

Agricultural Lending Outlook

2022 Southern Outlook Conference

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Challenges in Farm Business

Today's presentation will focus on:

(1) Farm Income & Expense

Cash receipt is expected to increase, offsetting rising input costs and declining government payments

(2) Farm Interest Rates

Loan interest rates to rise even further in 2022

(3) Loan Availability

Enough credit supply, demand initially expected to increase

(4) Farm Financial Distress Level

No significant increases in farm loan default rate and bankruptcy cases in 2022Q2

(5) Land Value Changes

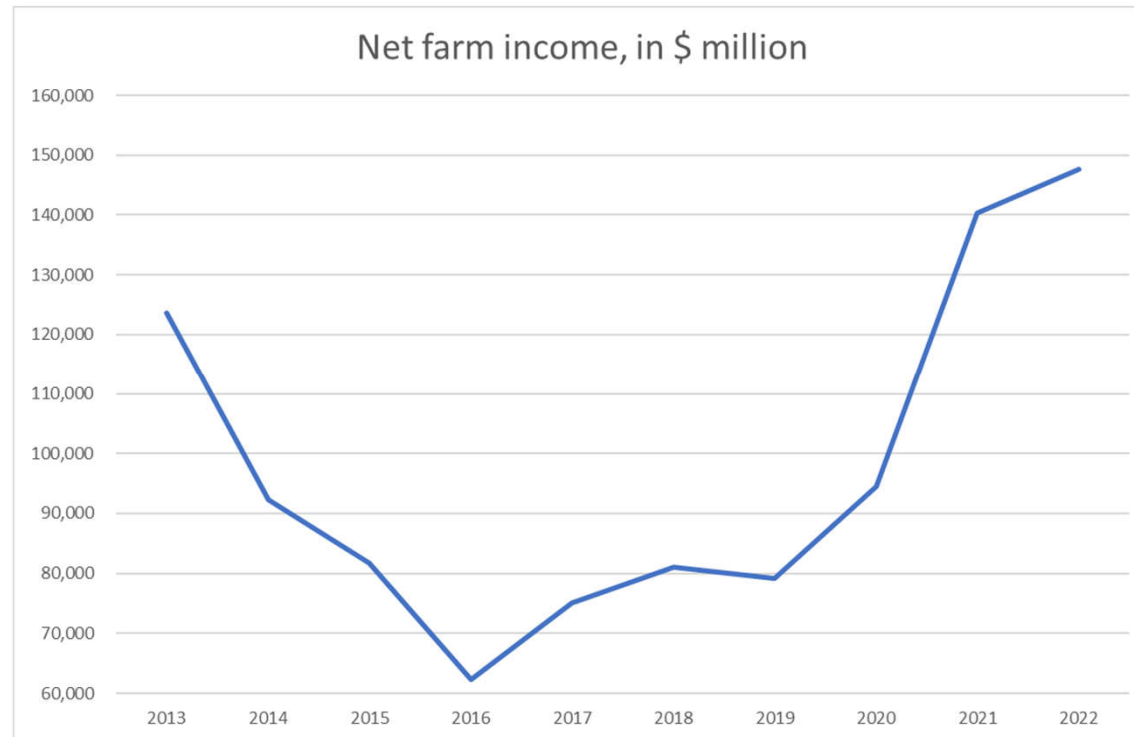
Initial projected increases face uncertainties



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Net Farm Income to increase in 2022



Source: USDA ERS

	2015	2016	2017	2018	2019	2020	2021	2022
Net Farm Income	81,664	62,315	75,115	81,053	79,209	94,503	140,371	147,698

Net farm income is expected to increase from \$140.5 billion to \$147.7 billion in 2022.

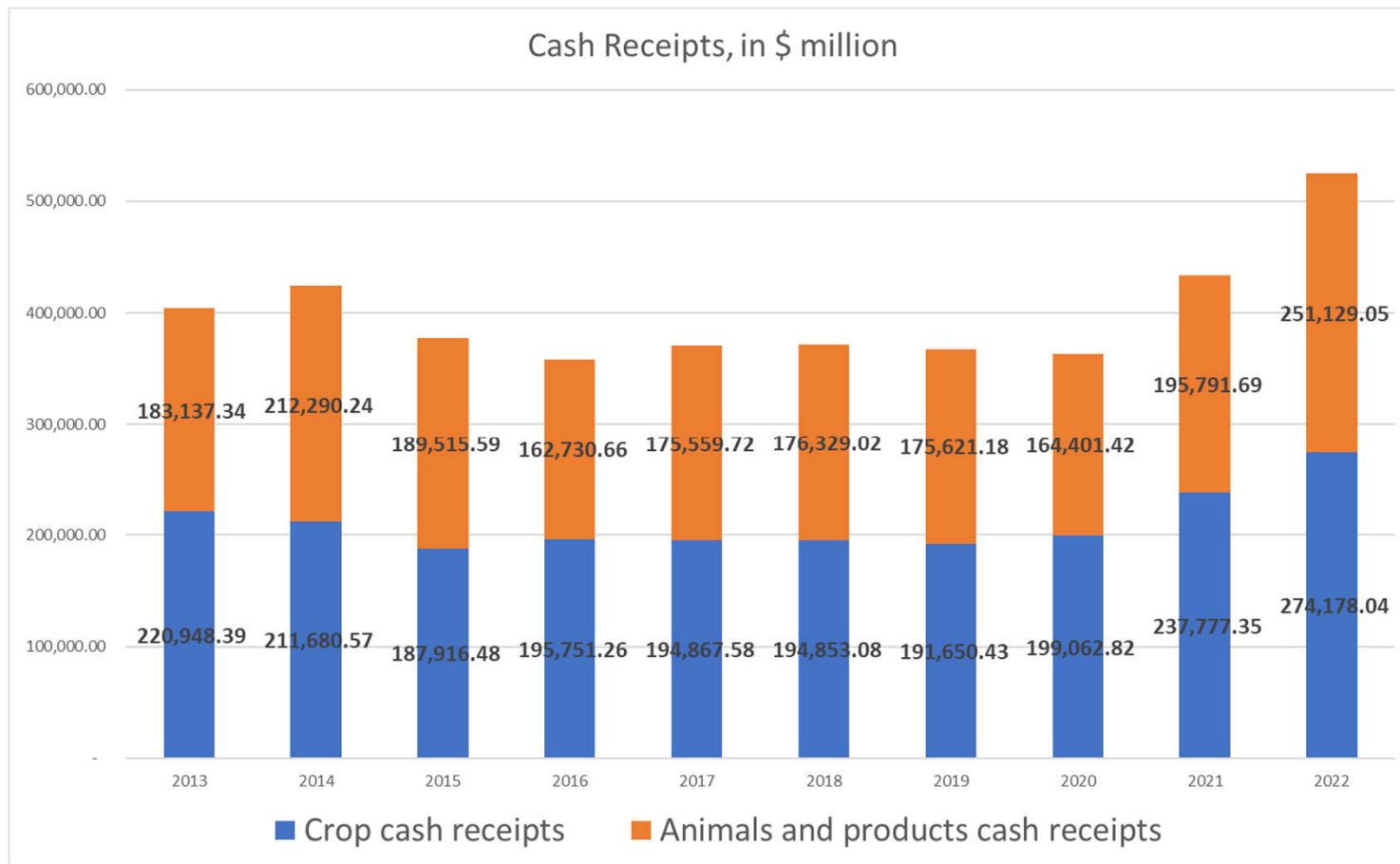
Increases in cash receipts will offset increases in production expense & decreases in gov't payments



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Cash receipts to increase in 2022



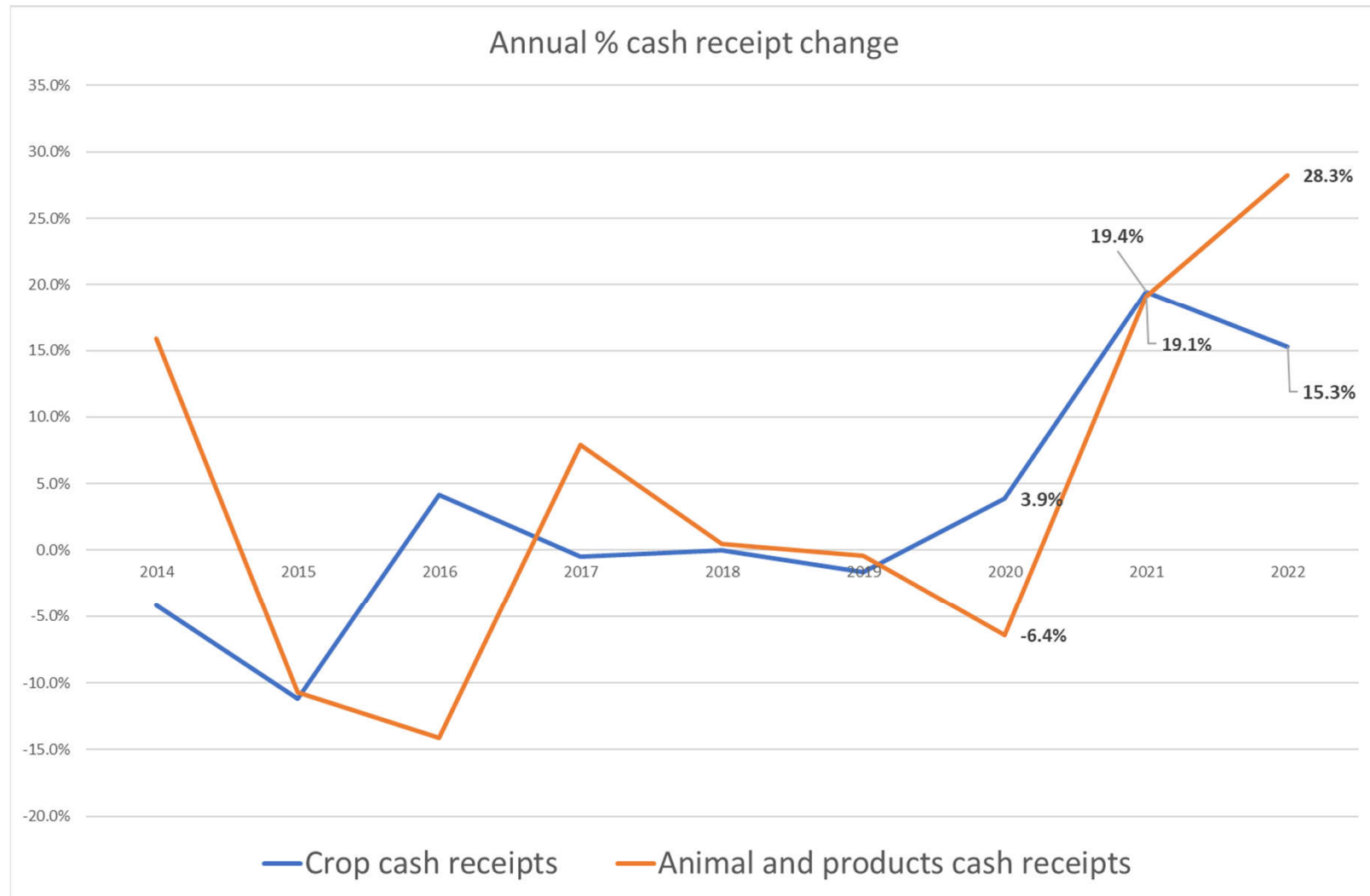
Cash receipts are expected to increase in 2022



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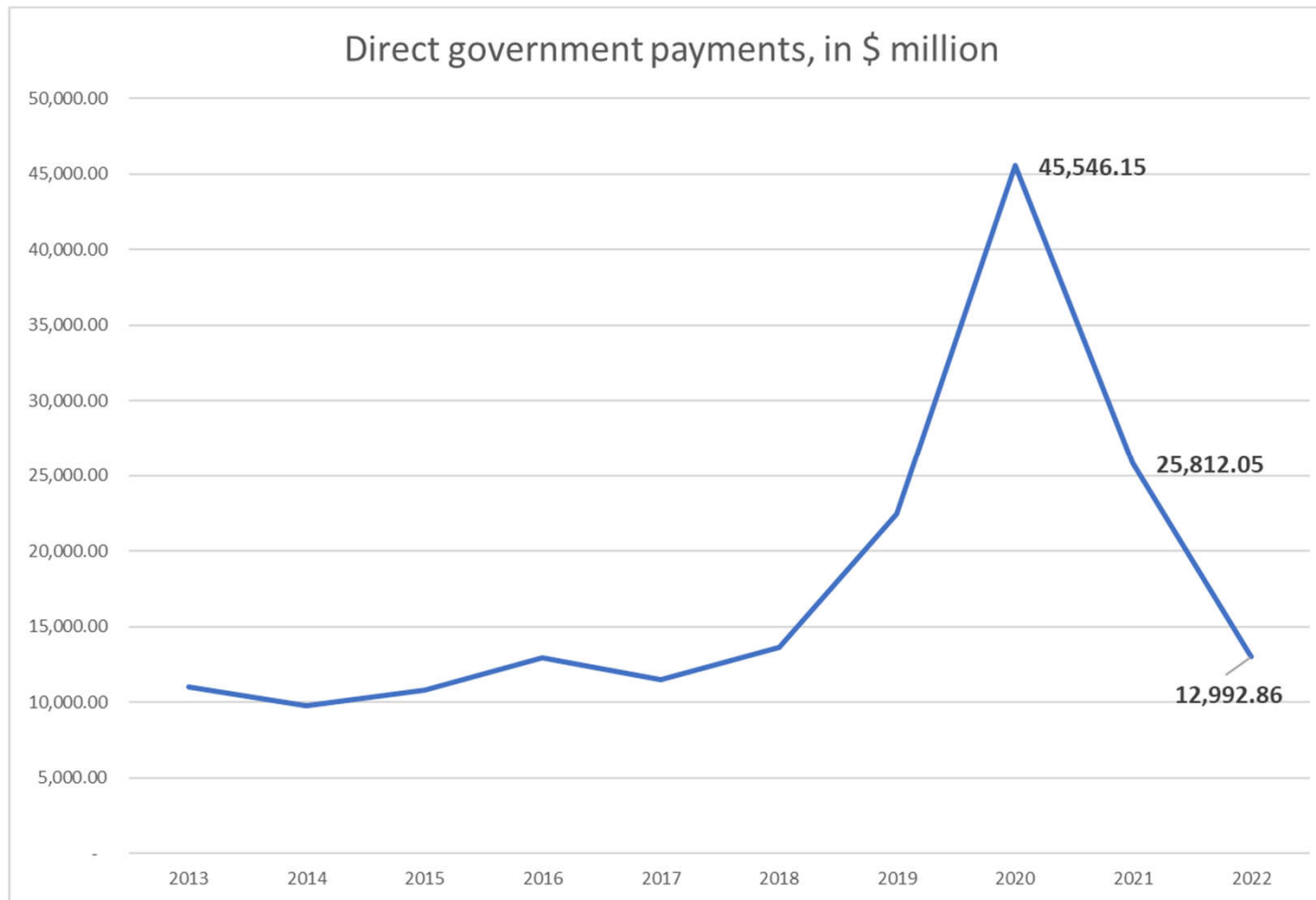
Cash receipts to increase in 2022



