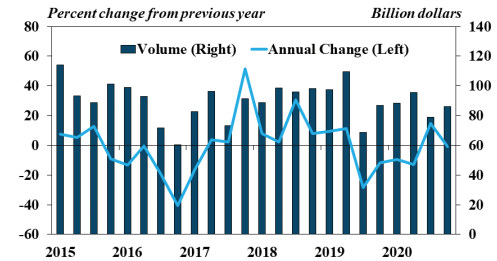


Ag Lending Update: Fewer New Loans to Farmers

Lending activity at commercial banks continued to slow in the fourth quarter, according to the National Survey of Terms of Lending to Farmers, according to a Federal Reserve - Main Street Views report released January 13, 2021. The volume of total non-real estate farm loans declined by about 1 percent from a year ago, but remained slightly above the 10-year average in the fourth quarter (Chart 1). Farm lending declined at an average pace of 2 percent throughout 2020, following an average decline of nearly 5 percent in 2019 and an average increase of more than 12 percent in 2018.

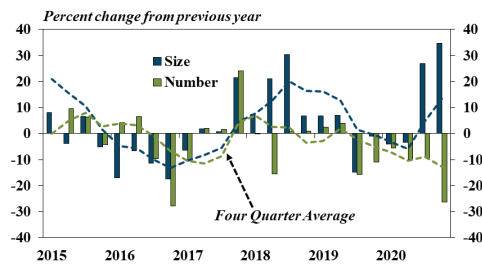
Chart 1: Volume of Non-Real Estate Farm Loans at Commercial Banks



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City.

Smaller loan volumes were driven by a lower number of new loans to farmers. While the number of loans continued to trend downward, the average size of farm loans grew for the second consecutive quarter (Chart 2). The number of new bookings with balances of less than \$100,000 decreased by about 30 percent from a year ago and accounted for nearly 90 percent of the overall decline. The number of notes greater than \$100,000 also dropped by about 18 percent and together with a record low number of loans overall, the average size of all new non-real estate loans reached a historic high.

Chart 2: Number and Average Size of Non-Real Estate Farm Loans

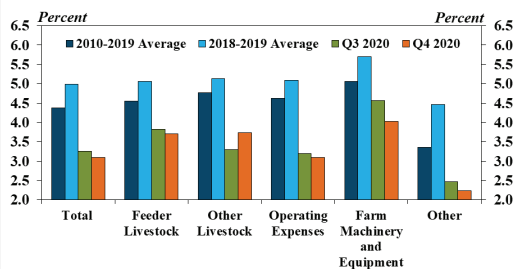


Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City.

and accounted for over half of the overall decline.

Interest rates on agricultural loans remained at historically low levels in the fourth quarter. After increasing to a 10-year high in 2018 and 2019, rates on farm loans began to decline in the second quarter of 2020 alongside a decrease in benchmark rates (Chart 4). Compared

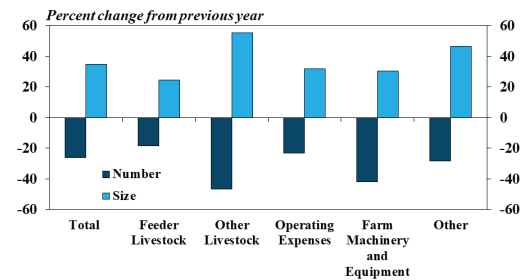
Chart 4: Average Interest Rates on Non-Real Estate Farm Loans



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City.

to the same time a year ago, interest rates charged on non-real estate farm loans declined by at least 110 basis points for all purposes.

Chart 3: Changes in Non-Real Estate Farm Loans by Purpose, Fourth Quarter



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City.

Conclusion

Agricultural lenders continued to report a slower pace of lending alongside improved financial conditions for farmers in the fourth quarter. Higher crop prices and continued support from government payments likely reduced the need for smaller loans, which drove the overall decline in lending activity. Moving forward, loan volumes may soften further if sharp increases in prices for key agricultural commodities, such as corn, soybeans, and wheat, continue to ease financing needs for farm borrowers.

For more information:

To access the complete Federal Reserve Main Street Views report, see: <https://www.kansascityfed.org/en/research/indicatorsdata/agfinancedatabook/articles/2021/1-12-2021/q4%202020%20national%20survey%20of%20terms%20of%20lending%20to%20farmers>

How Much Risk is Right for You?