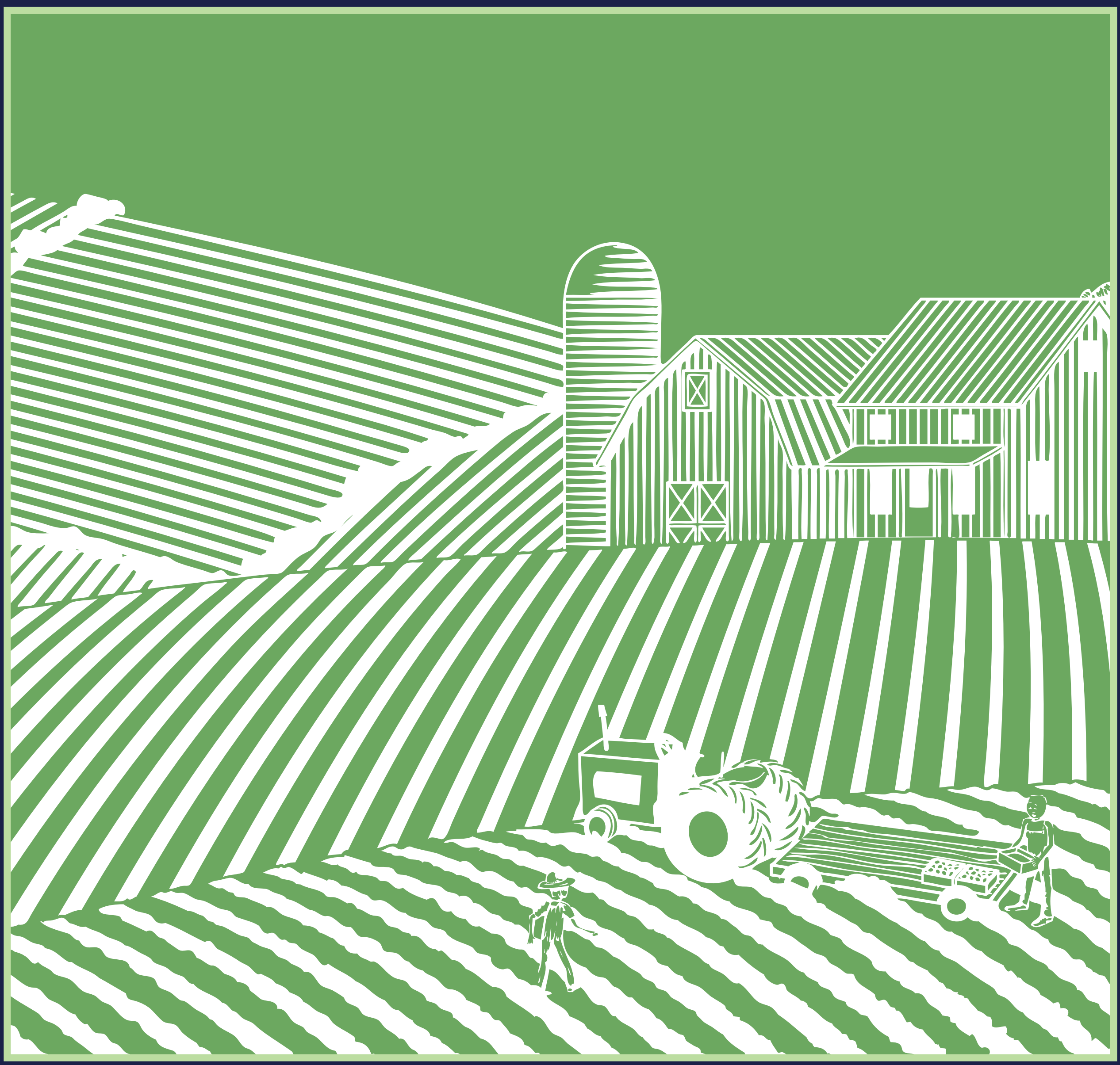
FALL 2022

AGRICULTURAL LENDER SURVEY RESULTS



FARMER MAC

American Bankers Association®

Contents

Key Takeaways

- **Profitability expectations** – For the second consecutive year, a majority of ag lenders (66.3%) reported that overall farm profitability increased in the past year. Just over 1 in 10 lenders reported that overall profitability declined (10.3%). Lenders expect conditions to deteriorate next year, with 52.6% projecting a decline in farm profitability in the next 12 months—well below the 2016-2020 survey average of 82.3% lenders projecting a decline.
- **Top concerns for producers** – Lenders continued to cite inflationary pressure (added as an option in last year's survey) as their No. 1 concern for producers. Liquidity and farm income, the top two concerns in prior years, dropped to second and third, respectively. Lenders remained comparatively more concerned about weather and less concerned about total leverage than in prior years' surveys. Recession risk (newly added this year) was lenders' fifth-highest concern for producers. By comparison, lenders ranked "a slowing economic recovery" near the bottom of their list of concerns for producers in 2021.
- **Top concerns for lenders** – Interest rate volatility became the greatest concern facing lenders in 2022 (up from the third-highest in 2021). Lender competition and weak ag loan demand each fell one spot in the rankings, to second and third, respectively. However, more respondents listed weak ag loan demand among their top two concerns than competition. Concern about credit quality and ag loan deterioration, which was the No. 1 concern in 2020, remained the fourth-highest concern facing lenders in 2022.
- **Sector concerns** – Respondents' level of concern for all categories of commodities fell this year. Lenders reported the highest levels of concern for the dairy, fruits and nuts, and beef cattle sectors, but each sector showed improvement over 2021 levels. Concerns notably declined for grains over the year. Lenders reported broad interest from borrowers in alternative ag financing, particularly for livestock grazing practices.

- **Credit quality** – Survey respondents across all regions continued to report lower ag loan delinquencies and charge-off rates in 2022. Lenders in the South and West anticipate credit quality will deteriorate next year, while lenders in the Corn Belt and Plains regions expect credit quality to remain fairly stable over the next 12 months.

- **Loan demand** – According to the diffusion index, demand for loans secured by farmland increased in 2022 at about the same pace as in 2021. Demand for agricultural production loans also grew in 2022, reversing the downward trend reported last year; however, demand for ag production loans still remains below the 2016-2018 survey average. Respondents anticipate loan demand for both categories will continue to increase over the next 12 months.

- **Land value and cash rent expectations** – Approximately 4 out of 5 ag lenders reported rising land values in 2022, consistent with results from the 2021 survey. However, a growing percentage of lenders expected land values to slow down (59.4%) or decline (12.7%). Cash rents were also higher in 2022, with 68.2% of lenders reporting higher rents in their market areas, and 41.4% of respondents expecting cash rents to continue to rise in the next 12 months, adding to inflationary pressures for producers.

- **Approval rate** – Lenders reported an average agricultural loan application approval rate for new loans of 86.0% in the 12 months leading up to August 2022, and expect the approval rate for renewal requests to be 92.2% in the following 12 months—likely due to strong ag economy conditions and a decline in lending activity due to higher rates.

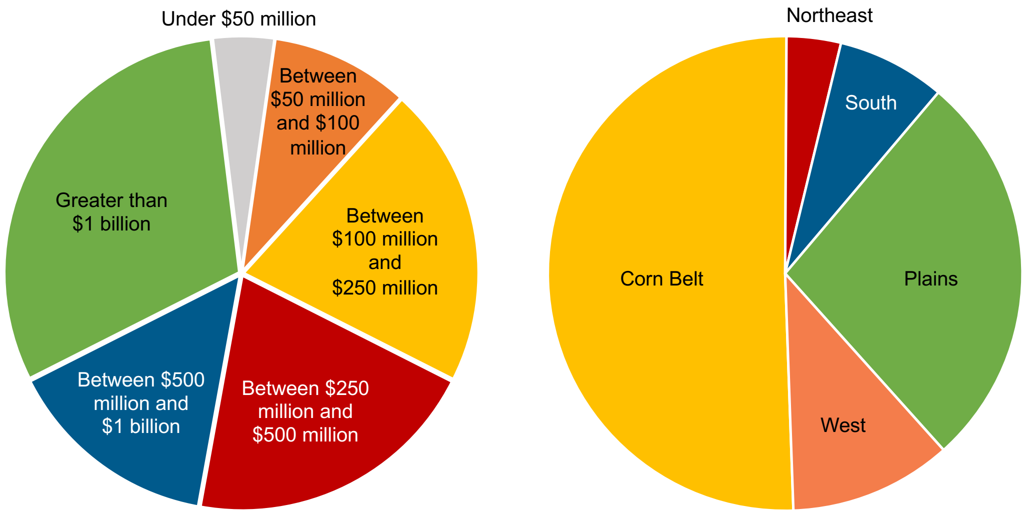
Introduction

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.