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Government payments to decrease in 2022



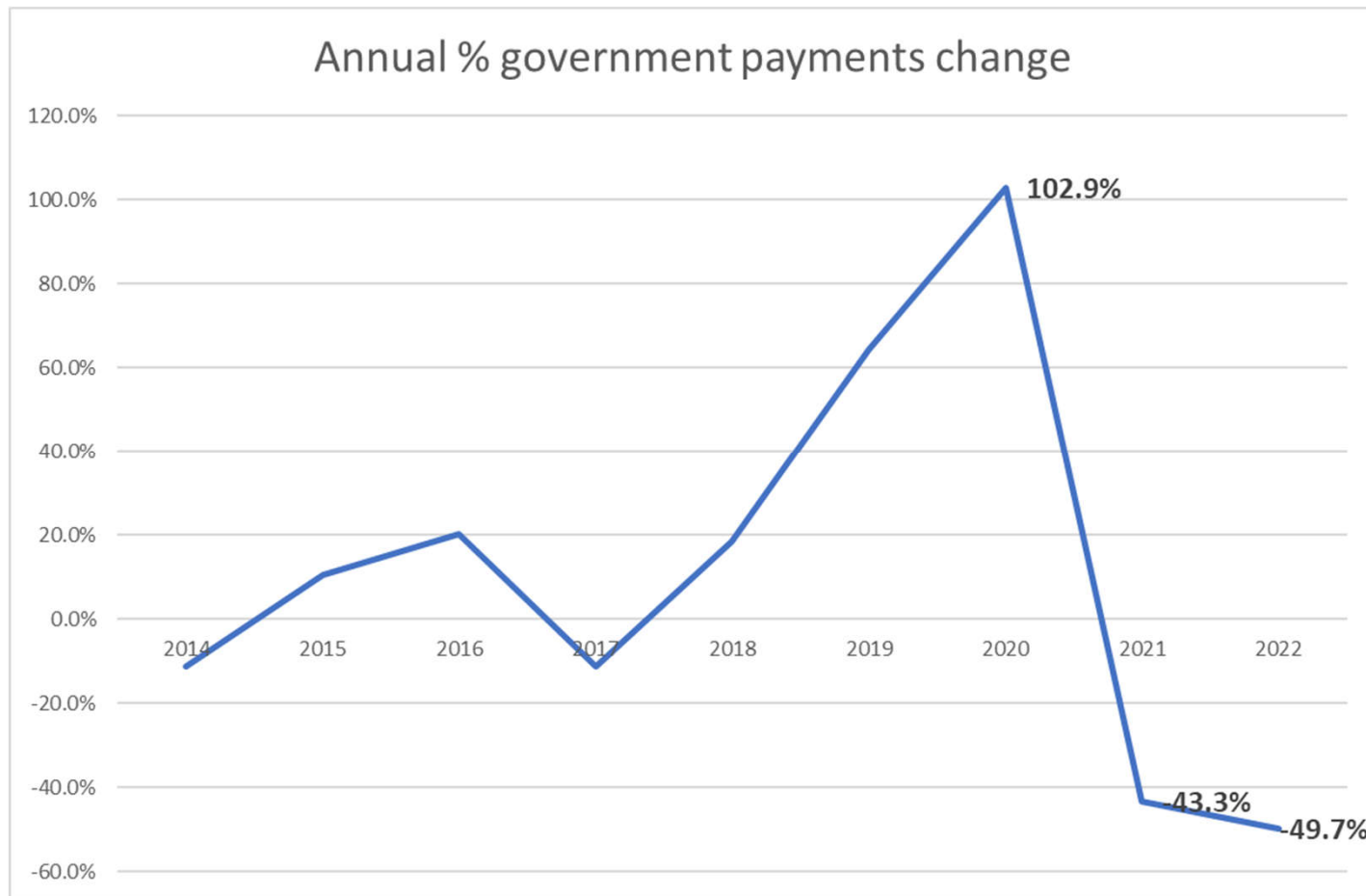
Source: USDA ERS



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Government payments to decrease in 2022



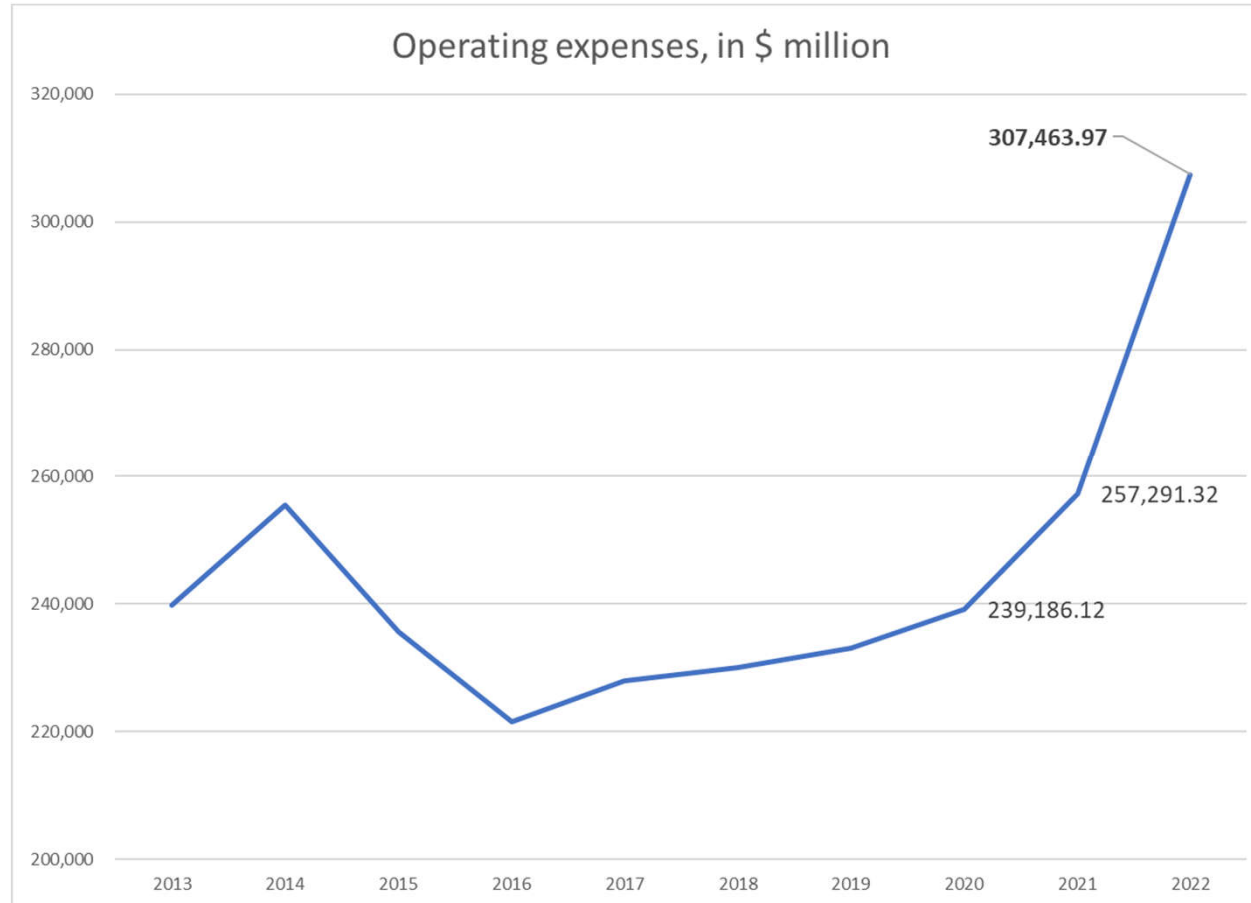
Source: USDA ERS



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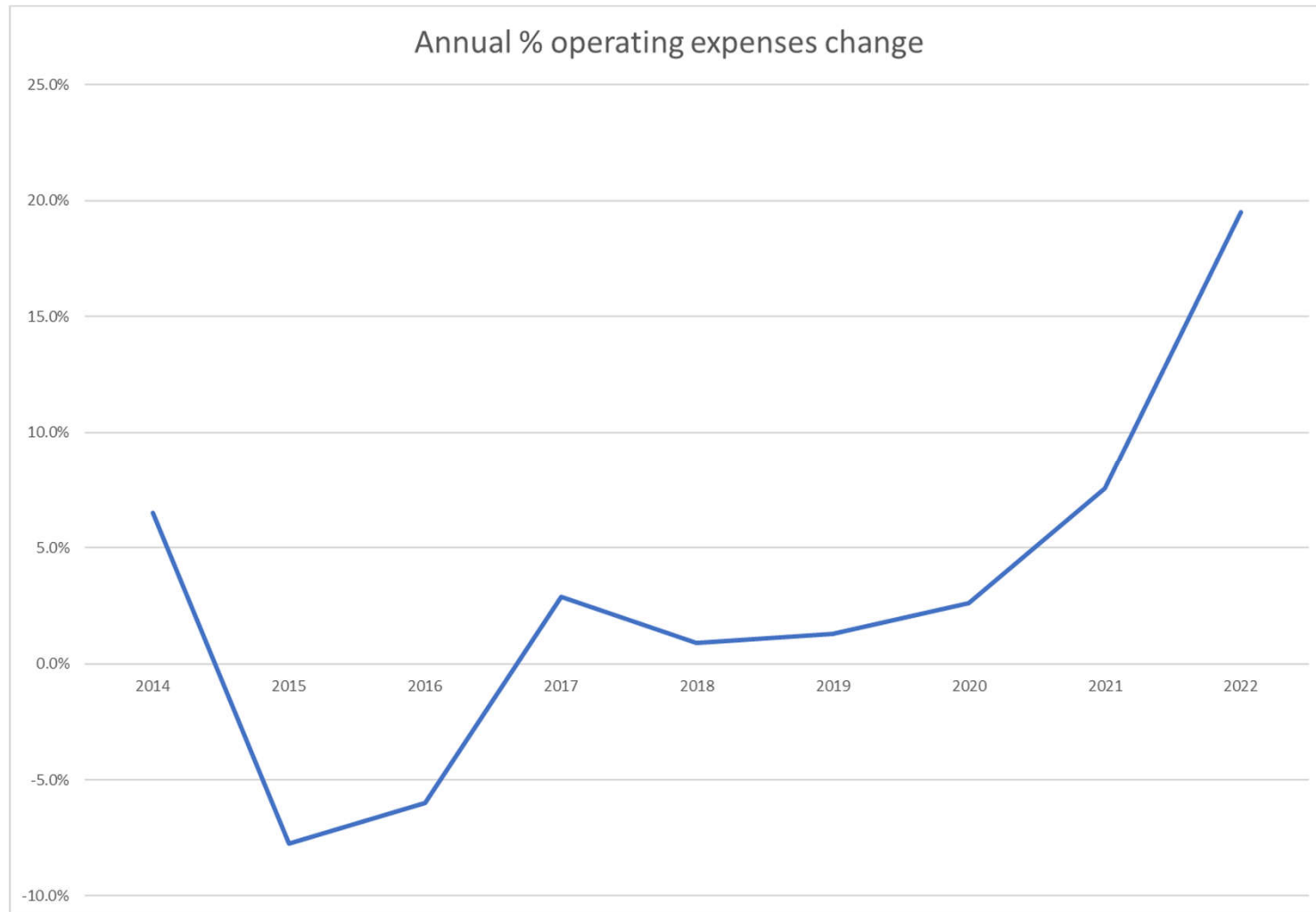
Farm expense to increase in 2022



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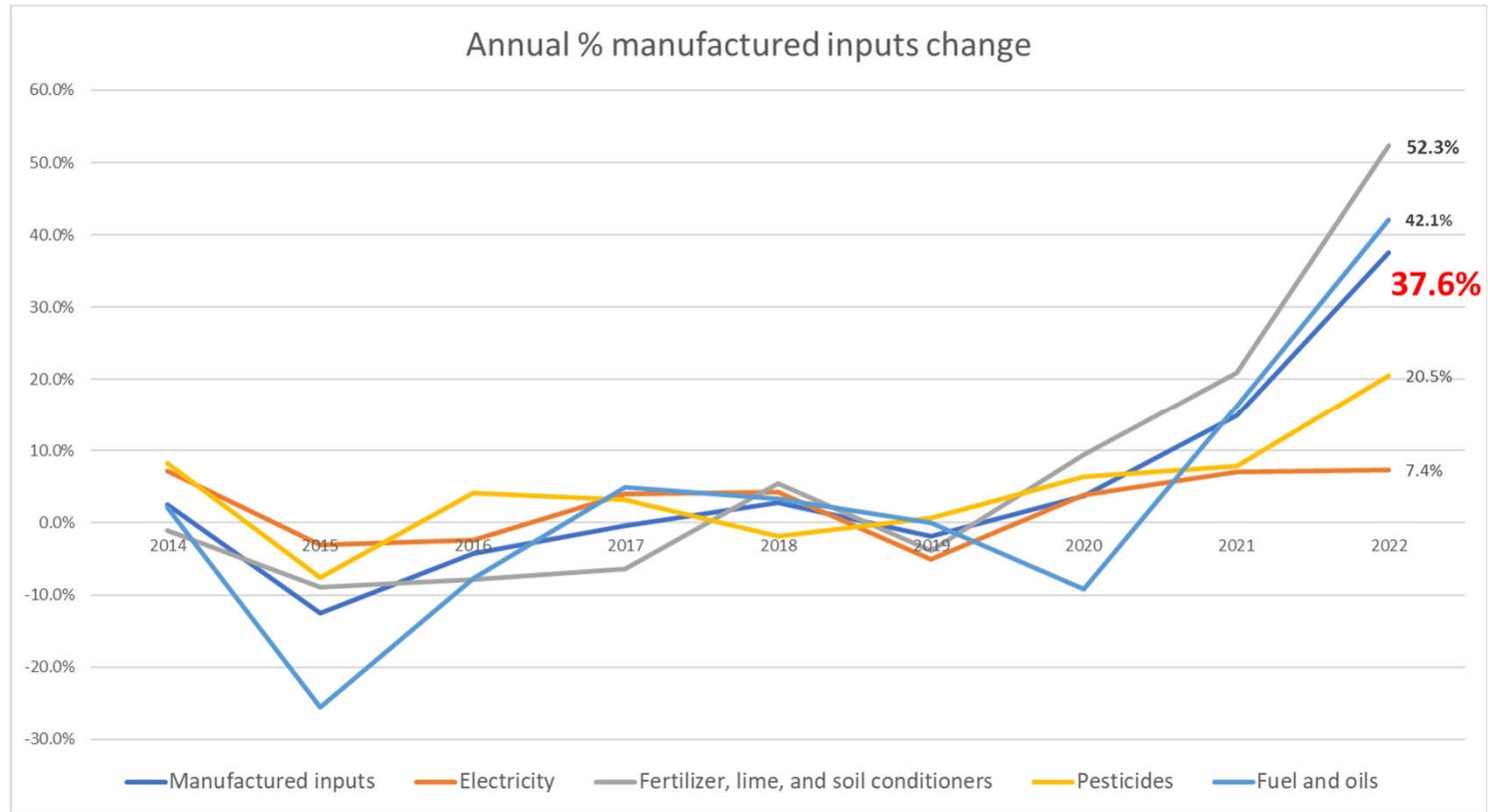
Farm expense to increase in 2022



