2024 AGRICULTURAL LENDER SURVEY RESULTS

FARMER MAC
Accelerating Rural Opportunities

American Bankers Association®

Contents

Key Takeaways

- **Profitability expectations** – Ag lenders acknowledged a broad pullback in farm profitability in the 2024 survey, responding that only 58% of borrowers will remain profitable this year, relative to 78% last year. However, expectations varied by region and major commodity types, with livestock producers garnering more optimism from lenders than crop growers.
- **Top lender concerns for producers** – Unsurprisingly, liquidity and farm income remained atop the list of lender concerns for producers. Meanwhile, lenders expressed less concern this year about inflation, weather and many other factors affecting producers.
- **Top overall concerns for lenders** – The No. 1 concern facing lending institutions in 2024 was credit quality and agricultural loan deterioration. Lender competition and interest rate volatility were the second and third greatest overall concerns, respectively.
- **Sector concerns** – Concern levels spiked in 2024 for several sectors, including grains, fruits and tree nuts. On the other hand, concern levels dropped for dairy, beef and poultry. The changes largely reflect how the farm income outlook has shifted within each sector over the past year.
- **Credit quality** – Survey respondents reported that ag loan delinquencies and charge-off rates remained stable in 2024. However, lenders expect credit quality to deteriorate over the next 12 months, as farmers may face a more challenging environment in the year ahead. As a result, a higher share of lenders plan to tighten underwriting standards and loan terms for agricultural credit.
- **Loan Demand** – According to the diffusion index, demand for loans secured by farmland and agricultural production loans increased in 2024. Respondents anticipate that loan demand for both categories will continue to increase over the next 12 months.
- **Land value and cash rent expectations** – Farmland values continued to rise in 2024, albeit at a slower pace than in previous years. However, regional differences abound, and headwinds have grown in many areas. As a result, most lenders expect land values and cash rents may plateau or decline over the next year.
- **Approval rate** – Lenders reported an average agricultural loan application approval rate of 86% for new loans in the 12 months leading up to August 2024 and expect the approval rate for renewal requests to be 88% in the following 12 months.

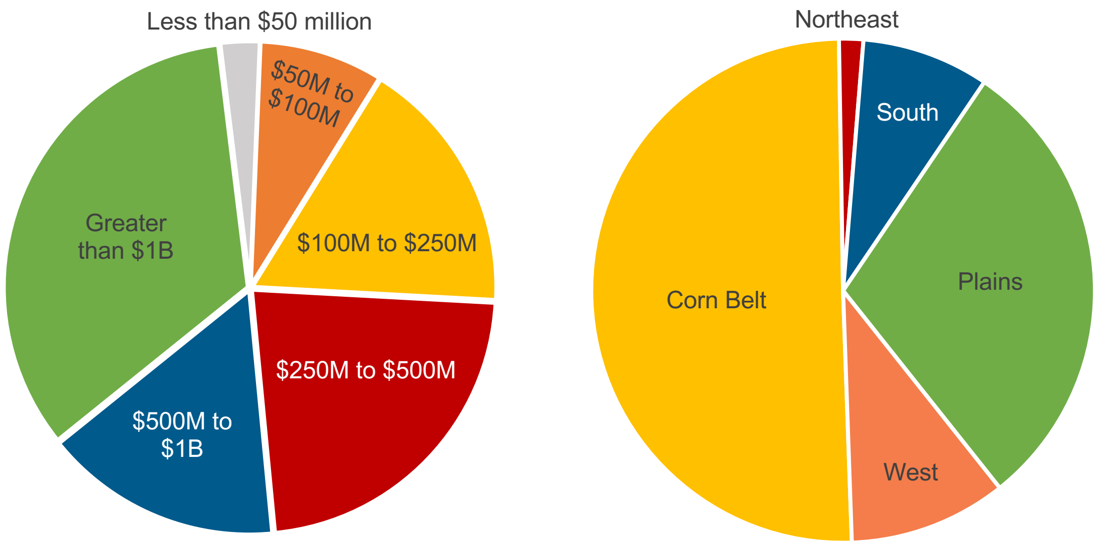
Introduction

Agricultural lenders can provide a unique outlook on circumstances in the farm economy. Farmers and farm businesses that use short- or long-term financing are routinely required to present financial updates to their loan officers, giving lenders a distinct opportunity to evaluate local farm economy conditions. These insights are particularly valuable during periods of transition as the agriculture sector moves through economic peaks and troughs.

In December 2016, the American Bankers Association (ABA) and Farmer Mac collaborated on their first joint survey of agricultural lenders to gauge overall industry sentiment on the farm economy, expectations on land values, prospects for the coming year and issues facing the broader economy. This collaboration has continued every year since its inception. These joint studies expand upon data collected by Farmer Mac from 2014 through 2016.

The survey was distributed via email between July 22 and August 23, 2024. Over 450 loan officers, managers and executives responded to the questionnaire. Responses represent a range of institutions by size — from less than $50 million in assets to more than $1 billion — and by geography. This analysis breaks down results by general agricultural economic insights and by factors affecting lending institutions. The report concludes with a broader description of the respondent demographics

Respondent Size and Primary Market Region



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024

Agricultural Economy

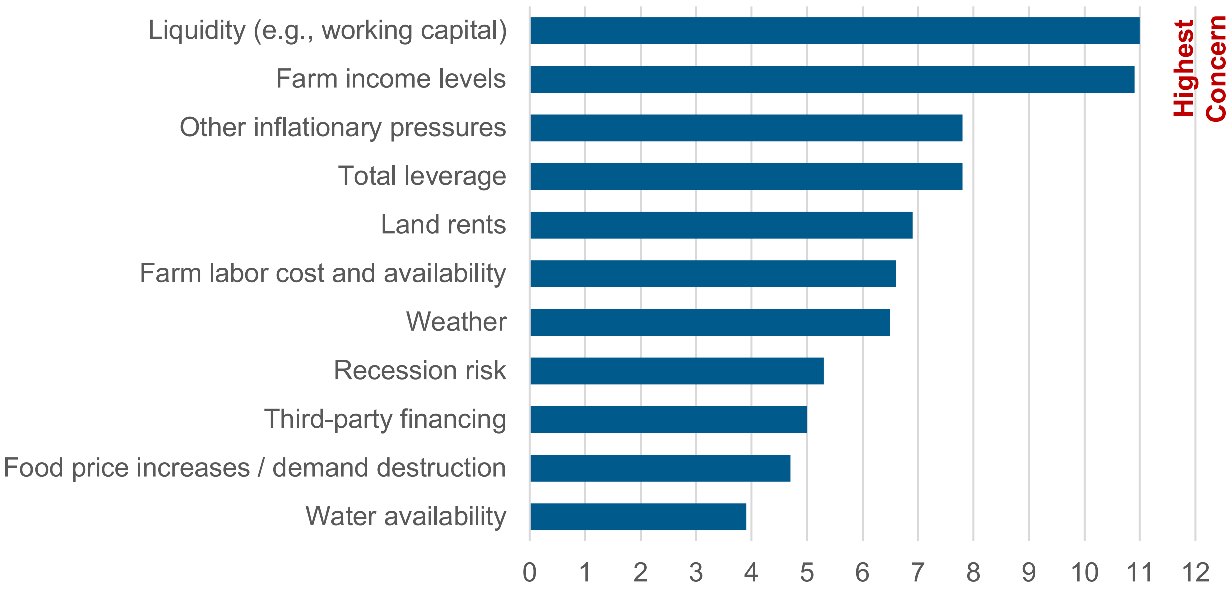
Farm Income and Profitability

Farm financials continue to reset following a spike to historic levels during the past several years. Incomes increased in 2020 and 2021 because of an increase in agricultural exports to China. Then in 2022, continued strong export demand along with a sharp decline in global grain supplies caused U.S. net cash farm income to surge above $200 billion, the highest level on record even after adjusting for inflation.

