: Please rank your level of relative concern for the following conditions facing your ag borrowers at this time with 1 being the highest concern and 10 being the lowest concern.

This movement away from immediate risk means lenders are significantly less concerned about core borrower financial metrics relative to 2020. Liquidity, farm income, and total leverage were the top three concerns for lenders in our 2020 survey. This year, they rank second, third, and seventh, respectively. This represents the first year of our survey where a core measure of financial health is not the top concern. After a half-decade of muted incomes, two subsequent years of above-average income have placed borrowers in a position they have not been in for almost a decade.

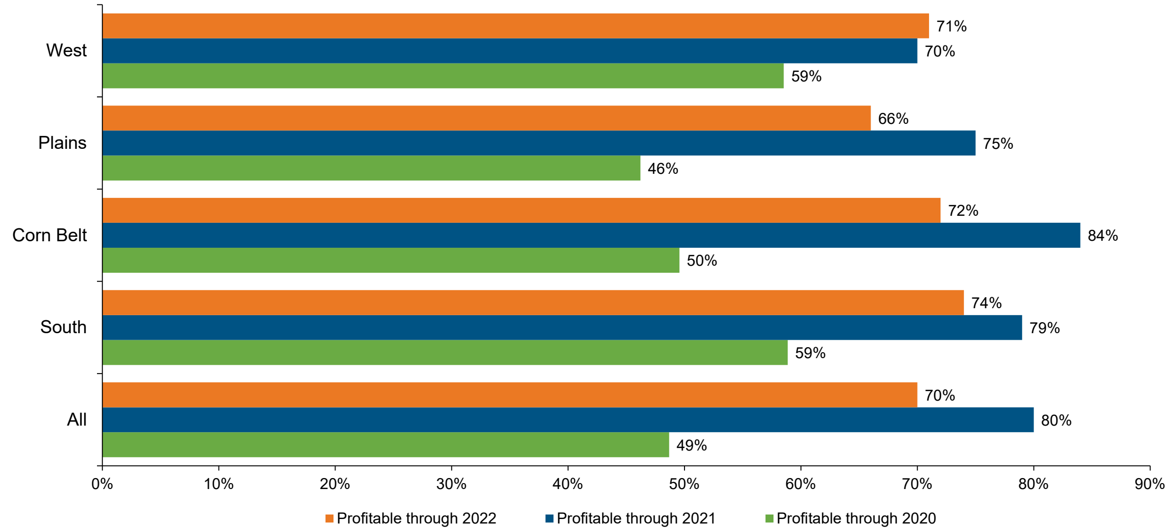
The robust incomes of 2021 are not ubiquitous. Banks that work primarily with cattle operations were much more likely to list liquidity as a top concern, as were lenders who operate in the Northeast. Dairy banks listed both farm income and total leverage concerns far above their peers. Banks that work closely with cash grain operations in the heartland are the least concerned about these core financial health ratios. These trends closely align with what has been observed in commodity markets through 2021.

The decline in financial health concerns has coincided with an increase in production risk concerns. Concern over weather, water, labor, and rents all increased almost a full rank over 2020 levels. Concern over these risks varies widely by region. In the West, water availability was the highest-ranked issue. In the Corn Belt, lenders indicated that rising cash rental rates were a top concern. The challenge for lenders is that while these risks can be mitigated, doing so eats into operational profitability and is more likely to affect key financial health metrics.

Inflation has become a key risk for lenders in 2021. Almost 40% of respondents listed it as their top concern, and 70% listed it in their top three. However, other systemic risks relating to a slowing economy and an increase in third-party financing were both of low concern. This does follow the history of agricultural lending but may point at specific risks to lender operations. The agricultural crisis of the 1980s was brought on in part by a high-inflation environment. Inflation also may be a concern because of its impacts on loan demand. Rising inflation could lead to Federal Reserve federal funds rate increases, suppressing overall demand and creating uncertainty for borrowers with variable rate products. Inflation is a key risk that could harm borrower incomes, borrower repayment, and overall loan demand.

Despite these concerns, profitability expectations have risen sharply for both 2021 and 2022. Overall, lenders expect that 80% of their borrowers will be profitable in 2021, with 70% profitable through 2022. This represents a sharp rise from expectations last year, when much of the Corn Belt and Plains states were facing historic low prices for commodities such as corn, soybeans, and wheat. Even states with less favorable commodity mixes, like those in the West, anticipate higher profitability in 2021 and do not expect probability levels to fall off next year. At a more granular level, some cracks emerge. Banks that lend primarily to cattle and dairy operators expect over a third of their operators to be unprofitable in 2022. This follows periods of higher input costs and volatile commodity markets for animal proteins.

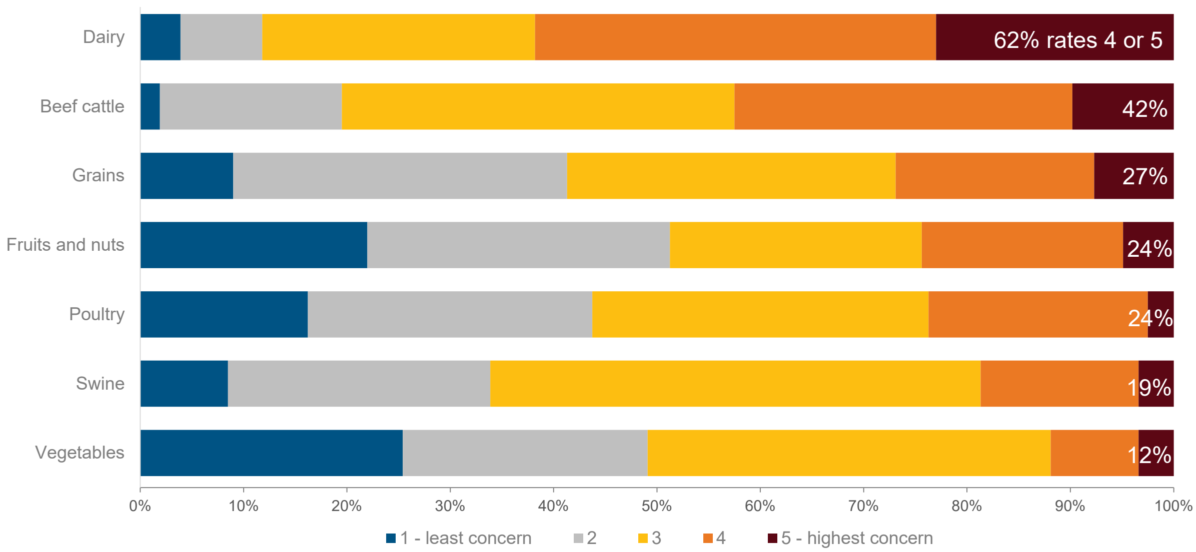
Ag Borrower Profitability by Region



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q13: What percentage of your ag borrowers will be profitable through 2021/ remain profitable through 2022?