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 Aug. 1 and Sept. 2, 2022. Over 300 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 $1 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 2022

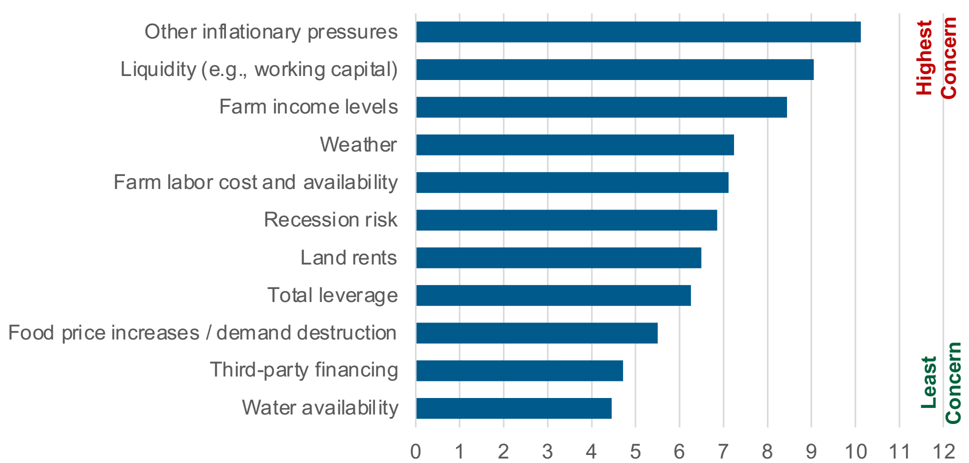
Agricultural Economy

Farm Income and Profitability

In the past 12 months, lenders experienced an overall improvement in the agricultural economy. Elevated commodity prices were the primary driver of lender optimism in 2022, a continuation of the strong run in 2021. Nearly all major food commodities were elevated in 2022, a function of lower supplies and strong demand for U.S. agricultural products. The increase in commodity prices outpaced the decline in government payments and the increase in farm expenses. The USDA's Economic Research Service forecasts the 2022 net cash farm income will be at a new all-time high, and the third highest in history when adjusted for inflation. If realized, the increase in farm income in 2022 would represent the longest expansionary cycle in the U.S. farm economy since 1947. This cycle expansion is the backdrop of lender respondents for the 2022 Ag Lender Survey.

Healthy farm incomes this year were not enough to dramatically change the list of lenders' concerns. Like in 2021, the top concern for lenders in 2022 was the rise in input expenses. Fertilizer prices, although down from early 2022 peaks, remain high compared to recent experience. Combined with higher feed, fuel, and labor costs, these factors together helped keep inflationary pressures as lenders' top concern for producers. Robust revenues were also not enough to shake liquidity and farm income levels from the other two top spots, demonstrating how consistently lenders perceive financial stress as a perennial risk. Weather remains a major concern for a small subset of lenders, primarily in the Corn Belt, Plains and West regions, where drought reduced yields this year and last. However, water availability stayed near the bottom of the list of lender concerns this year, despite a large subset of respondents reporting their borrowers have concerns about water availability and impacts on crops (33.2%). Of the one-third of lenders citing water availability concerns, a majority of them reported irrigation system improvements as their borrowers' response to water availability (56.6%).

Lenders' Top Concerns for Producers

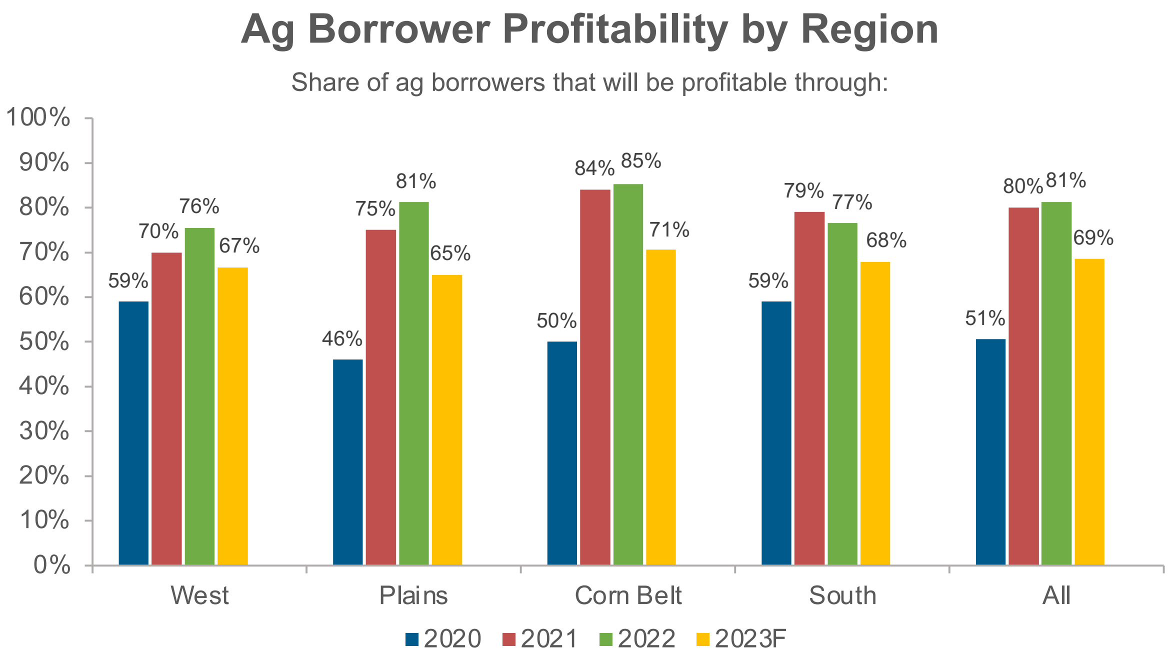


Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q3: Please indicate your relative level of concern for the following conditions facing your ag borrowers at this time, with 1 being the highest concern and 12 being the least concern. (To improve readability of the chart, we have converted 1=12, 2=11, 3=10, etc., so that larger bars correspond with higher concern.)

The stability of the producer-concern rankings underscores lenders' perceived improvement in the agricultural economy. After five years of declining commodity prices and tightening profit margins, net cash farm incomes spiked in 2021 and 2022. This cyclical swing in farm profitability pushed financial concerns down the list but changed lenders' focus from revenue management to expense management. For the second consecutive year, inflationary pressures topped the list of concerns for producers, and labor costs, water availability and rents maintained high positions on the list. The perceived increase in production risk was paired with a rising rate environment and expectations for rising production loan demand (45.7% of respondents expect higher demand for production loans in the coming year). Over 40% of respondents cited inflationary pressures as their top concern in 2022, in line with 2021 response levels. However, 73.9% of respondents listed inflationary pressures in their top three concerns, an increase over the prior year. In 2022, the Federal Reserve reacted to broader measures of inflation, raising benchmark interest rates and tightening U.S. monetary policy swiftly throughout the year. Agricultural lenders were in tune in 2021 with the building pressure on price levels and input costs, and that pressure remains a concern for lenders in 2022.