However, since 2023, export demand for U.S. agricultural goods has waned and global inventories have rebounded. The combination has put significant downward pressure on global commodity prices and U.S. farm incomes. The USDA currently projects net cash farm income will decline for the second consecutive year to $154 billion in 2024, 7% lower than in 2023. The relatively modest overall decline likely obscures the wide variation in farm profitability shifts for different producer types. Annual crop growers are projected to see significant drops in farm profitability due to lower commodity prices. Meanwhile, some livestock producers are expected to benefit from stable to higher animal protein commodity prices and sharply lower feed costs.

Lender sentiment continues to track the projected decline in farm incomes. Liquidity and farm income levels remained the top two concerns among survey participants. This was the fourth consecutive

Lenders' Top Concerns for Producers in 2024



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q9: Please indicate your relative level of concern for the following conditions facing your ag borrowers at this time, with 1 being the highest concern and 12 being the least concern. (To improve readability of the chart, we have converted 1=12, 2=11, 3=10, etc., so that larger bars align with higher concern.)

year these concerns topped the list, underscoring their importance even during years of strong profitability. However, the margin between these two concerns and the next closest concern increased substantially this year, highlighting the common theme of profit compression in the 2024 survey results. Lenders are acutely focused on and concerned about declining producer incomes and how much working capital has already declined relative to recent levels.

Several concerns shifted places in the overall ranking. Inflationary pressure dropped in both overall concern level and rank, likely due to a continued pullback in input prices. Total leverage, which was the sixth-highest concern last year, rose to replace inflationary concerns in third place. Leverage in the farm sector remains relatively low, according to the USDA. However, lenders are likely emphasizing leverage due to higher interest rates amid a period of falling incomes.

Many of the lowest-ranked concerns last year remained near the bottom in 2024. Ample rainfall last winter and relatively favorable growing conditions this year caused concerns about weather to drop into the bottom half. At the same time, water availability remained the lowest-ranked concern for the second straight year. Limited concerns about water availability likely reflect ample rainfall across much of the country this spring. By June, the prevalence of drought had dropped to the lowest levels in years, including nearly the entire state of California being listed as drought-free.

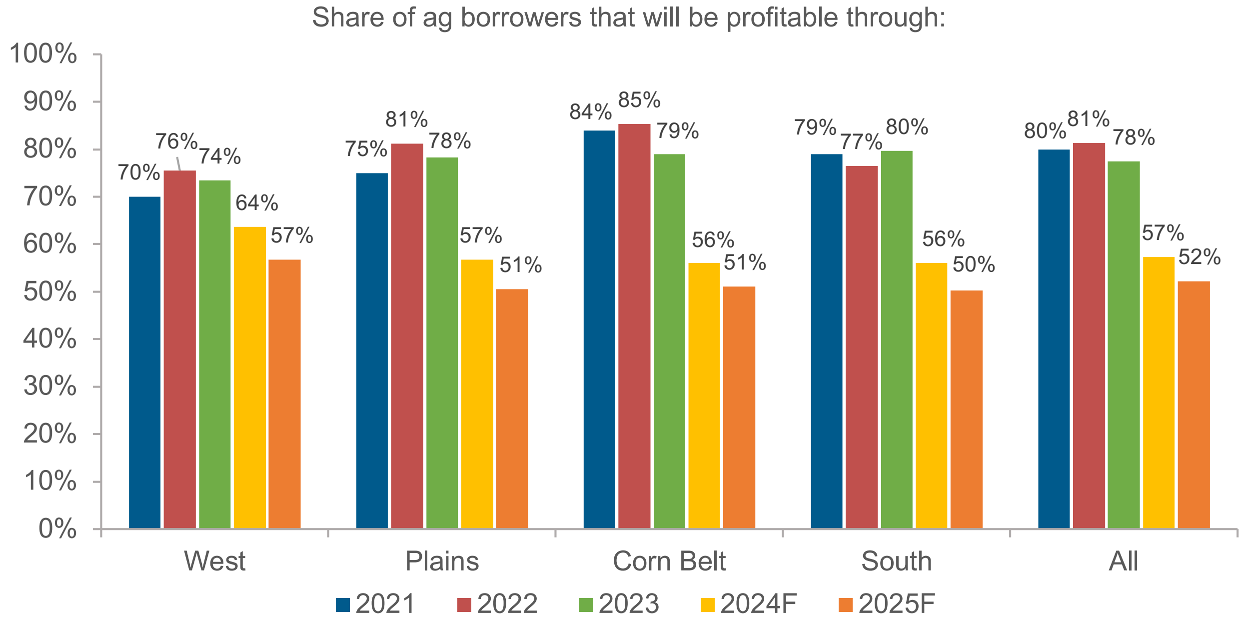
One final takeaway is that recession risk was rated as less of a concern this year than last year. In many ways, this coincides with a continued robust U.S. economy. Projections of an impending recession heading into 2023 never came to fruition, and U.S. GDP growth has continued to outpace many forecasts through the first half of 2024. The combination of a strong U.S. and farm economy over the past several years has helped drive loan delinquencies to historically low levels. Many farmers rely on off-farm employment to supplement their farming operations, and a strong U.S. economy bodes well financially for these operations. Some signs of economic slowing have emerged in mid-2024. The labor market has cooled modestly, and stress has increased among several consumer credit metrics. However, lender responses suggest the economic weakness is isolated and many agricultural lenders do not expect a recession in the near term.

The expected pullback in farm incomes in 2024 was a theme throughout the lender responses, not just regarding producer concerns, but also in the expectations for producer profitability. In 2024, lenders estimate that 58% of borrowers will be profitable. While still a majority, the proportion marks a sharp drop from the 78% estimate reported in the 2023 survey. Lenders expect the proportion of profitable borrowers to decline again next year to only 51% of borrowers, the same proportion as reported by lenders in 2020.

Expected changes in farm profitability tend to look similar across regions. Lenders across all regions foresee fewer producers remaining profitable in 2024 relative to last year. This aligns with the USDA forecast for a broad pullback in farm incomes this year. Among responses from the Plains, Corn Belt and South regions, lenders expect a 20% to 25% drop in profitable producers. Annual crop production represents a significant proportion of farming activity in these areas and annual crop prices have dropped significantly over the past year. Interestingly, lenders from the Western states responded that they expected profitability to be more prevalent among producers in that region. Approximately 64% of agricultural borrowers are expected to remain profitable in the Western region, compared to 56% to 57% in the other areas.

The decline in farm incomes caused lender comfort with individual commodities to deteriorate in

Ag Borrower Profitability by Region



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q19/20: What percentage of your ag borrowers will be profitable through 2023/remain profitable through 2024?