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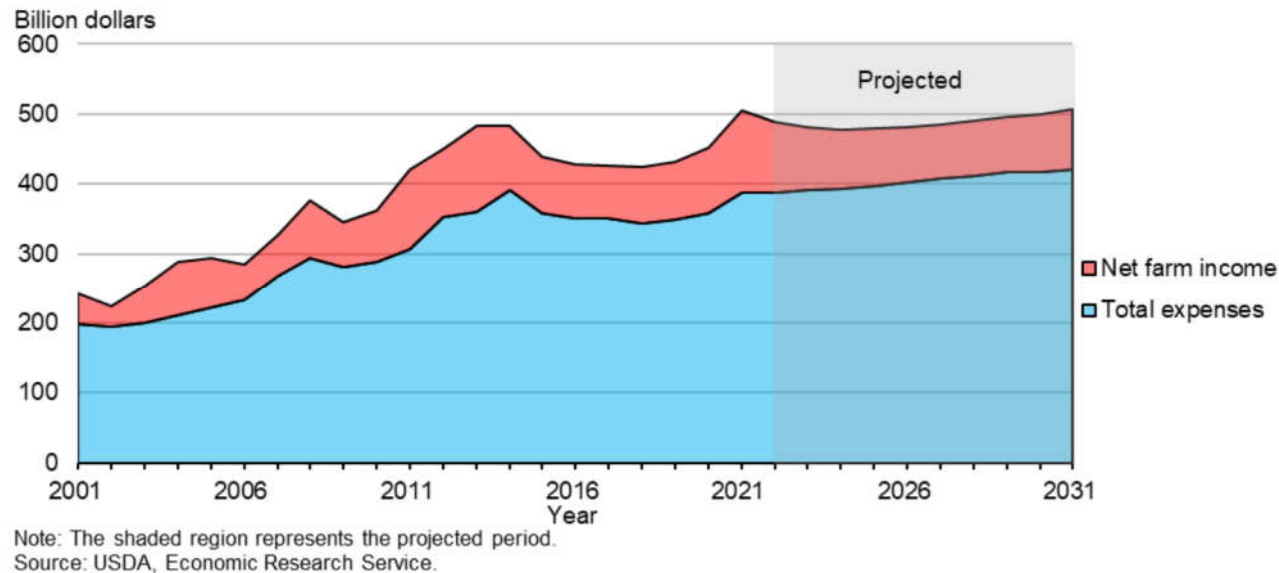
Farm expense to increase in 2022



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Long-term projection



Farm income is expected to decrease in next few years, and then slowly recover.

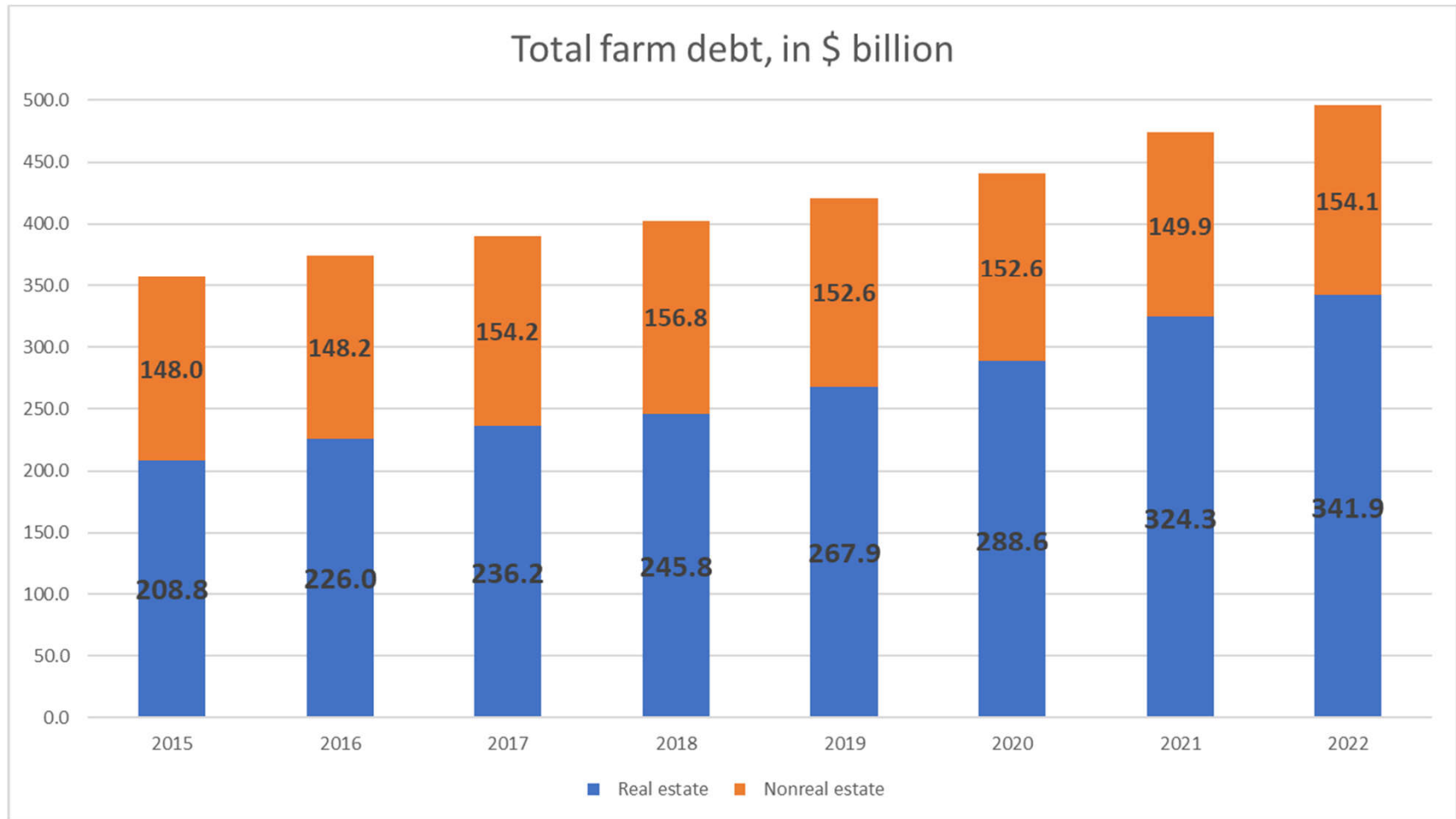
It must be noted that recent research all indicate that the USDA's long-term projection is not accurate (Bora et al., 2021; Kuethe et al., 2022)



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Farm debt to increase in 2022



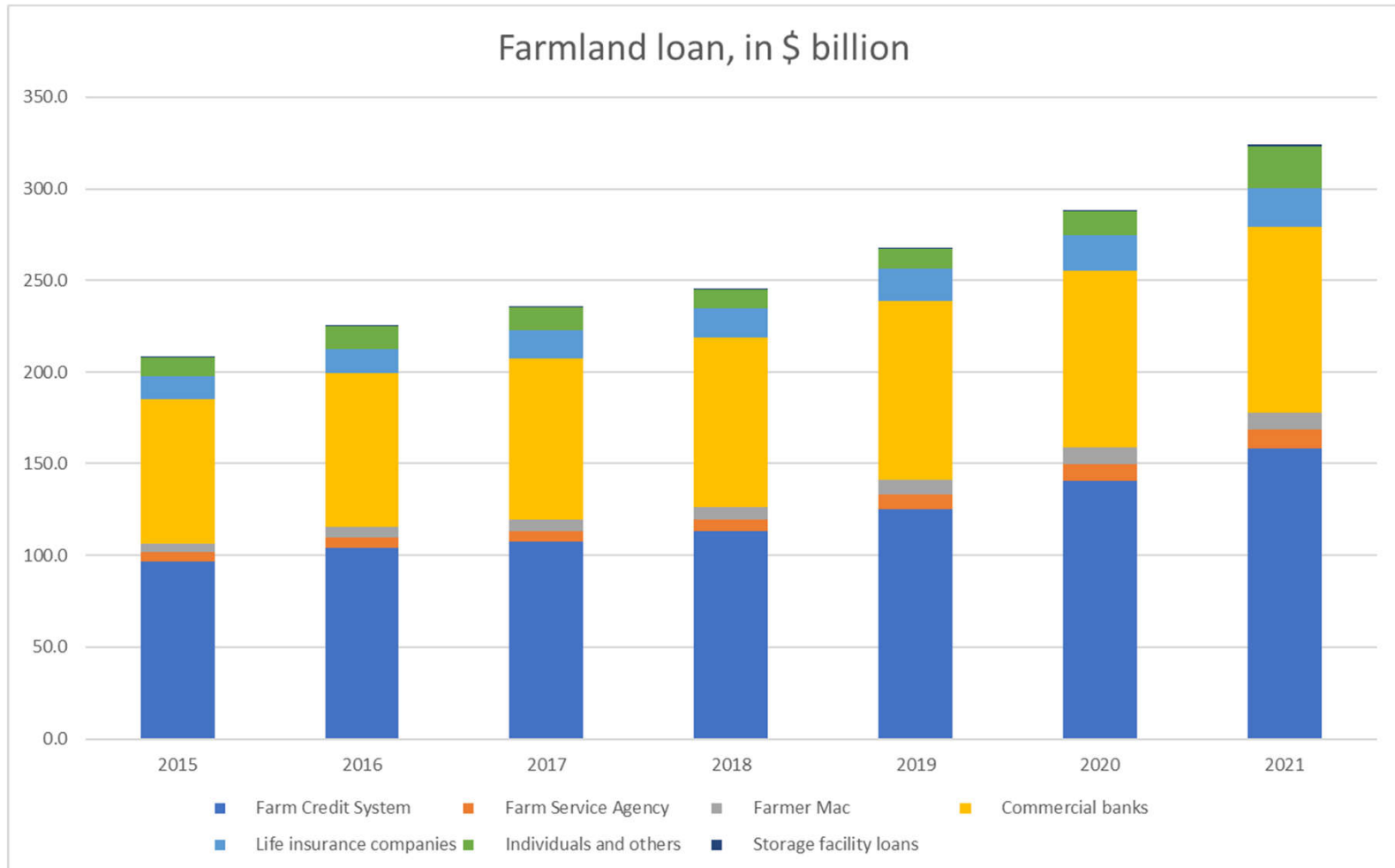
Source: USDA ERS



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Farm debt 2021, by lender type



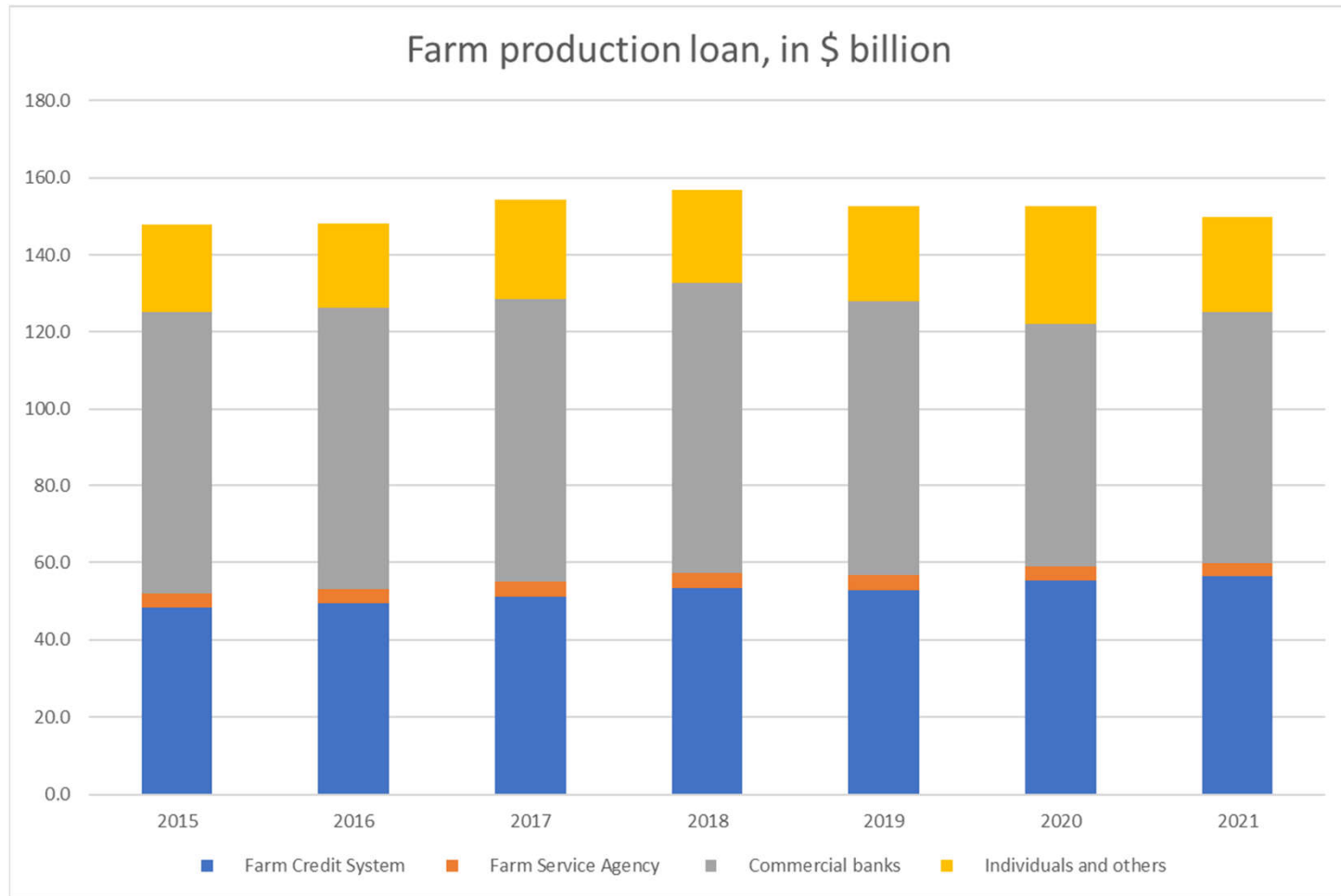
Source: USDA ERS



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Farm debt 2021, by lender type