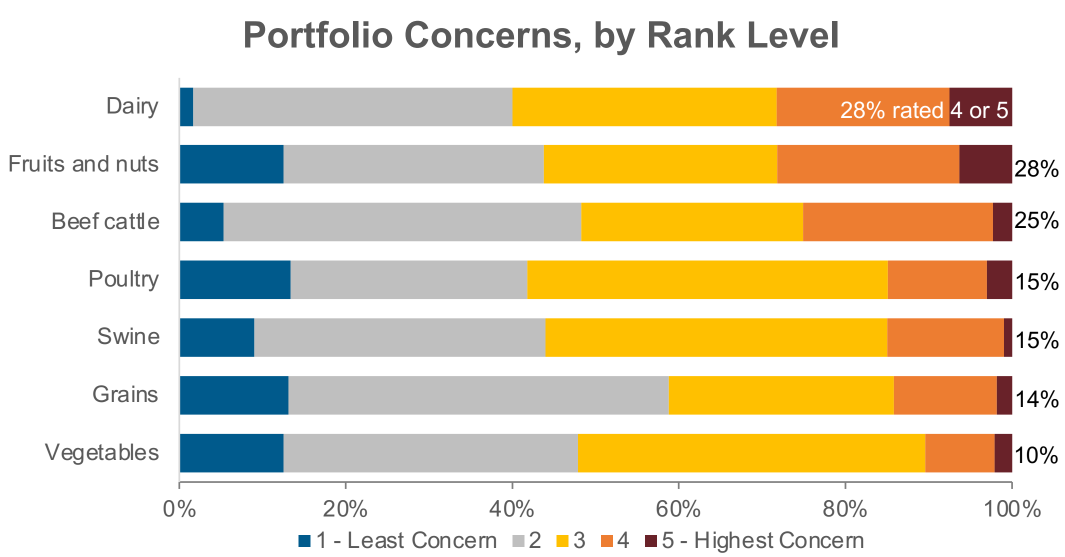
The relative ranking of concerns correlates with sector concentration in lender portfolios. While the inflationary risk was cited by all as a top concern, different components received different ranks, depending on the sector concentration of the respondent portfolio. Lenders concentrated in grain production cited a rising concern with cash rent levels compared with other sectors. Lenders with high concentrations in protein production tended to be more focused on recession risk, weather conditions and water availability, which was likely driven by drought conditions in the West and Plains. Water concern was also highly correlated with the concentration of fruits, nuts and vegetable production, given the persistent drought conditions in the West region. Lenders with dairy concentrations reported a higher correlation with labor and food prices. The differences in input components and production region played a role in rankings, but inflationary pressure, liquidity and farm incomes were consistently ranked as top concerns across lender type and location.

Despite the margin squeeze anticipated by lenders, perceptions of borrower profitability remain remarkably higher than in survey years 2019 and 2020. In 2022, lenders estimated that 81.3% of agricultural borrowers will be profitable. While that figure is on par with 2021 levels, it is a significant increase from the 51.0% and 57.2% reported by lenders in 2020 and in 2019, respectively. Corn Belt lenders reported the highest average profitability expectation (85.3%), while Western lenders reported the lowest average (75.5%). This is consistent with commodity price trends throughout 2022, where grain commodities were elevated, but cattle, fruit, nut and vegetable prices lagged. Looking forward, lenders see a decline in widespread profitability. The average lender expects 68.5% of ag borrowers to remain profitable through 2023. The compression was likely due to lenders' perceptions of inflation and input costs, and the drop was strongest in lenders with higher concentrations of beef cattle lending. Lenders in the Corn Belt, many with a high concentration in grain markets, maintain the highest average ag borrower profitability rate at 70.6%. Even with a drop in 2023 expectations, the profitability expectations were significantly improved compared to just two years ago.



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q13: What percentage of your ag borrowers will be profitable through 2022/remain profitable through 2023?

Lenders' comfort with individual commodity exposures continued to improve in 2022. After another year of higher agricultural prices that led to strong revenue and profit, the aggregate level of lender concern declined for almost every commodity concentration. The biggest improvements were reported by dairy lenders (from 68% rated 4 or 5 in 2021 to 28% in 2022), but grain and cattle-concentrated lenders also reported double-digit declines in concern ratings. The only commodity concentration in which lenders did not ink a sizable reduction in concern ratings was fruit and nut lenders (from 24% rated 4 or 5 in 2021 to 28% in 2022). The slight increase in fruit and nut lender concern is likely a combination of persistent drought, supply chain and export market challenges.



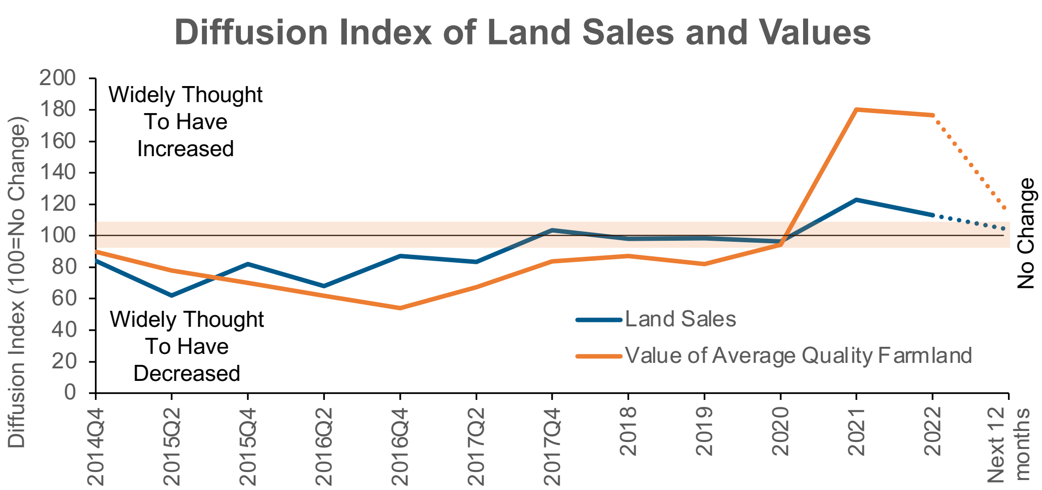
Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q6: Please rate your relative concern for [commodity] in your areas, with 1 being the least concern and 5 being the highest concern.

The changes in the agricultural economy led to several likely related impacts for agricultural lenders. While lenders largely see farm profitability continuing into 2023, the majority of survey respondents (71.7%) expect farm debt to increase in the next 12 months, a sizable increase compared to lender expectations in 2021 (55.2%). This is likely a response to expectations for higher farm expenses and increased land costs. Lenders now expect a smaller proportion of farmers to increase reliance on government payments for profitability and cash flow in the next 12 months (13.8%), compared to the 2021 survey (31.7%). This decline is likely a function of increased commodity prices combined with improved working capital on the farm in 2022. Finally, increased profitability likely drove improvements in loan delinquency and charge-off rates over the past 12 months, with over a third of respondents citing declines for both production and real estate loans. However, some lenders see potential challenges ahead, with 22.5% expecting increases in production loan delinquency rates and 16.8% expecting increases in real estate loan delinquency rates in the next 12 months.

Land Values and Cash Rents

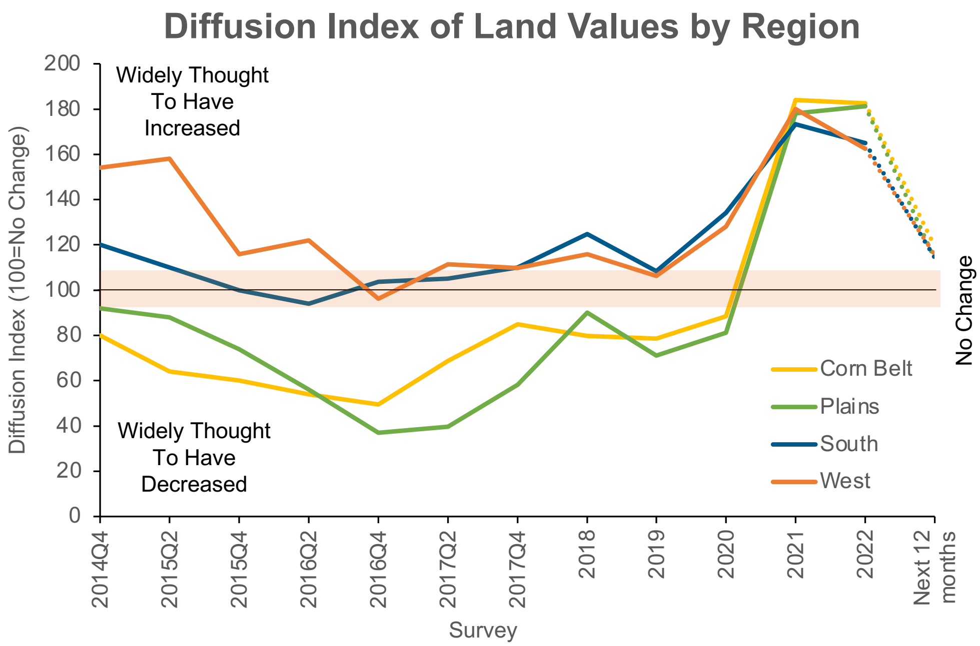
After several years of sluggish returns, land values rose significantly in 2021 and again in 2022. After an average gain of 8.3% reported by lenders in 2021, perceived land values rose an average of 18.9% in 2022. While this rate is higher than the USDA-reported 12.4% average, the responses had a higher concentration of Corn Belt lenders, a region in which the USDA-reported average farmland growth was 14.9%. In total, 80.2% of lenders observed an increase in average-quality farmland values in their markets in the past 12 months. A higher percentage of lenders reported land value increases in the Corn Belt and Plains compared to other regions, which is consistent with USDA-reported average land values. Lender expectations for 2023 land values are considerably more conservative. Only 29.7% of lenders expect an increase in land values next year, and the average expected increase was 3.5%. Lenders in the South and West are more optimistic about the path of future land values compared to those in the Corn Belt and Plains.