Lenders' concerns over commodities have fallen drastically over the past year. In 2020, 71% of lenders indicated they had high concern for grains. In 2021, this figure fell to just 27%. Cattle, hog, and poultry also saw steep declines in overall concern. However, not all commodities saw such significant declines. Lenders grew more concerned about dairy operations, while there was no change in perceptions over specialty crops like fruit and tree nuts or vegetables. In general, robust commodity markets for cash grains and a more certain environment for proteins appear to have reduced lender concerns from 2020.

Portfolio Concerns, by Rank Level



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q6: Please rate your relative concern for [commodity] in your areas with 1 being the least concern and 5 being the highest concern.

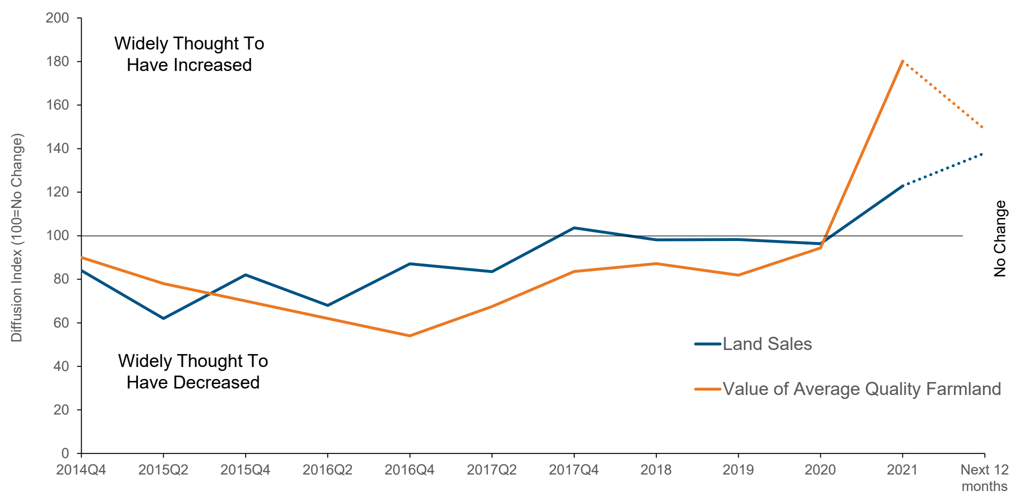
The considerable improvement in the agricultural economy may lead to lower expectations for farmer retirements. While almost half (49%) of lenders observed increases in retirements over the past year, in line with 2020 levels, just over a third expect retirements to increase through 2022. This aligns with evidence of lower strain generally, with expectations for lower default rates, bankruptcies, or other adverse farm exits.

Land Values and Cash Rents

In 2021, land values began to climb after years of stagnation. On average, lenders observed an 8.3% increase in land values, in line with the 7.0% observed by the USDA in their annual land value survey. Despite significant variation in the health of various commodity markets, land value growth was not significantly different by region or by a bank's primary commodity. In total, 81% of lenders observed increases in average quality farmland over the last 12 months. Lenders do not anticipate that the current farmland boom was a single-year event. More than 60% of respondents indicated that they believe land values will continue to rise through 2022, a finding that is consistent across regions.

The diffusion chart below shows the general sentiment for land sales and the value of average quality land. A diffusion index splits the responses between increase (200), no change (100), and decline (0), and averages the scores to an index of 100. The results for 2021 indicate a sea change in the trend of land values. Higher prices are almost ubiquitous, and lenders believe more land is coming onto the market. As seen elsewhere, this is not due to farmers going bankrupt nor due to higher financial strain. Higher farmland prices may be enticing more land to enter the market. This trend is expected to continue in 2022, with even more land sales and a continued environment of land value growth.

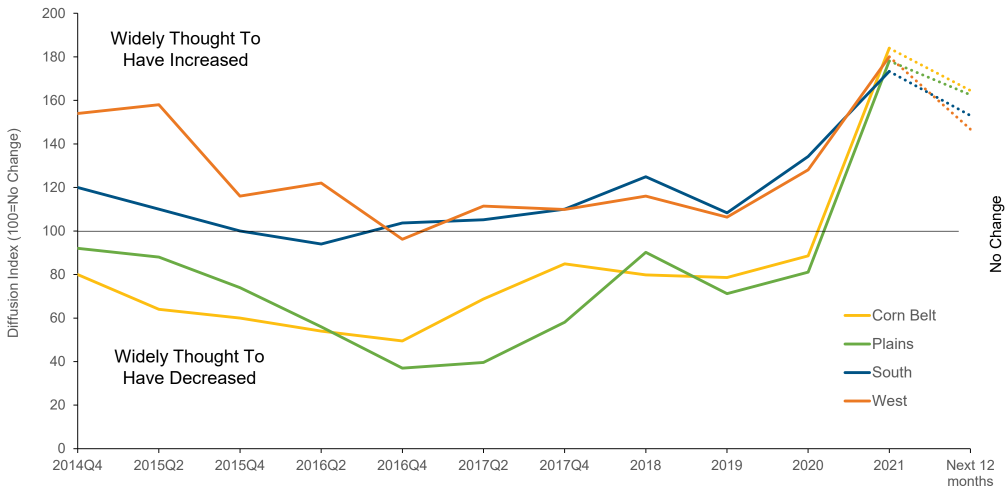
Diffusion Index of Land Sales and Values



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q1/Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

Generally higher profitability expectations and overall asset pressures have led to higher expectations for land values across the country. All regions reported sharp increases in land values over the past year, as well as robust expectations for growth in the coming year. This is a strong divergence from last year, when respondents from the South and West indicated they anticipated land values to fall in 2021. While the reversal of commodity markets played an important role, land values are also closely connected to falling interest rates. With last year's historic low-rate environment raising the implied value of farmland, it appears that many producers took advantage of cheap financing to expand their operations.