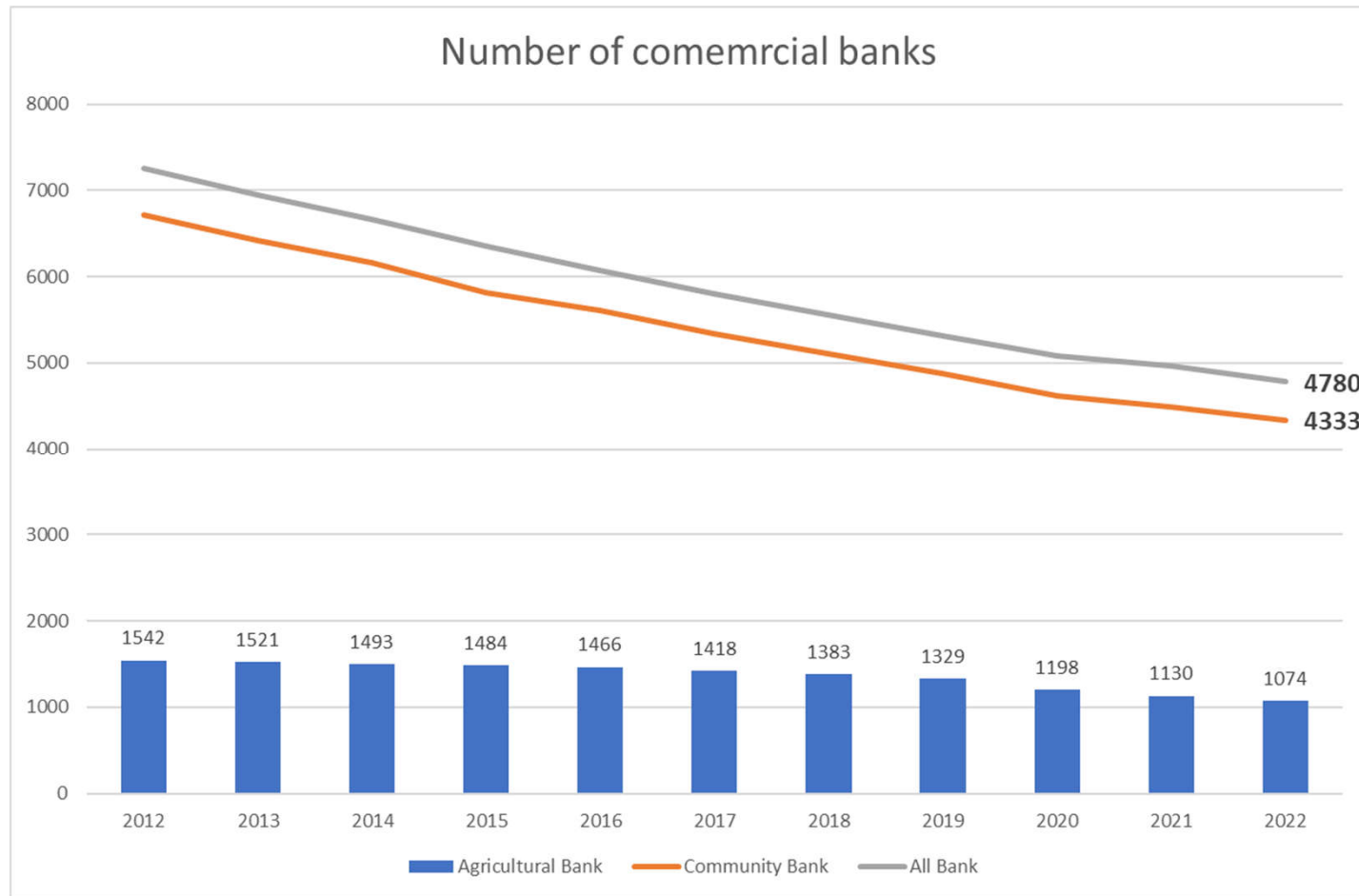
Source: USDA ERS



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Number of agricultural bank again decreases



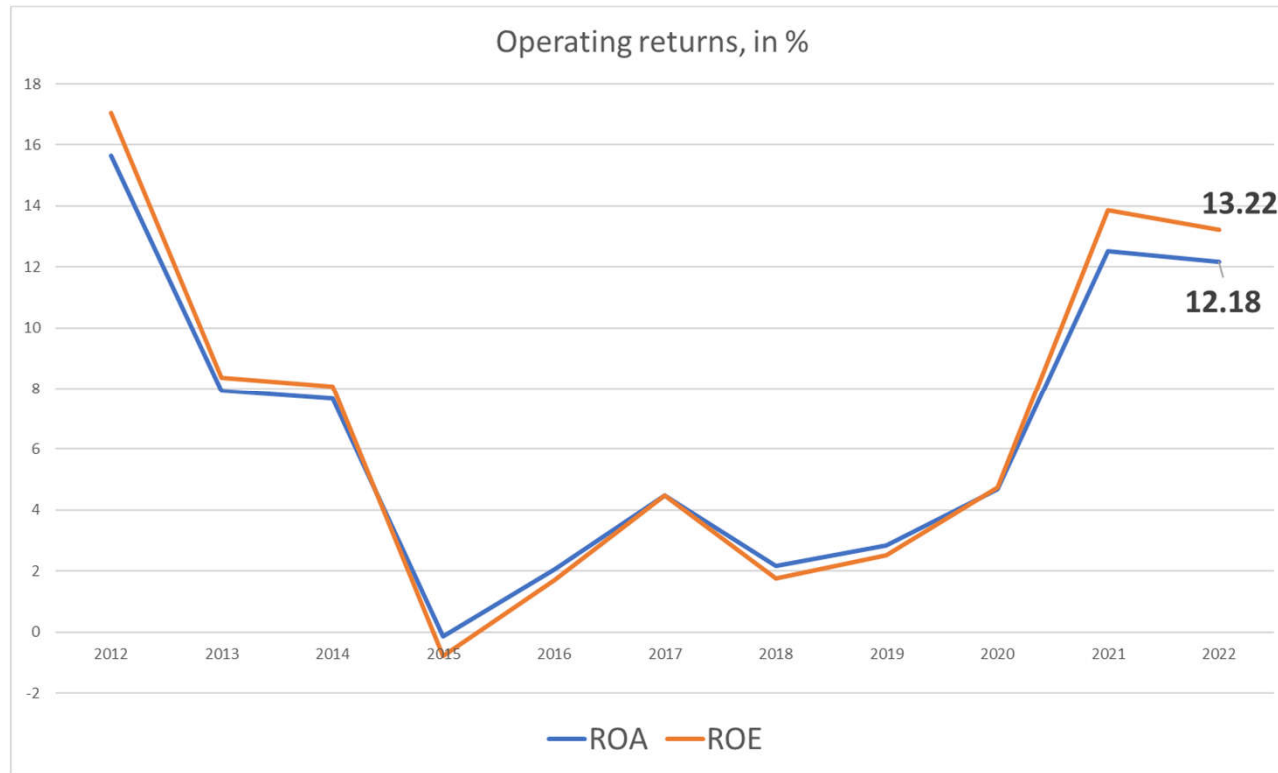
Source: FDIC



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Farm profitability to slightly decrease



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F
ROA	7.94	7.66	-0.15	2.05	4.48	2.17	2.84	4.69	12.51	12.18
ROE	11.39	11.78	12.39	12.84	12.99	13.28	13.61	13.9	13.56	12.93

Return on assets: 12.51% in 2021 and 12.18% in 2022

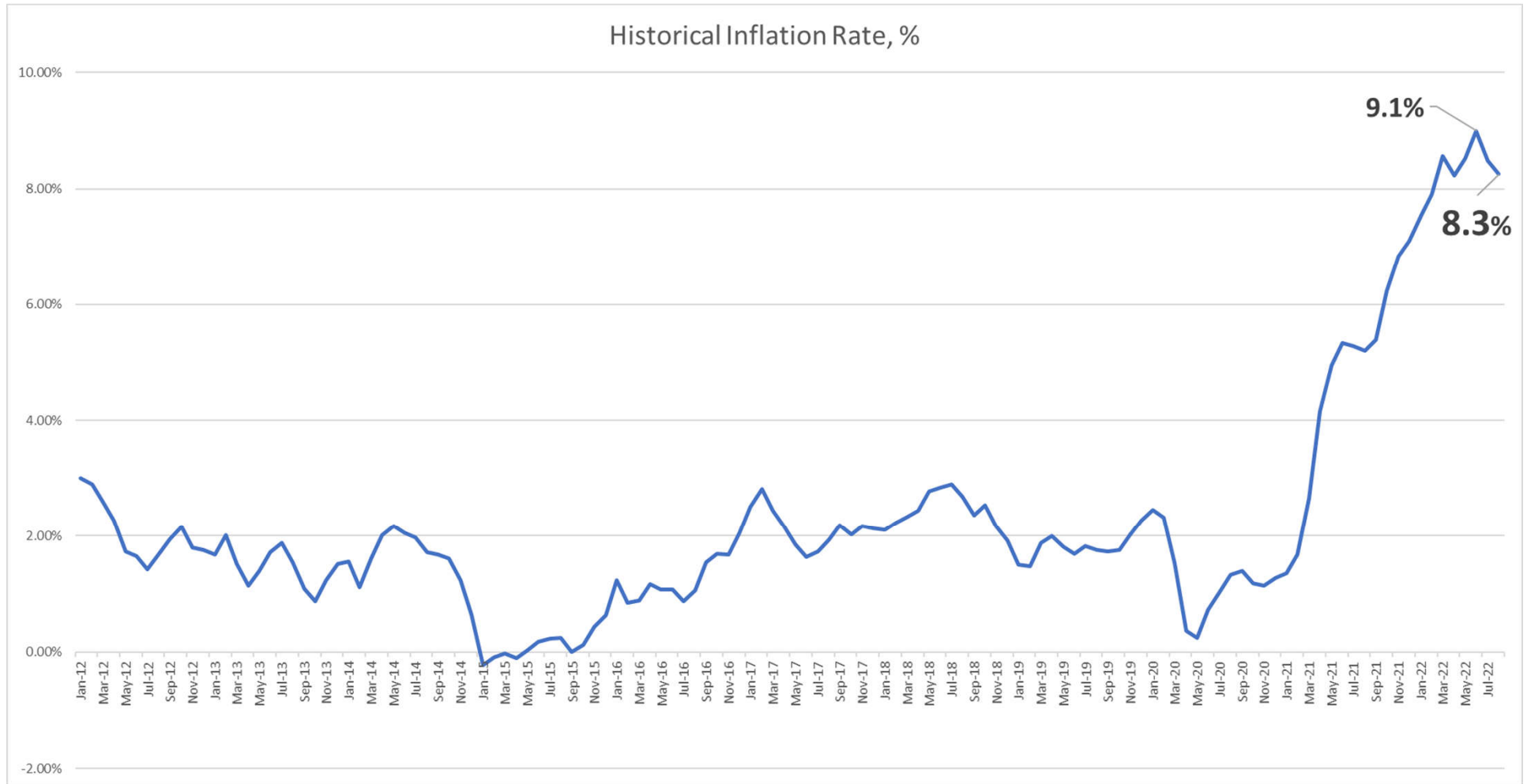
(5-year average 2016-2020: 3.25%, 30-year average: 6.8%)



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Inflation rate at its highest level in decades



