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Ag Lender Survey: Interest Rate Volatility is Top Concern in 2023

ABA, Farmer Mac joint survey reveals ag lenders are most concerned about impacts of inflationary pressure on farmers and ranchers

OMAHA, Neb—The top concern facing agricultural lenders going into 2023 is interest rate volatility, according to the 2022 Agricultural Lender Survey report produced jointly by the American Bankers Association and the Federal Agricultural Mortgage Corporation, more commonly known as Farmer Mac (NYSE: AGM and AGM.A). 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, fears of weakening loan demand and strong competition is expected to cut into rising yields, according to the report released today at the ABA Agricultural Bankers Conference in Omaha, Neb.

“Given the Fed’s clear signal that it expects to continue raising rates until inflation is contained, it’s fitting that ag lenders cited interest rate volatility as their number one concern,” said ABA Chief Economist Sayee Srinivasan. “Lenders expect that both short-term and long-term rates will continue to rise in the coming year, reflecting market expectations that rates could rise by another 100-150 basis points by the end of the first quarter of 2023.”

Farm Economy

In response to the survey, lenders cited inflationary pressure as their number one concern for producers. Liquidity and farm income, two of the top two concerns in prior years, were the second and third greatest concerns this year, respectively. Lenders remain comparatively more concerned about weather and less concerned about total leverage than in prior survey years, according to the report. Recession risk, a new category this year, was lenders’ fifth highest ranked concern for producers. By comparison, lenders ranked “a slowing economic recovery” near the bottom of their list of concerns for producers in 2021.

“Many of America’s farmers and ranchers experienced a strong recovery in 2021 and 2022, driven by higher commodity prices and robust sales,” said Jackson Takach, Chief Economist at Farmer Mac. “Looking ahead, ag lenders are keeping a close eye on expenses, as feed, fertilizer, fuel, and other input costs remain elevated.”

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 concern for each sector showed improvement over 2021 levels. Lenders’ concerns notably declined for grains over the year.

For the second consecutive year, most ag lenders (66.3%) reported that overall farm profitability increased in the last year. About one in ten lenders (10.3%) reported that overall profitability declined. Lenders expect conditions to deteriorate next year, with 52.6% projecting a decline in farm profitability in the next 12 months. However, this remains well below the 2016-2020 survey average of 82.3%.

Approximately four out of five 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 reported higher in 2022, with 72.2% of lenders reporting higher rents in their market areas and 43.2% of respondents expecting cash rents to continue to rise in the next 12 months, potentially adding to inflationary pressures for producers.

“Farmland, a significant store of wealth for millions of farm families, continued to appreciate in 2022,” said Takach. “Most ag lenders anticipate the growth of land values slowing in the coming year, likely in response to higher interest rates and potentially higher farm expenses. ”

Lending Conditions

Lenders’ top concerns after interest rate volatility are lender competition and weak ag loan demand, according to the report. Approximately 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 as their number one competitor for agricultural loans. Concern about credit quality and ag loan deterioration, which was the number one concern in 2020, remained the fourth highest concern facing lenders in 2022.

According to the report, 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 remains below the 2016-2018 survey average. Respondents anticipate that loan demand for both categories will continue to increase over the next 12 months.

Lenders reported broad interest from borrowers in alternative ag financing, particularly for livestock grazing practices. The financing of reduced-till farming, precision technology and cover cropping practices were also areas of interest for ag borrowers.

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

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

“Credit quality was excellent in 2021 and 2022, so it is to be expected that lenders would anticipate some deterioration in the coming year as the potential for a downturn grows,” said Srinivasan. “Ag lenders have deep familiarity with both the ag sector and its cycles and will continue to work with their borrowers and support farmers and ranchers as credit quality normalizes to historical levels.”

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. More than 300 agricultural lenders completed the survey in August 2022. 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.

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 $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.

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, 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. More information about Farmer Mac is available on Farmer Mac's website at www.farmermac.com.