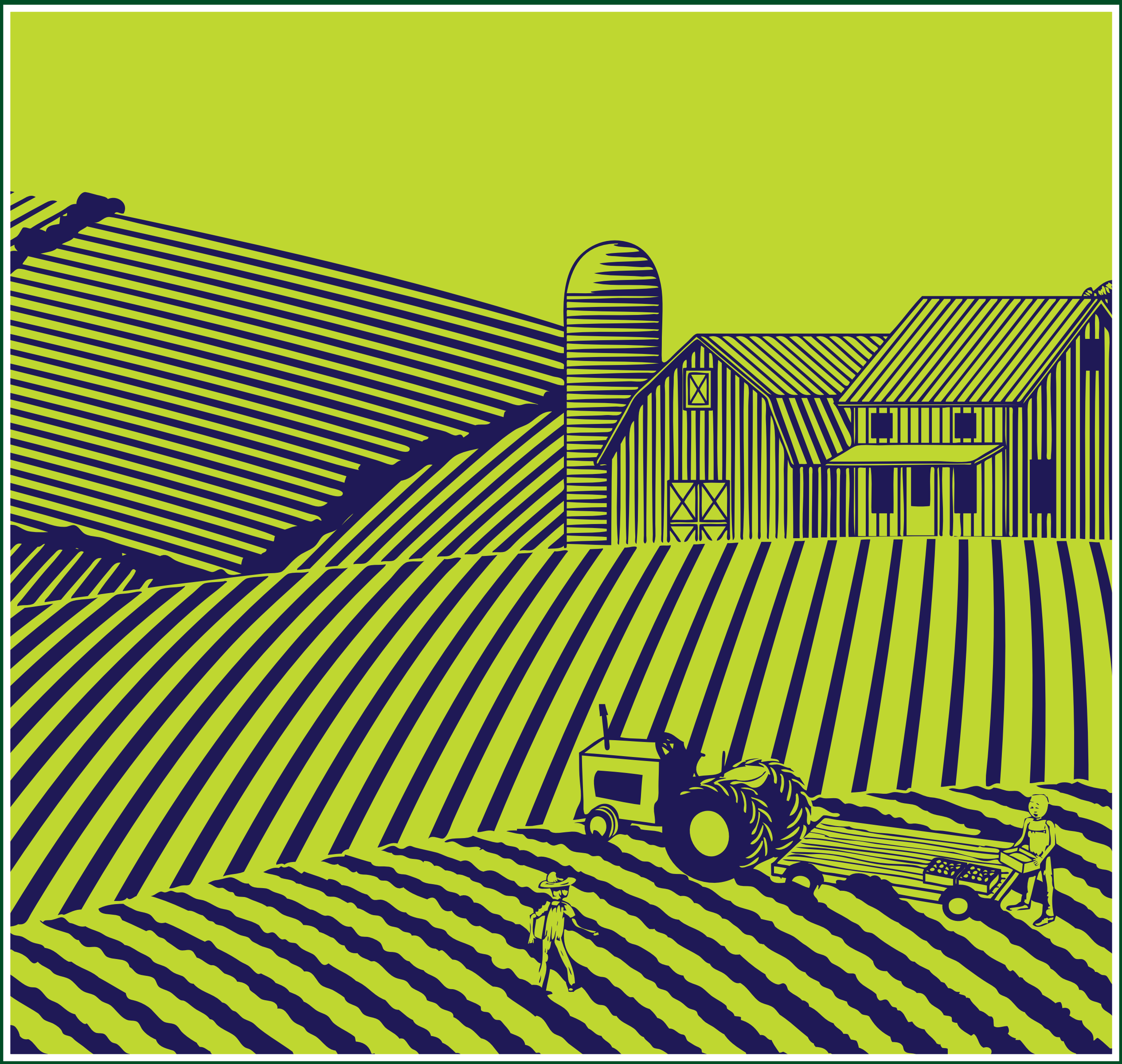
FALL 2023

# AGRICULTURAL LENDER SURVEY RESULTS



FARMER MAC

American Bankers Association®

# Contents

# Key Takeaways

- **Profitability expectations** – Ag lenders estimate that more than three-quarters of their borrowers will remain profitable in 2023 and two-thirds will remain profitable through 2024. However, there was greater dispersion in responses regarding the level of overall farm profitability. Only 28% of lenders reported an increase in borrower profit margins, down from 66% last year. Lenders expect farm income compression over the next 12 months, with 70% projecting a decline in farm profitability.
- **Top lender concerns for producers** – Liquidity and farm income returned to the top of the list of lender concerns for producers. Concerns about other inflationary pressures (rising input costs), the No. 1 concern in 2022, fell to the third greatest overall concern for producers in 2023. Despite worries about an economic slowdown, recession risk remained a middling concern for lenders.
- **Top overall concerns for lenders** – The various impacts of a rising interest rate environment were a common theme in the 2023 survey. Accordingly, interest rate volatility remained the No. 1 perceived concern facing lending institutions in 2023. Lender competition along with credit quality and ag loan deterioration were the second- and third-highest overall concerns, respectively.
- **Sector concerns** – Respondents' level of concern for dairy and swine increased in 2023. More than half (52%) of respondents ranked their level of concern for dairy a 4 out of 5 or higher and nearly a quarter (24%) expressed similar concern for swine, up from 28% and 15%, respectively, in 2022. In comparison, concern levels declined by a notable amount for fruits and nuts and beef cattle.
- **Credit quality** – Survey respondents across all regions reported lower ag loan delinquencies and charge-off rates in 2023. However, lenders expect credit quality to deteriorate in the coming 12 months, reverting to historic levels. Consistent with this expectation, more than two-fifths of respondents reported tightening underwriting standards (48%) and loan terms (42%) in 2023 (up from 30% and 22%, respectively, in 2022).

- **Loan Demand** – According to the diffusion index, demand for both loans secured by farmland and agricultural production loans increased in 2023. Respondents anticipate that loan demand for both categories will continue to increase over the next 12 months.

- **Land value and cash rent expectations** – Farmland values continued their upward march in 2023. Lenders' perceptions of farmland values increased 11.2% in 2023, with some variation across regions. However, several tailwinds have turned to headwinds as incomes have declined and interest rates have increased. As a result, most lenders expect land values will remain stable over the next year. Cash rents, meanwhile, have been slower to increase and could rise further in 2024.

- **Approval rate** – Lenders reported an average agricultural loan application approval rate of 85.5% for new loans in the 12 months leading up to August 2023 and expect the approval rate for renewal requests to be 89.4% in the following 12 months.

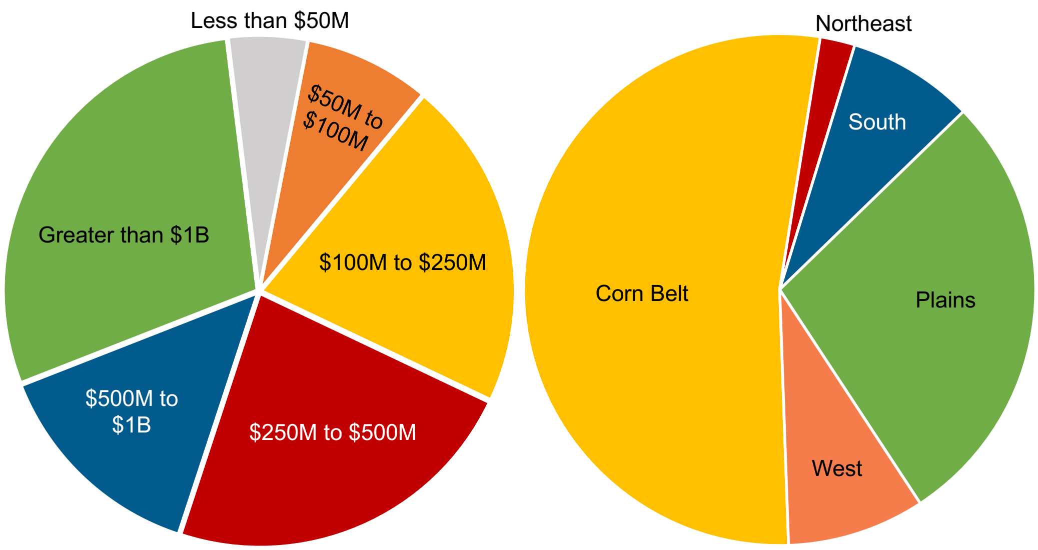
# Introduction

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 periods of transition as the agriculture sector moves through economic peaks and troughs.

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. 1, 2023. Over 260 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 respondent demographics.