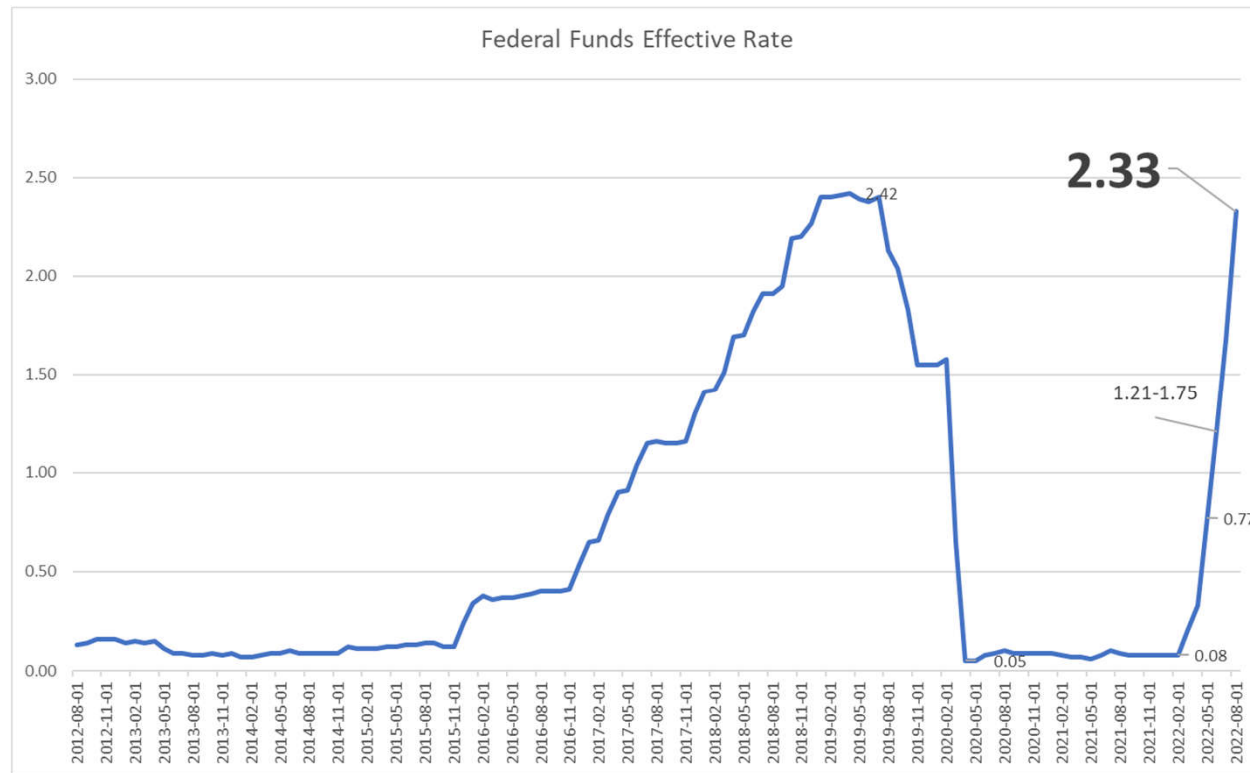
Source: Bureau of Labor Statistics



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Historical Federal Funds Rate



Source: Federal Reserve

Another hike by 75 bp is expected this month

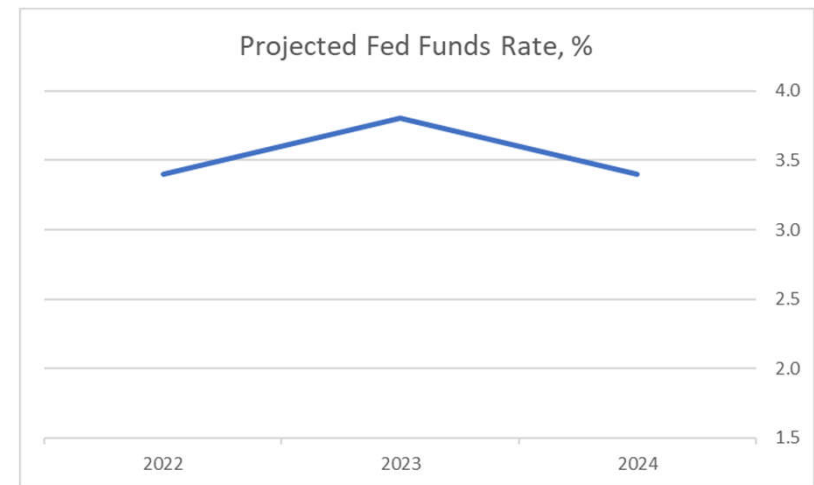
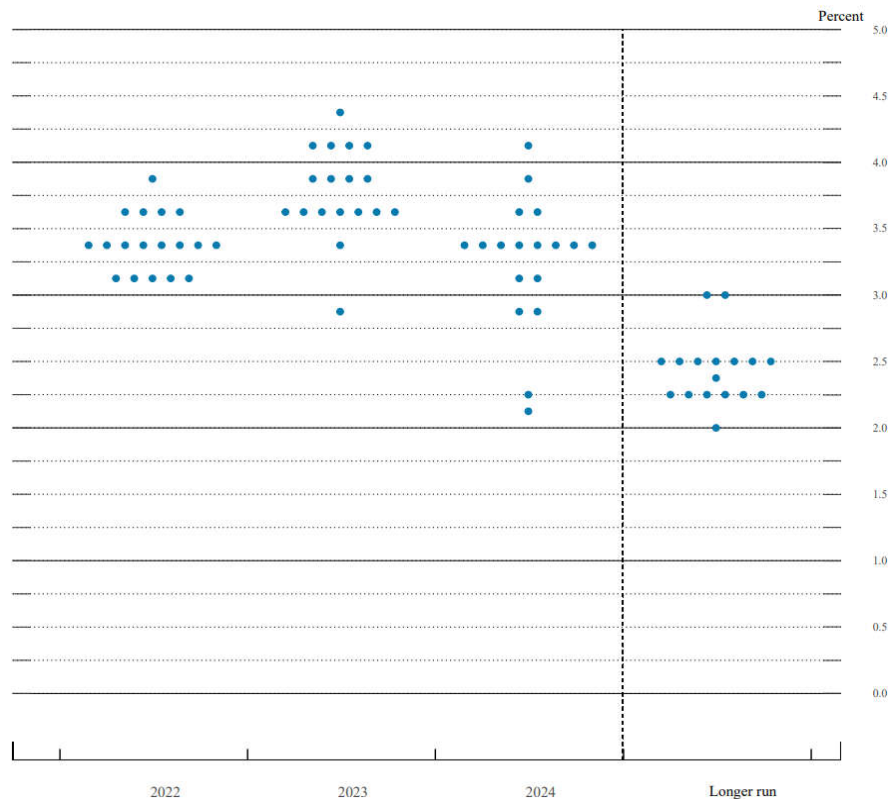


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Projected Federal Funds Rate

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: FOMC

Targeted rate from March 2022: 1.9%
(up from 1.6% of December 2021
projection)

Targeted rate from June 2022: 3.4%



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USDA FSA Interest Rates

	Operating Loans	Ownership Loans	Emergency Loans
Sep-21	1.875%	3.000%	2.875%
Oct-21	1.750%	2.875%	2.750%
Nov-21	1.750%	2.875%	2.750%
Dec-21	2.000%	3.000%	3.000%
Jan-22	2.125%	3.000%	3.125%
Feb-22	2.250%	2.875%	3.250%
Mar-22	2.375%	3.000%	3.375%
Apr-22	2.750%	3.250%	3.750%
May-22	2.875%	3.375%	3.750%
Jun-22	3.625%	3.750%	3.750%
Jul-22	3.875%	4.125%	3.750%
Aug-22	4.000%	4.250%	3.750%
Sep-2022	4.125%	4.375%	3.750%

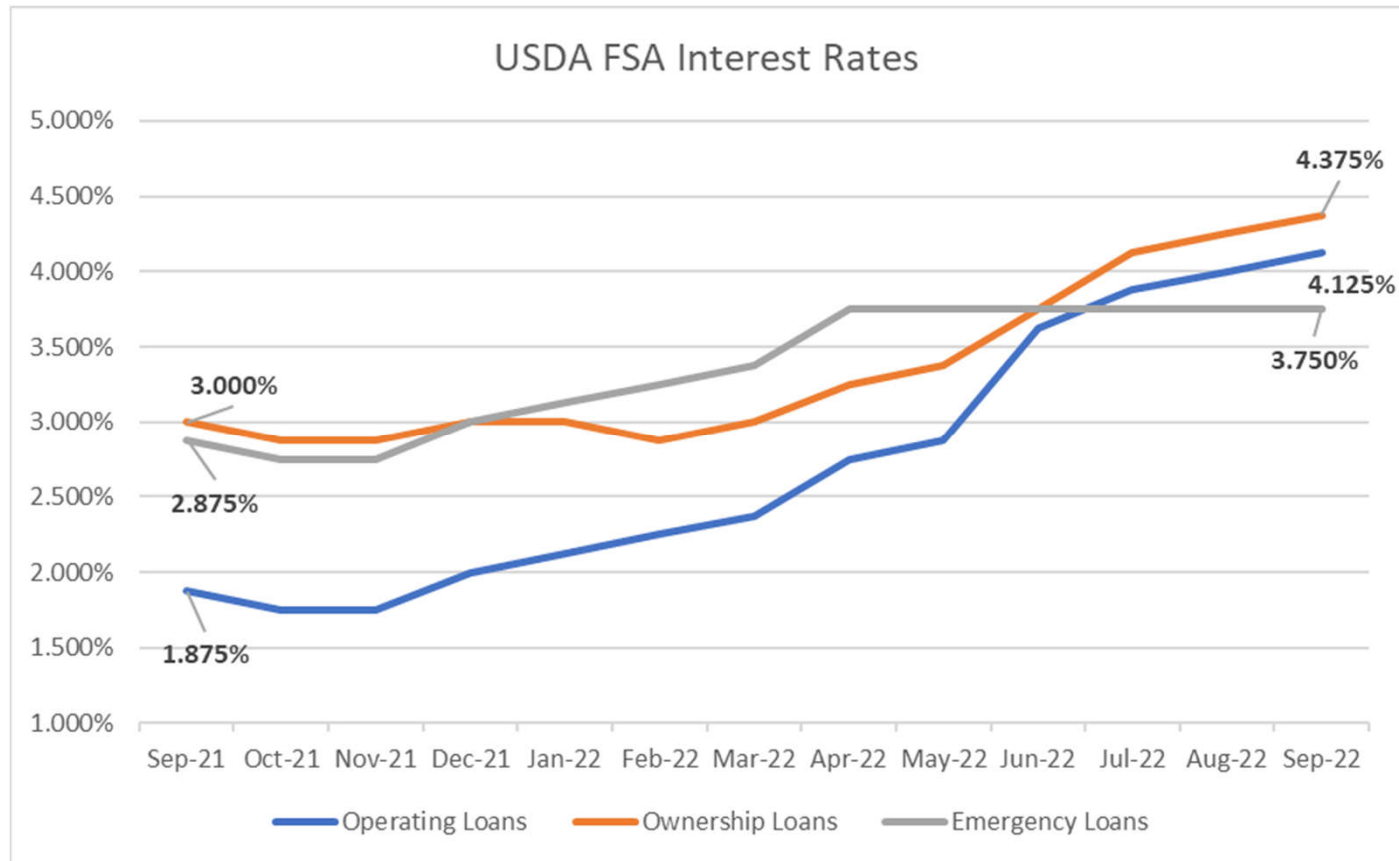
Source: USDA FSA



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USDA FSA Interest Rates



Source: USDA FSA

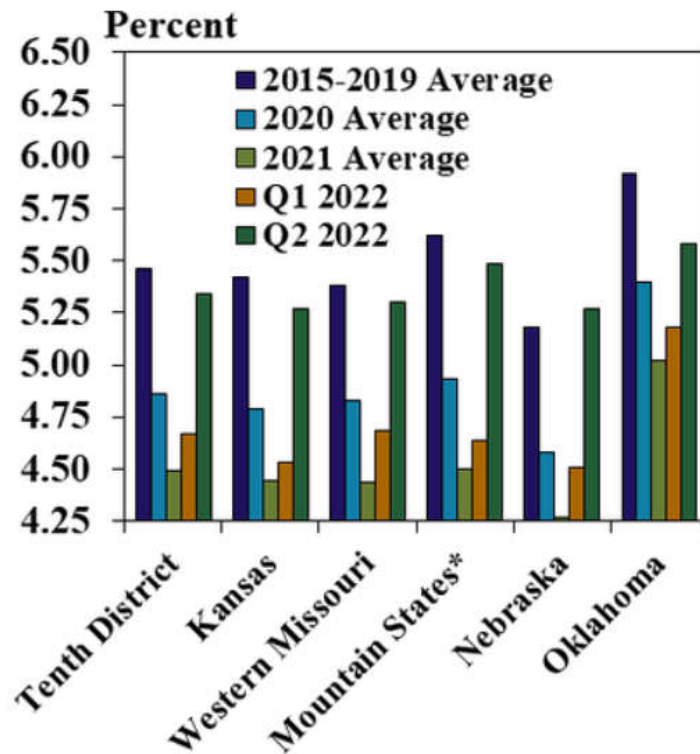


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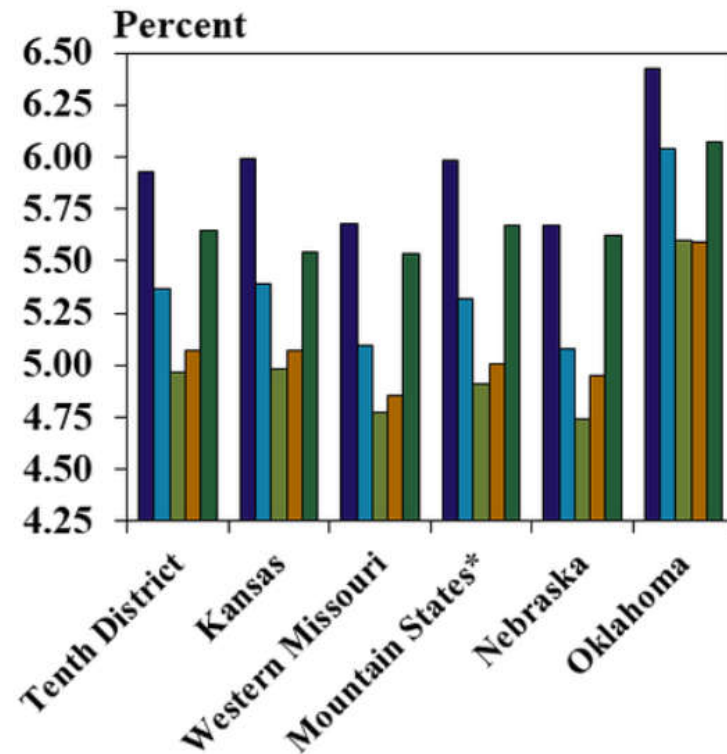
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Commercial bank interest rates