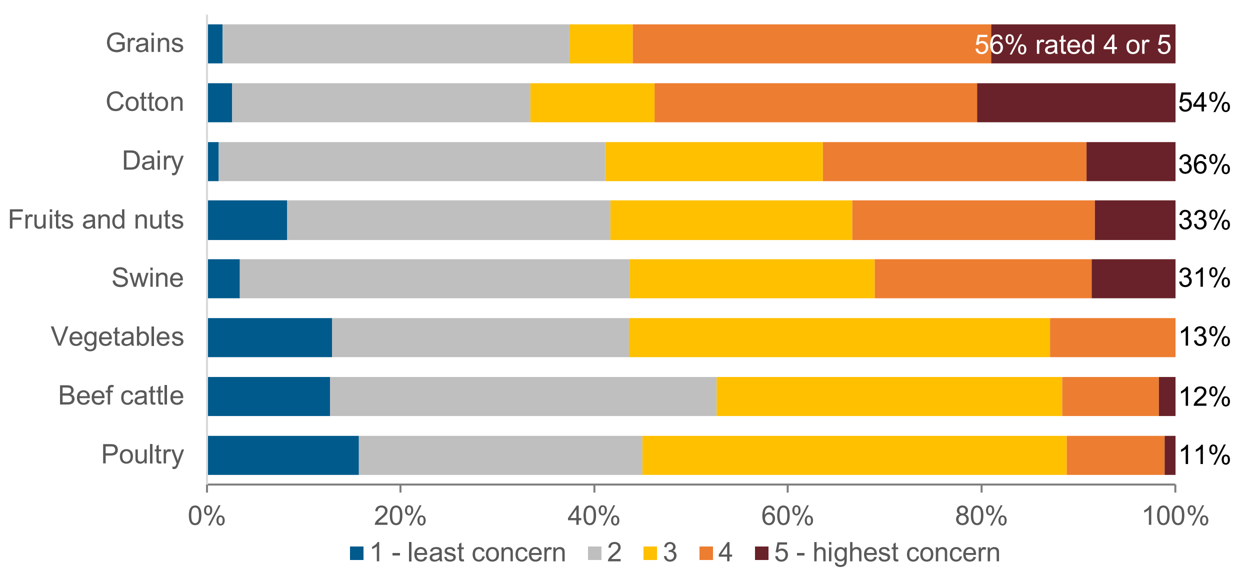
2024. Broadly, the level of concern increased for most of the commodities listed in the 2024 survey. Unsurprisingly, lenders responded with the highest level of concern for grains. Approximately 56% of respondents indicated they were very or extremely concerned in 2024, a large jump from the 15% of such responses last year. Fruits and nuts also saw a significant jump in concern levels relative to last year. Tree nut prices have suffered in the past several years from rising production and a strong dollar, both of which have weighed on prices and profit margins

On the other end of the spectrum, lender concern levels also improved for several commodities in 2024. In 2023, over half of respondents ranked dairy as very or extremely concerning. That proportion dropped to 36% in 2024 as dairy prices remained elevated throughout the year while feed costs dropped significantly. Similarly, lenders expressed less concern for poultry and beef cattle sectors, likely due at least in part to lower feed costs. Beef cattle prices floated near record levels for much of 2023 and 2024, due partially to an ongoing contraction in the U.S. cattle herd. As such, a majority of lenders reported neutral to no concerns with beef cattle.

The projected pullback in farm incomes is expected to lead to greater loan demand. Survey responses in 2022 and 2023 showed demand for farm debt was relatively modest. A combination of strong farm incomes and rising interest rates led many producers to favor cash on hand to finance operations versus taking out loans. However, survey responses in 2024 indicate that the trend is likely to end. Over 77% of lenders reported farm debt increased over the past 12 months. Furthermore, nearly 90% of lenders expect farm debt to increase over the next year.

Loan performance remains strong in 2024, but lenders expect that could change. For the second consecutive year, over 95% of lenders reported that charge-offs either remained unchanged or declined over the past year. However, delinquencies on both ag production and farmland loans increased this year, according to survey responses. Furthermore, most lenders expect delinquencies on both ag production and farmland loans to increase over the next 12 months and over 20% expect charge-offs will rise. While expectations for deterioration in credit conditions are concerning, it is important to provide context. Industry data shows delinquency rates at banks dropped to historically low levels on ag production and farmland loans over the past few years. So, while lenders expect both metrics to increase, the sentiment partially reflects that there was limited room for delinquencies and charge-offs to drop further.

Portfolio Concerns, by Rank Level



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q12: Please rate your relative concern for [commodity] in your areas, with 1 being the least concern and 5 being the highest concern.

Land Values and Cash Rents

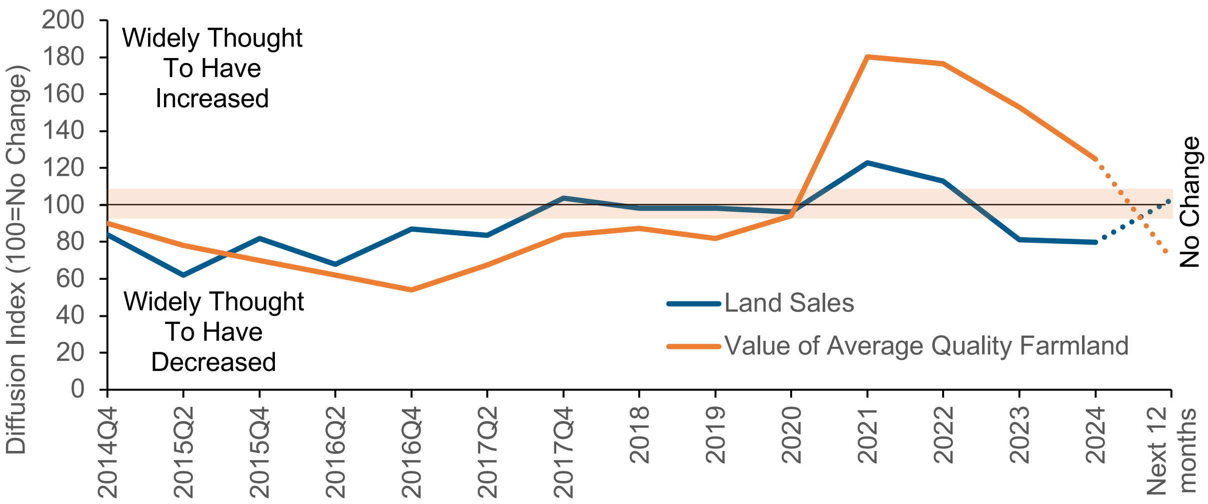
Farmland values continued their upward trajectory in 2024, according to survey responses. However, growth has slowed from the rapid pace of the recent past. As was the case with farm incomes, farmland values began to rise in 2020. From 2021 to 2023, the average annual growth rate perceived by survey respondents was an astounding 12.8%. This three-year period was the most profitable one in U.S. agricultural history and coincided with record-low interest rates, both of which helped propel farmland values higher. The momentum has slowed significantly as lenders indicated the growth rate for farmland values in 2024 was a much more modest 3.8% relative to last year. The perceived slowdown fell largely in line with USDA data, which showed farmland values increased 5.0% in 2024. For reference, the 2023 survey showed lenders expected farmland values to increase by 2.1% in 2024. So, while the slowdown in farmland value growth was significant this year, expectations were for even slower growth.

Perhaps unsurprisingly, lender expectations for farmland values over the next year were slightly negative. On average, respondents expect farmland values will decline by 1% by next August. This would mark the first decline in farmland values since 2020 if realized.

The diffusion chart below shows the general sentiment for land sales and the value of average-quality land. A diffusion index splits the responses between increase (200), no change (100) and decline (0) and averages the scores to an index of 100. Respondents to the 2024 survey highlight a continued slowdown in land value growth over the past 12 months and expect the trend to turn slightly negative over the next year. Elevated interest rates and slumping farm incomes remain two of the most significant headwinds for farmland value growth. Interest rates have largely plateaued through mid-2024, but lenders expect farm incomes to continue trending lower over the next year, likely fueling their expectations for farmland value declines.

An additional factor in farmland value growth is the volume of land for sale. The diffusion index shows lenders expect the volume of farmland for sale to increase modestly over the next year. This marks a shift from the past two years, when lenders reported less farmland was sold than in the previous year. A surplus of land being sold could put downward pressure on values if the volume outpaces demand. However, lender expectations for a slight increase in farmland for sale do not suggest supply will overwhelm the marketplace.