## Respondent Size and Primary Market Region




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023

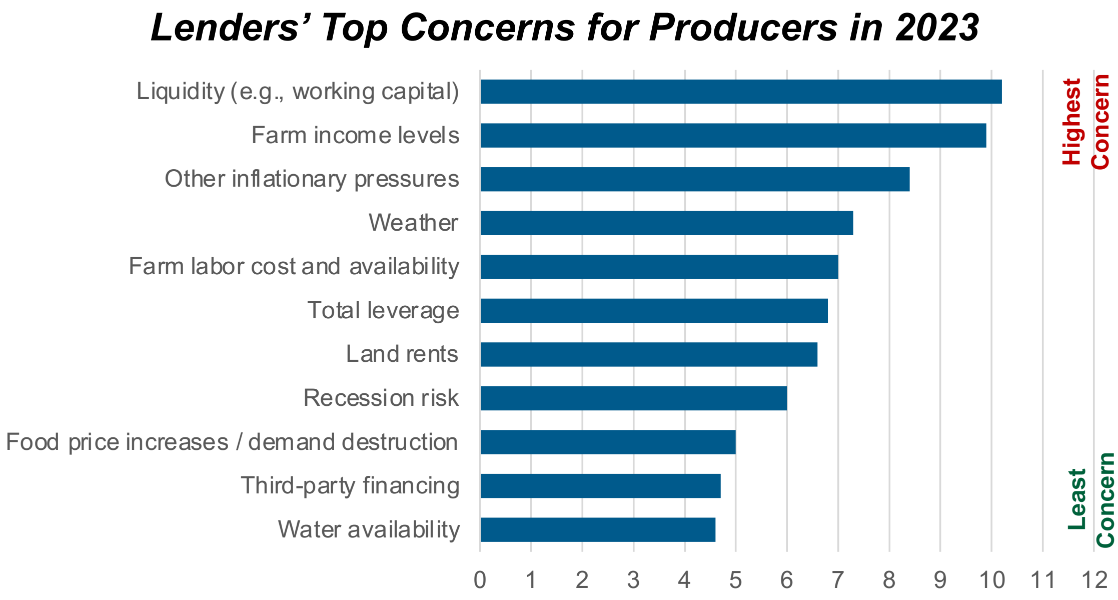
# Agricultural Economy

## Farm Income and Profitability

The farm economy saw record profitability last year, with net cash farm income surpassing $200 billion in 2022, a new record even after adjusting for inflation. That spike in farm incomes was fueled by tight global inventories and robust export demand for many U.S. agricultural commodities.

However, global inventories have since rebounded for many commodities, causing prices to trend lower throughout this year. Exports also have lagged in 2023 due to a combination of logistical challenges, a strong U.S. dollar and increased competition from abroad. As a result, the USDA projects 2023 net cash farm income will decline 26.5% relative to last year. While that's not ideal, farm incomes would still be approximately 50% higher than the long-term average if the forecast is realized — underscoring the historic profitability levels in 2022.

Lender sentiment this year for producers largely reflects the recent pullback in farm profitability. Liquidity has become the primary concern among agricultural lenders for their borrowers, followed closely by farm income levels. These two were also listed as top concerns in 2021 and 2022, highlighting their importance even during periods of elevated profitability. Rising input costs, which were previously ranked as the top concern in 2021 and 2022, dropped to the third highest concern this year, reflecting the fact that many input prices peaked last year and have since retreated significantly. The decline in fertilizer prices has been the most notable example, declining more than 50% from peak to trough.




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q9: 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.)

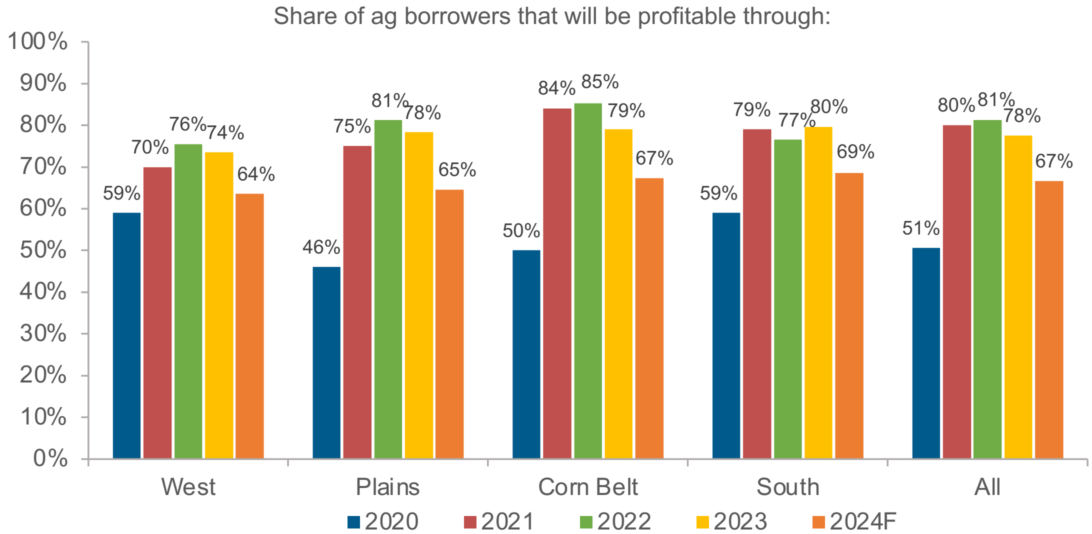
On the other end of the spectrum, lenders' concern about drought conditions for producers remained low this year. This follows a historic amount of precipitation across the Southwest last winter that ended its years-long drought. Like many concerns though, drought concerns vary by region, as producers on the Southern Plains and parts of the Midwest continue to be affected by dry weather.

Responses to this year's survey show lenders' recession concerns for producers declined in 2023 despite the economic volatility this year. Still, tighter monetary policy by the Federal Reserve that has helped slow down the broader economy has had an impact on the agricultural sector. Nearly all responding lenders reported higher interest rates on agricultural loans over the past year. Expectations are that interest rates will stay elevated as well: Over half of survey respondents expect short-term interest rates will increase over the next year and 47% expect long-term rates will rise.

Overall, lenders' reported concerns translated into a dip in their expectations for producer profitability compared to last year's record highs, but lenders still expect borrower profitability to remain relatively elevated this year. In 2023, lenders estimate that 77.5% of agricultural borrowers will be profitable. While this is a slight decline from 81.3% in 2022, it is well above the 51.0% and 57.2% reported by lenders in 2020 and in 2019, respectively.

Lenders do foresee tighter profitability in 2024, as expectations are for 66.7% of borrowers to remain profitable next year. Interestingly, lenders across all regions projected a very similar 10% to 15% decline in the proportion of borrowers remaining profitable next year. The largest decline is expected in the Corn Belt and Plains states. This likely reflects the concentration of grain farms in these regions and the pullback in grain prices over the past year. Meanwhile, lenders in the West region expect the lowest proportion of profitability next year, which is likely attributable to subdued prices for almonds, walnuts and some other permanent crops. Overall, the proportion of borrowers remaining profitable next year is forecast to be well above levels experienced just 3 and 4 years ago.

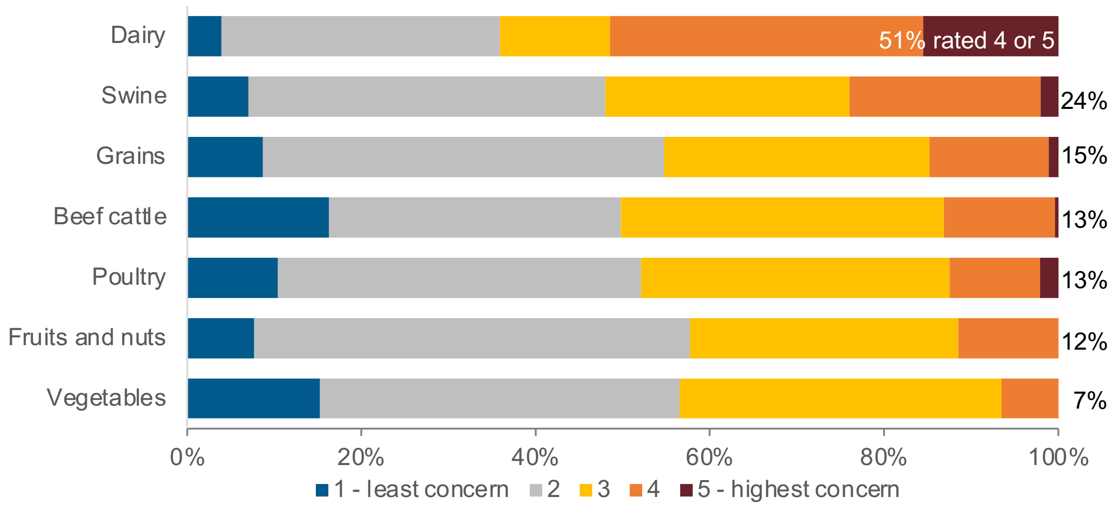
## Ag Borrower Profitability by Region




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q19/20: What percentage of your ag borrowers will be profitable through 2023/remain profitable through 2024?

Despite a broad decline in commodity prices, lender comfort with individual commodity exposures remained relatively stable in 2023. There was a notable shift in lender responses for many of those commodity concentrations, which had been at low concern levels to more neutral levels of concern, including grains. At the same time, lender concern levels, which had been most elevated, declined for most commodities. The commodities with the highest concern levels in 2023 were dairy and pork. Dairy prices reached record levels in 2022, boosted by strong export demand. However, a pullback in export demand for both dairy products and pork has weighed on prices this year. For pork producers, profit margins declined to the lowest levels since 1998. Even so, lenders' concerns were highest for dairy, with 51.4% reporting moderate or high concern (up from 28.0% in 2022). Pork was ranked as a moderate concern or higher by 24.0% of lender responses.

