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Ag Lender Survey: 80% of Borrowers Expected to be Profitable in 2021

ABA, Farmer Mac joint survey reveals top concerns include inflation, weak loan demand and competition

WASHINGTON—Agricultural lenders expect 80% of their borrowers will be profitable in 2021, with 70% profitable through 2022, according to the Fall 2021 Agricultural Lender Survey report produced jointly by the American Bankers Association and the Federal Agricultural Mortgage Corporation, more commonly known as Farmer Mac. This marks the first time since ABA and Farmer Mac began the joint survey in 2016 that a majority of ag lenders (69.7%) reported overall farm profitability increased in the prior year. This was largely due to government support, which lenders estimate accounted for 38% of borrowers' net income.

"Ag lenders remained critical partners for farmers and ranchers in 2021," said ABA Chief Economist Sayee Srinivasan. "While government payments partially offset loan demand last year, lenders continued to meet the financing needs of their borrowers and provided additional support through Economic Injury Disaster Loans and loans made through the Paycheck Protection Program. As evidenced in the survey findings, the ag community is exposed to tailwinds and headwinds, and ag lenders are well-positioned to partner with and support it."

The turnaround in the ag economy appears to have shifted top concerns agricultural lenders have for their borrowers from immediate to longer term risks. According to the report, many lenders are giving more thought to production-related risks, such as weather and farm expenses. Respondents also indicated that they were tracking broader issues, like inflation. In prior years, lenders have been more focused on issues related to borrower-specific immediate risks to repayment, such as liquidity or farm income.

"Ag lenders believe that the strong incomes of 2021 will help put their borrowers on a sounder financial footing than they have been in a half decade," said Farmer Mac economist Greg Lyons. "While those incomes may not persist in the next crop marketing year, they offer a reprieve for producers who had seen several years of lower farm income and turbulence in the farm economy."

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. Respondents reported significantly higher land values in 2021 (5.3% increase on average), a trend that lenders do not see reversing in 2022.

"The reported increase in farmland values is additional evidence of the improved economic conditions experienced by farmers and ranchers in 2021," said Farmer Mac Chief Economist Jackson Takach. "Lenders reported strong gains in most regions in 2021, and approximately 79% of respondents expect additional gains of 3% or more in 2022. Land is the single largest asset class on farm balance sheets, so the asset appreciation provides additional equity to many producers across the rural landscape."

According to the report, the two primary concerns facing agricultural lenders in 2021 were competition for lending opportunities and weak loan demand from borrowers. 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 as their number one competitor for agricultural loans. 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%).

“Lenders confirmed they’re acutely aware of and concerned with a competitive lending environment,” said Takach. “With the flat yield curve, we have seen a considerable increase in demand for long-term fixed rates at attractive rates, and lenders have reported that they’re feeling the competitive pressure.”

For the first time in more than five years, lenders observed a pullback in demand for agricultural production loans, underscoring elevated concerns for loan demand given strong lender competition in 2021. Weak loan demand was the second greatest concern overall, but was the issue respondents were most likely to rank number one. 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. This sentiment was shared by lenders across the size spectrum and country. However, lenders expect demand to recover over the next 12 months.

One factor that drove down demand for financing was borrowers’ reliance on government payments in 2021. Seventy percent of ag lenders report increased reliance on government payments over the past 12 months—moderately less than 87% last year. 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 PPP. In fact, ag lenders made more than 600,000 PPP loans in 2021 (up from nearly 353,000 in 2020), worth more than $16.4 billion.

“Ag lenders have a deep understanding of both the ag sector and its cycles, and are prepared to continue providing support to the farm economy as commodity prices and government payments normalize and demand recovers to historical levels,” said Srinivasan.

The annual ABA and Farmer Mac Agricultural Lender Survey report is a joint effort to provide a look at the agricultural economy and market forces from the unique perspective of ag lenders. Nearly 450 agricultural lenders completed the survey in August 2021. 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. Regionally, the responses were somewhat concentrated in the Cornbelt and Plains (56% and 27%, respectively).

To view the full Agricultural Lender Survey Report, please visit aba.com/agsurvey.

For over a decade, the alliance between Farmer Mac and ABA has enabled ABA-member banks to receive Farmer Mac preferred rates for their farm and ranch mortgage loans in addition to useful educational tools and other important benefits to better serve their agricultural customers.

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About ABA

The American Bankers Association is the voice of the nation’s $22.8 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard nearly $19 trillion in deposits and extend $11 trillion in loans.

About Farmer Mac

Farmer Mac is a vital part of the agricultural credit markets and was created to increase access to and reduce the cost of credit for the benefit of American agricultural and rural communities. As the nation’s secondary market for agricultural credit, we provide 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 our low cost of funds, low overhead costs, and high operational efficiency. More information about Farmer Mac is available on Farmer Mac’s website at www.farmermac.com.