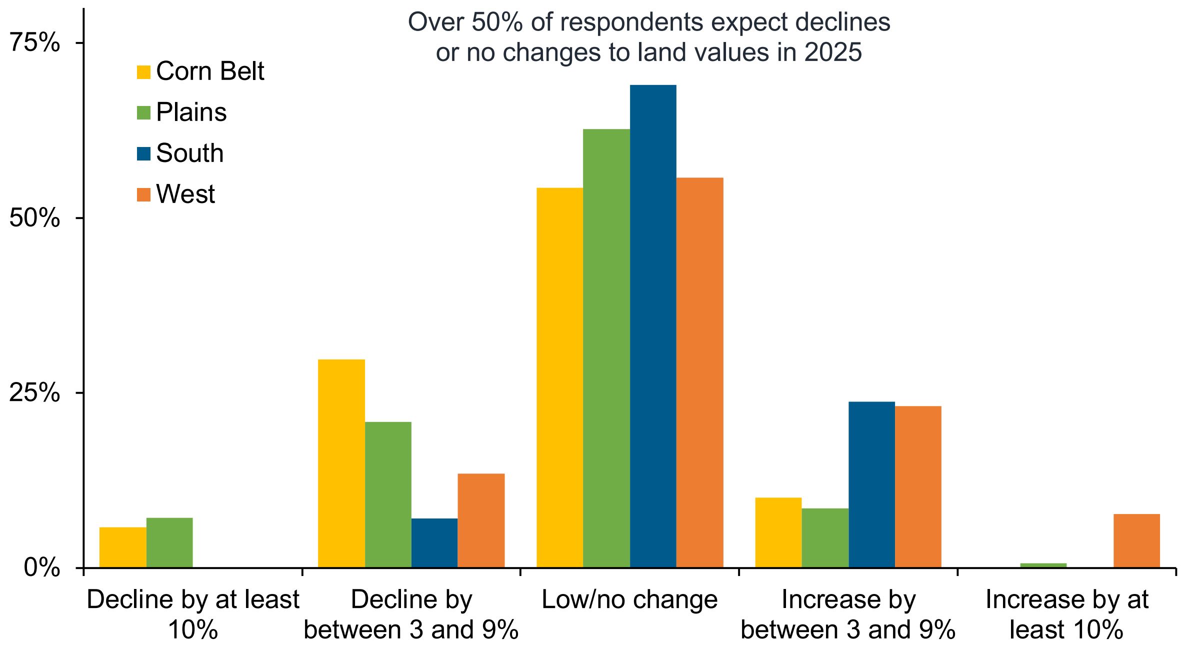
Diffusion Index of Land Sales and Values



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q7/Q8: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

While the average expectation is a decline, most lenders expect farmland values will remain relatively stable in the year ahead. When quantifying the expected change in farmland values over the next year, 57.3% of lenders predicted a change of between -3% and 3% in value for average farmland. This was the largest proportion of lenders in several years that responded that farmland values would remain relatively stable over the next year. There was some variation by region, again reflective of differences in regional farm profitability in 2024. For example, lenders projected a relatively larger pullback in Corn Belt farmland values in comparison to other regions. This reflects both the pullback in farm profitability in the region this year, but also the significant growth in values over the last five years. Conversely, the number of Western lenders that project farmland values will increase by 3% or more over the next year represented 30.8% of responses. This potentially reflects strong dairy and beef profitability in 2024 and optimism among lenders in the region for a rebound in permanent crop profitability.

Range of Expected Land Value Changes in 2025



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q14: Looking forward over the next 12 months, how much do you expect the value of average quality farmland will change in your local service area?

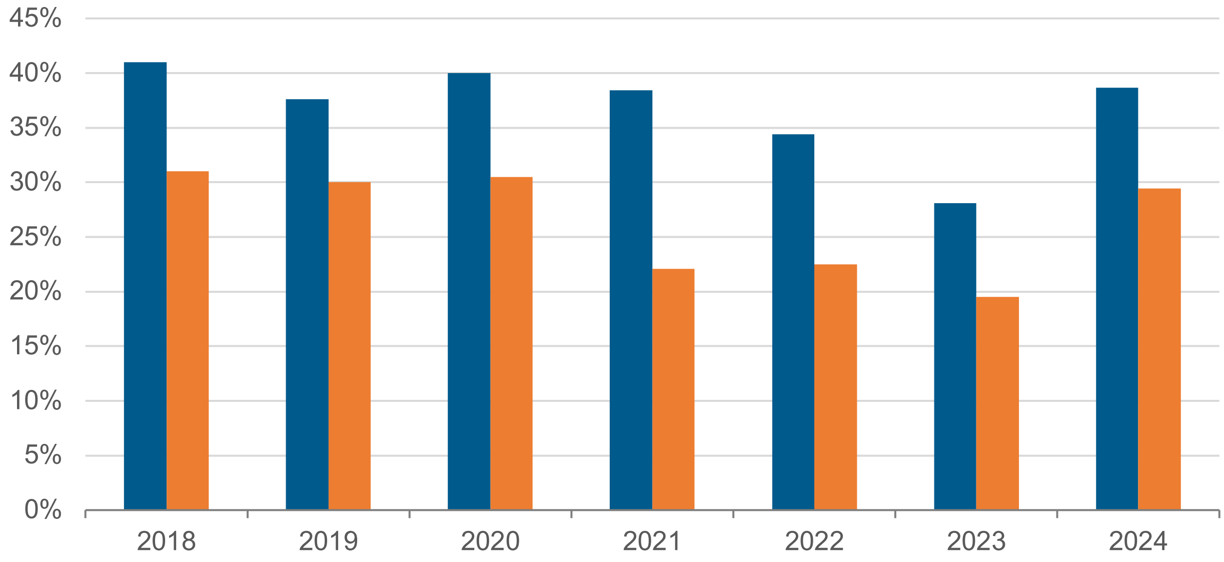
Cash rental rates on farmland have increased alongside farmland values this year. Over 97% of lenders reported that cash rents either held constant or increased in 2024 relative to last year. This partially reflects strong demand for rental ground heading into the year, following several years of elevated farm incomes. However, lenders expect that dynamic to change following the pullback in commodity prices and profitability this year. Over half of survey responses forecast that rental rates will remain flat headed into next year. Meanwhile, nearly 36% expect rental rates will decline next year. The large swing from last year underscores the sharp turnaround in farmer appetite and ability to pay premium money for renting farmland.

Given expectations for farmland values and cash rental rates, it may come as no surprise that responses showed an increase in lenders who believe both land values and rents are overvalued in their area. For farmland values, the proportion of responses jumped 10 percentage points in 2024 to 38.6%, the highest amount since 2020. Likewise, for rents the proportion jumped 10 percentage points in 2024 to 30%, which is also the highest since 2020.

So, while the agricultural economy remains robust from a historical perspective, lender perceptions of farmland values and rental rates appear to more heavily reflect the pullback in farm profitability this year.

Evolving Interpretation of ‘Overvalued’