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 2022 indicate a potential pivot in land values in 2023. The expectations for higher prices were almost ubiquitous in 2021 and 2022, and lenders believed that more land was coming to market. However, the outlook for 2023 is a slowing trend in both land coming to market and the value of that farmland. The diffusion index for the coming 12 months is near 100 for both, indicating a balanced response around stability or no change.



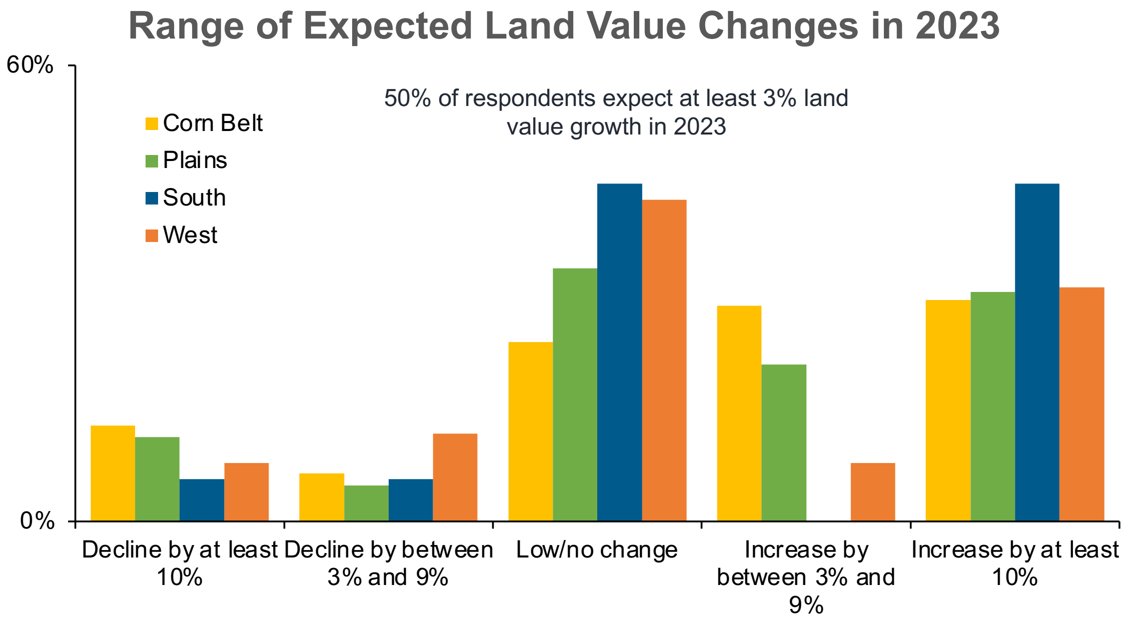
Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q1/Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

Improved profitability and low interest rates in 2021 and early 2022 led to higher land values in all regions. Lenders in each region reported increasing land values in both 2021 and 2022, with the widest diffusion margins in the survey's history. Value changes pulled back somewhat in the South and West in 2022, as profitability in those regions lagged compared to the Midwest. Looking forward, lenders in all regions expect generally steady land values in the coming year, with a slight tilt toward small gains. These results are consistent with the average expected change in land value of 3.5% for 2023. The rising interest rate environment is likely a major factor in the slowing of land value appreciation, but lenders still see some upward pressure.



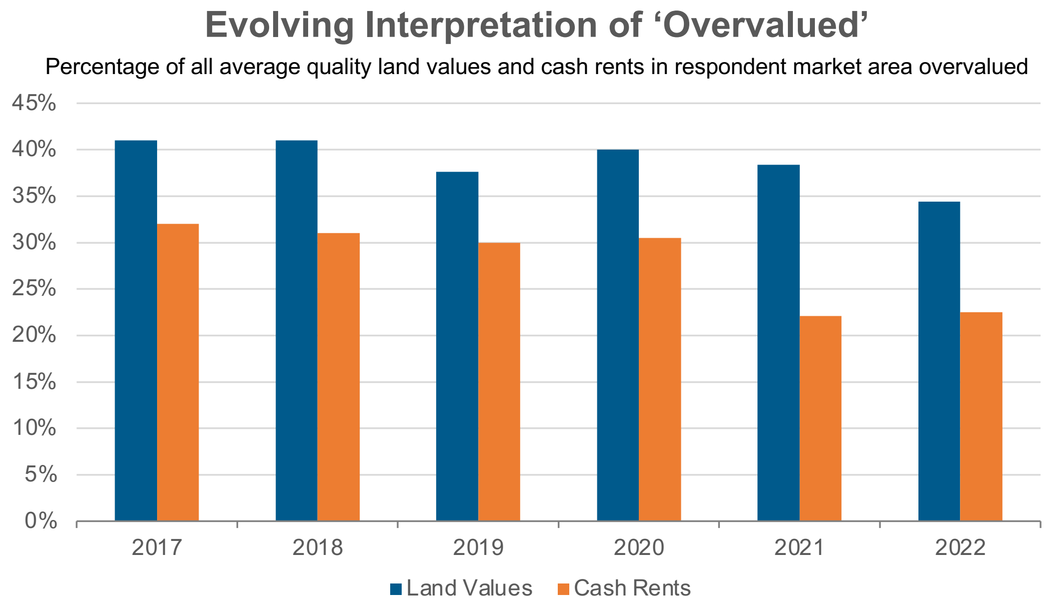
Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q1/Q2: During the past 6/12 months, how have the following economic conditions changed in your area? How much will they change in the next 6/12 months in your area?

Geographically, land value expectations for the coming year are generally consistent. A high percentage of respondents expect low or no change in the next 12 months, but the majority of all respondents expect 3% or higher land value increases including approximately 30% of lenders who expect 10% or more in land value appreciation in their markets. Lenders in the South reported the strongest expectations for land value growth, with 44.4% of respondents expecting double-digit growth in the next 12 months. However, an equal number of respondents expect low or no growth in land values in the South, highlighting the bimodal distribution of land value expectations for lenders in the South and West. Lenders in the Corn Belt and Plains were almost equally split between low growth, slight growth and double-digit growth in the next 12 months. The lack of a consistent response highlights the amount of volatility lenders see in their markets heading into 2023.



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q7: In your local service area, how much do you expect the value of average quality farmland will change in the next 12 months?

Following the increases in land values, lenders are reporting higher levels of cash rents with expectations that they will continue to rise in the next 12 months. More than two-thirds of respondents (68.2%) reported an increase in the cash rental rate of average-quality cropland in their market territories, and 41.4% of respondents expect rental rates to climb again in 2023. Despite these increases, fewer lenders believe that either land values or cash rental rates are overvalued in their regions this year compared to prior surveys. Until 2021, lenders reported between 30% and 40% of their cash rental rates and land values were overvalued, respectively. In 2021 and 2022, those numbers declined to 20% and 35% overvalued, respectively. Lender perceptions of the relative value of cash rental rates and land have likely been affected by the improved health of the agricultural economy.

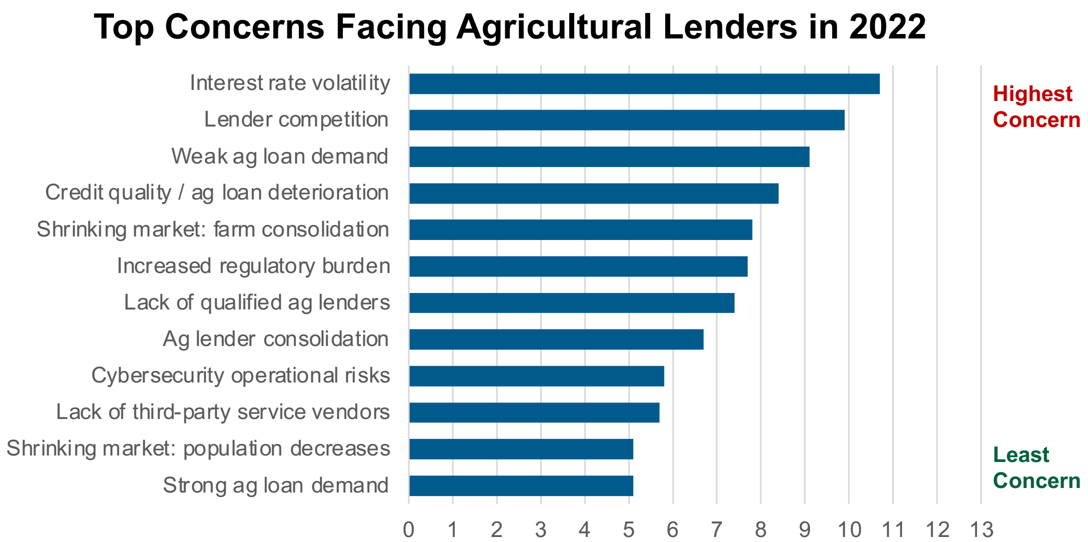


Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q10 and Q11: What percentage of your customers' cash rents on average quality farmland would you consider above market value? What percentage of all average quality farmland in your market would you consider overvalued?