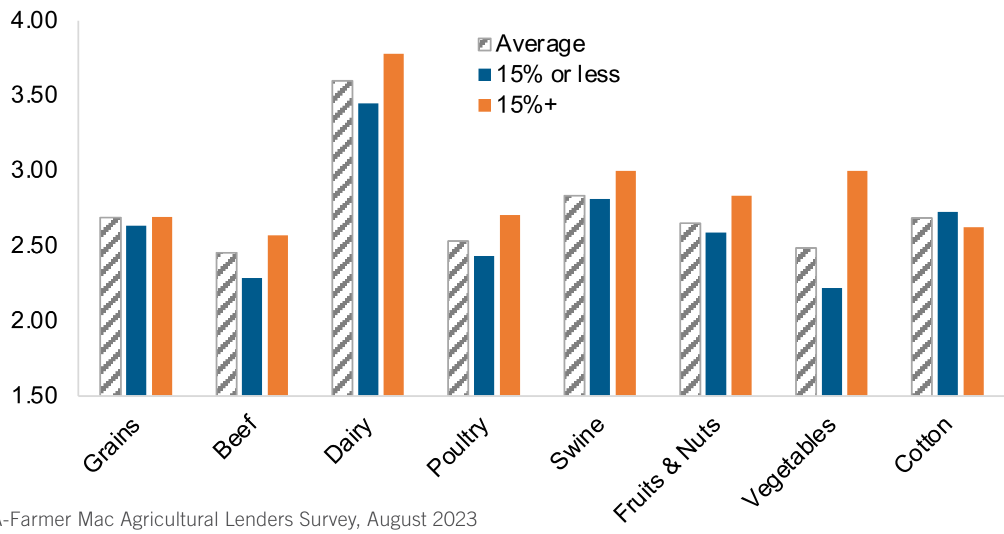
## Portfolio Concerns, by Rank Level




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q12: Please rate your relative concern for [commodity] in your areas, with 1 being the least concern and 5 being the highest concern.

Interestingly, there was a relatively low level of concern voiced in the 2023 survey regarding fruit and tree nuts. Almond and walnut prices have declined to their lowest levels in the past decade, yet no lenders ranked this sector as a highest concern. Meanwhile, concern levels for the beef sector remained elevated despite beef sector prices setting new records in 2023. A total of 13.1% of lenders responded with a moderate concern or higher for the beef sector. A portion of this concern may be related to elevated feed prices and the ongoing drought across the Southern Plains. In general, concern levels tend to reflect the amount of exposure a financial institution has to a given commodity. Lenders tended to have higher than average concern levels when a commodity exceeded 15% of their institution's ag credit portfolio, and below average when it was lower. For example, the average concern level for dairy was 3.78 among lenders when dairy constituted greater than 15% of their institution's ag credit portfolio. When dairy constituted less than 15% of a lender's ag credit portfolio, they reported an average concern level for dairy of 3.45.

**Commodity Concern Level Based on Institution Exposure**




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q12, based on % of institution's ag credit portfolio concentrated in [commodity] sector, with 1 being the least concern and 5 being the highest concern.

High farm incomes and rising interest rates likely led to reduced farm loan volumes this year. In the 2023 survey, 51.7% of lenders responded that farm debt increased over the past year. This was significantly lower than the expectations expressed in last year's survey, which showed 71.7% of respondents expected farm debt would increase. Meanwhile, 18.7% of lenders responded that farm debt has declined at their institution. Record farm incomes in 2022 led to ample working capital in the sector. This allowed many farmers to utilize a greater proportion of cash to finance their operations as interest rates spiked.

Looking ahead, though, the projected decline in farm incomes may lead to greater loan demand. Nearly 4 out of 5 lenders (77.8%) expect farm debt will increase over the next 12 months, and an even greater proportion of lenders expect production loans to increase this coming year relative to real estate loans. This aligns with USDA projections for a modest decline in working capital in 2023, potentially boosting the need for production loans.

Agricultural lending activity has been accompanied by strong loan performance. Over 95.0% of lenders reported that delinquencies and charge-off rates on real estate and production loans declined over the past year. The pullback in farm incomes could cause a reversal in that trend in the coming year. However, 69.2% and 73.4% of lenders expect delinquencies on ag production and farmland loans, respectively, will stay the same or decline over the next 12 months. Furthermore, only 10.1% and 9.0% expect charge-offs on ag production and farmland loans, respectively, would increase.

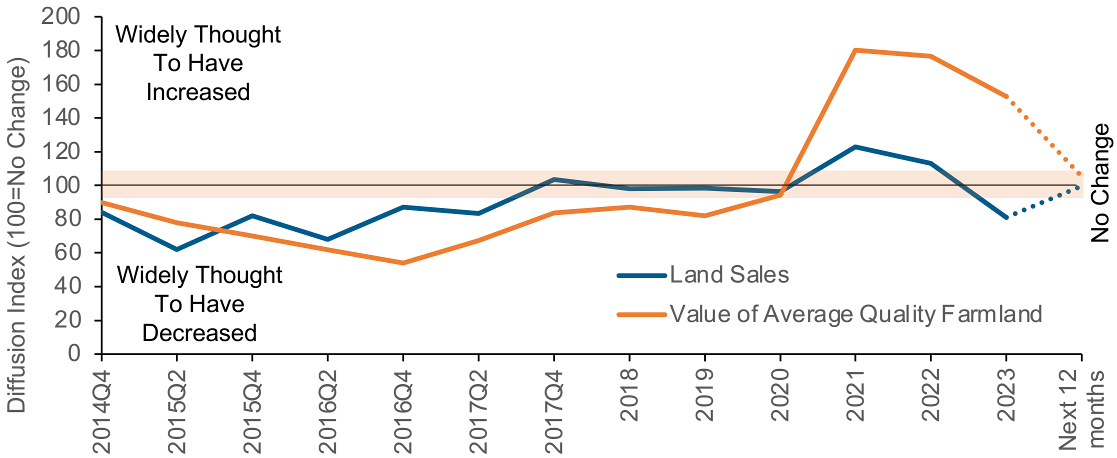
## Land Values and Cash Rents

Farmland values have shown a sizable increase in value since 2020. Lenders reported an average gain of 8.3% in 2021, an average gain of 18.9% in 2022 and an 11.2% perceived increase in 2023. The reported average gain of 11.2% for 2023 is higher than the USDA-reported 7.4% average, as our responses had a higher concentration of Corn Belt and Plains lenders. 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. Lenders reported average farmland growth of 11.9% and 12.6% for the Corn Belt and Plains, respectively, and the USDA-reported average farmland growth for the Corn Belt and Plains was 7.1% and 13.9%, respectively. In total, 82.4% of lenders observed an increase in average-quality farmland values in their markets in the past 12 months.

Lender expectations for 2024 land values are considerably more conservative. Less than half of lenders expect an increase in land values next year, and the average expected change was 2.1%. 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 regions, continuing a similar trend from prior surveys.

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. Respondents to the 2023 survey highlight the slowing momentum in land values in the past 12 months and expect the trend to continue into 2024. The expectations for higher prices were consistent across all regions and respondents between 2021 and 2023, with lenders believing that more land was coming to market. However, the outlook for 2024 is a slowing trend in both land coming to market and in the value of that farmland, consistent with the elevated interest rate environment and the concerns surrounding interest rate volatility exhibited by lenders. The diffusion index for the coming 12 months is near 100 for both, indicating a balanced response around stability or no change.

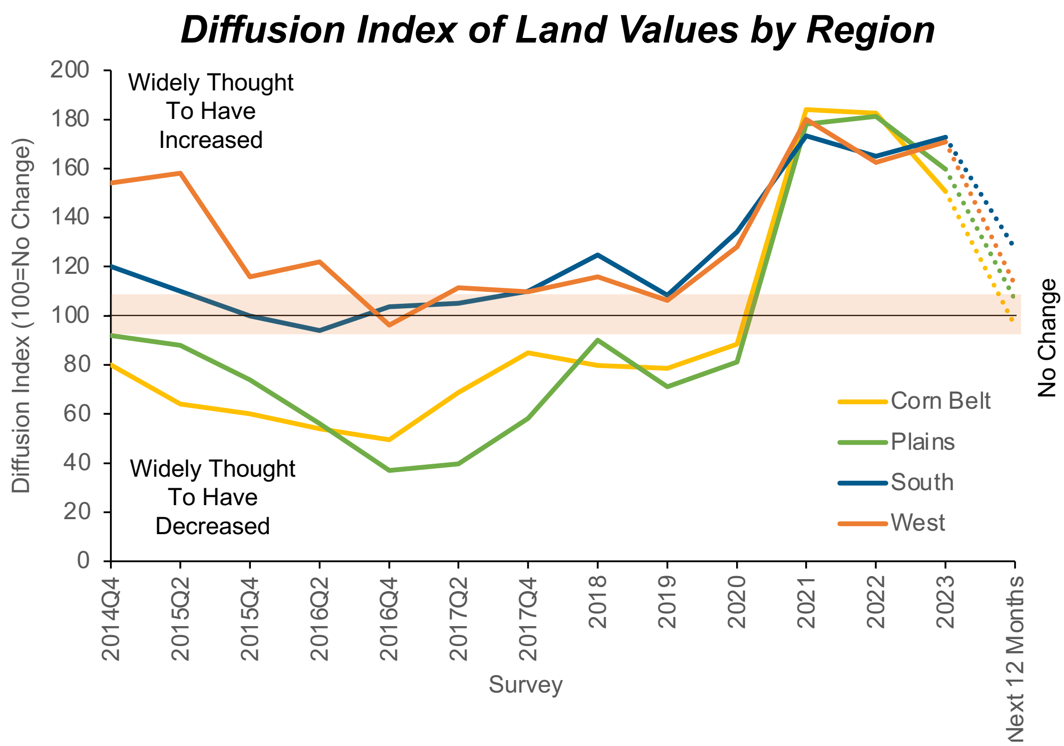
### Diffusion Index of Land Sales and Values




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q7/Q8: 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?
Note: Prior to 2018, the Ag Lender survey was delivered semi-annually, and some charts contain the semi-annual results for historical reference.