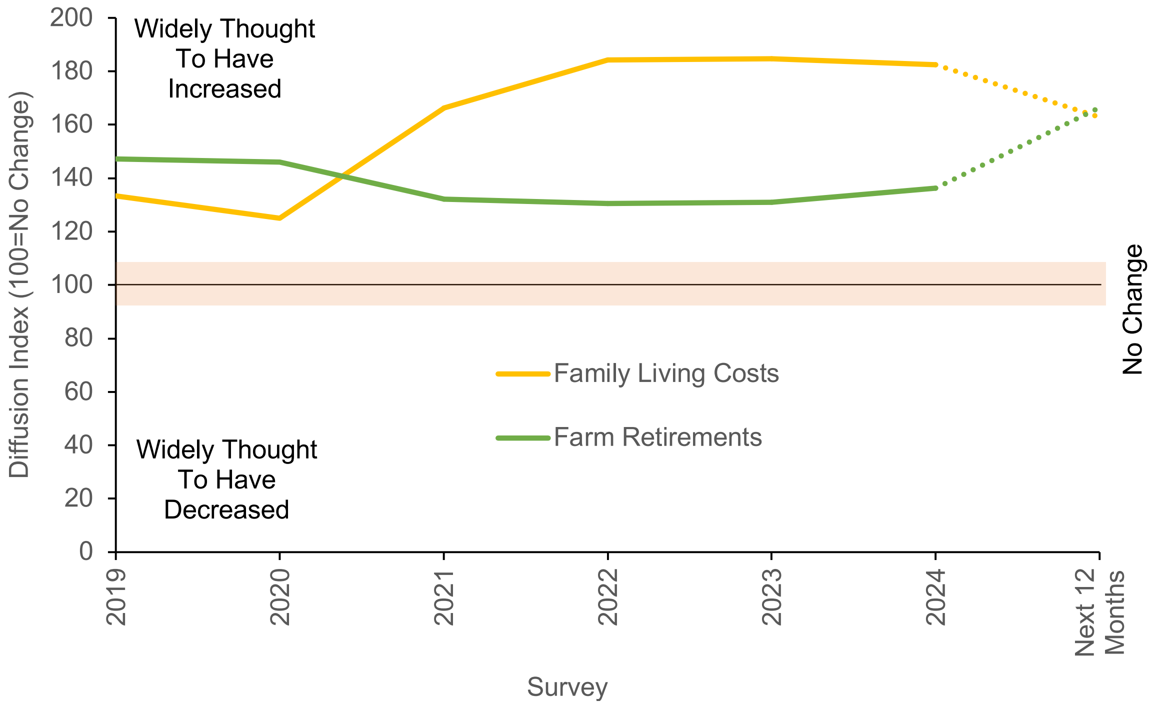
Percentage of all average quality land values and cash rents in respondent market area overvalued



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q15 and Q16: What percentage of your customers’ cash rents on average quality farmland would you consider above market value? What percentage of ALL average quality farmland in your market would you consider overvalued?

Several implications can be partially attributed to falling farm incomes. One is that a smaller proportion of lenders expect family living costs to increase over the next year. Family living costs naturally tend to move higher over time as the cost of everyday goods increases. However, the increase in farm incomes and relatively high inflation levels over the past several years has led to a jump in family living expenses, too. Lenders still expect living costs to move higher over the next year, but the proportion with that expectation has declined, and the overall increase may be relatively muted compared to recent years, when farm incomes were historically strong.

Diffusion Index of Family Living Costs and Farm Retirements



Source: ABA-Farmer Mac Agricultural Lender Survey August 2024. Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q17/Q18: In the last 12 months, have the following conditions decreased, stayed about the same, or increased for your area? Overall farm family expenses? Farm retirements?

Farm retirements also tend to be influenced by movements in farm incomes. Lenders reported a slowdown in farm retirements between 2021 and 2024 relative to 2019 and 2020. This was likely due in part to elevated farm incomes, which may have enticed farmers to delay their retirement plans. Looking ahead, though, lenders expect farm retirements to increase at a faster level than in even 2019 or 2020. Farm retirements represent both challenges and opportunities for bankers. Farm transitions are often financially complex. However, these transitions also present opportunities to build relationships with the next generation or, potentially, new borrowers altogether.

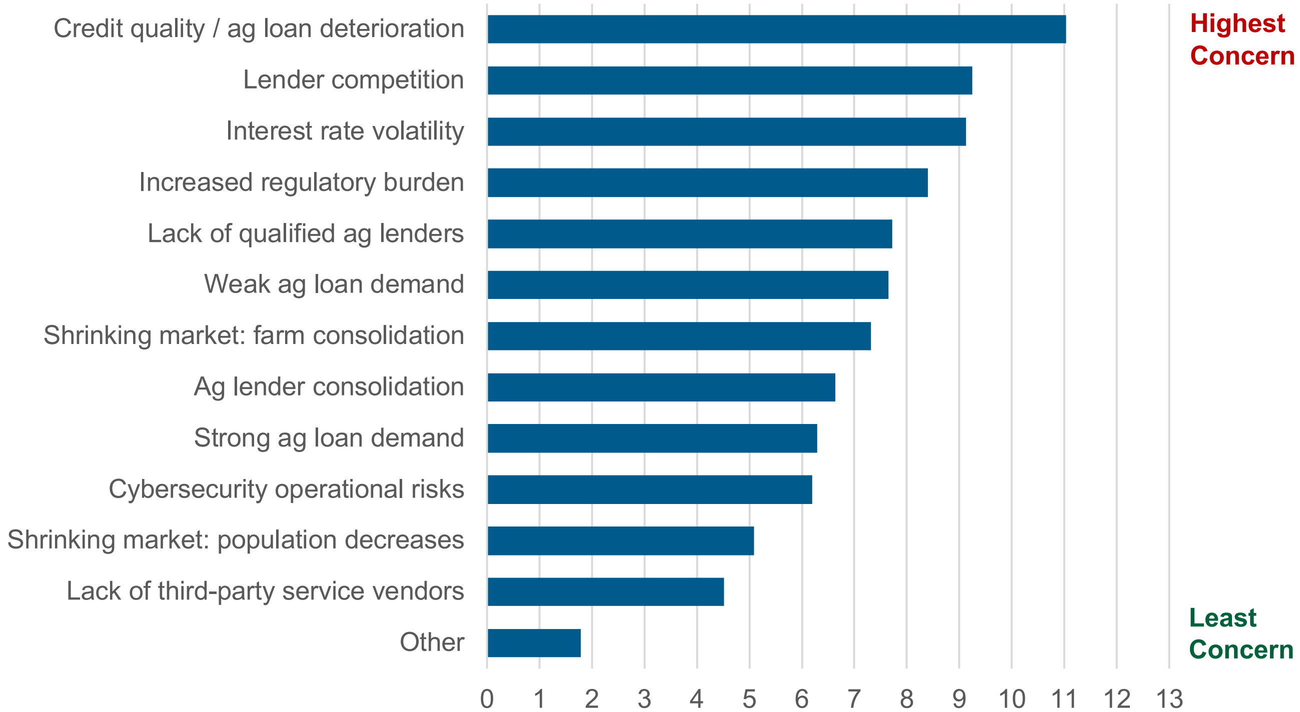
Agricultural Lenders

Lender Sentiments

In general, the 2024 survey marked a notable shift in lender sentiment concerning lending conditions and the challenges facing borrowers. The projected pullback in farm incomes contributed to a deterioration in sentiment, and many lenders expect a more challenging year ahead for farmers. Still, not all hope is lost, and many lenders pointed to previous cycles in the agricultural economy. Optimism remains that this period of lower farm incomes, though challenging, may be relatively short-lived.

The chief concern facing agricultural lenders in 2024 was credit quality and ag loan deterioration. This was true across every region and for institutions of varying sizes and portfolio concentrations. Ag lenders also expressed concern about lender competition, interest rate volatility and increased regulatory burden. Concerns about a lack of qualified ag lenders, weak loan demand and consolidation generally ranked toward the middle, with some variation by lender cohorts.

Top Concerns Facing Agricultural Lenders in 2024



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q10: Please indicate your relative level of concern for the following conditions facing your institution at this time, with 1 being the highest concern and 13 being the least concern. (To improve readability of the chart, we have converted 1=13, 2=12, 3=11, etc., so that larger bars correspond with greater concern.)

Concern about credit quality and agricultural loan deterioration increased from the third-highest concern in 2023 to the greatest overall concern in 2024, marking a return to the pre-pandemic trend (it was previously the No. 1 concern from 2017 to 2020). Carryover crop from last year, low commodity prices, high costs of production and elevated rates are all weighing on producers, particularly those concentrated in row crops like corn and soybeans. As a result, lenders expect credit quality to deteriorate over the next 12 months. Two in five lenders (40%) ranked credit quality as their No. 1 concern, up 29 percentage points from last year.

Lender competition remained the second-most significant overall concern facing lenders in 2024. Respondents continued to list the Farm Credit System (FCS) and community banks as their main competitors for agricultural borrowers. FCS was ranked the top competitor by 71% of lenders. Community banks were among the top two competitors for 70% of respondents. Vendor financing was ranked a distant third, included among the top two competitors by 19% of lenders. However, respondents reported that vendor financing continues to play a large role in financing agricultural producers. Half of respondents (50%) said that vendor and supplier financing had increased over the previous 12 months, and 65% expect it to increase further next year.