Agricultural Lenders

Lender Sentiments

The No. 1 concern facing agricultural lenders in 2022 was interest rate volatility. This was true across every region and for institutions of varying sizes and grain portfolio concentrations. Lenders additionally expressed concern about lender competition, weak loan demand and credit quality. Concerns about farm consolidation, increased regulatory burden and a lack of qualified ag lenders were generally ranked toward the middle, with some variation by lender cohort. Respondents were comparatively less concerned about industry consolidation, cybersecurity and operational risks, the availability of third-party service vendors, rural population decline or strong loan demand.



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q4: Please indicate your relative level of concern for the following conditions facing your ag borrowers at this time, with 1 being the highest concern and 13 being the least concern. (To improve readability of the chart, we have converted 1=13, 2=12, 3=11, etc., so that larger bars correspond with greater concern.)

Interest rate volatility was the greatest overall concern this year. Nearly half of respondents (49.0%) ranked interest rate volatility among their top two concerns, up 35.5 percentage points from last year. While rising rates have helped bolster bank net interest margins, a combination of higher funding costs, fear of weakening loan demand and strong competition for good deals are expected to cut into rising yields in 2023.

Lender competition fell one spot in the rankings this year to the second-greatest overall concern. One in three respondents ranked competition among their top two concerns, down 17 percentage points from last year. More than three-quarters of respondents (77.5%) ranked the Farm Credit System (FCS) as their No. 1 competitor for agricultural loans. Community banks were among the top two competitors for 67.8% of respondents, followed distantly by vendor financing (20.3%) and regional banks (7.5%).

While weak loan demand was the third-greatest concern overall, a larger share of respondents ranked it among their top two concerns (35.3%) than those that ranked lender competition (33.3%). However, there was more dispersion in the responses for weak loan demand. More than 1 in 10 ranked weak loan demand among their bottom three concerns (11.9%) in 2022, compared to just 0.7% that ranked lender competition that low. Weak loan demand did edge out lender competition as the second-greatest overall concern for ag lenders with assets between $50 million and $250 million.

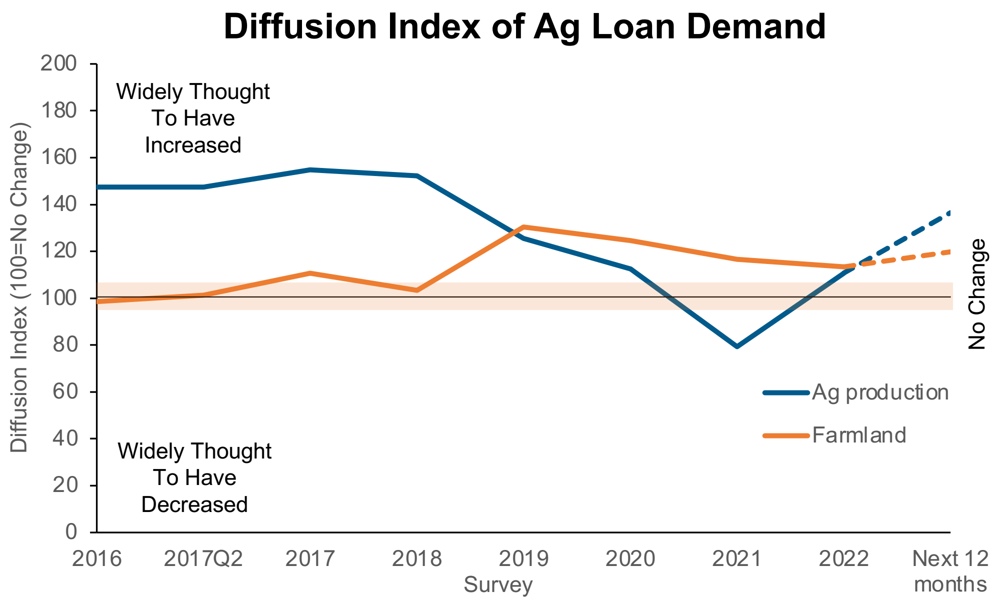
Concerns about credit quality and ag loan deterioration (which was the No. 1 concern facing ag lenders from 2017 to 2020) remained the fourth-highest concern in 2022. Credit quality was ranked among the top two concerns for 20.7% of respondents, up 7.2 percentage points from last year but down from 72.0% in 2020. There was some variability, though, across respondent types. Lenders from the West (No. 2 concern), South (3), and lenders with assets between $250 million and $500 million (3) were comparatively more concerned about credit quality than weak loan demand. By contrast, lenders from the Corn Belt (No. 5 concern) and Plains (5), lenders with assets between $500 million and $1 billion (6), and lenders with grain portfolio concentrations greater than 75% (6), were comparatively less concerned about credit quality.

The levels and distribution of concern reported for farm consolidation, regulatory burden and a lack of experienced ag staff were largely unchanged from last year; however, there remained some variability in the survey pool. Lenders from the Corn Belt and those with grain portfolio concentrations greater than 75% were comparatively more concerned about shrinking markets due to farm consolidation than their peers, ranking it as their fourth-greatest concern. Similarly, lenders from the Plains and with grain concentrations greater than 75% were more concerned about increasing regulatory burden, which they ranked as their fourth- and fifth-deepest concerns, respectively. Finally, a lack of qualified ag lenders was a comparatively greater concern for lenders with assets between $500 million and $1 billion (No. 3 concern), lenders from the West (4) and lenders from the South and those with assets greater than $1 billion (5).

Lenders continue to report positive relationships with their regulators: 80.1% of lenders rated their relationship with their primary regulator as either a 4 or a 5 on a 5-point scale. Lenders believe regulators' comprehension of the agricultural sector, though, has some room for improvement. On average, respondents rated regulators' understanding of agriculture a 3.0 out of 5, with 32.1% of respondents saying their regulator had little to no understanding of the sector (rated one or two out of five).

Lending Conditions

Demand for agricultural production loans recovered somewhat this year after contracting in 2021. However, demand still remains below levels reported between 2016 and 2018, with a plurality of respondents (46.2%) reporting demand stayed about the same over the past 12 months. There was some variability in the survey pool. A majority of those with assets between $500 million and $1 billion reported demand remained unchanged (55.0%). Lenders from the Plains were fairly split between reporting that demand decreased (30%), increased (35%) or remained the same (35%). Respondents generally expect demand for production loans to strengthen over the next 12 months



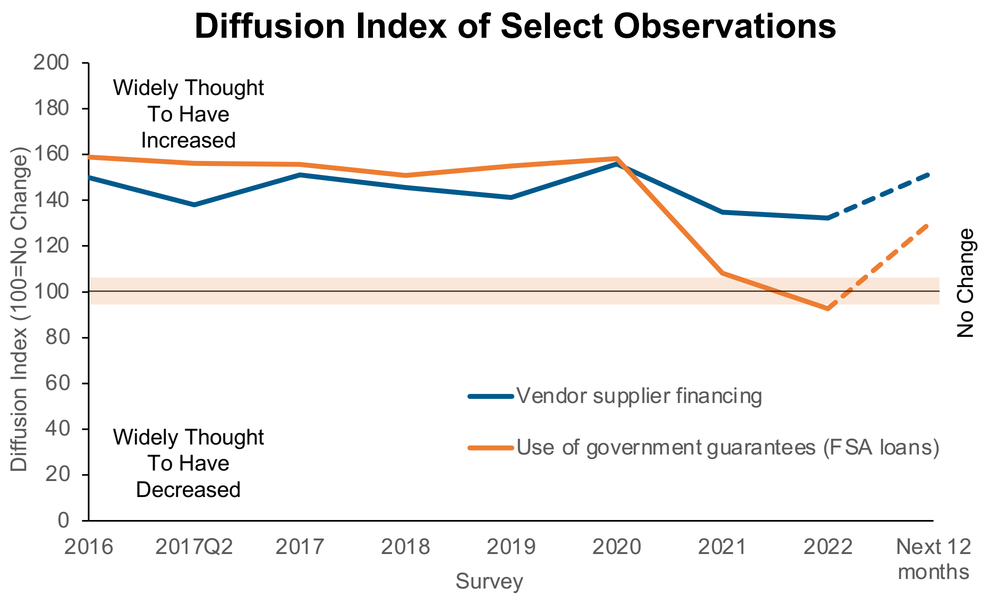
Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

(45.7% predict an increase), particularly among those with grain concentrations greater than 75% (52.6% predict an increase), and those in the Plains (56.3%) and West (59.4%).