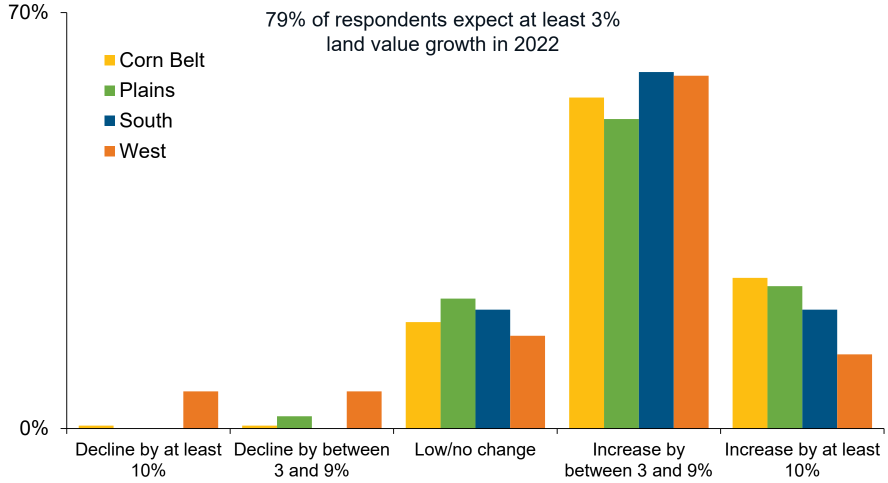
Diffusion Index of Land Values by Region



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

Unlike in prior surveys, the percentage growth by region is also similar across regions. In total, 79% of respondents anticipate land values to grow by at least 3% in 2022, with only 2% expecting land value declines in their region. On average, lenders expect farmland values to rise 5.3%. Banks that work primarily with corn and soybean operators are the most bullish, with expectations of 5.7%. While these figures do represent solid growth, it is important to view them in the context of an environment of higher inflation. These results indicate that lenders believe farmland will continue to appreciate in real terms, but only in the vein of 1% to 2%.

Range of Expected Land Value Changes in 2022



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q7: In your local service area, how much do you expect the value of average quality farmland will change in 2022?

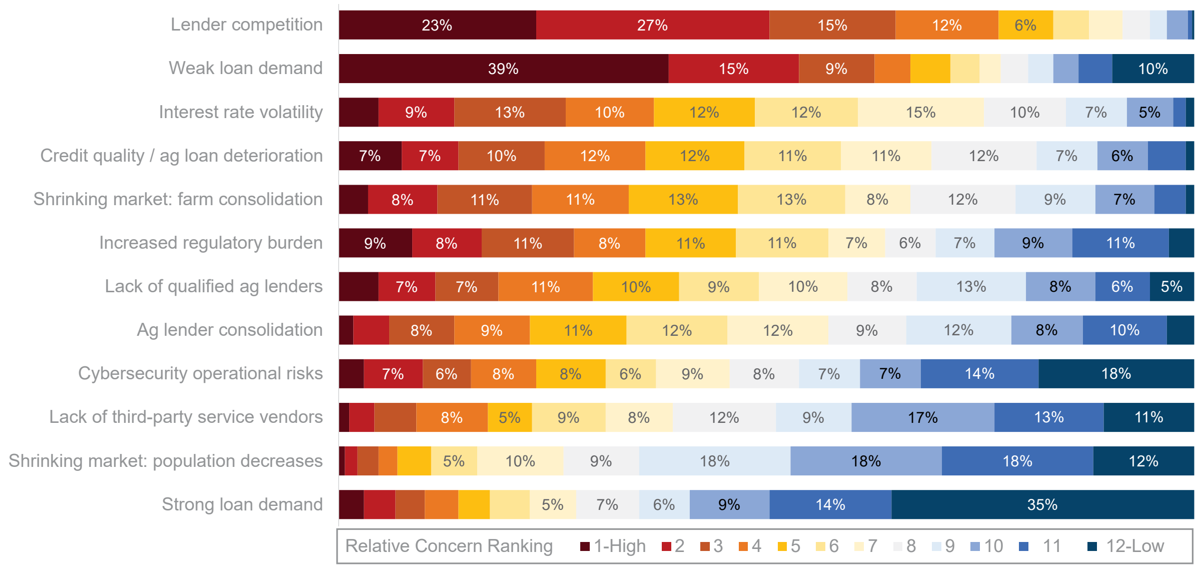
With rising land values comes new concern over cash rents. More than half (56%) of respondents indicated that cash rental rates increased over the past year, and more than two-thirds (71%) expect rental rates to increase in 2022. Overall, 22% of respondents indicated they believed that farmland is currently overvalued in their region. These results are consistent across regions, though there is some indication that this is less true of pastureland. Banks that primarily work with animal and animal product producers indicated that about 18% of cash rents were overvalued.

Agricultural Lenders

Lender Sentiments

The two chief concerns facing agricultural lenders in 2021 were competition for lending opportunities and weak loan demand from borrowers. This was true for institutions of all sizes and in nearly every region (it was among the top three concerns in the West). Lenders expressed similar middling concerns for these five subsequently ranked options: interest rate volatility, credit quality, farm consolidation, regulatory burdens, and a lack of qualified ag lenders. Respondents were comparatively less concerned about industry consolidation, cybersecurity and operational risks, the availability of third-party service vendors, rural population decline, and strong loan demand.

Top Concerns Facing Agricultural Lenders



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q4: Please rank your level of relative concern for the following conditions facing your institution at this time with 1 being the highest concern and 12 being the lowest concern

Lender competition was the greatest overall concern this year. Just over half of respondents (50.4%) ranked competition among their top two concerns, up 13 percentage points from last year. The majority (82.3%) ranked the Farm Credit System (FCS) as their No. 1 competitor for agricultural loans. Lenders commented that it is "very difficult to compete with [Farm Credit] on pricing," and that the Farm Credit System has "put a great deal of pressure … on rates," especially for loans secured by farmland. Community banks were among the top two competitors for three-fifths of lenders (60.6%), followed distantly by vendor financing (22.3%), and regional banks (8.6%).