Concern about interest rate volatility, which was the primary concern facing lenders in 2022 and 2023, was ranked third in 2024. Elevated rates are among the pressures currently facing agricultural producers. Given the heightened concern about agricultural loan deterioration, lenders have remained laser-focused on interest rates. While respondents generally expected interest rates to decrease over the next 12 months, the survey closed prior to the September Federal Open Markets Committee (FOMC) meeting. There was greater uncertainty in August about the trajectory of rate cuts. The FOMC has since provided more clarity around the expected timeline and pace of cuts through the end of 2025.

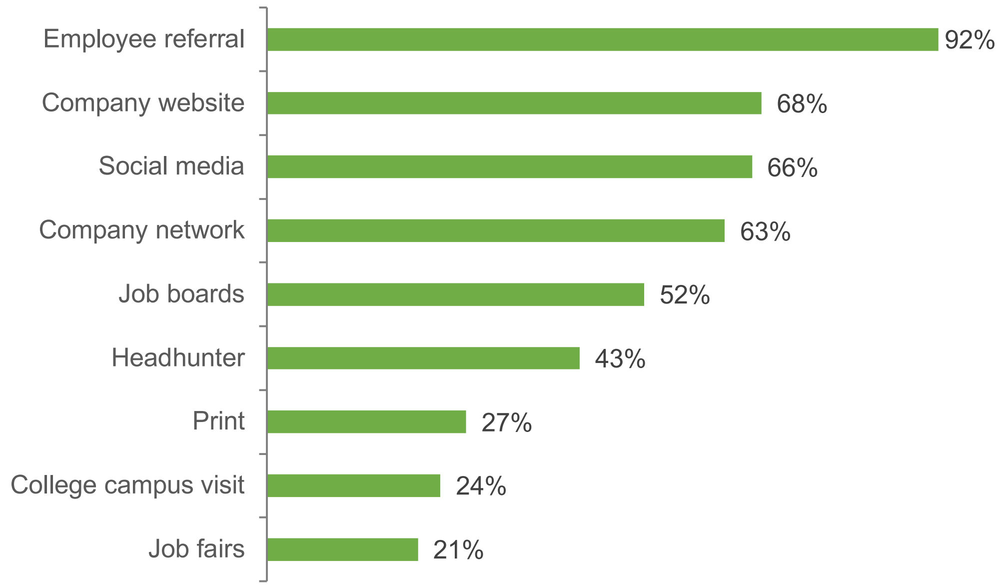
The secondary market for agricultural loans plays a role in aiding lending institutions with interest rate risk management, liquidity, borrower concentration and other portfolio growth strategies. This was affirmed in the 2024 survey results. Approximately two-thirds of survey respondents reported using Farmer Mac as a secondary market for agricultural real estate mortgages and USDA guarantee loans.

Increased regulatory burden was ranked as the fourth-highest overall concern for lenders in 2024; however, there was some variation by lender asset size. Small lenders ranked regulatory burden higher among their list of concerns than large lenders. Only 8% of ag lenders with assets greater than $1 billion listed regulatory burden as their primary concern in 2024. By comparison, 18% of lenders with assets less than $250 million cited it as their chief concern. Increased regulatory burden was the second-greatest overall concern facing their institutions this year.

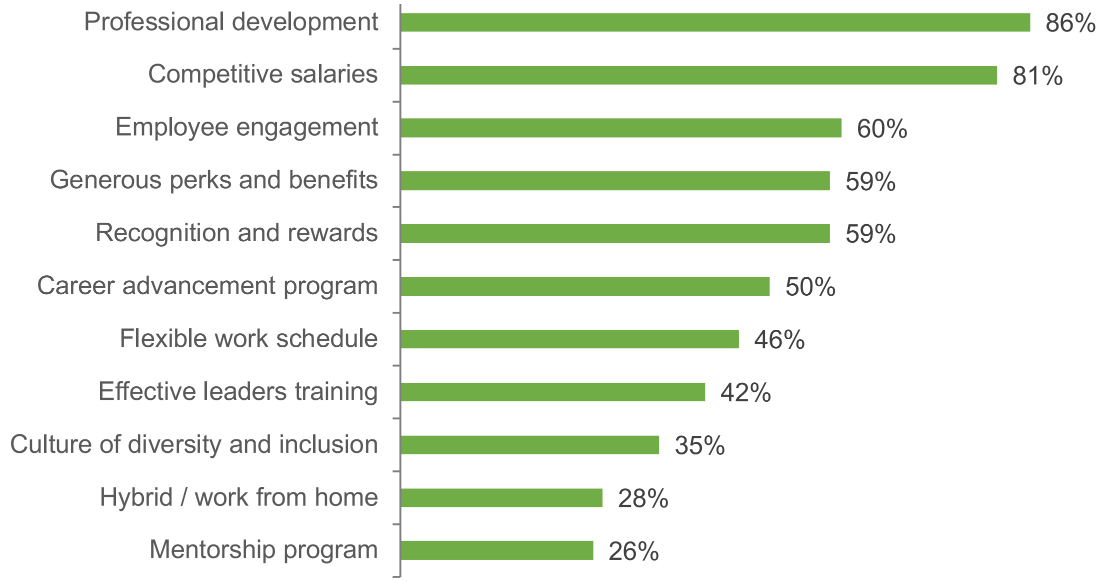
Despite elevated concern about regulation, lenders continue to report positive relationships with their regulators: 83% of lenders rated their relationship with their primary regulator as either 4 or 5 on a 5-point scale. This was true for lenders of all sizes. However, some lenders thought regulators' comprehension of the agricultural sector has room for improvement. On average, respondents rated regulators' understanding of agriculture a 3.3 out of 5, with 20% of respondents rating regulator understanding of the sector one or two out of five.

Among the middling concerns, a lack of qualified ag lenders showed the largest movement, rising from the seventh-greatest overall concern in 2023 to the fifth-highest concern in 2024. Survey respondents anticipate a 29% turnover rate in staff dedicated to ag lending at their institution over the next five years. The most common recruitment strategies included employee referral (92%), posting positions on their company website (68%), marketing on social media (66%) and utilizing their company network (63%). The primary retention strategies for existing staff were training and professional development (86%), competitive salaries (81%), employee engagement such as encouraging employee input (60%), generous perks and benefits (59%) and a recognition and rewards program (59%).