Farm Real Estate Loans



Farm Operating Loans



Source: Kansas City Fed



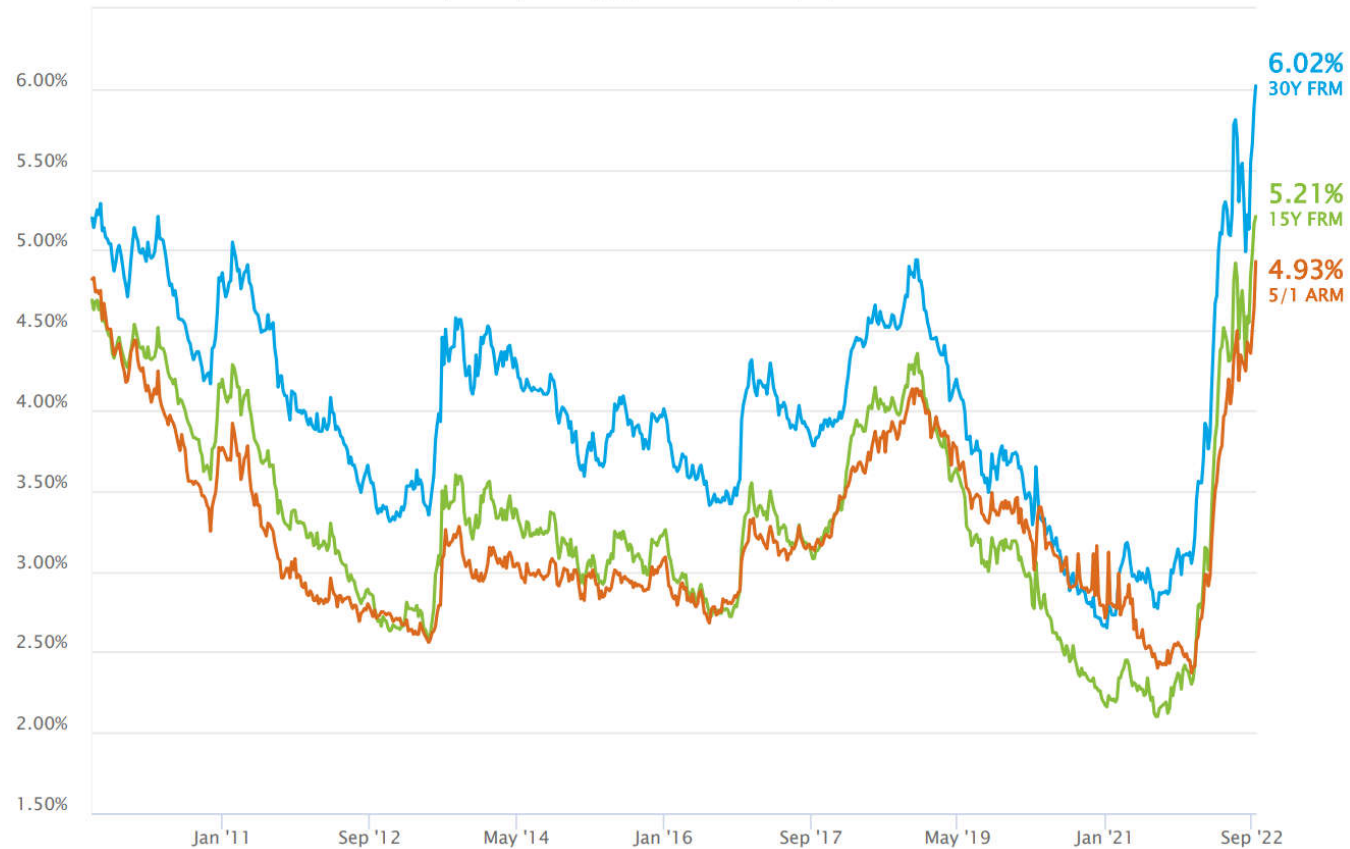
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Average Mortgage Rates



Primary Mortgage Market Survey®
U.S. weekly average mortgage rates as of 09/15/2022

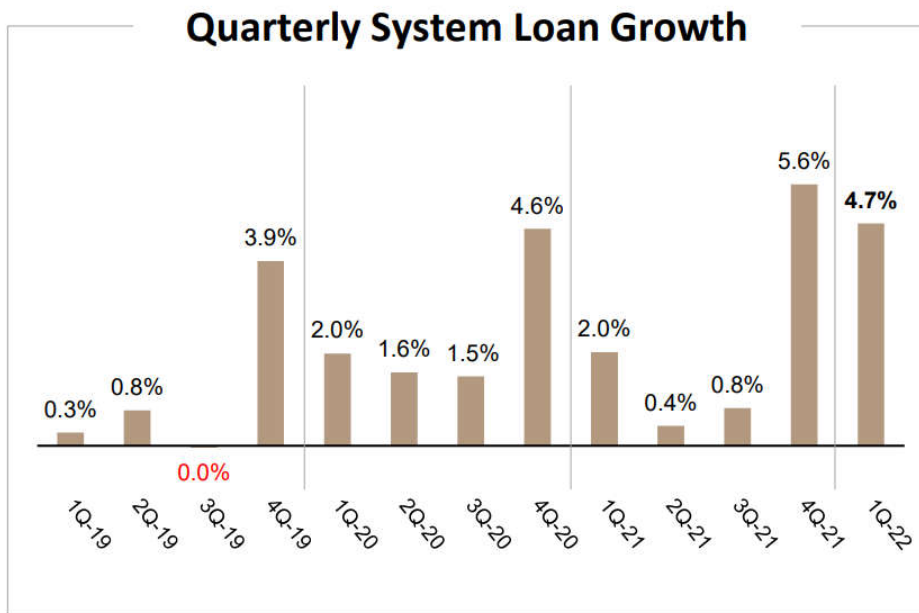


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Credit Availability, Farm Credit System

Total Assets 3/31/22	\$453.0 billion	+3.9% Qtr	Gross Loans 3/31/22	\$360.2 billion	+4.7% Qtr
		+12.0% 12M			+11.9% 12M



Source: FCS Information Statements

For FCS, the loan growth rate matched the asset growth rate (11.9% vs. 12.0%, annual)



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Credit Availability, Commercial Banks

For commercial banks, loan-to-deposit (LTD) reflects credit availability. Since 2020, there has been a rapid decline in LTD.



Source: FDIC

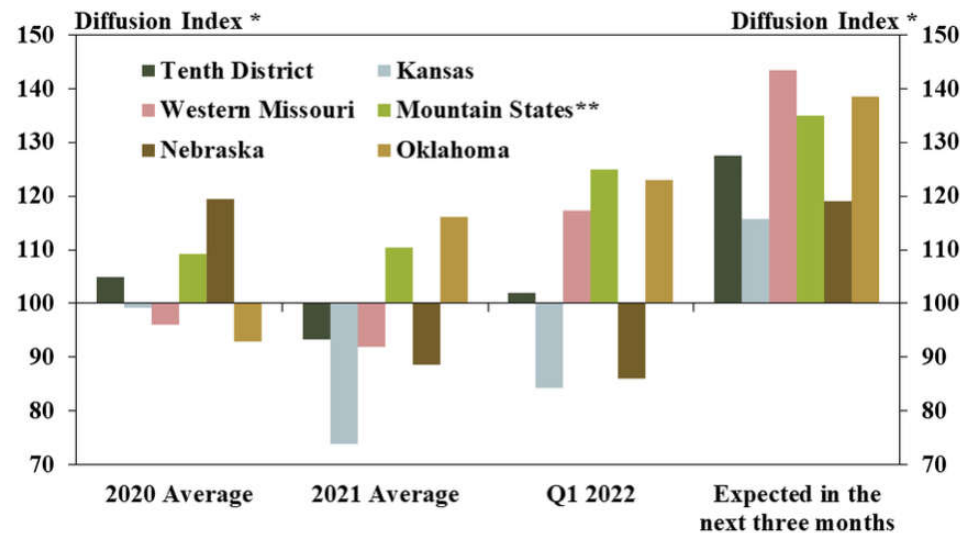


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Demand for credit expected to increase

Chart 6: Farm Loan Demand by State



Source: Kansas City Fed

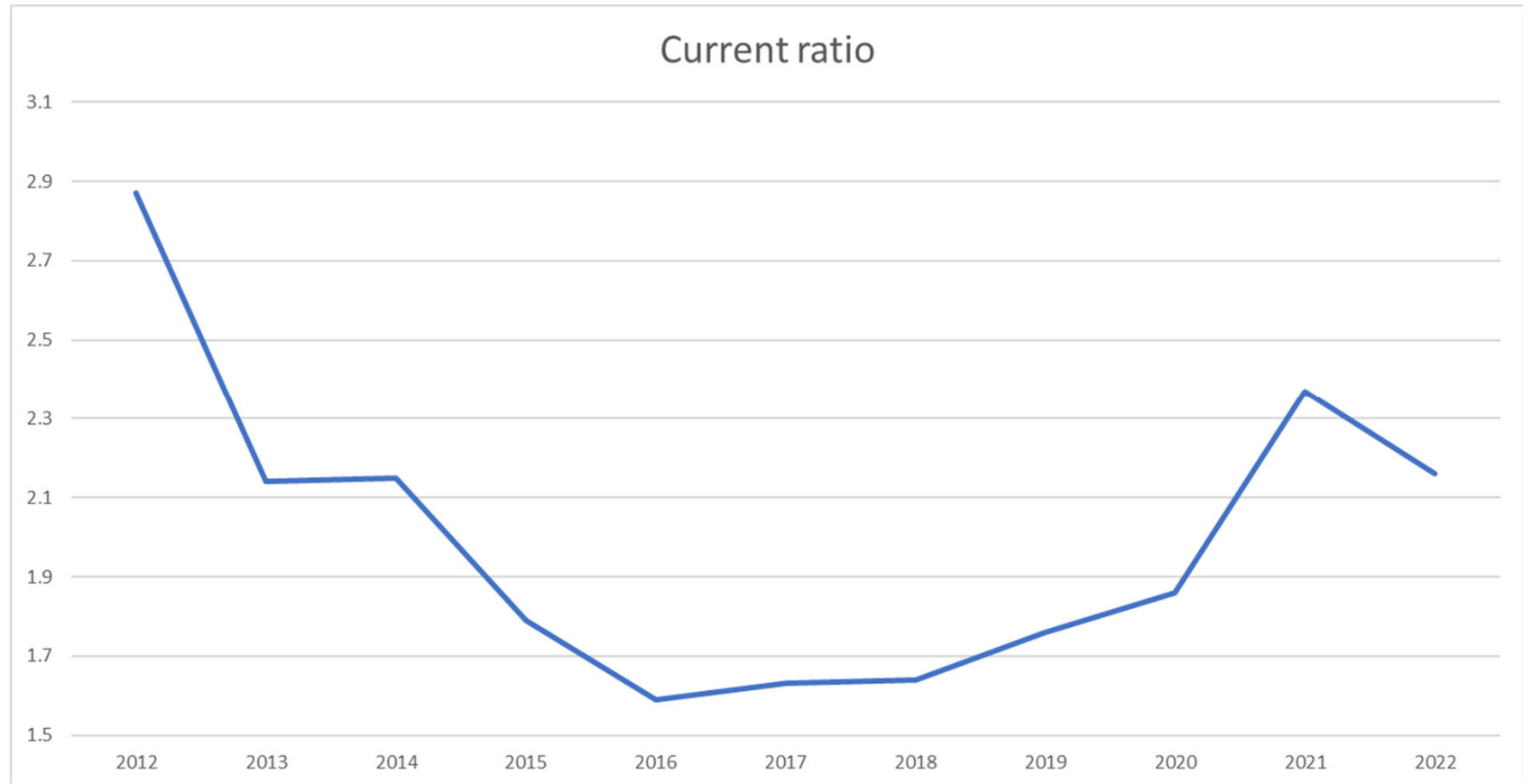
10th District survey of bankers show that bankers expect the demand for agricultural loans (farmland and production) to increase in early 2022.



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Farm solvency/liquidity



Source: USDA ERS

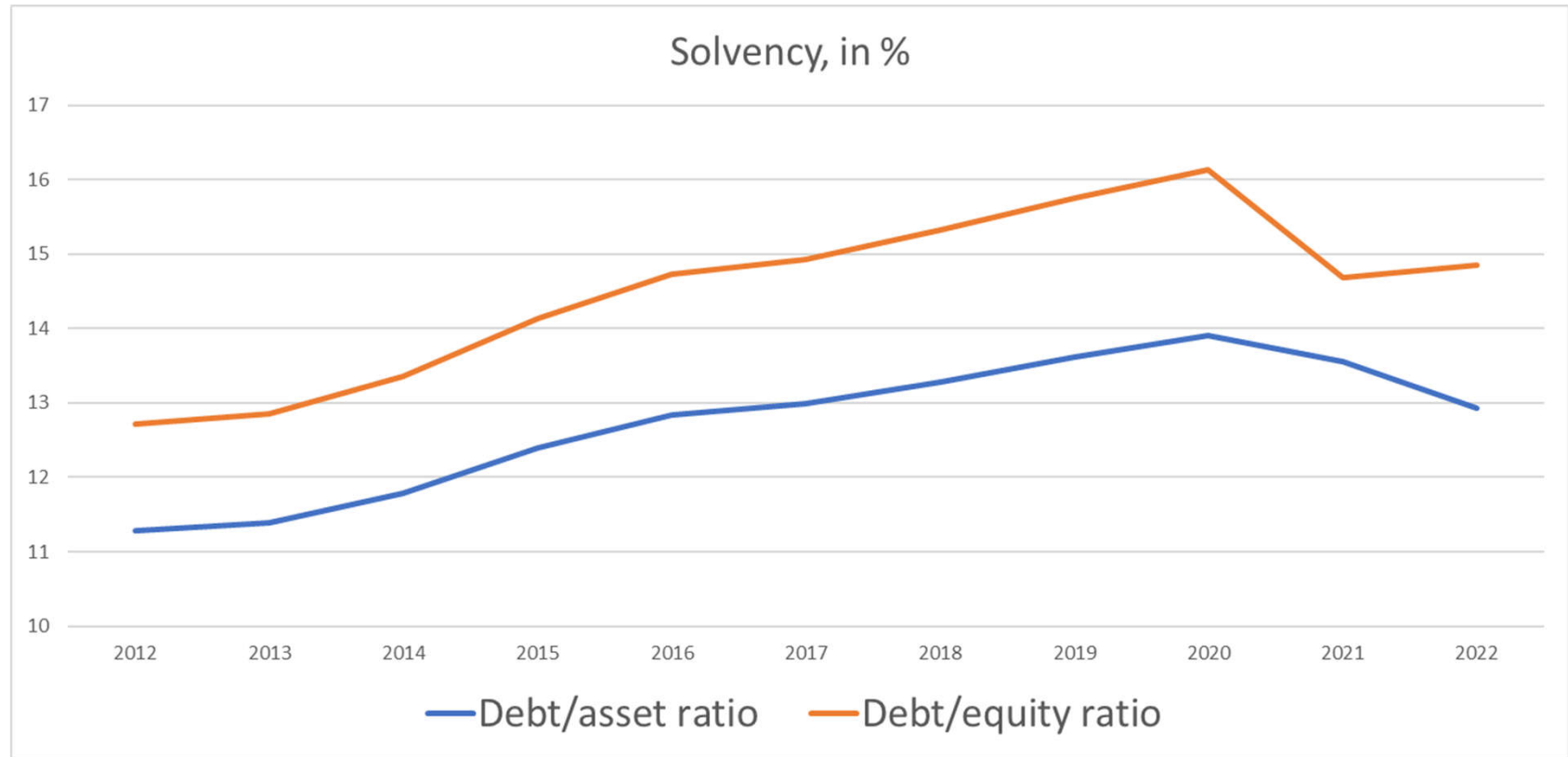
Current ratio (Current assets/current liabilities): 2.16 in 2022 (more than 2 is encouraged)