Similar trends were reported for demand for loans secured by farmland. While demand remains above the 100 index threshold, the level has slowly ebbed since the 2019 survey, underscoring why weak loan demand and competition for good deals remained a prominent concern for lenders this year. More than 3 in 5 respondents (62.4%) said demand for ag real estate loans remained unchanged over the past 12 months. This sentiment was generally shared by lenders of different sizes and across regions, with the exception of lenders in the West, which were more likely to report increasing demand (31.3% vs. 25.5% overall). Lenders expect mild improvement in demand for loans secured by farmland over the next 12 months. Those from the West were comparatively more optimistic about increasing demand (53.1% vs. 31.7% overall), while lenders with grain concentrations greater than 75% and those with assets between $500 million and $1 billion were more likely to predict demand will remain flat (65.4% and 74.4%, respectively, versus 56.4% overall).

Respondents were nearly evenly split between reporting farm debt increased (36.3%), decreased (31.9%), or stayed the same (31.9%) over the past 12 months. However, responses varied by cohort. Those from the West, those with assets greater than $1 billion, and lenders with grain concentrations between 50% and 75%, were more likely to report farm debt increased (42.4%, 41.6% and 41.5%, respectively). Lenders with assets between $100 million and $250 million and those with grain concentrations less than 50% were more likely to say farm debt stayed the same (44.0% and 41.1%, respectively). Lenders with grain concentrations greater than 75% and those in the Corn Belt and Plains were more likely to say farm debt decreased (42.9%, 37.1% and 37.0%, respectively). According to the USDA, total farm sector debt is projected to increase by 4.6% in 2022, but fall by 1.2% when adjusted for inflation. Lenders of all types expect farm debt levels to increase in 2023, a likely result of rising input prices requiring borrowers to take out more credit to produce the same level of output.

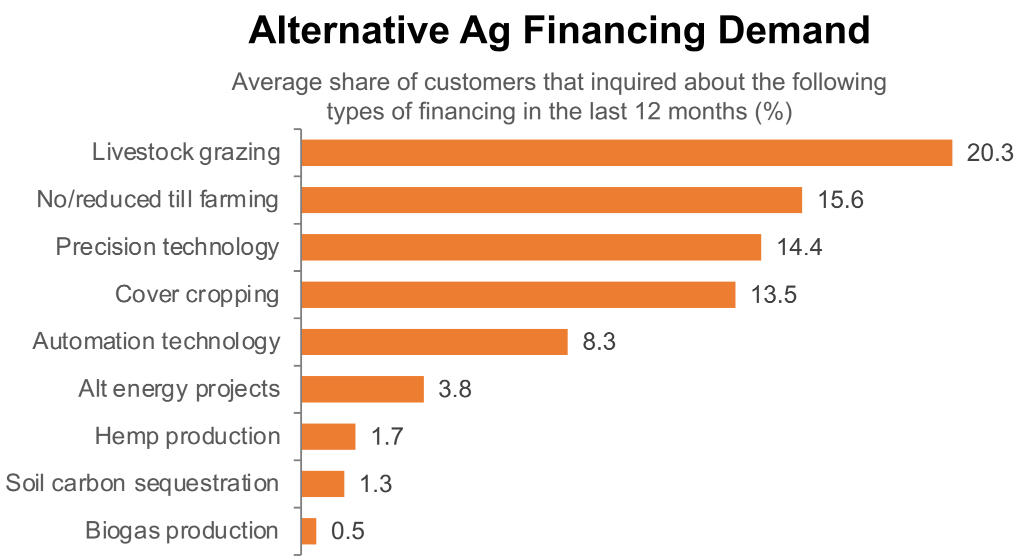
One factor that affected loan demand in 2022 was the decline in government payments from previous years. Direct government farm payments are projected to fall 49.7% in 2022, according to the USDA, due to lower supplemental and ad hoc disaster assistance. Only 31.6% of lenders reported an increase in reliance on government payments over the past 12 months, down from 70% in 2021. Just over half of respondents expect this reliance will remain the same in the coming year (50.2%).



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
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?

For the second consecutive year, lenders reported that lending guaranteed by the USDA Farm Service Agency (FSA) and other federal agencies remained largely unchanged (61.8%). Lenders expect usage to increase again, though, over the next 12 months. More than 4 of 5 lenders surveyed (86.2%) offer FSA-guaranteed loans. In contrast, many lenders report that vendor and supplier financing continued to increase this year (37.0%), with further increases expected over the next 12 months (54.4%).

This year, we asked lenders about the level of interest their borrowers expressed for alternative ag financing. About 1 in 5 borrowers inquired about financing livestock grazing practices. Financing of reduced-till farming, precision technology and cover cropping practices were also areas of interest for ag borrowers. Fewer borrowers inquired about financing alternative energy projects, hemp production, and soil carbon sequestration or biogas production practices.

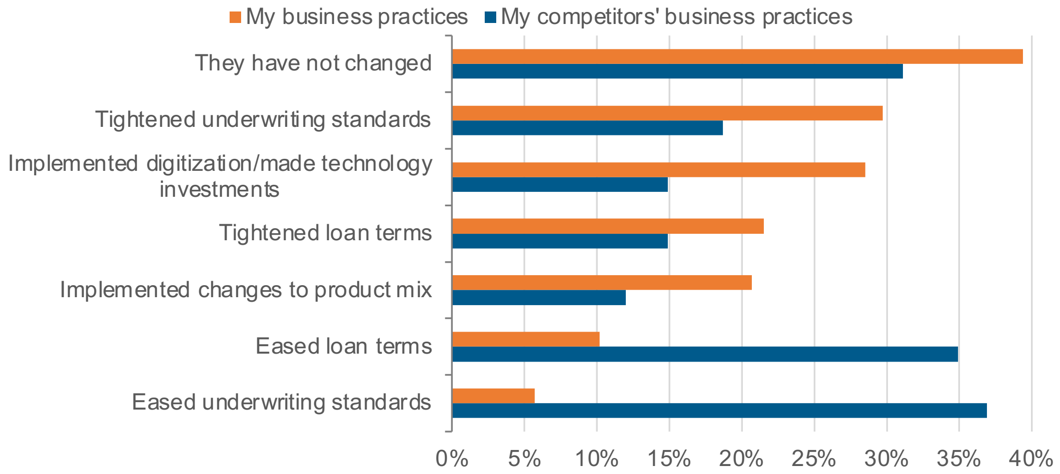


Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q48: In the last 12 months, approximately what percentage of your customers inquired about the following types of financing?

In addition to asking about alternative ag financing, we also inquired this year about lending activity to finance rural infrastructure. Only 13.6% of respondents indicated that their institutions were currently involved in financing rural infrastructure projects. Of those that did indicate involvement, roughly half cited financing water system projects (54.8%), followed by those that cited broadband investments (35.5%). A small percentage of respondents reported roads, bridges, renewable energy and miscellaneous medical facility projects, but overall, only a small percentage of ag lenders reported their institutions' involvement in community infrastructure finance.