Weak loan demand was the second-greatest concern overall but was the issue lenders were most likely to rank No. 1. In fact, it was the primary concern for lenders in the West and for institutions with assets less than $100 million. A little more than half of respondents (53.8%) ranked weak loan demand among their top two concerns, reflecting a 28-percentage-point increase from last year. However, there was more dispersion in responses for weak loan demand than for lender competition. One in 10 ranked weak loan demand last among concerns, while fewer than one-quarter of 1 percent did so for lender competition.

The levels and distribution of concern reported for interest rate volatility, farm consolidation, regulatory burden, and shortage of ag-smart staff went largely unchanged from last year, though there was some variability in the survey pool. Concern for interest rate volatility was lower for lenders with assets less than $100 million and for those whose operations are primarily concentrated in the West and Plains states. Shrinking markets due to farm consolidation was the third-greatest concern for lenders with assets between $500 million and $1 billion. Concern about increased regulatory burden was greater in the Plains states and at institutions with assets less than $250 million. Lastly, the availability of qualified ag lenders was a greater concern for lenders in the West and at institutions with assets greater than $500 million.

By stark contrast, concerns about credit quality and ag loan deterioration — which were the primary concerns facing lenders from 2017 to 2020 — fell notably this year. Only 14% of lenders ranked credit quality among their top two concerns, down from 72% last year. There was some variability, though, across region and size. Credit quality was among the top two concerns for 35.5% of lenders in the West and was the third-greatest concern overall for institutions with assets less than $100 million.

Lenders continue to report positive relationships with their regulators: 77% of lenders rated their relationship with their primary regulator as either a 4 or a 5 on a five-point scale. However, lenders believe regulators' comprehension of the agricultural sector has some room for improvement. On average, respondents rated regulators' understanding of agriculture a 3.2 out of 5, with 25% of respondents saying their regulator had little to no understanding of the sector (rated 1 or 2 out of 5).

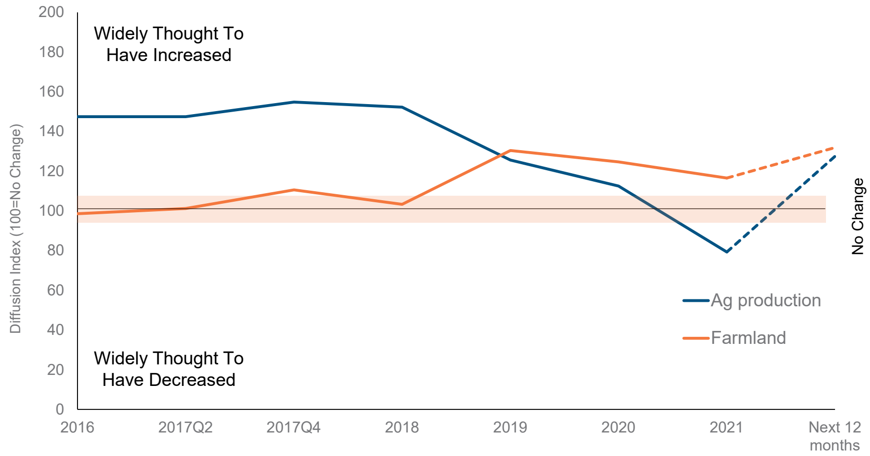
Lending Conditions

For the first time in over five years, lenders observed a pullback in demand for agricultural production loans, underscoring elevated concern for loan demand and lender competition in 2021. This sentiment was shared by lenders across the size spectrum and country. However, lenders expect demand to recover over the next 12 months.

Demand for loans secured by farmland continued to grow in 2021, according to ag lenders, and is expected to continue rising in 2022. These observations are in line with the September USDA Farm Sector Income Forecast, which projects farm real estate debt to rise 1.5% in 2021 while non-real estate farm debt declines 3.5%.

Total farm sector debt is projected to be relatively unchanged in 2021, according to the USDA, but fall 3.8% adjusted for inflation. Similarly, nearly 4 in 5 lenders report that farm debt either decreased (44.5%) or stayed the same (34.9%) over the past 12 months. This observation was consistent across institution size, but there was some variability by region. More lenders in the South and West saw farm debt either increase (41.2% and 40.0%, respectively) or stay the same (41.2%, 33.3%).

Diffusion Index of Ag Loan Demand



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

One factor that drove down demand for financing was borrowers' reliance on government payments in 2021. Seventy percent of lenders report increased reliance on government payments over the past 12 months — moderately less than 87% last year. Most lenders are unsure what will happen to government payments in 2022. Roughly equal shares expect this to increase, stay the same, or decrease. However, a majority of lenders in the West (61.3%) expect reliance to continue to increase over the next 12 months.

While direct government payments and support programs reduced borrowers' reliance on traditional financing in 2021, ag lenders played an important role in the success of programs like the Paycheck Protection Program (PPP). Ag lenders made more than 600,000 PPP loans in 2021 (up from nearly 353,000 in 2020), worth more than $16.4 billion

Agricultural Lenders' Observations

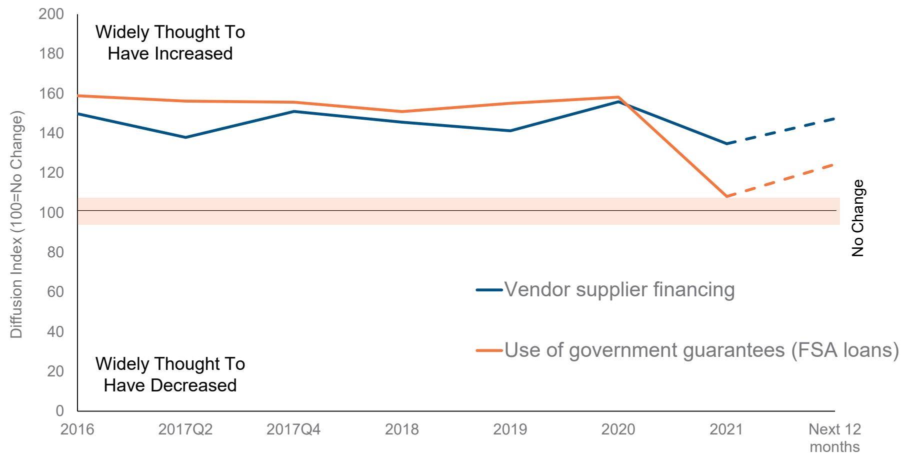
Agricultural Lenders in the Paycheck Protection Program

	2021		2020	
Lender Type	PPP Loans	PPP Dollars	PPP Loans	PPP Dollars
Farm Banks*	538,154	$ 14,589,505,609	307,780	$ 22,429,129,646
Ag Credit Unions**	30,506	$ 941,982,174	29,259	$ 1,741,571,074
Farm Credit	35,734	$ 867,126,456	15,830	$ 1,418,757,880

Source: SBA data as of June 8, 2021. S&P Global. ABA analysis. (*) - Defined as the 1,712 banks whose farm loan concentration was equal to or greater than the unweighted industry average at least once between 2020Q2 and 2021Q2 (14.67% - 15.35%). (**) - Defined as the 248 credit unions whose farm loan concentration was equal to or greater than the unweighted industry average at least once between 2020Q2 and 2021Q2 (0.40% - 0.41%).