Talent Recruitment Strategies



Talent Retention Strategies

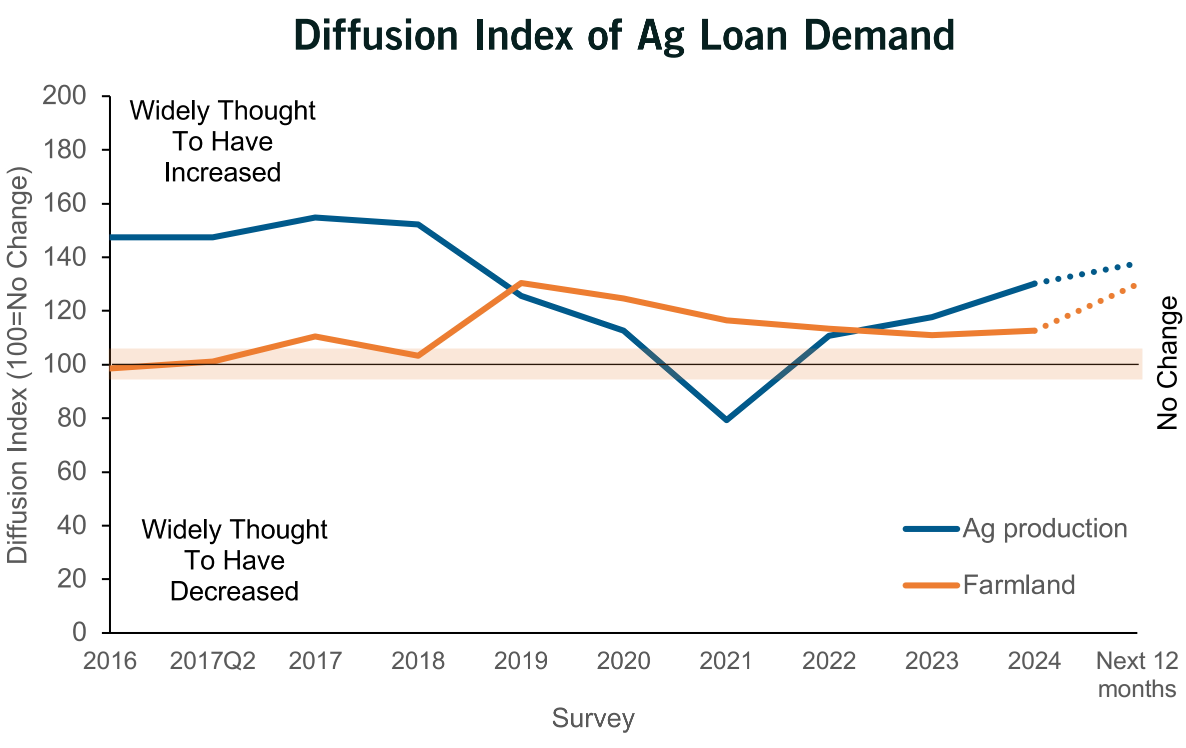


Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q57 and Q58: Which of the following methods does your organization use to recruit / implement to retain employees? Select all that apply.

Lending Conditions

Ag lending conditions have been on a roller coaster over the past five years and survey responses indicate that ride continued in 2024. Loan demand reached historic levels during the Great Refinancing of 2020 and 2021 as producers locked in record-low interest rates. The flurry of activity slowed in 2022 and 2023 as interest rates spiked. Instead, producers often opted during this slower period to use cash on hand to finance operations, much of which came from record farm incomes in 2022. However, the pendulum has started to swing again due to lower interest rates and projections of tighter working capital this year. Many lenders expect the combination of these conditions could lead to a jump in lending activity in the year ahead.

Demand for agricultural loans continued to grow in 2024 and is expected to increase further over the next 12 months. Over three-quarters of lenders (77%) reported that farm debt increased over the past 12 months, up 25 percentage points from last year. This is consistent with the USDA's 2024 forecast. The agency projects farm real estate debt will increase 4.4% in nominal terms and 1.8% in inflation-adjusted dollars. Other farm debt is expected to increase 3.9% in nominal terms and 1.3% when adjusted for inflation. Higher costs and lower commodity prices continue to squeeze farm profitability, reducing borrowers' working capital. This will require many producers to turn to credit to meet their financing needs. As a result, 89% expect farm debt to increase further over the next 12 months.

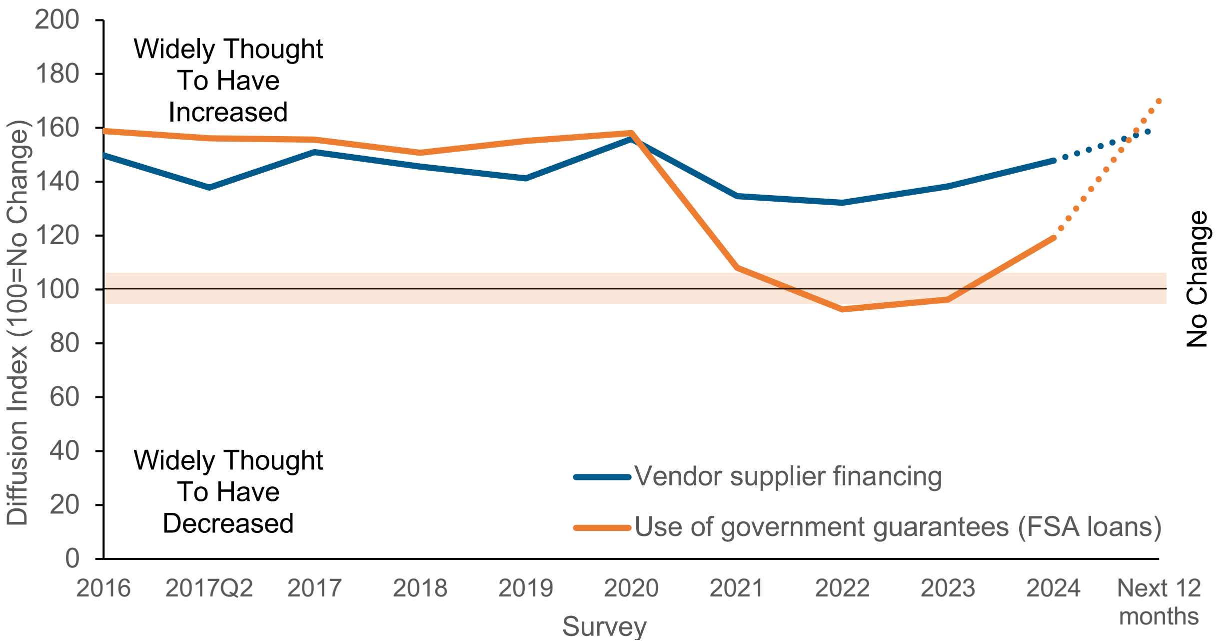


Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q7/8: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

The diffusion index for agricultural production loan demand reached 130 in 2024, the highest level reported in six years, though still 20 points below the 2016 to 2018 average. There was slight variation in reported demand across cohorts. Demand for agricultural production loans was softer for those with lower grain concentrations (120) and slightly stronger for lenders in the Plains region (140). Looking to the next 12 months, lenders widely expect demand to increase. This was largely true for lenders of different asset sizes and across regions. However, lenders from the South were less likely to anticipate stronger demand in 2025. While 43% of those from the South observed stronger demand for ag production loans in 2023, only 26% expect an increase in demand next year.

Demand for loans secured by farmland did not change much in 2024. Most lenders (63%) said demand stayed the same while 25% observed growth over the past 12 months. However, respondents expect demand to accelerate in 2025. Projected demand for the next 12 months, as captured by the diffusion index, nearly tied the series-high of 130 recorded in 2019. More than 38% of respondents expect loans secured by farmland to increase in the next 12 months, the highest level since 2020. This trend was true for lenders across cohorts but was strongest for lenders in the West (142).

Diffusion Index of Select Observations



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q7/8: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

Respondents also reported higher usage of USDA Farm Service Agency (FSA) and other government-guaranteed loans in 2024. Government-guaranteed lending contracted during the pandemic amid unprecedented government support in the form of direct and ad hoc payments to the agricultural sector. Over the next 12 months, though, lenders expect usage to increase. The diffusion index reading for 2025 was 170, 14 points higher than the 2016 to 2020 survey average of 156.