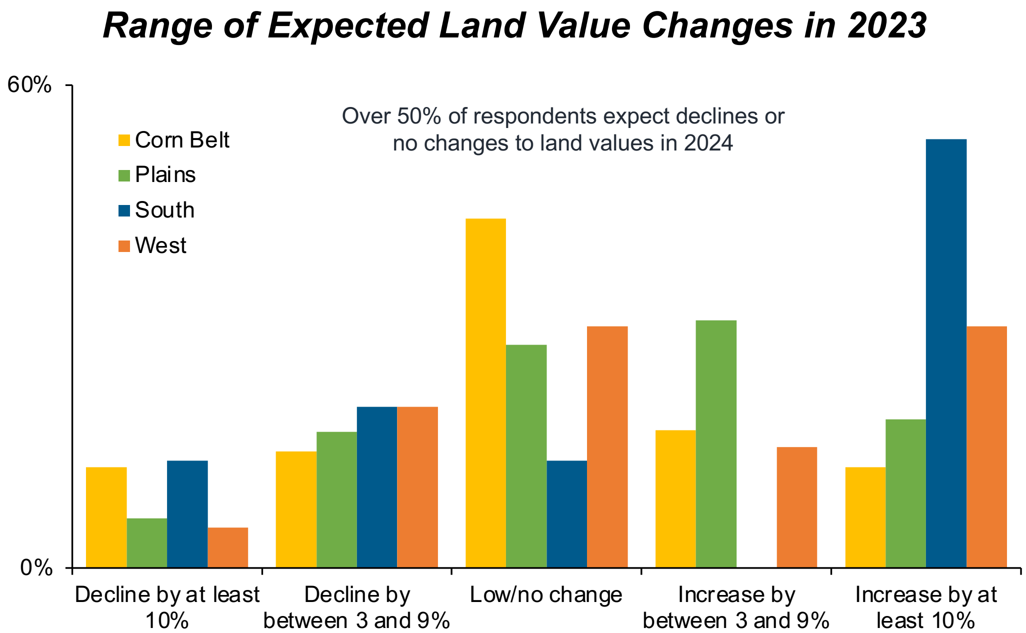
The elevated profitability and low interest rates of 2021 and early 2022 led to higher land values in all regions into 2023. Accordingly, lenders in all regions reported increasing land values from 2021 through 2023, with some of the largest diffusion margins in survey history experienced in 2021 and 2022.

Historical lender land value perceptions have largely tracked commodity prices and farm profitability outlooks by region. Looking ahead to 2024, lenders in all regions expect generally steady land values, with more than one-third of respondents expecting low or no change next year. The rising interest rate environment and compressing profitability are likely major contributors to the perceived slowing of land value appreciation, but many lenders (43% of respondents) still see some upward pressure into 2024.




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
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?
Note: Prior to 2018, the Ag Lender survey was delivered semi-annually, and some charts contain the semi-annual results for historical reference.

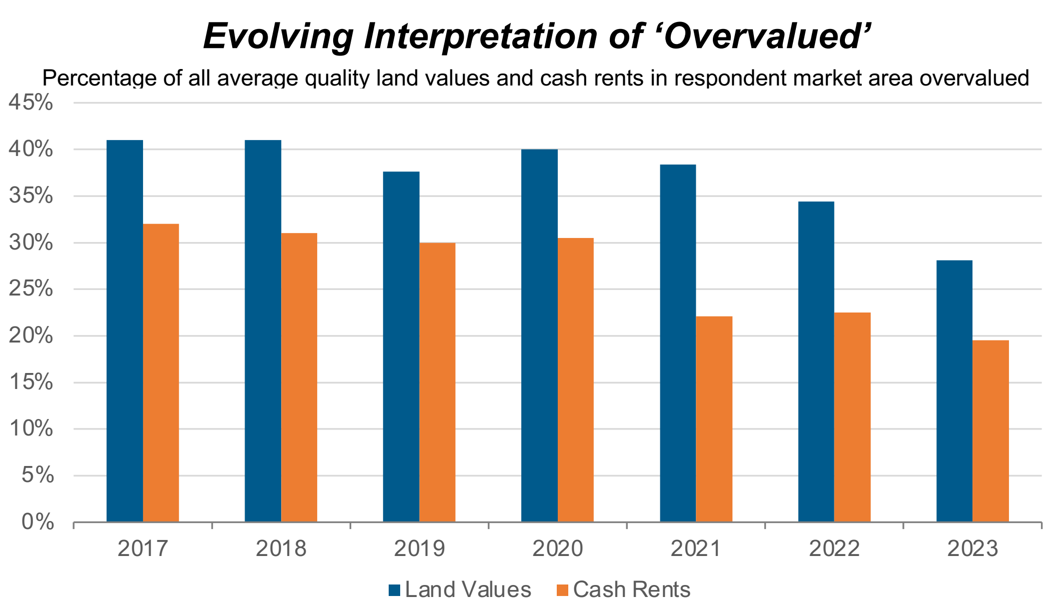
Reported lower expectations of land values in 2024 are consistent geographically. Like in prior years, lenders in the South region reported the strongest expectations for land value growth, but there is a growing consensus in all other regions that land values are slowing, with the lowest average and variation in expected growth rate since 2019. Lenders in the Corn Belt and Plains regions lowered their expectations of land value growth significantly for the next 12 months compared to the same period in 2022. The drop in mean and variation in land value expectations highlights the growing consensus among lenders that there are growing headwinds against farm asset appreciation.




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q14: Looking forward over the next 12 months, how much do you expect the value of average quality farmland will change in your local service area?

Like with land values, lenders are reporting higher levels of cash rents this year, though lenders expect these will hold or decline in the next 12 months. Most respondents (52.6%) reported an increase in the cash rental rate of average-quality cropland in their market territories, but more than two-thirds of respondents (69.9%) expect rental rates to hold steady in 2024.

Despite the volatility in perceived cash rental rates, 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. Since 2021, those numbers have declined to 20% to 28% overvalued, respectively. The vibrant agricultural economy in recent years has likely affected lender perceptions of the relative value of rental rates and land prices.



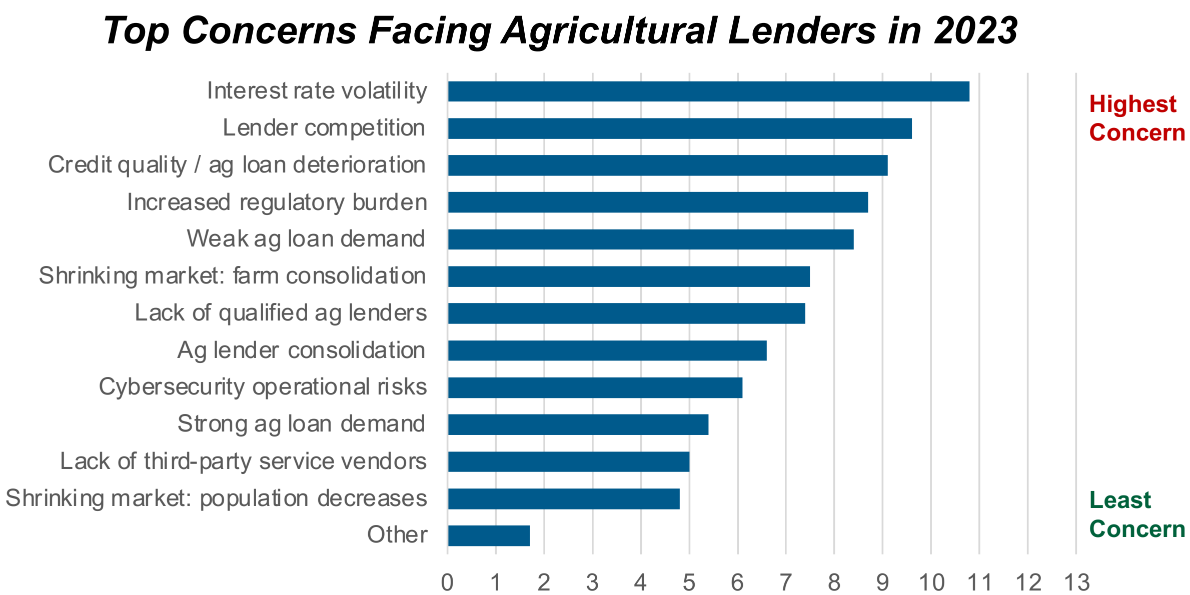

Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q15 and Q16: What percentage of your customers' cash rents on average quality farmland would you consider above market value? What percentage of ALL average quality farmland in your market would you consider overvalued?

