WASHINGTON — Eighty-two percent of agricultural lenders reported a decline in farm profitability in the last 12 months, according to a joint survey by the American Bankers Association and the Federal Agricultural Mortgage Corporation (Farmer Mac; NYSE: AGM and AGM.A). Despite the continued decline, the survey of more than 580 agricultural lenders revealed that the agricultural loan approval rate is 84 percent.

“We were encouraged to see that lenders remain ready to assist farmers and fulfill their credit needs despite the drag in the agricultural economy,” said Brittany Kleinpaste, director of economic policy and research at ABA. “Overall, the data showed that agricultural lenders are a little more optimistic about what’s ahead for their customers than they were in December of 2016.”

Farm Profitability
While a high percentage of ag lenders continue to report a decline in farm profitability, 7 percent fewer reported a decline compared to the December 2016 ABA/Farmer Mac survey. However, the drivers of industry stress remain the same. Ninety-three percent of lenders indicated commodity prices are a top concern. Grain and dairy remained the sectors that lenders are most concerned about, while lenders reported less concern for the cattle and hog sectors than in the previous survey. Other top concerns are liquidity (87 percent), farm income (85 percent), farm leverage (77 percent) and weather (56 percent).

Land Values
On average, survey respondents exhibited more confidence in stable land values than in the December 2016 survey. Fifty-seven percent of respondents reported stable values in the first half of 2017, and 51 percent expected no major changes in the second half of 2017. Lenders
reported that a high percentage of average quality land (41 percent) and cash rents (32 percent) are above fair market value in their area. “Inherently, farm real estate is highly localized and values depend on region and land productivity; however, overall, lender sentiment regarding the strength and stability of farmland values is consistent with USDA and Federal Reserve data,” said Jackson Takach, Farmer Mac’s in-house economist.

Ag Loan Demands
During the past six months, the majority of lenders (51 percent) noted an increase in the demand for agricultural operating loans, while there was no notable change in the demand for agricultural real estate loans (57 percent) compared to the previous survey. In the next six months, 53 percent of lenders expect a continued increase in agricultural operating loan demand, and 60 percent expect demand for agricultural real estate loans to remain unchanged.

Ag Lender Sentiments
When asked about challenges facing their own institutions, lenders indicated that credit quality and deterioration of agricultural loans are their top concerns. Competition from other lenders was also among lenders’ top concerns facing their institutions, particularly in the South.

Respondents also indicated a high level of concern over the lack of qualified agricultural lending staff, most notably in the West. There are a variety of specialty crops farmed in the West that require a lender to have certain expertise, which may make it difficult to identify and recruit new employees.

Some lenders noted concerns regarding loan demand. A few lenders indicated that heavy loan demand has forced institutions against their lending caps, while others said consolidation of the farm economy due to the lack of individuals available to replace retiring farmers could lead to weakening loan demand.

The ABA and Farmer Mac Agricultural Lender Survey—conducted twice per year—is a joint effort to provide a look at the agricultural economy and market forces from the unique perspective of ag lenders representing institutions of all sizes across the country. To view the full Agricultural Lender Survey report please visit aba.com/agsurvey.

The next survey is scheduled to launch in December 2017. Ag lenders interested in participating in the survey can sign up at aba.com/agsurvey.

ABA endorses a number of programs offered by Farmer Mac. For more than a decade, this relationship has benefitted ABA members by providing financial benefits and educational tools bankers need to serve their agricultural customers.

About ABA
The American Bankers Association is the voice of the nation’s $17 trillion banking industry, which is composed of small, midsize, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend more than $9 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 capital for the benefit of American agricultural and rural communities. As the nation’s premier 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. In fact, we are often able to provide the lowest cost of borrowing to agricultural and rural borrowers. For more than a quarter-century, Farmer Mac has been delivering the capital and commitment rural America deserves. Additional information about Farmer Mac is available on Farmer Mac's website at www.farmermac.com.

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