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# Survey Tracks

## Ag Lending

### Activity

by Keith Leggett

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Keith Leggett is ABA senior economist and is coordinating this semi-annual survey. If you have questions or comments about the report, Leggett can be reached at 202-663-5506. His e-mail address is [kleggett@aba.com](mailto:kleggett@aba.com)

**I**mproved portfolio quality, increases in ag real estate loans, and declines in the rate of loan delinquencies are all part of the state of the industry as reported in an ABA survey reflecting the last half of 1997 and forecasts for the first half of 1998.

The survey went to 192 agricultural bankers across the United States (See "Survey Background"). Respondents were asked to indicate actual and anticipated changes in overall farm loan portfolio quality, and in their agricultural production and real estate lending activities with regard to:

- new loans booked
- loan repayments
- loan renewals and extensions
- loan delinquencies 30 days or more
- loan charge-offs
- changes in credit standards
- changes in interest spread

The entire survey will be repeated later in 1998 and the results will be featured in *The Journal of Agricultural Lending*.

#### KEY FINDINGS

- Overall **portfolio quality rose** in the second half of 1997, and respondents anticipate that quality will continue to improve during the first half of 1998.
- The **rate of growth of agricultural production loans increased** in the second half of 1997, but agricultural banks anticipate that the rate of growth will slow somewhat in the first half of 1998.
- The number of **new agricul-**



**tural real estate loans increased** in the second half of 1997, and agricultural banks expect an increase in the growth rate in this category during the first half of 1998.

- Agricultural production loan **renewals and extensions increased** during the second half of 1997 and are expected to increase in the first half of 1998, albeit at a slower rate. In contrast, renewals and extensions of farm real estate loans declined over the period of July through December 1997, and expectations are that the rate of renewals and extensions will continue to fall in the first half of 1998.

- **Loan repayment rates** for both agricultural production and real estate loans **remained favorable** in the second half of 1997. Farm banks anticipate that loan repayment rates will remain favorable for the first six months of 1998, with a slight increase in the rate of repayment on production loans.

- Agricultural banks reported a **decline in the rate of agricultural production and real estate loan delinquencies** in the second half of 1997. The rate of delinquencies is expected to continue to decline for both loan categories, but at a slower rate over the next six months. (This anticipated slowing is due to fewer banks reporting declines in delinquency rates.)

- **Charge-offs** for both production loans and real estate loans **decreased** in the second half of

1997 and are expected to continue to decline over the period of January through June 1998.

- Agricultural banks reported a **tightening of credit standards** for both production and real estate loans, and it is anticipated that this trend will continue in 1998.

- Agricultural banks reported a **narrowing in the interest spread** for both types of lending activity in the last half of 1997 and anticipate continued narrowing during the first six months of 1998.

## FINDINGS BY ASSET SIZE AND LOCATION

### *Agricultural Production Loans by Asset Size<sup>1</sup>*

- Banks with less than \$100 million in assets reported an increase in the rate of new production loans booked in the last six months of 1997. This trend is expected to continue in the first half of 1998.

- Banks with \$300 million or more in assets reported a net decrease in the rate of renewals and extensions on production loans. This trend is expected to continue during the first six months of 1998.

- Banks with \$100 million or more in assets reported the strongest loan repayment rates.

- All banks (except the \$100 million to \$299 million size category)

<sup>1</sup> Asset size categories are less than \$50 million, \$50-\$99 million, \$100-\$299 million and \$300 million and over.



reported a decrease in the rate of production loan delinquencies in the last half of 1997 and expect this trend to continue during the first half of 1998.

- Banks in all size categories reported a decline in the rate of charge-offs. This trend is expected to continue (banks in the \$100 million to \$299 million size category anticipate the charge-off rate will remain unchanged).

#### *Agricultural Production Loans by Location<sup>2</sup>*

- The strongest growth rate in new production loans occurred in the Corn Belt, Plains and West. The Northeast is expecting an increase in the rate of new production loans, while the West is anticipating a slowing in the rate of new production loans booked.

- Banks in the Northeast, Plains and West reported an increase in the rate of extensions and renewals in the second half of 1997; however, only banks in the Plains expect this trend to continue during the first six months of 1998.

- Banks in the Plains and the West reported a decrease in loan repayment rates, and these two regions expect no change in repayment rates in the first half of

1998.

- The rate of delinquencies decreased for banks in the Northeast and Corn Belt, increased in the South, and was unchanged for banks in the Plains and the West. All regions except the Plains anticipate further declines in the rate of delinquencies.

- All regions reported a decline in charge-off rates and anticipate further declines in the rate of charge-offs.

#### *Agricultural Real Estate Loans by Asset Size*

- Banks under \$100 million in assets reported an increase in the rate of new farm real estate loans booked during the second half of 1997. Real estate loans are expected to increase in the first half of 1998 for all asset size classifications, with the strongest growth reported by banks under \$100 million.

- The rate of renewals and extensions fell for banks with \$100 million or more in assets, were unchanged for banks with \$50-\$99 million in assets, and increased for banks with less than \$50 million in assets. It is expected that for all size categories there will be a net improvement in renewals and extensions in the first half of 1998.