Displaced loan demand also reduced ag lenders' use of government guarantees for the first time in over five years. Lenders report that lending guaranteed by the USDA Farm Service Agency and other federal agencies remained largely unchanged in 2021. Lenders expect usage to increase again, though, over the next 12 months. By contrast, vendor and supplier financing continued to increase this year, and further increases are expected over the next 12 months.

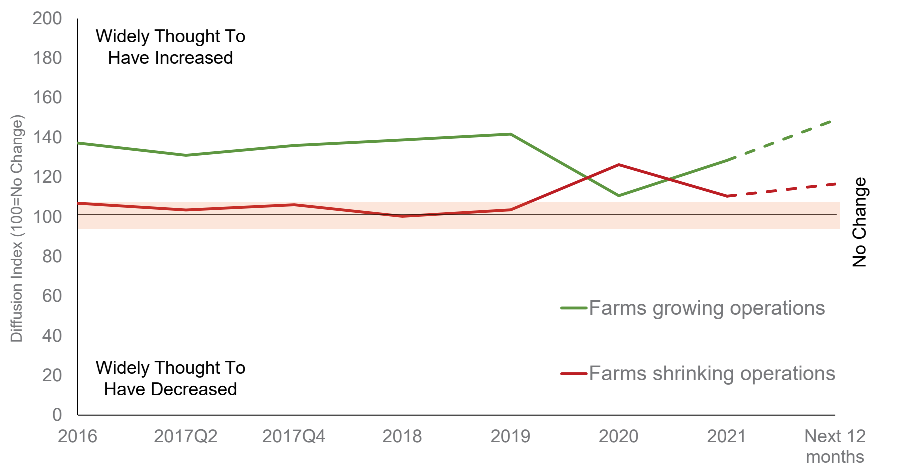
Diffusion Index of Select Observations



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

A majority of lenders report that the number of farms expanding or shrinking operations stayed the same in 2021 (60.9% and 68.7%, respectively). However, there was a change in the responses on the margin. In 2020, the number of lenders who observed farms shrinking operations increased, while the share reporting growth ticked up only modestly. That trend reversed this year. A third of lenders reported that farmers resumed growing operations in 2021, while only 1 in 5 noted an uptick in the share of farmers shrinking operations. Lenders' expectations for the next 12 months indicate there will be winners and losers. While the pace of operation growth is expected to increase in 2022, lenders believe the number of farmers shrinking operations will tick up as well.

Diffusion Index of Farm Operation Growth



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

Despite weaker loan demand, lenders continue to meet the credit needs of farmers and ranchers. On average, lenders approved approximately 77% of agricultural loan applications received over the past 12 months. Over the next 12 months, lenders expect to approve 90% of renewal requests. Agricultural lenders estimate that 39% of denied loans have been approved by competing institutions. Lenders with assets between $500 million and $1 billion see even stronger competition — estimating 54% of their denials are being approved by competitors.

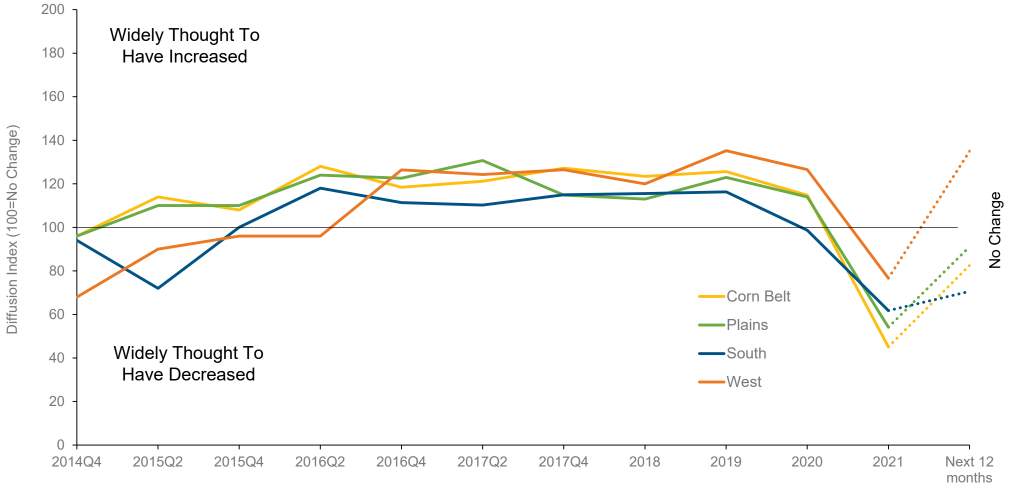
In the face of these challenges, lenders were asked how their business practices have changed. While most respondents (71.0%) say their practices have not changed, the remainder adopted stricter underwriting standards (19.1%), increased digitization (17.6%), and more competitive terms and pricing for borrowers (17.6%).

Credit Quality

Unprecedented government support throughout the pandemic contributed to across-the-board improvements in credit quality for the entire lending portfolio, including loans to farmers and ranchers. As a result, concerns for credit quality and ag loan deterioration fell considerably in 2021. A majority of respondents report that the delinquency and charge-off rates of outstanding ag loans (both production and real estate) decreased in the past 12 months. This was true for lenders of all sizes and across all regions, but particularly for lenders in the Corn Belt and institutions with assets greater than $500 million.

Looking ahead to the next 12 months, most lenders expect credit quality to either remain strong or further improve. Lenders in the West — the exception — expect ag loan delinquency rates to either increase (45%) or stay the same (45%), and 1 in 4 expect charge-off rates to increase as well.

