Productivity Results Mixed for Ag Loans in 2002

by:
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Applications for agricultural loans were mixed for the 12 months ending June 30, 2002. The average number of agricultural production loan applications decreased to 74 per bank from 88 per bank in 2001. However, the average number of farmland loan applications increased from 22 per bank in 2001 to 23 in 2002.

The average loan approval rate was virtually unchanged from 2001 to 2002. An average of 79.9 percent of farmland loan applications were approved for the 12 months prior to June 30, 2002, compared with 81 percent for the same period in 2001. Approval rates for agricultural production loan applications averaged 84.9 percent in 2002 compared with 84 percent in 2001. However, of those loans approved, the percentage booked was higher in 2002. In the 12 months prior to June 30, 2002, an average of 93.2 percent of farmland loan applications approved were booked, compared with 73.6 percent in the previous year. For agricultural production loans, the average percentage booked was 96.9 percent, also up substantially from the 77.7 percent in 2001.

The majority of farmers (64.1 percent) seeking financing were looking to refinance existing loans. Approximately a third (34.0 percent) of the loans made in 2002 were for financing of real estate purchases. The percentage of farmers refinancing from the same institution was

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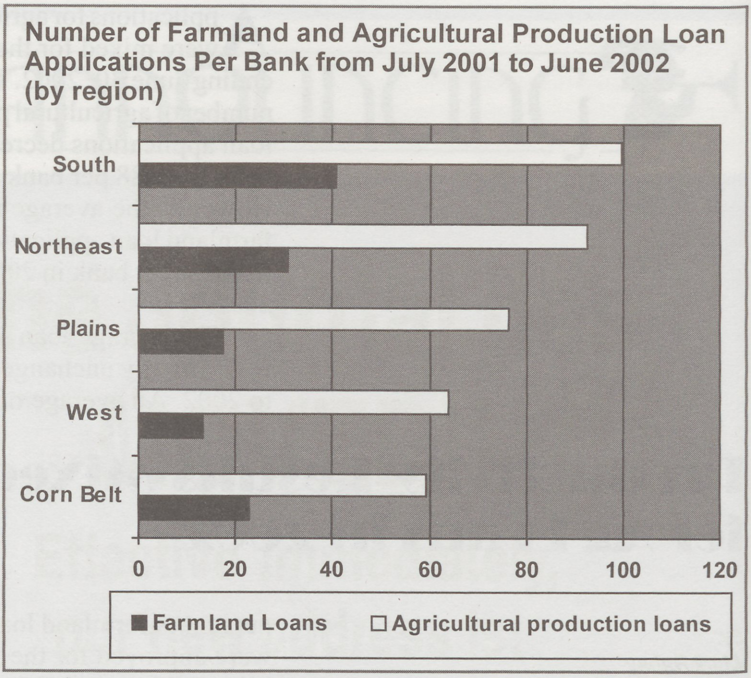
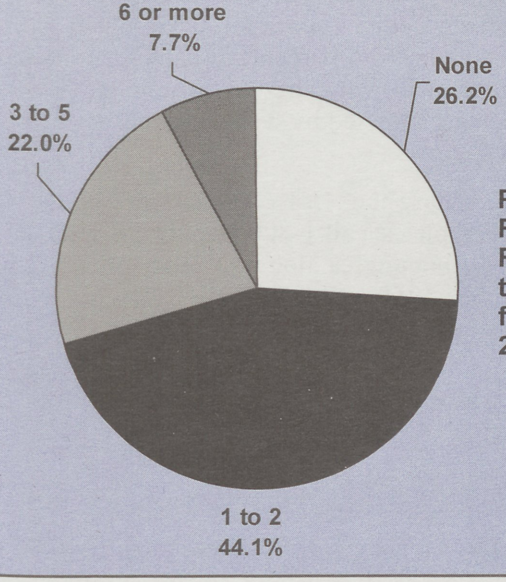


high, at 70.7 percent, compared with 29.3 percent refinancing with a different lender. This "brand loyalty" was observed in refinancing of both agricultural production loans and farm real estate loans.

The number and dollar volume of loans to beginning farmers have fluctuated during the past few years. During the 12 months ending June 2002, the number of loans to beginning farmers averaged 2.5 per bank, with an average volume of $251,701. Comparatively, from July 2000 to June 2001, the number of loans and average dollar volume were 2.6 per bank and $231,146, respectively.

These results are from the current edition of the *ABA Farm Credit Survey Report*. The Survey was conducted in the fourth quarter of 2002 and a total of 325 farm banks participated. A farm bank had either $2.5 million in farm production or real estate loans, or had more than 50 percent of its loans in agriculture. The survey instrument consisted of 49 questions, covering such topics as the Farm Credit System, funding sources, business development and



Percentage of Banks Receiving Inquiries Regarding Financing to Beginning Farmers from July 2001 to June 2002

competition, the Farm Service Agency, portfolio quality, farmers going out of business, beginning farmers, residential mortgage lending and small business lending.

Some of the other survey findings are:

• While 49.9 percent of banks required farm borrowers to use crop insurance, only 8.4 required the use of contracts, and 3.4 required the use of hedging.

• Financing for business start-ups and expansions was the most important rural development issue facing banks, but in the West and South regions, infrastructure was the most important issue.

• Only 17.7 percent of the banks belonging to Farmer Mac originated Farmer Mac loans for the 12 months prior to June 2002. As was the case in the previous 12-month period, a lower percentage of the smallest banks originated Farmer Mac loans than the larger institutions.

• Only 0.9 percent of all the banks responding to the survey had turned down loans due to lack of funds.• Of the participants, 61.8 percent reported that Farm Credit institutions were engaged at some level in lending to non-farmers in their area.

• Farm Credit System institutions were considered the most competitive lender in providing farm loans, cited by 60.9 percent of the responding banks. This far exceeded the percentage of banks citing other commercial banks (16.3 percent), which was the second most often cited competitor.

• Banks were generally pleased with their experience with FSA staff, with the majority of banks (64.5 percent) reporting that they had a positive experience with FSA staff.

• Of survey participants, 16.4 percent reported an increase in the overall quality of their farm loan portfolio from July 2001 to June 2002.

• Banks in areas that were not affected by adverse weather conditions had a higher percentage (45.6 percent) of banks reporting no delinquencies compared to those in areas adversely affected by weather conditions (36.8 percent).

To purchase the *ABA Farm Credit Survey Report*, please call 1-800-Bankers or visit **www.aba.com** (catalog #3001956, price $125 member, $250 nonmember). **jal**