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Farm solvency/liquidity



Source: USDA ERS

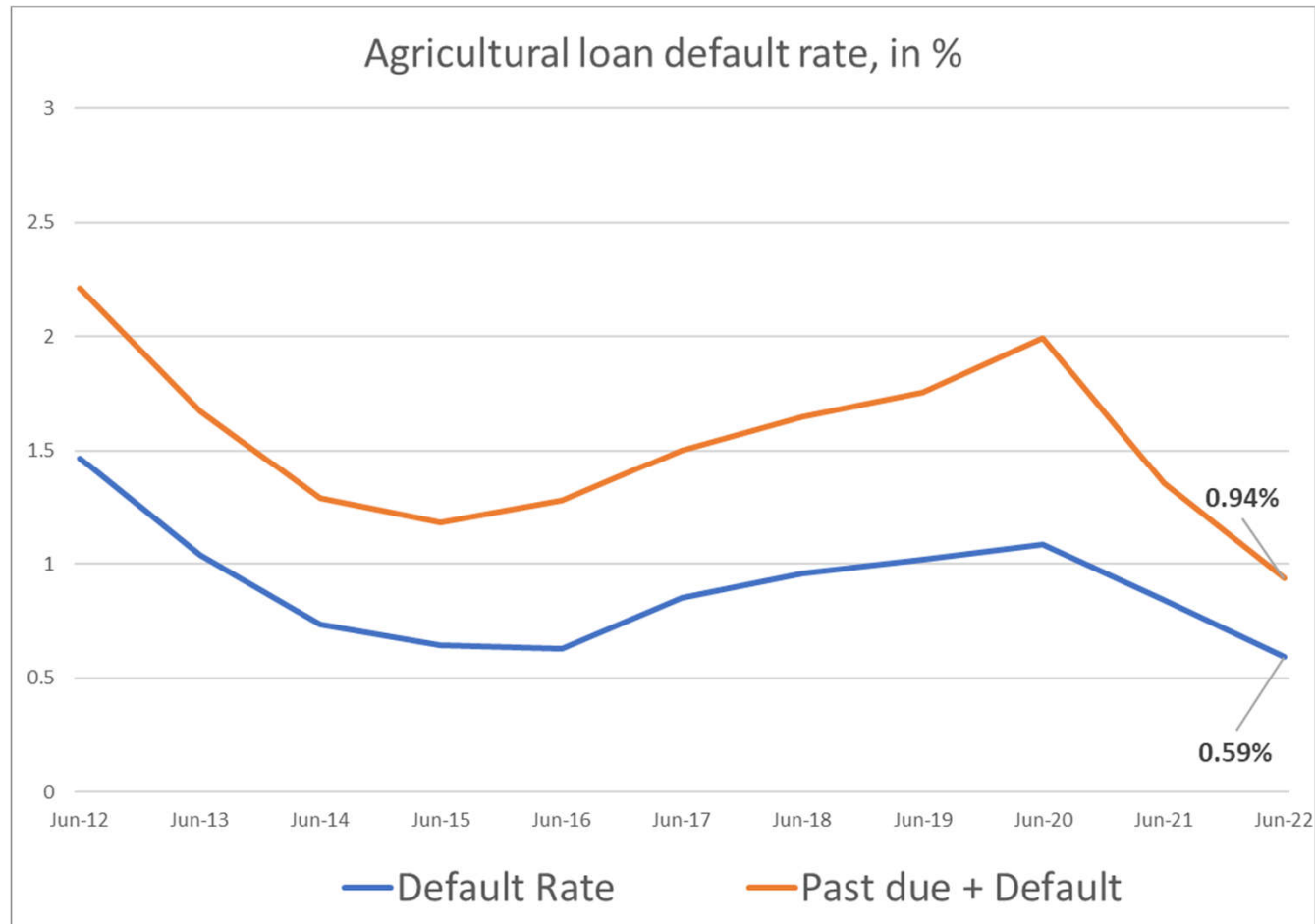
Debt to Asset Ratio (Total Liabilities/Total asset): 12.93 in 2022 (less than 30 is encouraged)



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Non-performing loans, CBs



Source: FDIC

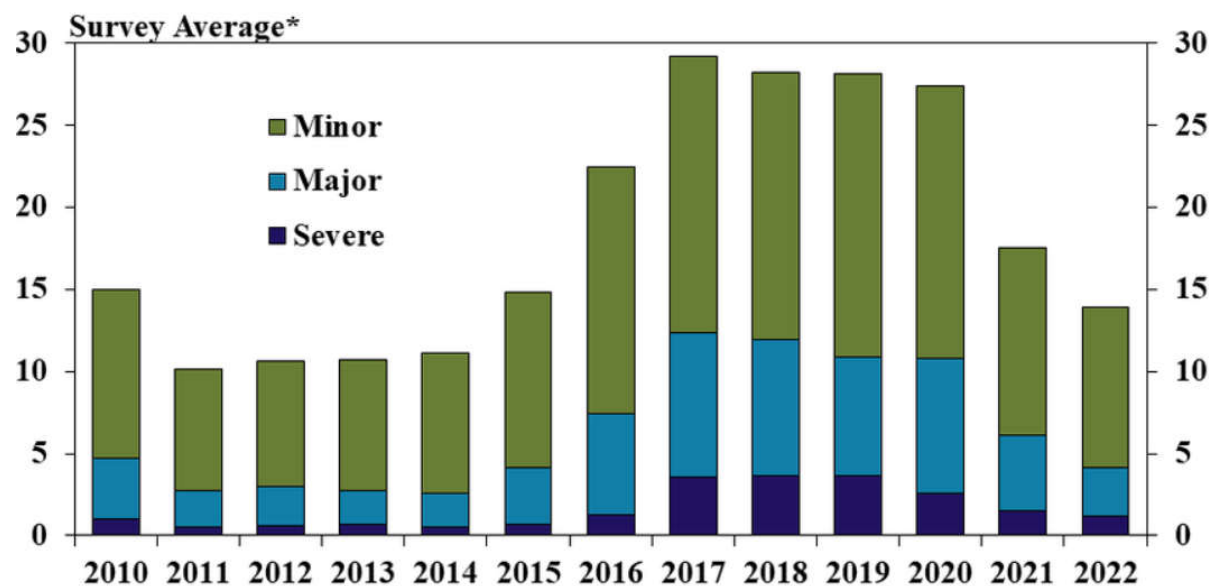


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Survey on repayment problems

Chart 10: Degree of Farm Loan Repayment Problems



Source: Kansas City Fed



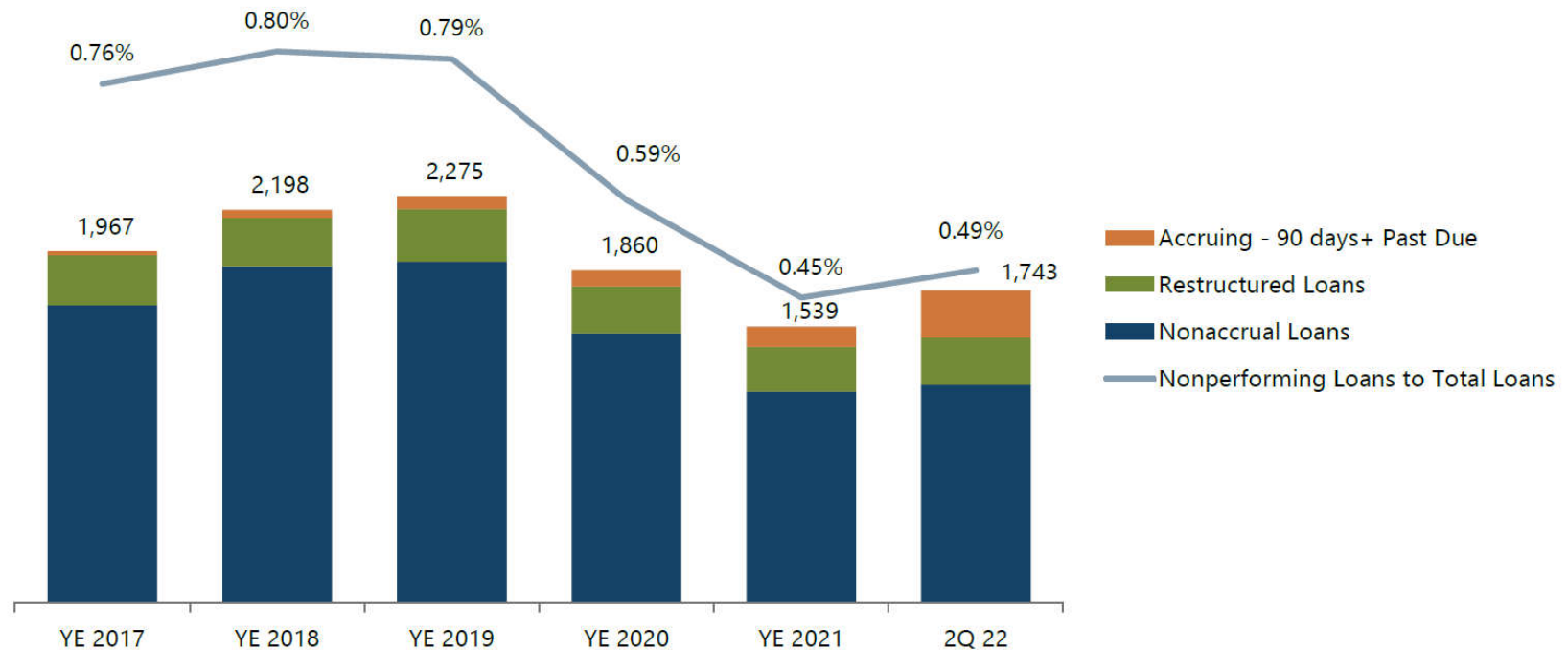
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Non-performing loans, FCS

Nonperforming Loans

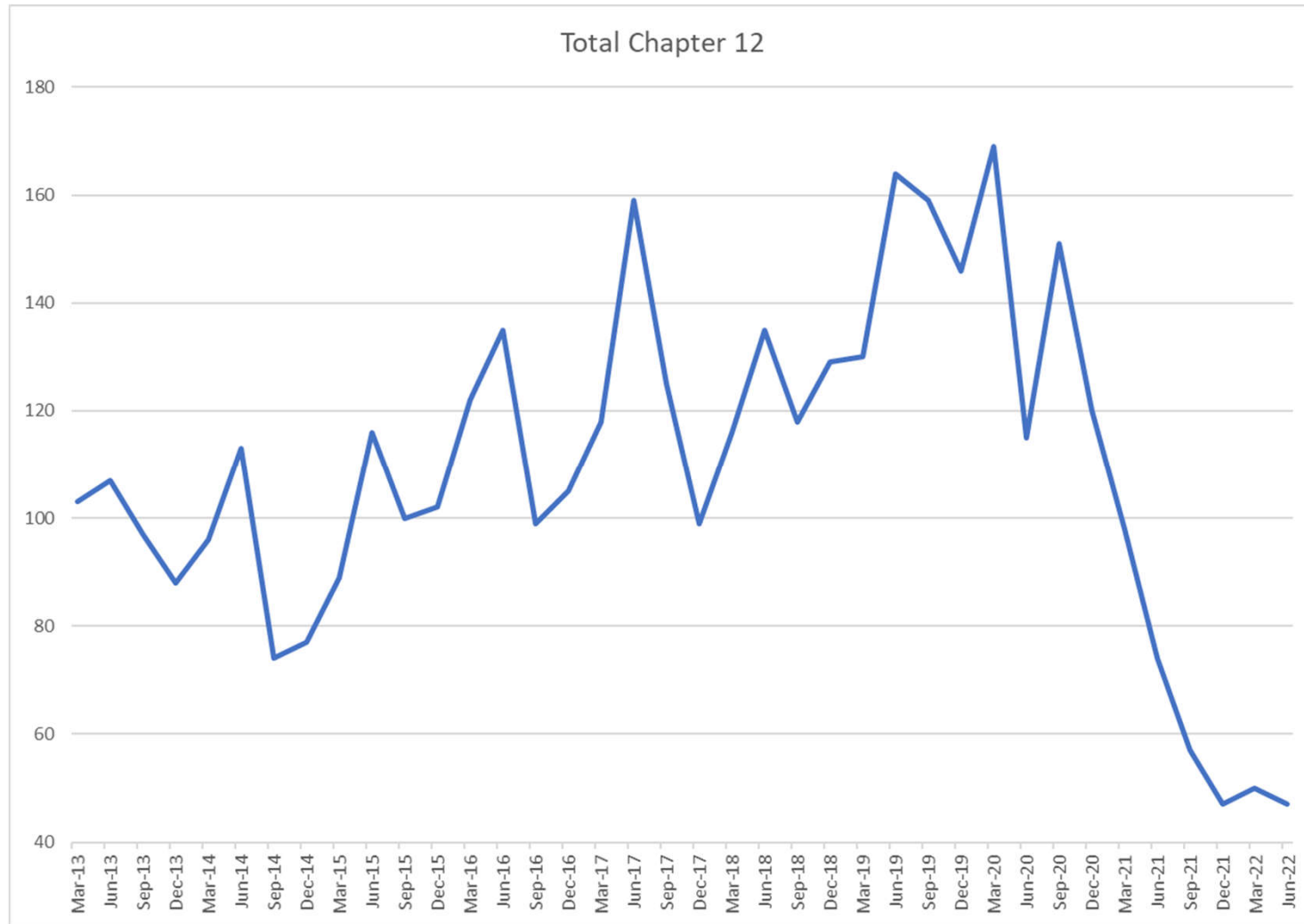
(\$ millions)