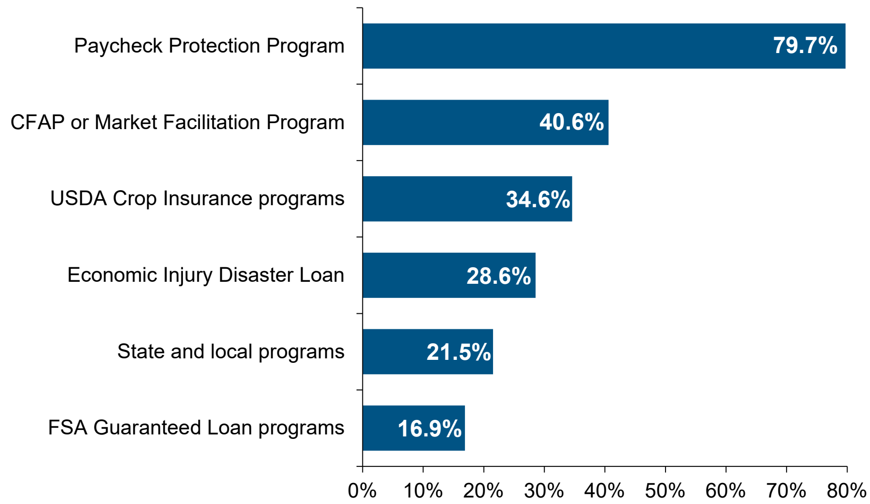
Diffusion Index for Delinquency Trends



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

While credit quality is strong, government support may be masking pain to come. Since April 2020, lenders report that 79.7% of borrowers have inquired about the PPP, 40.6% about the Coronavirus Food Assistance Program or Market Facilitation Program (though farmers could receive CFAP/MFP aid without asking a lender), 34.6% about USDA crop insurance programs, and 28.6% about EIDL. Borrowers estimate that approximately 16.2% of borrowers would have gone into default in 2021 without these programs. Estimates were a bit higher in the West (19.3%) and for institutions with assets over $1 billion (19.1%), and a little bit lower in the South (10.9%) and at institutions with assets between $50 million and $100 million (12.9%).

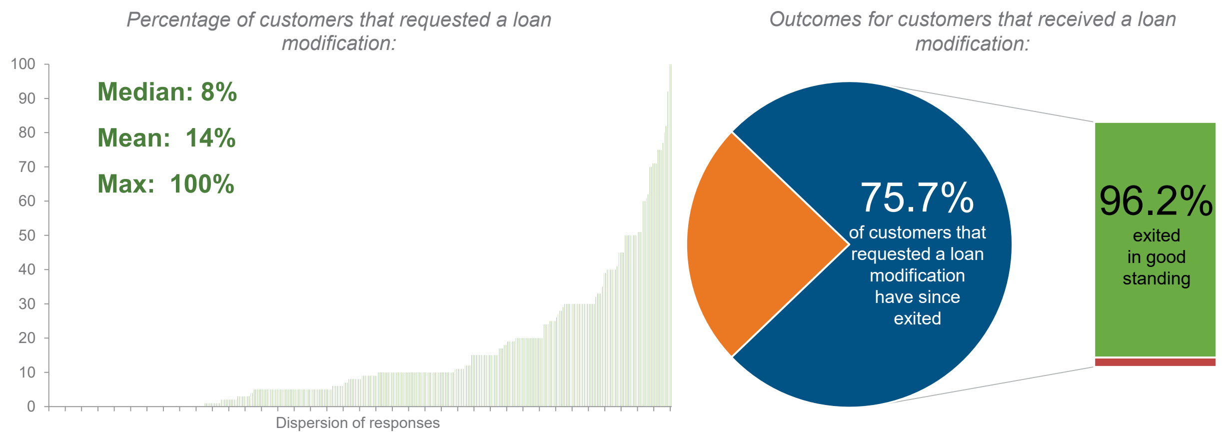
Share of Borrowers Inquiring About Government Programs



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q27: What percentage of your ag borrowers inquired about the following programs since April 2020?

Ag lenders continued to work with stressed borrowers in 2021 to help them through the downturn. Respondents report that an average of 14.2% of borrowers requested loan modifications since the onset of the pandemic, down 3.9 percentage points from last year's survey. Of those that received support, more than three-quarters have exited loan modifications and 96.2% exited in good standing (e.g., they continued making monthly payments or paid back past-due amounts upon exit). Lenders have a deep understanding of the needs of their borrowers because, in many cases, they are in the same business. More than 2 out of 5 ag lenders surveyed said they farm in addition to lending (43.5%).

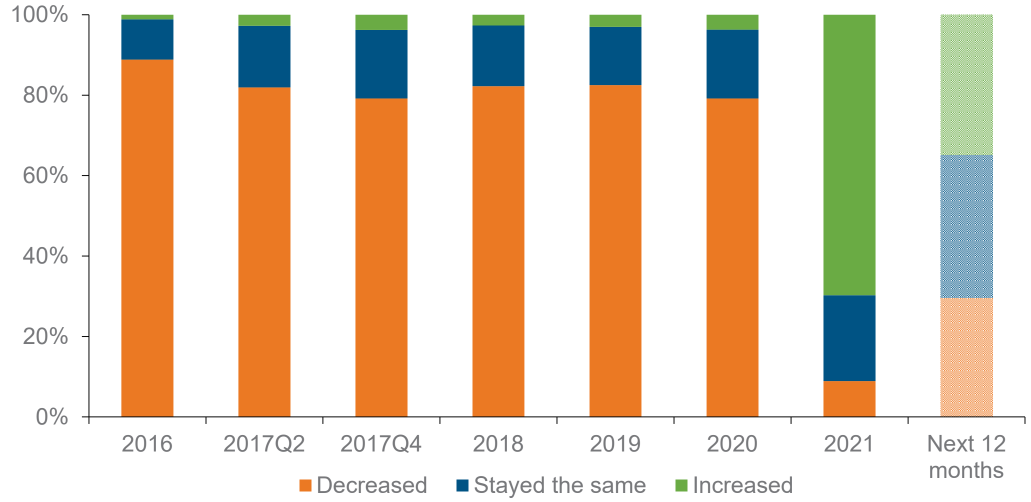
Loan Modification Outcomes Largely Positive



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q21 What percentage of your customers requested a loan modification as a result of COVID-19 or related economic disruption? Of these customers, what percentage have exited their loan modification? What percentage of loan modification exits resulted in [result]

Another factor that may have reduced credit quality concerns in 2021 was the level of borrower profitability. Ag lenders expect nearly 4 of five borrowers (78.7%) to be profitable through 2021, up from 50.6% in 2020. Additionally, nearly 70% of ag lenders report that overall farm profitability increased in the past year. In other words, not only are more borrowers profitable, but profit margins are increasing as well. This aligns with the USDA forecast, which projects net farm income to increase 15.3% in inflation-adjusted terms this year. Lenders are less sure where profitability will go next year. While 69.1% of ag borrowers are expected to remain profitabile through 2022, roughly equal shares of lenders say overall profitability will increase, stay the same, or decrease in the next 12 months.