# Agricultural Lenders

## Lender Sentiments

Overall, lenders' survey responses indicated the farm economy remains on solid footing in 2023. However, questions about the concerns facing lenders reveal some top areas of focus as farm incomes trend lower and interest rates higher.

The No. 1 concern facing agricultural lenders in 2023 was interest rate volatility. This was true across every region and for institutions of varying sizes and portfolio concentrations. Lenders additionally expressed concern about lender competition, credit quality, regulatory burden and weak loan demand. Concerns about farm consolidation, a lack of qualified ag lenders and ag lender consolidation generally ranked toward the middle, with some variation by lender cohorts. Respondents were comparatively less concerned about rural population decline, the availability of third-party service vendors, strong loan demand, or cybersecurity and operational risks.




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q10: Please indicate your relative level of concern for the following conditions facing your institution 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.)

Lenders' greatest overall concern was interest rate volatility, for the second consecutive year. Over half of respondents (52.9%) ranked interest rate volatility among their top two concerns, up 3.9 percentage points from last year.

Rising rates have increased funding costs for lenders nationwide, eating into interest margins. In fact, among those who identified "other" concerns facing their institution, more than a third referenced rising funding costs or liquidity concerns. This comes as no surprise, as higher rates led to a period of stress in the banking sector in March 2023. More than $5 trillion in deposits flowed onto banks' balance sheets during the pandemic, largely due to stimulus payments. Operating in an environment with high uncertainty and low loan demand, many banks deployed these funds into lower-risk assets, such as long-term Treasury securities. While generally viewed as safe, the mark-to-market value of these assets declined as rates rose. As interest rates continued to increase, three large banks eventually failed due to solvency concerns. Agricultural banks were well-positioned, on average, to withstand the volatility. However, the period of volatility highlighted the importance of interest rate risk management. Lenders remain accordingly focused on interest rate volatility as a top concern.

Lender competition remained the second-most significant overall concern facing lenders this year. Nearly three-quarters (72.5%) ranked the Farm Credit System (FCS) as their No. 1 competitor for agricultural loans. Community banks were among the top two competitors for 71.5% of respondents, followed distantly by vendor financing (24.0%) and regional banks (7.5%). Vendor financing continues to play a larger role in financing agricultural producers. Almost half of the responses (41.7%) reported that vendor and supplier financing increased this year, and most lenders (53.8%) expect vendor and supplier financing will increase further over the next 12 months.

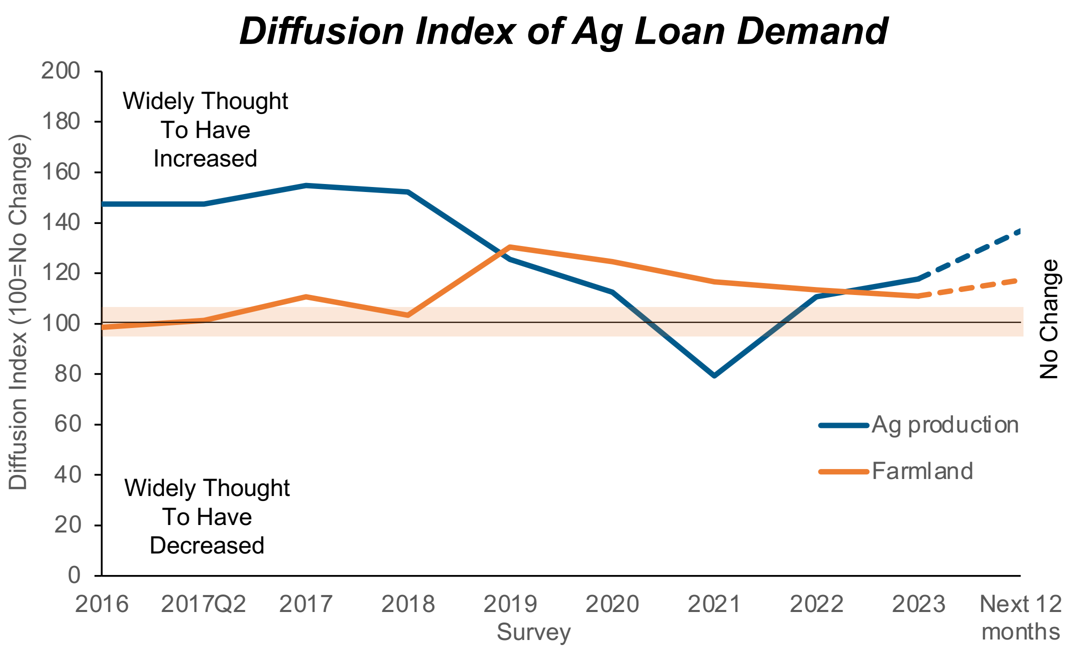
Concern about credit quality and ag loan deterioration (which was the No. 1 concern facing ag lenders from 2017 to 2020) was the third-most significant overall concern in 2023 (up from fourth in 2022). Credit quality was ranked among the top two concerns for 21.0% of respondents, largely unchanged from last year but down from 72.0% in 2020.

Increased regulatory burden and weak loan demand ranked as the fourth- and fifth -highest concerns for lenders in 2023, respectively. Interestingly, there was significant dispersion in the ranking of these concerns among lenders. Respondents listed regulatory burden (25.4%) and weak demand (29.0%) among their top two concerns far more often than either competition or credit quality. However, for most other lenders, regulatory burden and weak demand were ranked near the bottom of the list, which resulted in a lower overall concern ranking than competition and credit quality. This suggests that regulatory burden and weak loan demand were very significant problems for some lenders this past year. From a regional standpoint, regulatory burden was a comparatively greater concern in the Plains states (ranked second overall) and a comparatively lower concern for institutions greater than $1 billion (ranked sixth).

Finally, regardless of their concerns regarding regulatory burdens, lenders continue to report positive relationships with their regulators: 78.7% 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 3.3 out of 5, with 23.0% of respondents saying their regulator had little to no understanding of the sector (rated 1 or 2 out of 5).

## Lending Conditions

According to respondents, demand for agricultural loans continued to recover in 2023, though sentiment remained modest compared to the levels reported between 2016 and 2018. Almost half of lenders (46.4%) said demand stayed about the same over the past 12 months. As tighter profitability margins reduce borrowers' working capital, respondents expect demand for production loans to strengthen over the next 12 months (42.0% predict an increase). This would align with the USDA's forecasted decline in working capital, as less liquid assets on hand could contribute to greater production loan demand in the coming year.

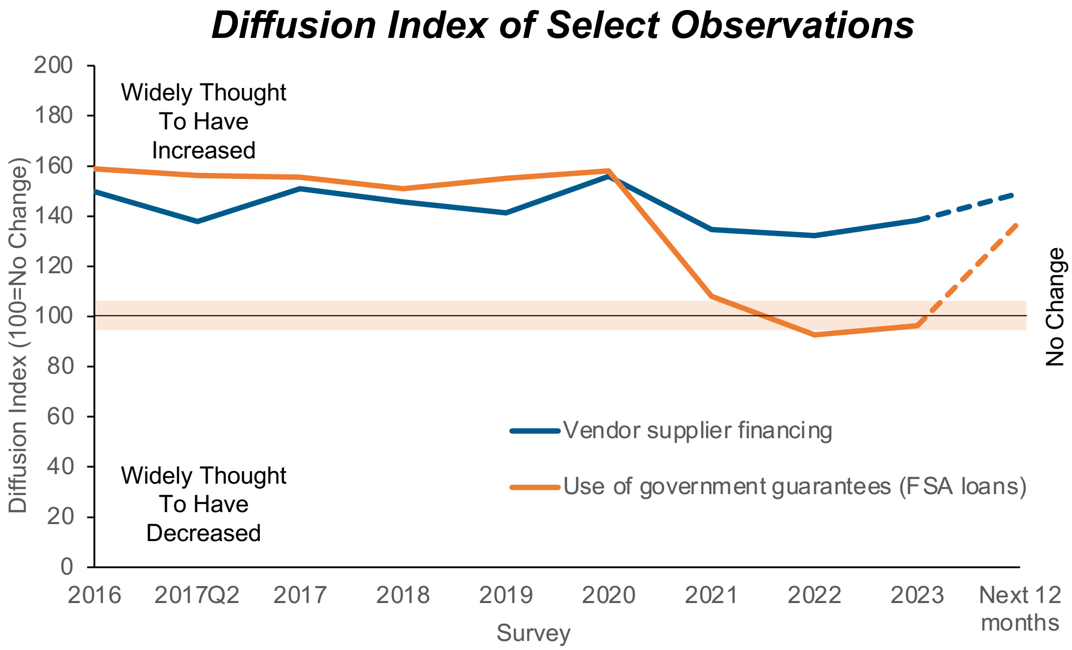



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q7/8: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?
Note: Prior to 2018, the Ag Lender survey was delivered semi-annually, and some charts contain the semi-annual results for historical reference.

Demand for loans secured by farmland remained positive in 2023 (i.e., above the 100-index threshold) but slowed for the fourth consecutive year, and 3 in 5 respondents (60.2%) indicated that demand for farmland-secured loans remained unchanged over the past 12 months. This sentiment was generally shared by lenders of different sizes and across regions. Looking to the next 12 months, lenders expect mild improvement in demand for loans secured by farmland compared to the stronger improvement expected for production loans.

