

Weekly Article

Survey Shows Ag Lenders are Concerned

12-15-2020

Hello, my Name is Richard Purdin with OSU Extension, Ag and Natural Resource and Community Development Educator for Adams County. I hope to better inform local producers and the public of the latest news in the world of Agriculture. Here we are, 10 days till Christmas! The weather has been pleasant for this time of year, with less rainfall than expected from the weak cool front last Saturday most farmers have solid ground to work with. There is still some corn out in the fields but hopefully producers can wrap the harvest up in time to enjoy the Christmas season. With that said many producers that are done might be catching up on book/office work. For me this is more of a chore than my outside chores, but it is very important to the financial health of the farm. As producers get ready for tax season, I wanted to share this article about a recent survey of Ag lenders authored by my Colleges Mike Estadt AG/NR Educator for Pickaway county & Chris Zoller, AG/NR Educator for Tuscarawas County.

The American Bankers Association and Farmer Mac have collaborated on a national survey of ag lenders since 2016 to gauge lender sentiment of the farm economy, expectations of land values and an outlook for the agricultural economy for the coming year.

Nearly 500 loan officers responded to a survey via email between August and September each year. Responses represent lending institutions that range in assets of less than \$50 million to large institutions with assets in excess of \$5 billion. There is also a wide geographic distribution of respondents. The Farm Credit System is not a member of and were not participants in the survey.

Key Takeaways taken verbatim from the report were:

Profitability expectations – The agricultural economy and farm income remain stressed in 2020. The majority of agricultural lenders surveyed noted compression in farm profitability (79.2%).

Top concerns for producers – Lenders continue to be most concerned about the liquidity, income, and leverage of producers. Uncertainty regarding tariffs and trade, the weather and the impacts of the COVID-19 pandemic and resulting economic downturn are close behind.

Top concerns for lenders – Lenders across all regions and sizes remained concerned with credit quality and competition for loans in 2020. Concern regarding weak loan

demand was the third highest ranked concern reflected across most regions except in the West.

Sector concerns – Respondents expressed the most concern for the grain, dairy and cattle sectors. Concerns declined for vegetables, poultry, and fruits and nuts. Lenders reported sustained interest from borrowers in hemp and alternative energy financing.

COVID-19 Economic Downturn – While concern about the pandemic was lower than that for borrower financials, 87.4% of respondents noted that ag borrowers' reliance on government payments in 2020 increased. More than half inquired about government programs like the CFAP/MFP (68%) and PPP (58%). Lenders said that loss of these payments would negatively impact ag borrower profitability.

Land value and cash rent expectations – Seven-in-ten lenders say that land values held steady through 2020, but more than a third expect land values to decline in 2021, including 41% in the Cornbelt and 39% in Plains states. One fifth of lenders reported cash rental rate declines on average quality farmland in 2020 (22%), a smaller decline than was observed in 2019. Lenders still believe that average quality farmland and cash rents are overvalued (40% and 30% respectively), with higher shares in the Cornbelt and Plains states.

Loan Demand – While over half of lenders reported that demand for ag production and ag real estate loans were flat over the last 6 months, a significant share reported increased demand (26.7% and 33.3% respectively) and 82.2% said that overall farm debt increased over the past year. Similar expectations were reported for loan demand next year.

Credit quality – Survey respondents generally expect higher ag loan delinquency rates heading into 2021 for both production (59.9%) and ag real estate (46.7%), though, a majority expect loan charge-off rates to stay about the same (61.5% and 70.4%, respectively). About one out of five ag borrowers (18.1%) requested a loan modification in 2020 as a result of the pandemic and resulting economic downturn.

Approval rate – In spite of the credit quality concerns, lenders remain positive about approvals. Lenders reported an average agricultural loan application approval rate for new loans of 72.3% in the 12 months leading up to August 2020, and expect the approval rate for renewal requests to be close to 90% in the following 12 months.

Some other details to go over is

- The OSU Extension Office will be open by appointment only starting December 7th, 2020, so if you need assistance call (937) 544 2339 to make an appointment first.
- Our new 2020 Plat Books are for sale. Call the office to make an appointment to buy one at (937) 544-2339.
- 2021 GAP recertification training will be available to producers online or through the mail. The Online training course will begin January 11th and run to June 30th, 2021. For more details or question please call the office at (937) 544 2339.
- For producer who still have not yet elected a 2021 crop safety net program Agriculture Risk Coverage or Price Loss Coverage there is a recording of the webinar explaining the programs go to <https://farmoffice.osu.edu/events/archived-videos>. The deadline to sign up for a program will be March 15th, 2021

From the Field

In scouting field conditions for Adams County, the following is things I have noticed.

1. Corn Harvest is wrapping up
2. Burley tobacco is being stripped and prepared for the market.
3. Some burley has inferior color left in the tips and lighter color in the lug leaf due to the dry curing season.
4. Manure applications
5. Winter grazing of stockpiled pastures.
6. Fall/winter timber harvest.