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Chapter 12 Farm Bankruptcies



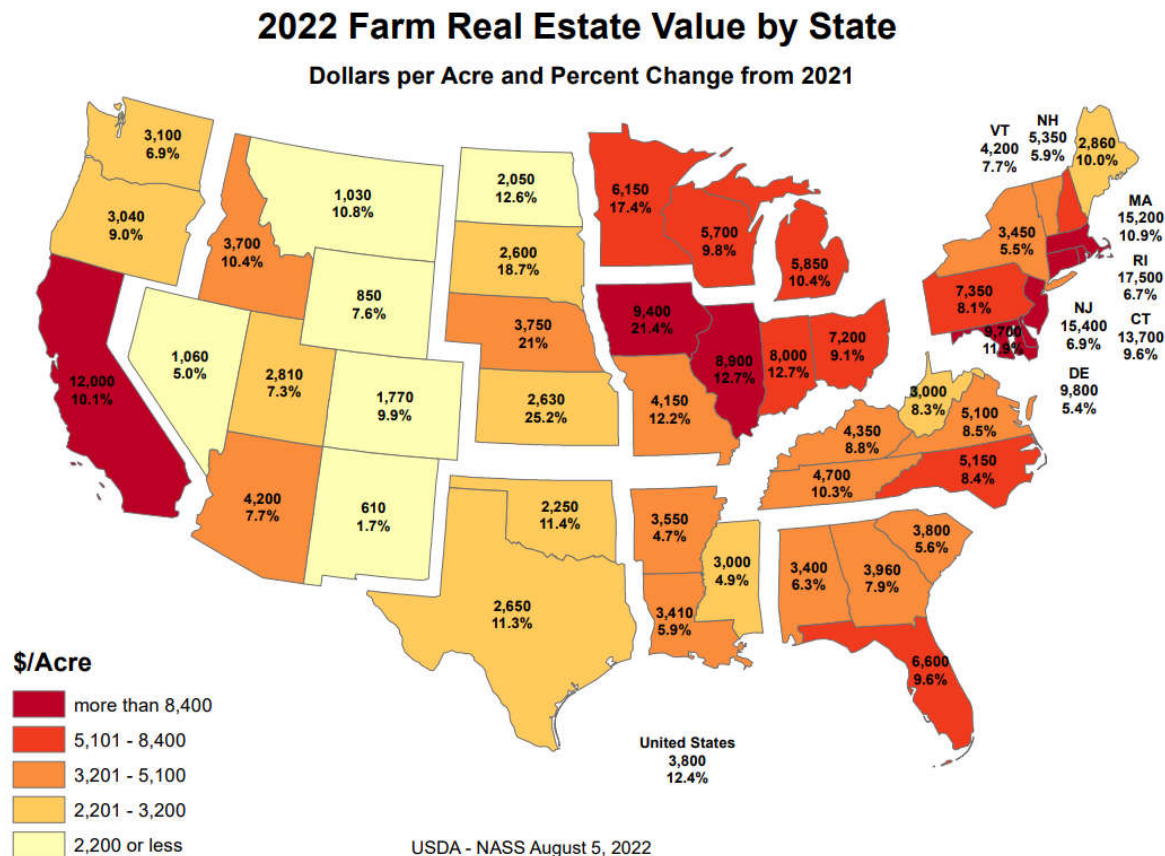
Source: US Court



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Farmland value changes in 2022



Supported by strong farmland demands, government payments, and low-interest rates, farmland value increased by 12.4% at the national level in 2022.



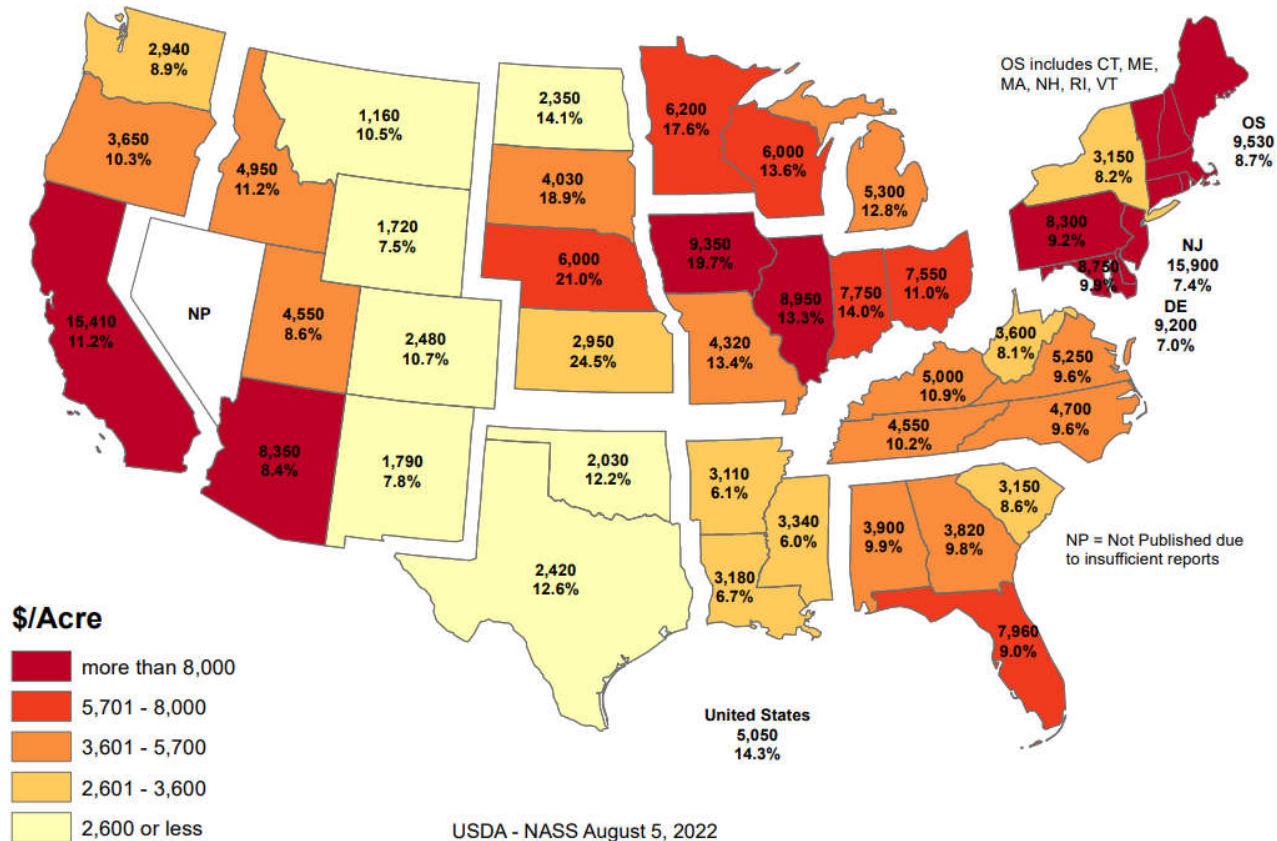
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Farmland value changes in 2022

2022 Cropland Value by State

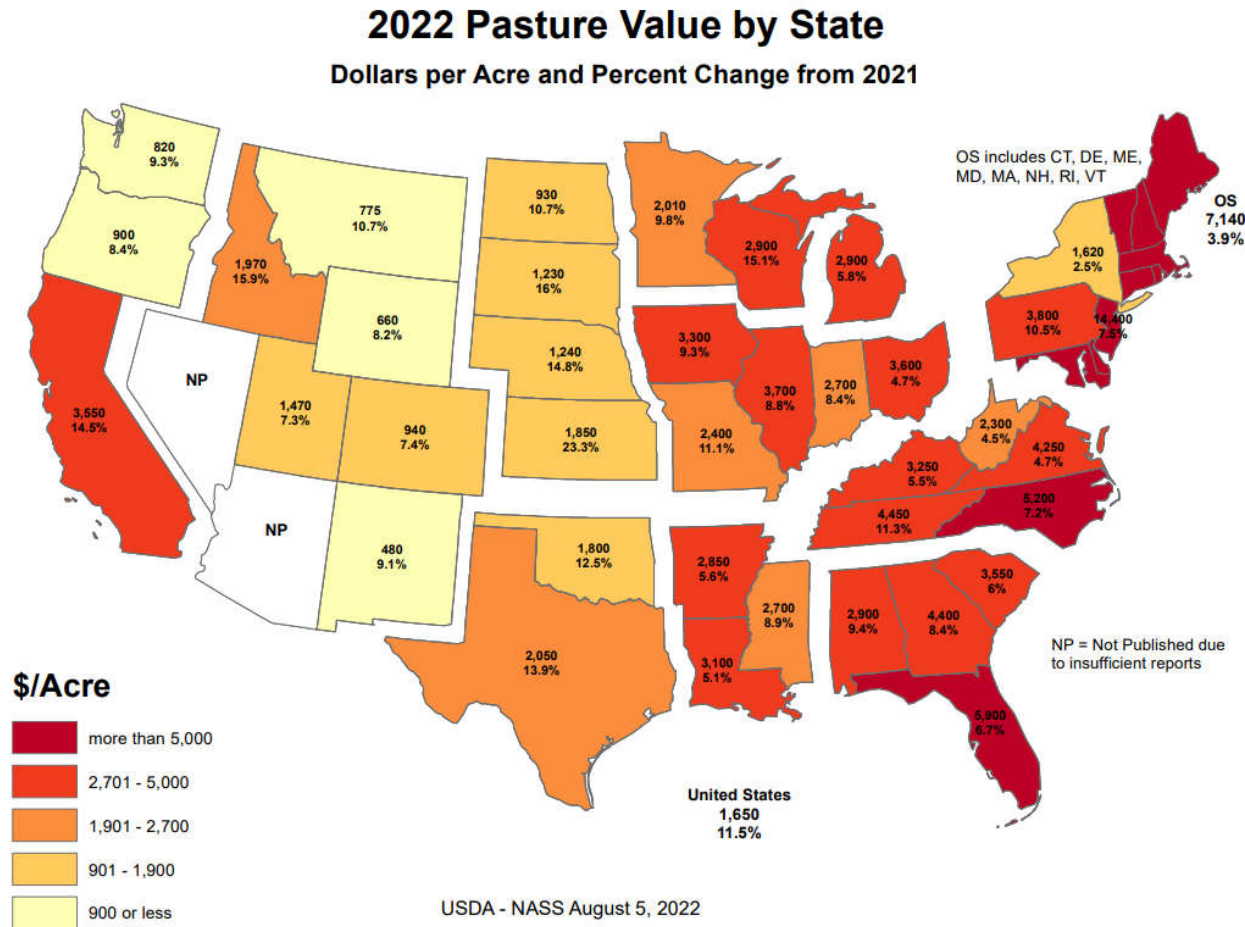
Dollars per Acre and Percent Change from 2021



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Farmland value changes in 2022

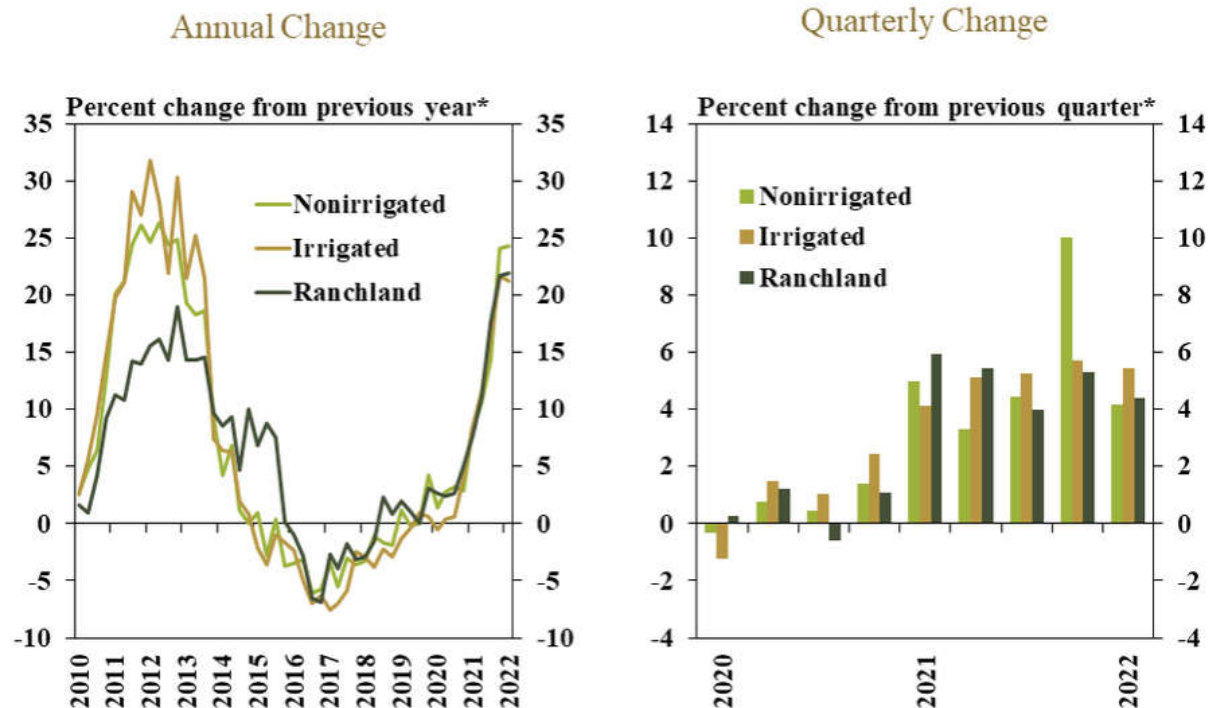


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Farmland value survey

Chart 1: Tenth District Farm Real Estate Values



Source: Federal Reserve of Kansas City

2022Q1 Survey conducted by Kansas City Fed indicates that farmland values in 10th District increased at least by 20%.



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Conclusion

Some of the farm financial indicators –profitability/solvency/liquidity ratios have improved significantly in 2021, and we expect similar levels for 2022

Interest rates have gone up significantly, and further increase is currently expected.

No significant changes in farm financial distress observed yet.

Very cautious optimism regarding the real estate market: the growth will slow down but may not fall under the negative zone.



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Q&A



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