Overall Farm Profitability Increased in 2021



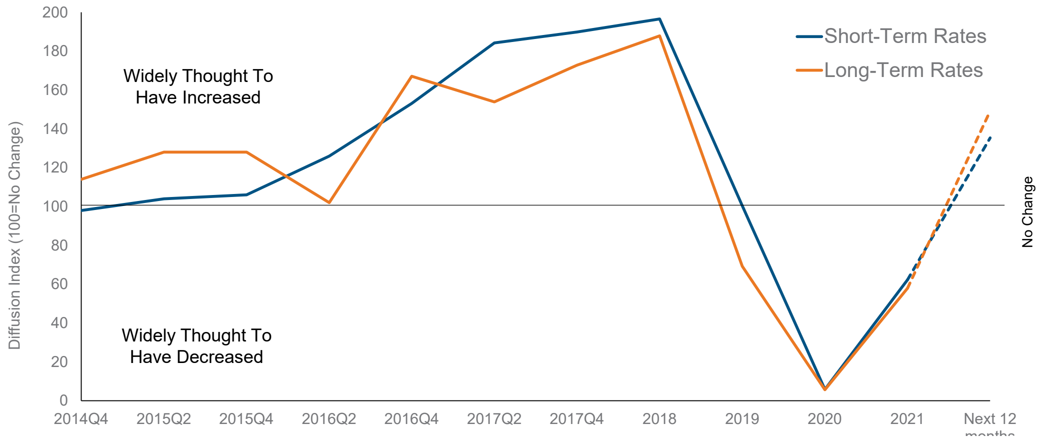
Source: ABA-Farmer Mac Agricultural Lenders Survey 2016-2021. Mean response to Q10 and 11: During the past 6 or 12 months, how have the following conditions changed for your area?

This year, ag lenders were also asked about their borrowers' average loan-to-value (LTV) ratios. Lenders reported an average LTV of 62.4% for loans secured by farmland and 60.3% for agricultural production loans. The ratios for loans secured by farmland were slightly lower for lenders with assets over $1 billion (59.8%) and slightly higher for lenders with assets between $250 million and $1 billion (64.6%). For the latter asset group, average LTV ratios were also a little higher for ag production loans (64.5%).

Crop insurance is another risk management tool used by farmers. The extreme drought conditions of 2021 illustrate the importance of crop insurance for farmers and lenders alike. Lenders report, on average, 86.3% of borrowers use crop insurance, with a median response of 95%. A little more than a quarter of lenders (28.8%) additionally required borrowers to insure crops in storage in 2021, down slightly from 31.6% in 2020.

Interest Rate Environment

Diffusion Index for Interest Rates



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

At the onset of the pandemic, the Federal Reserve drove interest rates to near zero and took aggressive action to support the flow of funds through the financial system. This included significantly increasing holdings of U.S. Treasury and mortgage-backed securities, as well as opening multiple lending facilities to stabilize financial markets.

In the face of incredible uncertainty and few safe options to generate yield, depositors poured $4.2 trillion into the banking system and $410.6 billion into the credit union industry from the start of 2020 through mid-2021 — 28.9% and 30.3% increases, respectively. This affected all depository financial institutions, including ag lenders. Deposits for farm banks increased by $90.3 billion over this period (up 25.2%) while deposits for ag credit unions increased $27.7 billion (up 33.5%).

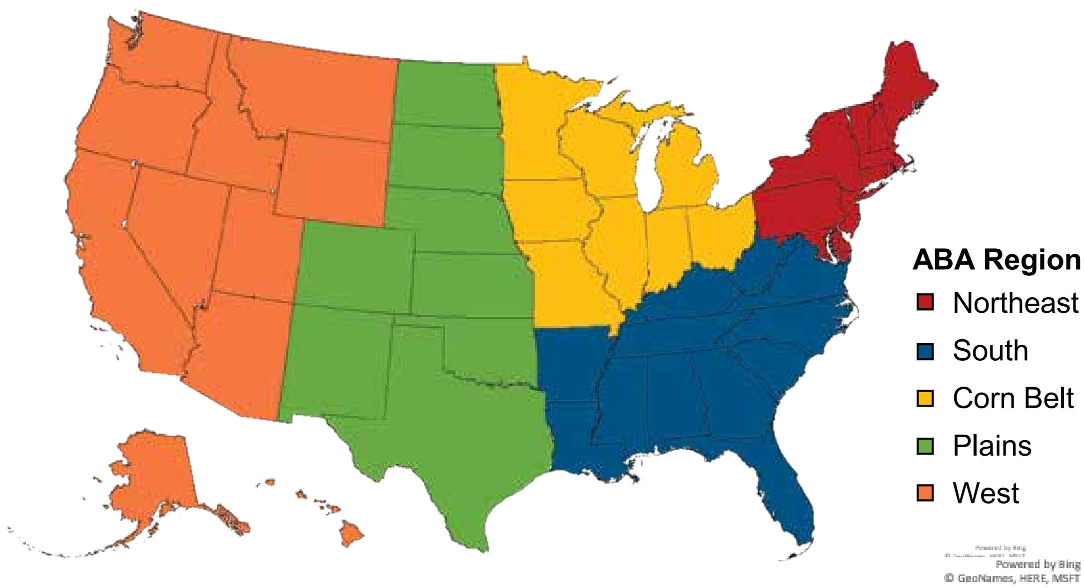
As a result, lenders are flush with liquidity but face challenges deploying it due to weaker loan demand and very low interest rates. It is no surprise, then, that concern about interest rate volatility was the third-greatest concern for lenders in 2021. More than a quarter of lenders ranked it among their top three concerns (26.5%), with numbers slightly higher in the South (35.3%), and slightly lower in the Plains (18.9%) and West (19.4%).