- Repayment rates for farm real estate loans improved in the second half of 1997. The only exception was for banks under \$50 million in assets, which remain unchanged. Repayment trends

<sup>2</sup> Farm Regions – Northeast: CT, DE, DC, ME, MD, MA, MI, MN, NH, NJ, NY, PA, RI, VT, WI; Corn Belt: IL, IN, IA, MO, OH; South: AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV; Plains: KS, NE, ND, OK, SD, TX; West: AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY



## Agricultural Lending Activity Diffusion Index\*

|                              | Actual<br>(July-Dec 1997) | Expected<br>(Jan-June 1998) |
|------------------------------|---------------------------|-----------------------------|
| <b>Farm Loan Portfolio</b>   |                           |                             |
| Overall Quality              | 108.4                     | 112.9                       |
| <b>Production Loans</b>      |                           |                             |
| New Loans Booked             | 125.0                     | 118.8                       |
| Loan Repayments              | 102.1                     | 104.7                       |
| Loan Renewals and Extensions | 106.8                     | 103.7                       |
| Delinquencies 30 and More    | 92.7                      | 95.7                        |
| Loan Charge-Offs             | 85.2                      | 88.4                        |
| Credit Standards             | 114.1                     | 116.3                       |
| Interest Spread              | 68.8                      | 69.1                        |
| <b>Real Estate Loans</b>     |                           |                             |
| New Loans Booked             | 106.8                     | 110.5                       |
| Loan Repayments              | 106.2                     | 103.3                       |
| Loan Renewals and Extensions | 98.4                      | 95.7                        |
| Delinquencies 30 and More    | 87.9                      | 96.8                        |
| Loan Charge-Offs             | 82.9                      | 85.4                        |
| Credit Standards             | 108.4                     | 110.3                       |
| Interest Spread              | 70.2                      | 65.8                        |

\* The survey results were converted into an index. An index number of 100 means no change, an index number greater than 100 means an increase, and an index number less than 100 means a decrease in the specified category. The index is derived by subtracting the percent reporting a decrease from the percent reporting an increase and then adding 100.

are expected to moderate or remain stable for banks in all asset size groups during the first six months of 1998.

- Banks in all asset size categories reported improvements in the rate of agricultural real estate loan delinquencies, except for banks with \$100-\$299 million in assets in which delinquencies remained unchanged. No deterioration is anticipated in delinquency rates, except for banks with \$100-\$299 million in assets.

- The rate of charge-offs on farm real estate loans improved in all regions and for all size classifications. It is anticipated that this trend will continue during the first six months of 1998.

### *Agricultural Real Estate Loans by Location*

- The Corn Belt and Plains reported the strongest increase in new farm real estate loans. All regions, except for the South, anticipate an increase in the rate of new loans booked, with the



growth rate moderating in the Corn Belt.

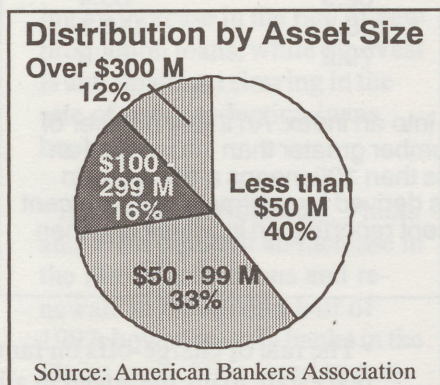
- Banks in the Corn Belt reported an improvement in renewal and extension rates, while banks in the Plains, South and West reported a small increase in the rate of renewals and extensions. The rate of renewals and extensions is expected to improve in the Corn Belt, Northeast and West.

- Repayment rates improved in the Northeast, Corn Belt and South, but declined in the West. It is expected that repayment rates will continue to improve in the

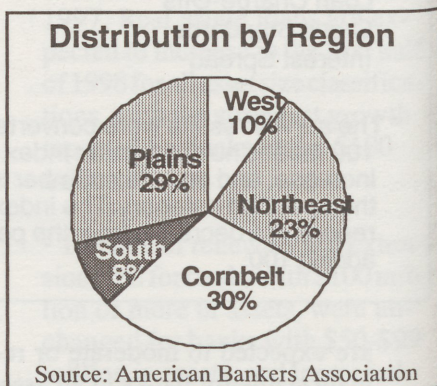
Northeast, Corn Belt and South, but will marginally weaken in the Plains and West.

- All regions, except for the South and West, reported a decrease in the rate of delinquencies. All regions, except the Plains, expect further reductions in the rate of delinquencies during the first six months of 1998.

- The rate of charge-offs on farm real estate loans improved in all regions, and it is anticipated that this trend will continue during the first six months of 1998. *jal*



**Figure 1**



**Figure 2**

### **Survey Background**

The ABA mailed 380 questionnaires to agricultural bankers around the country in January 1998 and got a response rate of 50.5 percent. The asset size and geographic distribution of the responding banks are shown in Figures 1 and 2.

The semi-annual survey will provide a snapshot with regard to current lending conditions for agricultural banks. Additionally, the survey will create a time series data set to benchmark lending performance by agricultural banks.

ABA members can obtain a full copy of the survey by going to the ABA Members Only side of ABA's web page, [www.aba.com](http://www.aba.com), and clicking on "Economy and Banking." The full survey provides both regional and asset size analysis with respect to farm bank lending conditions.



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**"How does a risk-avoiding ag lender like me  
lend money to a risk-taking farmer? Very carefully."**

Steve Hatz, Ag lender  
US Bank  
Omaha, Nebraska

"When we look at equity and assets, we always want to know what's your marketing plan and do you use futures? I know a farmer has to be a risk taker. So we look very closely at how he's managing his risk. We'll advance more to our customers who have strong hedge positions in the market. In fact, today, 90% of our customers use futures and

options. Not just to be sophisticated...but because part of the whole process today is to use the tools you need to grow."

Steve Hatz, and many like him, believe in limiting risk by using the price management tools of the '90s - futures and options. the Chicago Mercantile Exchange lists futures and options on live

cattle, feeder cattle, pork bellies and hogs. For a risk manager's tool kit that includes information on futures and options and the latest contract specifications, call 1-800-331-3332.



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