More than half of respondents (51.7%) reported that farm debt increased over the past 12 months, up 15.4 percentage points from last year. This matches up with USDA data that projects total farm sector debt to increase in 2023. The USDA expects farm real estate debt to increase 5.8% in nominal terms and 2.3% in inflation-adjusted dollars. Other farm debt is expected to increase 2.8% in nominal terms but decline 0.6% when adjusted for inflation.

Reduced reliance on government payments has likely supported agricultural lending activity. More than 4 in 5 respondents (82.5%) reported that producer reliance on government payments either declined or was unchanged in 2023, up 14 percentage points from last year. According to the USDA, direct government farm payments are projected to decrease 19.0% in 2023.



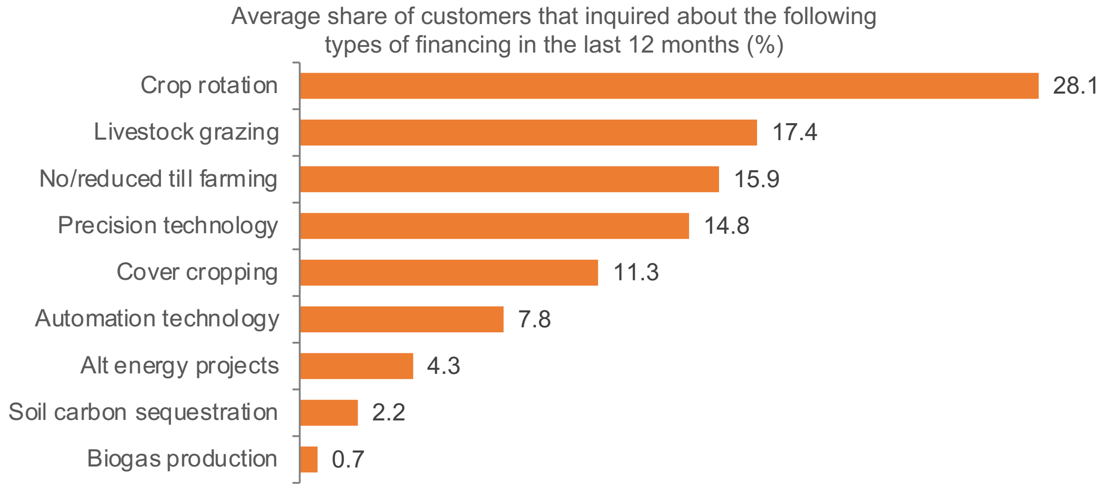

Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q7/8: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?
Note: Prior to 2018, the Ag Lender survey was delivered semi-annually, and some charts contain the semi-annual results for historical reference.

While producers may be relying on USDA Farm Service Agency (FSA) and other federal programs less, lenders continue to find these programs useful for serving more borrowers; nearly 4 out of 5 lenders surveyed (79.0%) offer FSA-guaranteed loans. There are several ways to qualify for these loans, but participating in such programs generally helps borrowers qualify for competitive loans while also reducing the risk held by lending institutions.

In general, loan volumes through these programs have been relatively stable over the past few years. Nearly two-thirds of lenders (61.9%) reported that loans guaranteed by the FSA and other federal agencies remained largely unchanged in 2023. However, a sizable proportion of lenders (43.6%) do expect usage of these programs to increase in the year ahead, possibly reflecting the expected pullback in farm incomes in 2023 and 2024. If farm profitability declines, more borrowers may utilize federal programs to qualify for loans.

For the second year, survey respondents were asked about the level of borrower interest in financing regenerative agricultural practices. Lenders reported that, on average, 28% of borrowers inquired about financing crop rotation over the past 12 months, and nearly 1 in 5 asked about financing livestock grazing. Borrowers also expressed interest in financing reduced till farming, precision farming technology (e.g., field electronic sensors), cover cropping and automation technology (e.g., labor efficiency). On the other end of the spectrum, lenders reported receiving relatively few inquiries about financing alternative energy projects, soil carbon sequestration or biogas production practices.

## *Alternative Ag Financing Demand*



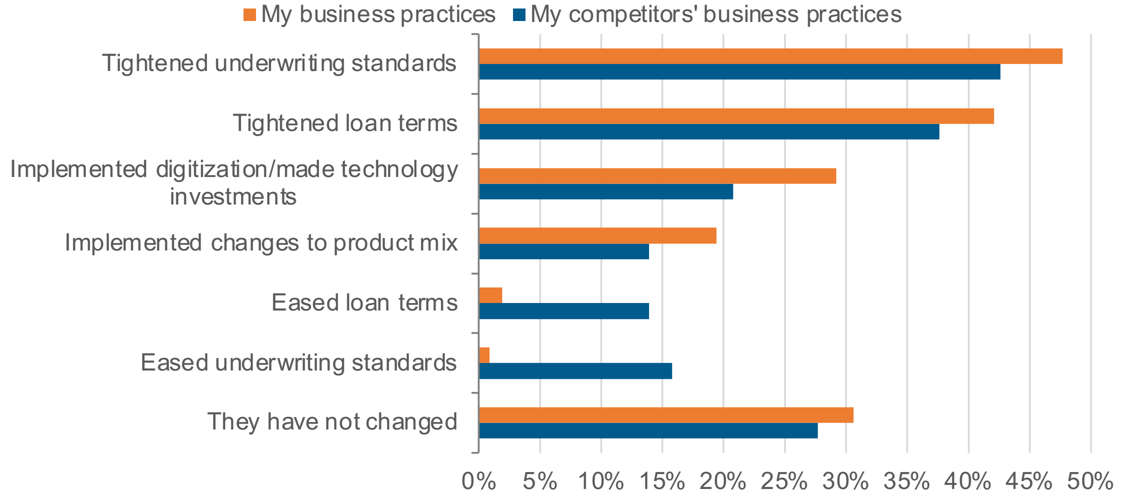

Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q51: In the last 12 months, approximately what percentage of your customers inquired about the following types of financing?

In addition to asking about alternative ag financing, respondents were also asked about lending activity to finance rural infrastructure. Fiscal stimulus from the American Rescue Plan Act (ARPA) and the Inflation Reduction Act (IRA) has generated substantial tailwinds for rural infrastructure projects, many of which require some form of capital investment or financing upfront. However, only 11.0% 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 (52.4%) and one-third reported financing broadband investments and renewable energy projects. Of those who are not involved in infrastructure financing, 30.7% expressed interest in participating in the future and 55.7% were unsure.

For the second year, lenders were asked how business practices changed over the past 12 months, both at their institutions and at the institutions of competing lenders in their market. More than two-fifths of respondents reported tightening underwriting standards (47.7%) and loan terms (42.1%) in 2023 (up from 29.7% and 21.5%, respectively, in 2022). While lenders continue to report comparatively looser lending standards at competing institutions, these views moderated significantly from last year. Only 15.8% of respondents reported looser underwriting standards at competitors, down from 36.9% last year. Similarly, 13.9% reported looser loan terms at competitors, down from 34.9% last year.

Lenders continued to meet the credit needs of farmers and ranchers this year despite tighter credit standards. On average, lenders approved approximately 85.5% of agricultural loan applications received over the past 12 months, which is unchanged from last year. Tighter credit standards have led to challenges for some borrowers, though, especially for loan applications that are not approved. Respondents estimate that 42.6% of the loans they deny are being approved by competing institutions, down 10 percentage points from last year. Even so, lenders expect capital will remain readily available in the agricultural sector. Over the next 12 months, lenders expect to approve 89.4% of renewal requests, an increase from this year, if realized.

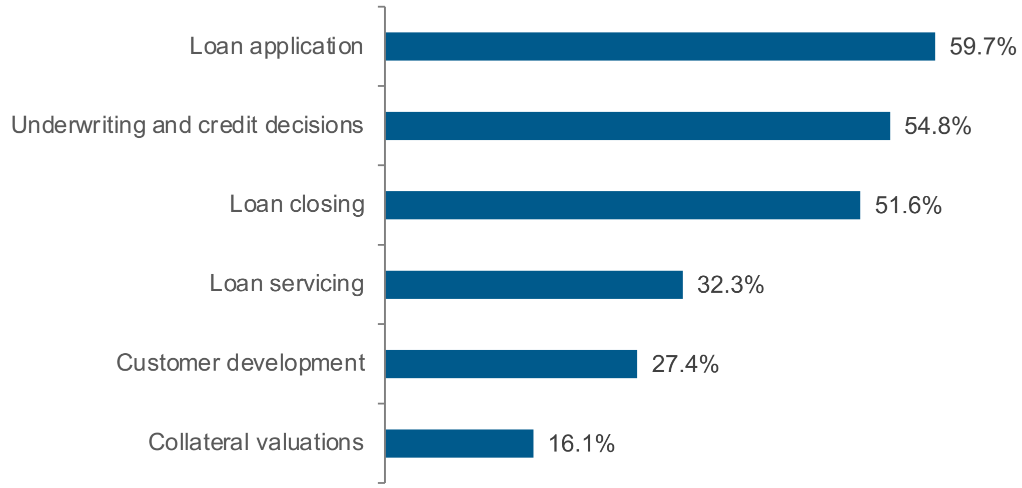
## *How Business Practices Have Changed in the Last Year*




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q41 and Q43: How have your business practices changed in the last year, if at all? How have the business practices of competitors in your area changed in the last year, if at all?