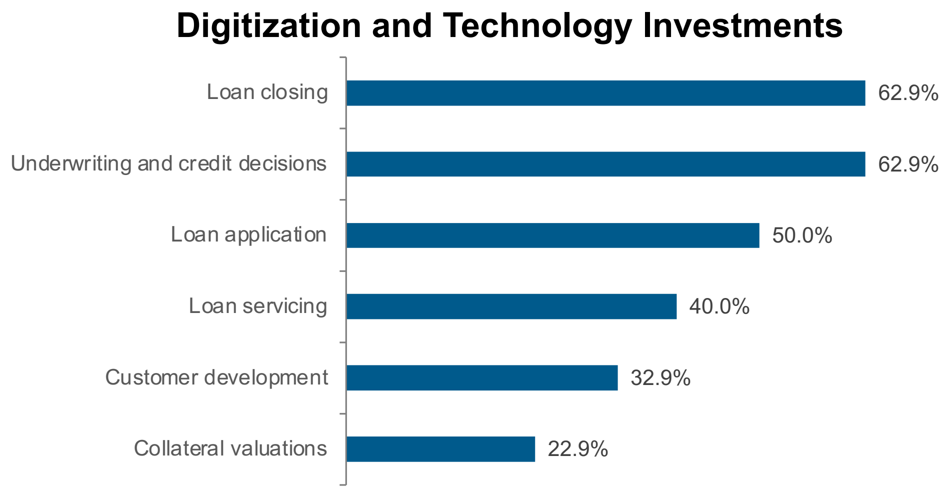
Ag lenders continue to be strong partners that meet the credit needs of farmers and ranchers. On average, lenders approved approximately 86% of agricultural loan applications received over the past 12 months. Over the next 12 months, lenders expect to approve 92% of renewal requests, which is likely tied to the strong conditions in the agricultural economy and a decline in lending activity due to higher rates. However, competitive pressure is rising for ag lenders, underscoring why lender competition remained such a prominent concern this year. Respondents estimated that 53% of the loans they deny are being approved by competing institutions, up from 39% in 2021. This corresponds with ag lenders' responses regarding how business practices have changed over the past year—both for themselves and their competitors. While lenders reported their own institutions primarily tightened underwriting standards (29.7%) and loan terms (21.5%) in 2022, they reported that their competition loosened both (36.9% and 34.9%, respectively).

How Business Practices Have Changed in the Last Year



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q35 and Q37: How have your business practices changed in the last year? How have the business practices of competitors in your area changed in the last year?

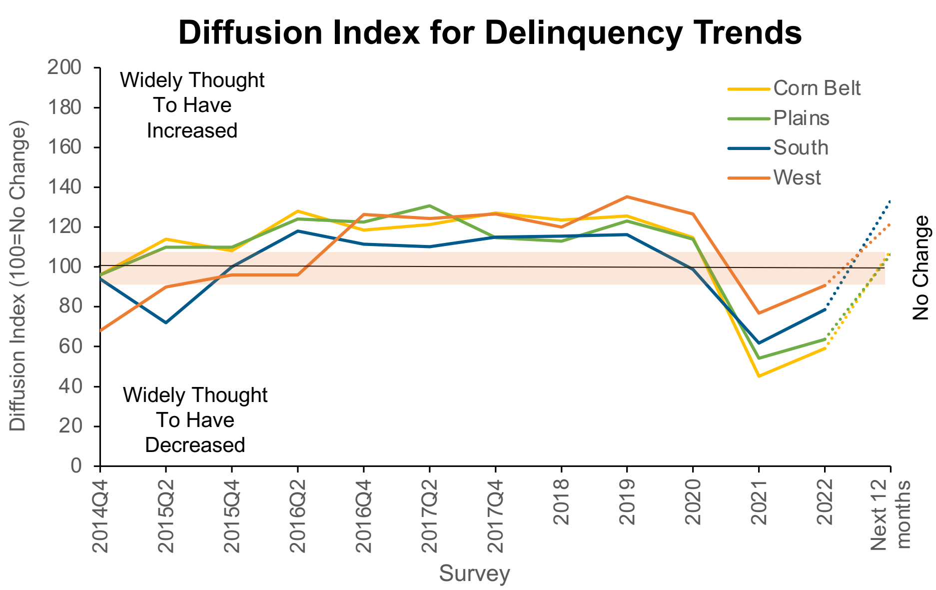
In the face of these challenges and coming out of the COVID-19 pandemic, lenders report their institutions have also increased digitization (28.5%) and implemented changes to their product mix (20.7%). Among those that reported their institution increased digitization or made technology investments in 2022, at least half made changes to loan closing (62.9%), underwriting and credit decisions (62.9%), and loan application processes (50.0%).



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Mean response to Q36: What aspect of the loan process have you digitized or made technology investments in over the past year?

Credit Quality

Credit quality for the entire lending portfolio continues to be exceptionally strong by historical standards, including for loans to farmers and ranchers, largely thanks to the unprecedented levels of government support borrowers received starting at the onset of the pandemic, followed by two years of near-record profits. As a result, the level of concern expressed for credit quality and ag loan deterioration remained comparatively lower in 2022 than in previous survey years. A majority of respondents reported that the delinquency and charge-off rates of outstanding ag loans (both production and real estate) either decreased or stayed the same over the past 12 months. This was true for lenders of all sizes and across all regions.



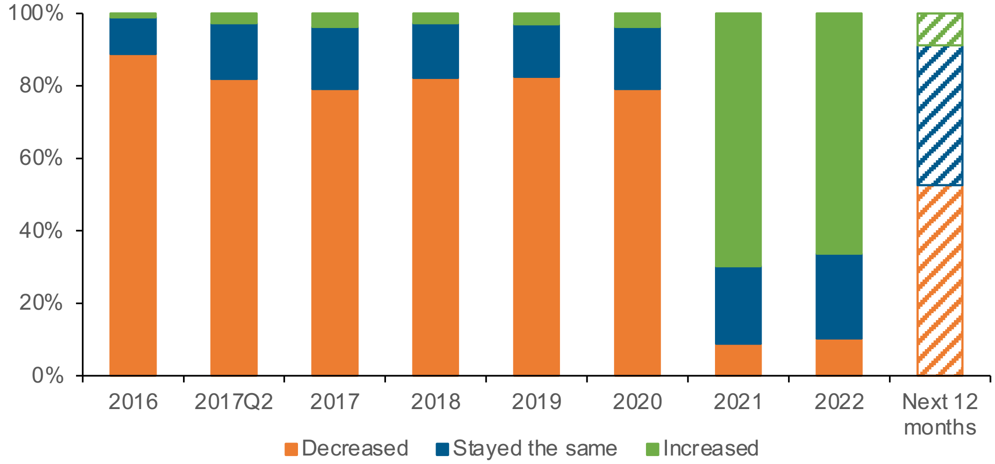
Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q1 and Q2: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

With recession concerns for 2023 growing and interest rates continuing to rise, many lenders expect some credit quality deterioration over the next 12 months with the expectation that delinquency and charge-off rates will return to historical levels. A majority of lenders across regions and asset sizes expect credit quality to remain the same in 2023 (67.7%), compared to nearly a quarter that expect delinquencies to increase (24.1%). However, comparatively higher shares of respondents in the South (40.5%) and the West (28.1%), those with grain portfolio concentrations less than 50% (33.2%), and lenders with assets between $250 million and $500 million (30.2%) expect delinquencies to rise. Ag lenders will continue to work closely with their borrowers as credit quality normalizes. Lenders have a deep understanding of the needs of their borrowers in part because, in many cases, they are in the same business. More than 2 in 5 respondents surveyed said that they farm (43.8%) in addition to lending.

Another factor that contributed toward lower levels of credit quality concern in 2022 was ag borrower profitability. A record 81.3% of respondents expect their borrowers will be profitable this year, up slightly from 2021. Additionally, nearly two-thirds of ag lenders reported that overall farm profitability increased in the last 12 months. In other words, not only are more borrowers profitable, profit margins are increasing. Nominal net farm income is projected to increase 5.2% this year, according to USDA forecasts, but dip 0.6% in inflation-adjusted dollars. Lenders are less optimistic about next year. Respondents expect the share of borrowers that stay profitable through 2023 to decrease to 68.5%. Profit margins are also expected to decline, with just over half of respondents expecting overall farm profitability to decrease in the next 12 months. However, these predictions still remain more upbeat than the comparative 2016-2020 averages of 54.8% (remain profitable) and 82.3% (profitability to decline), respectively.

Overall Farm Profitability Increased in 2022

Percent of respondents that observed the following changes in their area:



Source: ABA-Farmer Mac Agricultural Lenders Survey, 2016-2022
Mean response to Q10 and 11: During the past 6 or 12 months, how have the following conditions changed for your area?

In addition to strong credit quality and borrower profitability, lenders reported healthy loan-to-value ratios for their agricultural loan applicants. Lenders reported an average LTV ratio of 63.2% for loans secured by farmland and 64.0% for agricultural production loans. The ratios for loans secured by farmland and agricultural production loans were slightly stronger for banks with assets between $100 million and $250 million (58.2% and 61.1%, respectively) and for banks with grain portfolio concentrations greater than 75% (59.8% and 61.2%, respectively).