Lenders expect interest rates to increase over the next 12 months. The Federal Open Market Committee (FOMC) indicated in September that the Federal Reserve would begin to taper its bond purchases in November. Fed Chairman Jerome Powell also indicated the Fed could wrap up asset purchases as early as the middle of next year. The financial markets have also begun to anticipate that the Fed would accelerate its timeline to raise short-term interest rates.

About the Survey Respondents

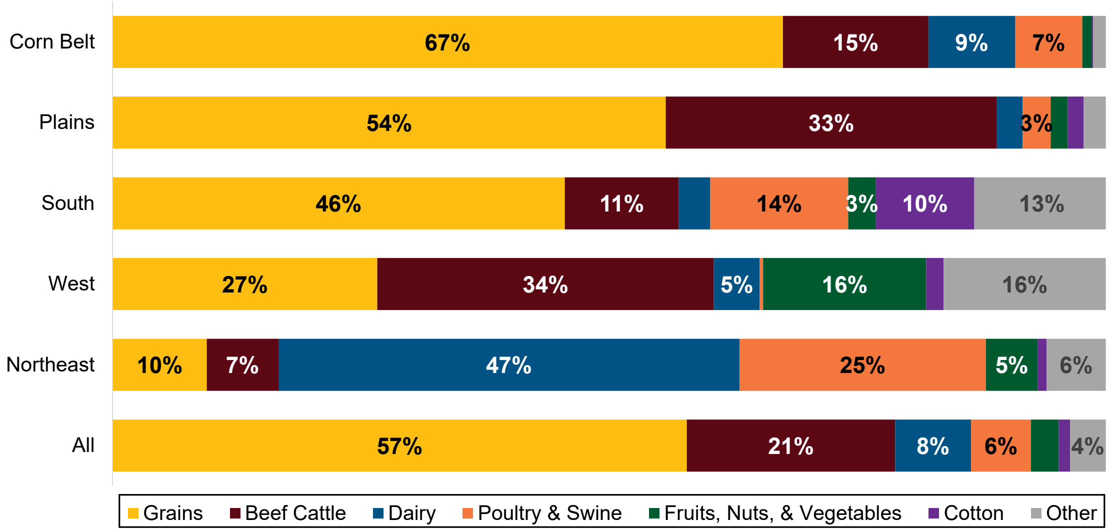
Nearly 450 agricultural lenders completed the ABA-Farmer Mac Agricultural Lender Survey in August. The responses came from a diverse set of institutions, ranging from those with under $50 million in assets to those with more than $1 billion in assets. Nearly three-fifths of the responses came from lenders at institutions with $500 million or less in assets (58%). Regionally, the responses were somewhat concentrated in the Corn Belt and Plains (56% and 27%, respectively), which is expected, given the high proportion of agricultural production and lending that occurs in those states.

ABA Regions



Lender portfolios tended to be highly concentrated in grains and cattle, with some diversity by region. Respondents in the West and in Plains states reported a higher percentage of cattle than other regions. Lenders responding from the South reported a higher percentage of cotton and a relatively higher proportion of poultry and swine and other crops. These portfolio weights line up with regional productive capabilities.

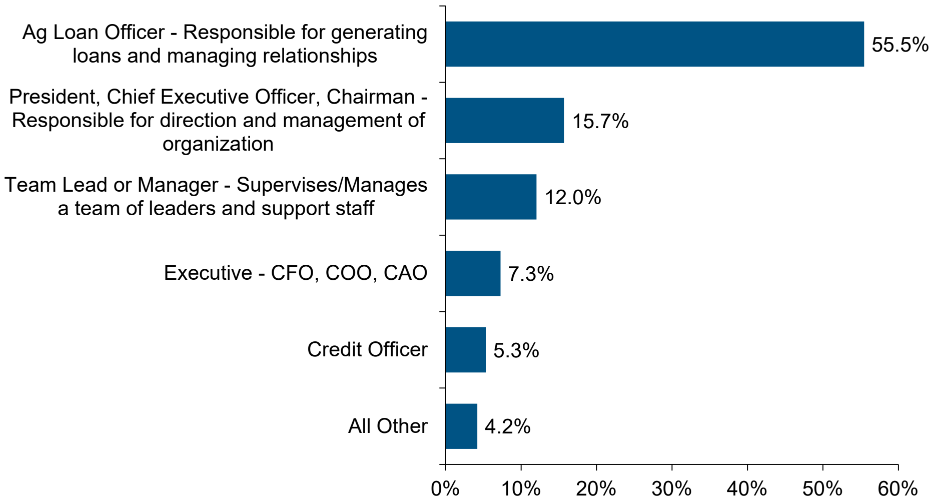
Lender Portfolios Vary by Region



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q5: What percentage of your agricultural credit portfolio is in the following?

Survey respondents had a variety of roles at their respective institutions. The most common title or role reported was an agricultural loan officer (55%). Others reported senior executive roles, team managers, and credit officers.

Survey Respondent Job Responsibilities



Source: ABA-Farmer Mac Agricultural Lenders Survey August 2021. Mean response to Q20: What is your role at your institution?

About ABA and Farmer Mac

The American Bankers Association is the voice of the nation's $22.5 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $18 trillion in deposits, and extend nearly $11 trillion in loans.

Farmer Mac is a vital part of the agricultural credit markets and was created to increase access to and reduce the cost of capital for the benefit of American agricultural and rural communities. As the nation's premier secondary market for agricultural credit, Farmer Mac provides financial solutions to a broad spectrum of the agricultural community, including agricultural lenders, agribusinesses, and other institutions that can benefit from access to flexible, low-cost financing and risk management tools. Farmer Mac's customers benefit from their low cost of funds, low overhead costs, and high operational efficiency. For more than three decades, Farmer Mac has been delivering the capital and commitment rural America deserves. Additional information about Farmer Mac is available on Farmer Mac's website at **www.farmermac.com**.

ABA and Farmer Mac have been working together for more than a decade to offer the financial and educational tools bankers need to serve their agricultural customers.

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