The share of lenders that reported they increased digitization (29.2%) and implemented changes to their product mix (19.4%) was relatively unchanged from last year. Among those that increased digitization or made technology investments in 2023, more than half made changes to loan applications, underwriting and credit decisions, and loan closing processes. Shifting consumer expectations, business opportunities and regulatory requirements may affect these figures in the future. For example, according to the 2021 FDIC Unbanked report, mobile banking is the most prevalent primary channel for bank account access, including for non-metropolitan parts of the country. Additionally, new iterations of AI technology (such as generative large language models) may lead to more tailored products or services, or entirely new offerings based on demand. The evolving situation necessitates the cultivation of a culture that supports responsible innovation, the establishment of a cross-functional and horizontal mode of working, and the recruitment or upskilling of technologists in agricultural lending.

## *Digitization and Technology Investments*

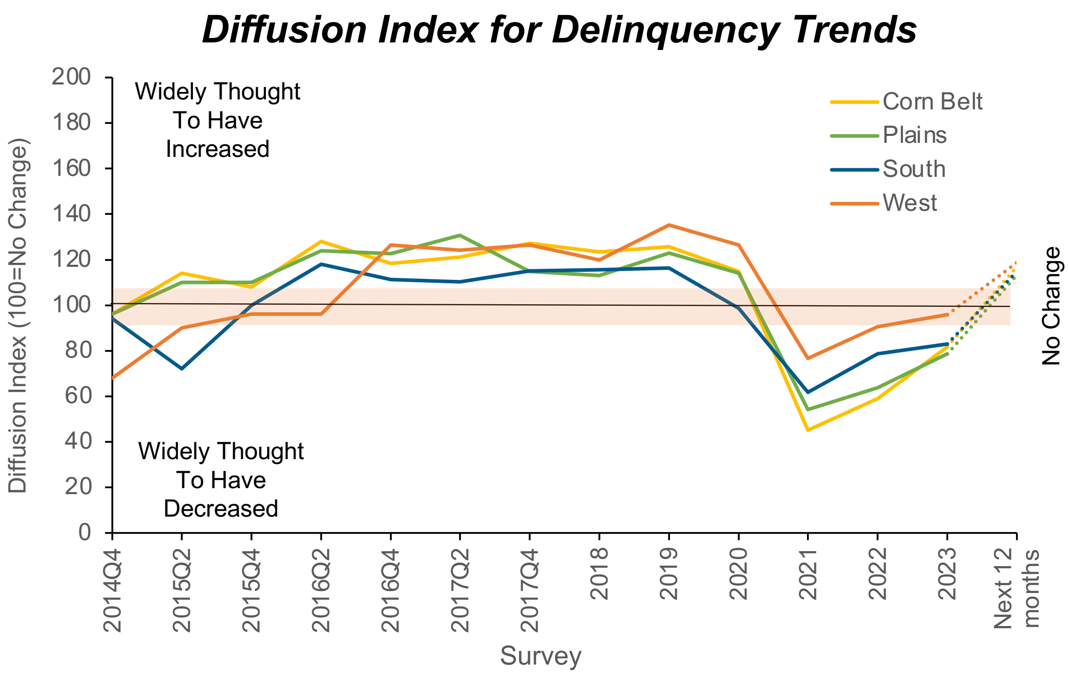



Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q42: What aspect of the loan process have you digitized or made technology investments in over the last year?

## Credit Quality

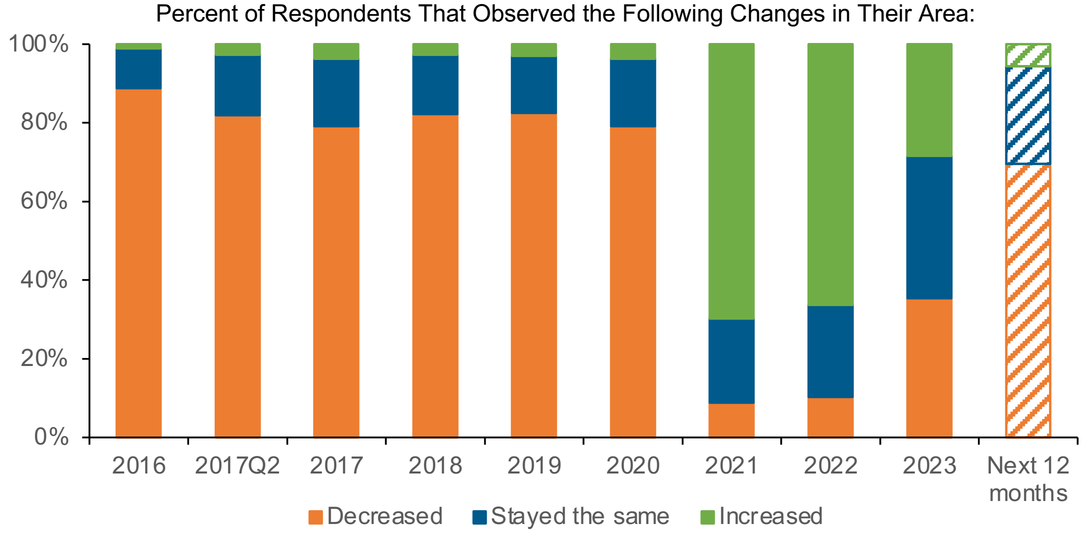
Agricultural credit quality remained strong in 2023, according to institutions across the country. Most respondents reported that the delinquency and charge-off rates for outstanding ag loans (both production and real estate) either decreased or stayed the same over the past 12 months. Respondents expect credit quality to normalize back to historic levels, though, over the next 12 months. Anticipation for credit quality deterioration coincided with a moderate increase in concern for credit quality, which was the third-highest overall concern facing lenders this year. This finding is not surprising given the expected decline in farm incomes in 2023. Just over one-quarter of lenders (28.4%) observed higher profit margins among their agricultural customers, down 38 percentage points from last year.

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 because, in many cases, they are in the same business. Nearly half of respondents surveyed said that, in addition to lending, they also farm (49.8%).




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q7/8: 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?
Note: Prior to 2018, the Ag Lender survey was delivered semi-annually, and some charts contain the semi-annual results for historical reference.

## *Overall Farm Profitability Tightened in 2023*




Source: ABA-Farmer Mac Agricultural Lenders Survey, 2016-2023
Mean response to Q17/18: During the past 6 or 12 months, how have the following conditions changed for your area?
Note: Prior to 2018, the Ag Lender survey was delivered semi-annually, and some charts contain the semi-annual results for historical reference.

Loan-to-value ratios for agricultural loan applicants have remained steady despite a cloudy outlook for farm incomes. Lenders reported the average LTV ratio for loans secured by farmland was 63.6% this year and 64.0% for agricultural production loans; both of these averages were unchanged from last year. LTVs varied slightly across groups, but only from 60.1% to 67.5% depending on region, lending institution size and other factors. Beyond tighter profitability, LTV ratios have remained stable despite a sharp increase in both farmland values and interest rates. This is notable given that a loan originated on a piece of land today would have significantly higher payments than a loan on the same piece of land with the same LTV a few years ago. This does not imply repayment risk is any different, as many producers have accumulated significant working capital and balance sheet strength over the past several years. However, a continued tightening of credit standards in the year ahead could lead to a pullback in average LTVs if farm profitability were to be squeezed.

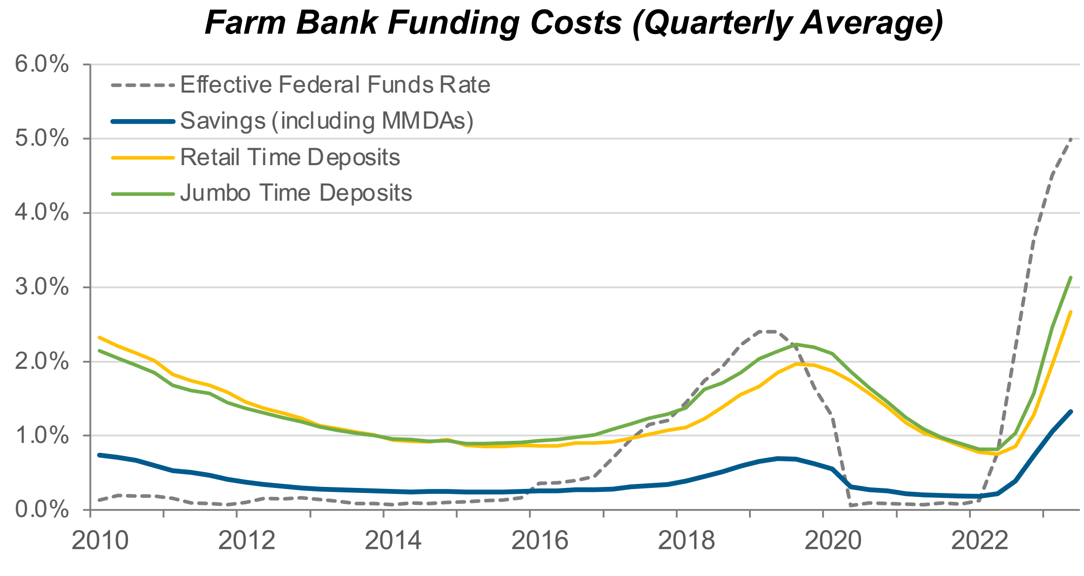
## Interest Rate Environment

After hiking rates 425 basis points in 2022, the Federal Reserve (Fed) increased the federal funds rate an additional 100 basis points in 2023. Both short- and long-term interest rates have increased significantly in response to the 11 rate hikes and continued tapering of the Federal Reserve balance sheet. Based on Fed funds futures pricing in early October, markets largely believe the Fed has finished its hiking cycle but expect rates to remain elevated through the first half of 2024.