Interest Rate Environment

Over the past 12 months, the Federal Reserve, or the Fed, has hiked rates 375 basis points (bps), and markets are forecasting rates to rise by another 100-150 bps by the end of the first quarter of 2023. On top of this, if the Fed's balance sheet reduction activity continues, it will likely put further upward pressure on interest rates. It comes as no surprise then that lenders across the country and up and down the size spectrum cited interest rate volatility as their greatest overall concern this year (i.e., weighing the share that ranked an item highly against those that ranked an item low among their list of concerns).

Rising rates combined with higher loan demand from farmers and ranchers may help bolster net interest margins for ag lenders through the end of this year. However, rate increases do not just affect borrowers, they also increase funding costs for lenders. Rate pressures have been less prominent this year largely because the banking sector (including ag banks) remains awash with liquidity. While deposits started to trend down for ag banks this year, they remained 19.7% higher in the first half of 2022 than they were at the end of 2019. As a result, competition for funds has been comparatively lower than in previous rate hike cycles, allowing deposit costs to lag recent rate increases. But the significant increase in interest rates over the last year may have a larger impact on lender cost of funds in 2023.

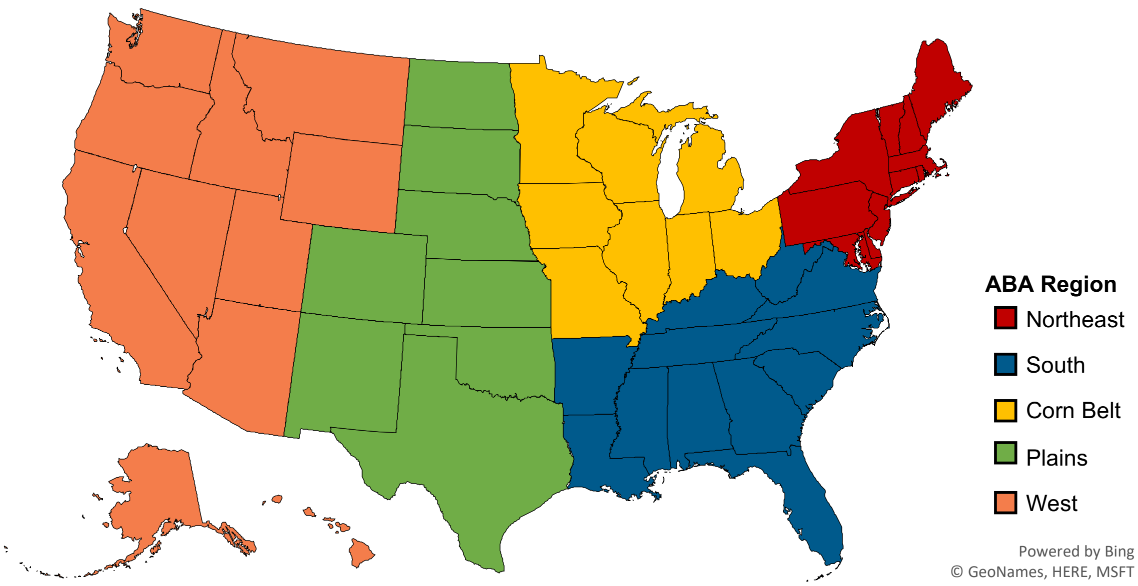
With the yield curve inverting for the 2-year and 10-year Treasuries, a general precursor of a recession, weakening loan demand and stronger competition for loans remained prominent concerns for ag lenders. In fact, weak loan demand edged out interest rate volatility as the No. 1 concern for respondents with assets between $100 million and $250 million, those with assets greater than $1 billion, lenders with grain concentrations greater than 50% and those from the West (though there was greater dispersion in the level of concern for weak loan demand than for interest rate volatility). A combination of slower loan growth and stronger competition for good deals would cut into rising yields for lenders, and that could weigh on net interest margins in 2023.

The volatility of interest rates, Fed balance sheet reduction and challenges predicting the trajectory of Fed hikes in the coming year complicate planning for ag lenders. However, the vast majority of respondents expect both short-term rates and long-term rates will increase over the next 12 months (90.2% and 78.4%, respectively).

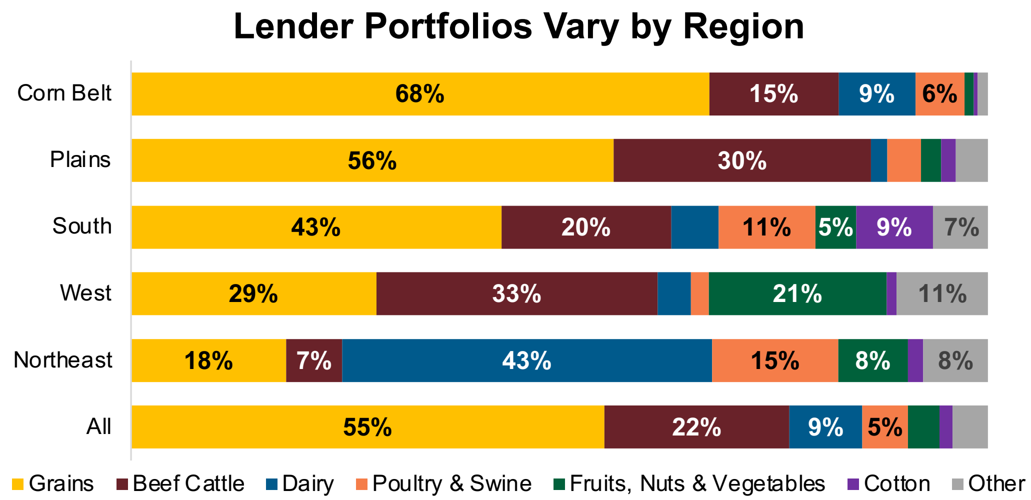
About the Survey Respondents

Over 300 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. More than half of the responses came from lenders at institutions with $500 million or less in assets (54.7%). Regionally, the responses were somewhat concentrated in the Corn Belt and Plains (50.7% and 27.2%, respectively), which is expected given the high proportion of agricultural production and lending that occurs in those states.

ABA Regions

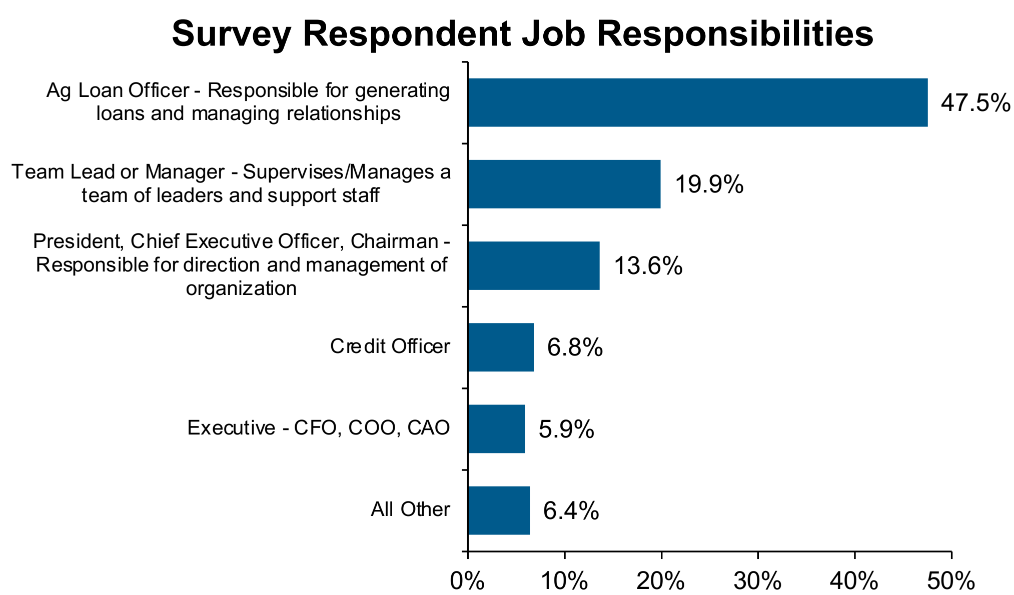


Lender portfolios tended to be highly concentrated in grains and cattle, but there was some diversity by region. Respondents in the West and Plains states reported a higher percentage of cattle than those in other regions. Lenders from the South reported a higher percentage of cotton and a relatively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



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
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 (47.5%). Others reported team managers, chief executive roles and credit officers.



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2022
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 $23.7 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $19.6 trillion in deposits and extend $11.8 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 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, competitively-priced financing and risk management tools. Farmer Mac’s customers benefit from its 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, **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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