The impact on ag loan demand has been relatively small thus far. Only 18.2% and 14.4% of respondents indicated ag production and farmland loan volume declined, respectively, in 2023. In fact, a far larger proportion of lenders indicated demand increased over the past year.

Ag lenders are less certain about the future trajectory of interest rates. Just over half of respondents (51.7%) believe short-term interest rates will continue to increase over the next 12 months versus 42.1% who believe they will stay the same. Lenders are also split on the direction of long-term interest rates. Almost half of respondents (47.2%) expect they will rise in 2024 compared to 44.1% who believe they will remain unchanged.

While elevated rates and healthy loan demand from farmers and ranchers may support interest income, lenders are feeling the squeeze on interest expense. The average cost of deposits for ag banks (commercial banks with a high concentration of agricultural loans), for example, reached a decadelong high in the second quarter of 2023, according to ABA analysis of S&P Global data. Unsurprisingly, interest rate volatility remained the No. 1 concern facing ag lenders in 2023. This sentiment was shared by respondents from across the country and up and down the size spectrum.

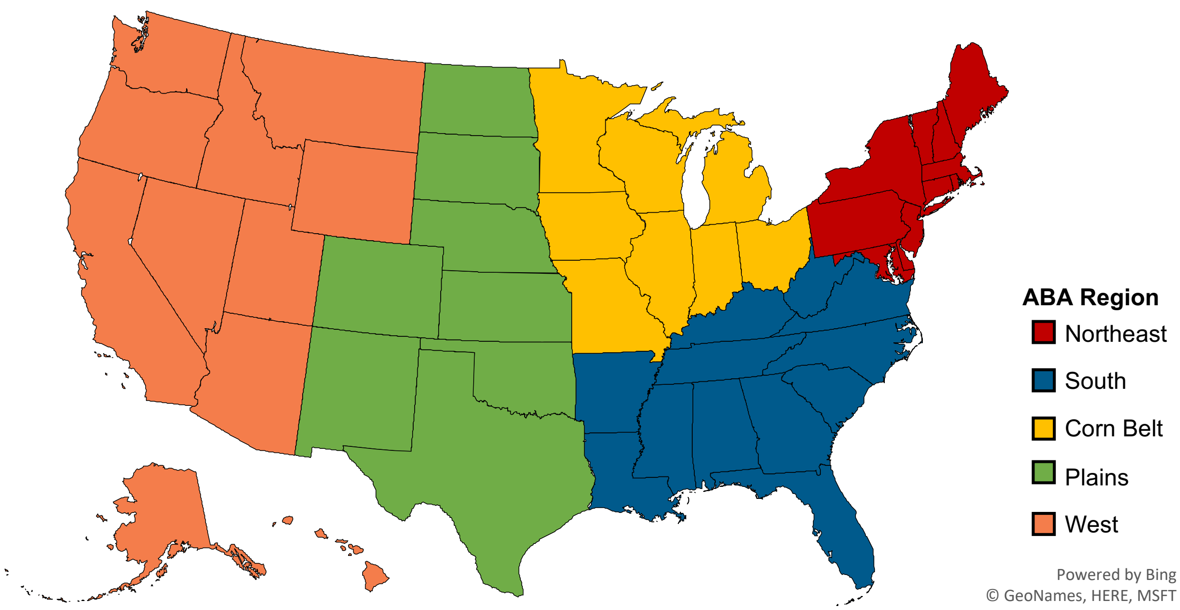



Source: S&P Global, Federal Reserve, ABA analysis
ABA defines farm banks as any bank whose farm loan concentration was greater than or equal to the unweighted industry average.

# About the Survey Respondents

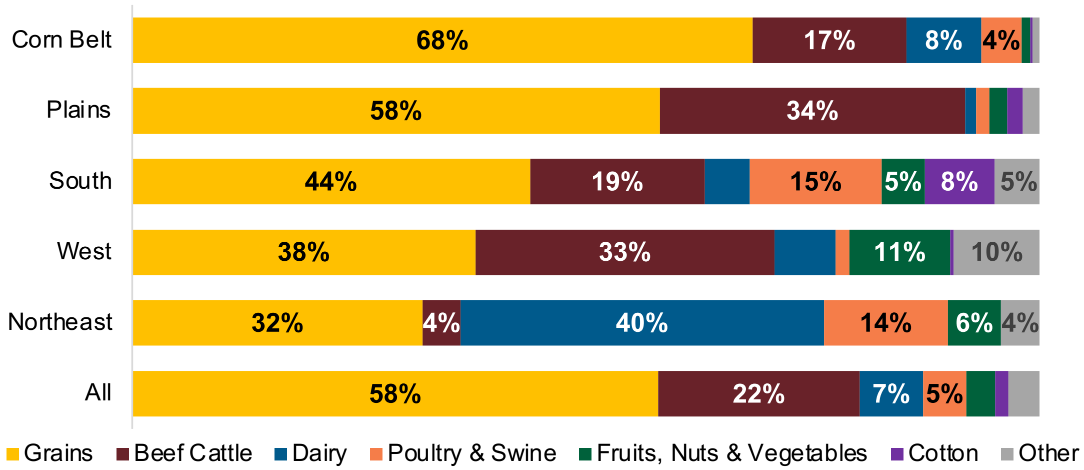
Over 260 agricultural lenders completed the ABA-Farmer Mac Agricultural Lender Survey in August 2023. The responses came from a diverse set of institutions, ranging from those with under $50 million in assets to those with more than $1 billion in assets. Nearly three-fifths of the responses came from lenders at institutions with $500 million or less in assets (57%). Regionally, the responses were somewhat concentrated in the Corn Belt and Plains (53% and 28%, respectively), which is expected given the high proportion of agricultural production and lending that occurs in those states.

**ABA Regions**




Lender portfolios tended largely to reflect the regional distribution of survey respondents, such as high concentrations in grains and cattle, but there was some diversity by region. Respondents in the West and Plains reported a higher percentage of cattle than other regions. Lenders from the West also reported a higher share of fruits, nuts and vegetables. Lenders responding from the South reported a higher percentage of cotton and lenders from the Northeast reported a higher percentage of dairy. The portfolio distributions by region align closely with regional production practices.

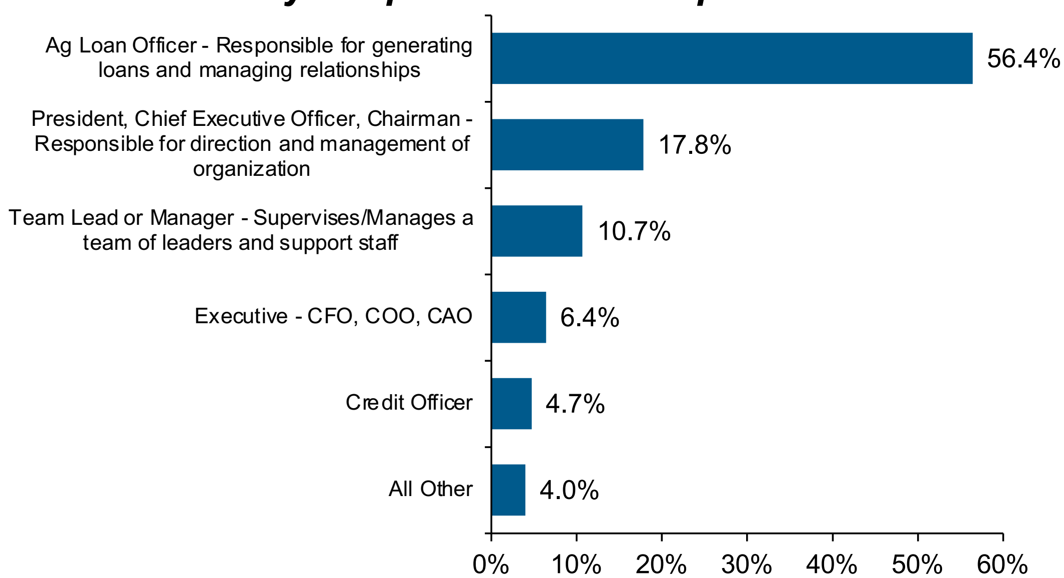
## Lender Portfolios Vary by Region




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
Mean response to Q11: What percentage of your agricultural credit portfolio is in the following?

Survey respondents hold a variety of roles at their respective institutions. The most common title or role reported was an agricultural loan officer (56.4%). Other titles include various executives, presidents and team managers. The distribution of job roles in many ways reflects the numeric distribution of these roles within the ag lending space. Including a mix of levels and roles ensures the survey results reflect the views of the agricultural lending space from several different vantage points.

## Survey Respondent Job Responsibilities




Source: ABA-Farmer Mac Agricultural Lenders Survey, August 2023
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 $23.5 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2.1 million people, safeguard $18.6 trillion in deposits and extend $12.3 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, low-cost financing and risk management tools. Farmer Mac's customers benefit from its low cost of funds, low overhead costs and high operational efficiency. 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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