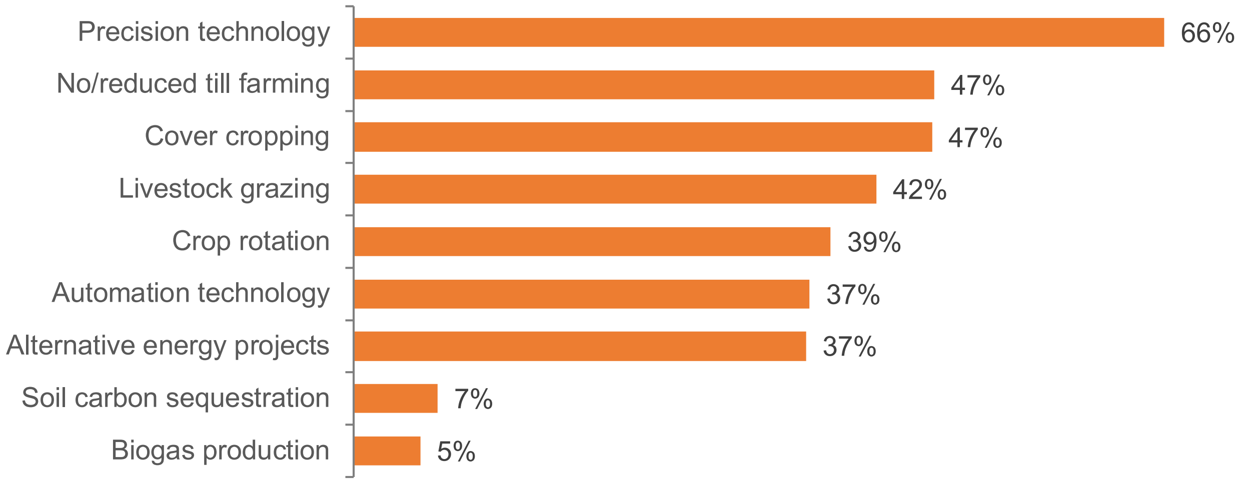
Lenders find these programs useful for serving more borrowers. More than 4 out of 5 lenders surveyed (86%) offer FSA-guaranteed loans. Participating in such programs generally helps borrowers qualify for competitive loans while reducing the risk held by lending institutions. Expectations for higher utilization in 2025 may reflect expectations for a pullback in farm profitability. Farmers face a tough year ahead, and with loan demand expected to increase, more borrowers may utilize federal programs to qualify for credit.

Nearly one-third of lenders also issue loans guaranteed by the USDA Rural Development office (31%). Of those who do, over two-thirds issue business and industry guaranteed loans (68%), more than half issue single-family guaranteed housing loans (55%) and one-quarter of respondents issue community facility guaranteed loans (25%).

Comparatively fewer lenders are involved in rural infrastructure financing (12%), despite significant tailwinds for rural infrastructure development. Of those that did indicate involvement, roughly half cited water system (50%) and renewable energy (48%) projects, and 30% reported financing broadband and telecommunications projects. Of those who are not involved in infrastructure financing, 31% expressed interest in participating in the future and 59% were unsure.

Finally, survey respondents were asked about whether borrowers expressed interest in financing technological enhancements or regenerative agricultural practices. In the prior 12 months, two-thirds of lenders report a borrower inquired about financing precision technology, such as equipment guidance, automatic steering, yield monitoring or in-field electronic sensors. Nearly half of lenders report that a customer inquired about reduced till farming or cover cropping. Roughly 2 out of 5 lenders received inquiries about livestock grazing, crop rotation, automation technology or alternative energy projects. Very few lenders reported any borrower inquiries for financing soil carbon sequestration or biogas production.

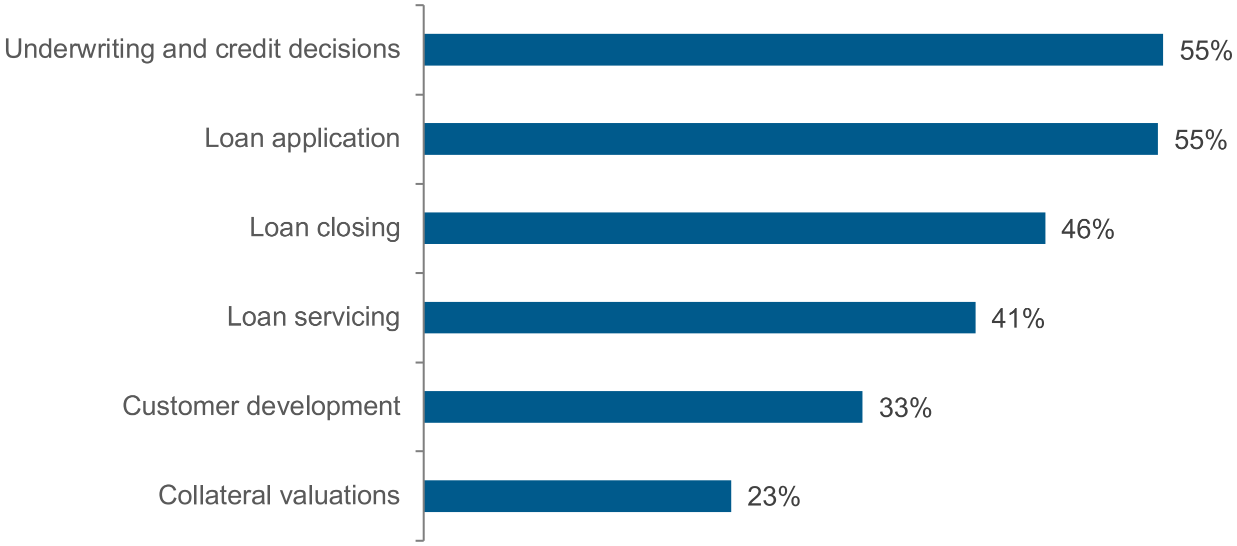
Demand for Alternative Financing Practices



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q48: In the last 12 months, approximately what percentage of your customers inquired about the following types of financing?

Borrowers aren't the only ones investing in technological enhancements. More than half of lenders surveyed (56%) report their institution implemented digitization or made technology investments in 2024. Among those who did, more than half enhanced underwriting and credit decisions and loan application processes, and more than 2 in 5 invested in loan closing and loan servicing technology.

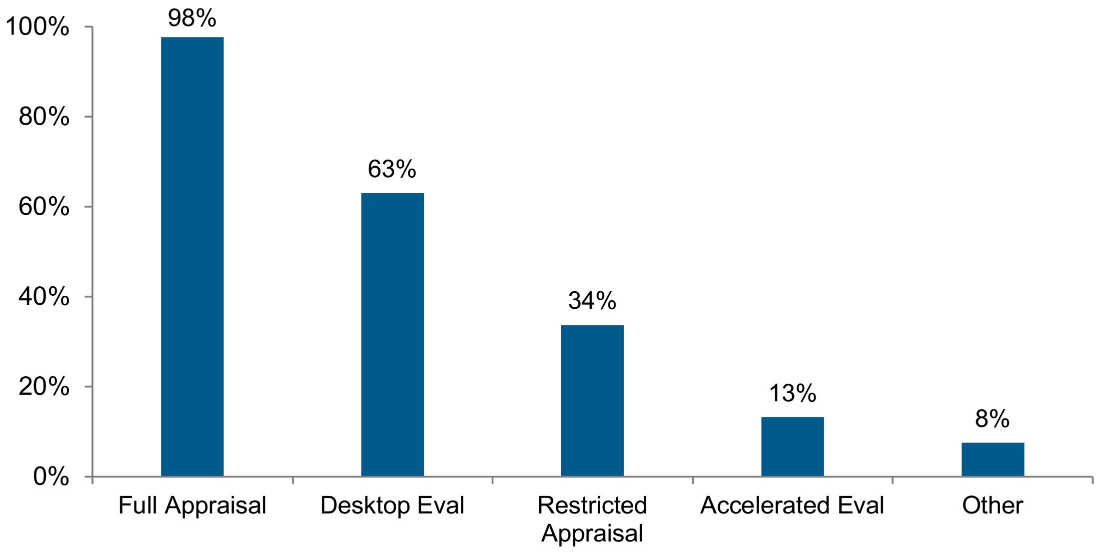
Digitization and Technology Investments



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q40: What aspect of the loan process have you digitized or made technology investments in over the last year?

Lenders continue to innovate around collateral valuations, despite a relatively small proportion highlighting it as an area of investment. A significant proportion of lenders report using collateral valuation methods outside of a standard full appraisal. More than half (63%) of lenders report using desktop appraisals and evaluations as an option to value collateral, while a smaller but still significant proportion report using restricted appraisals and accelerated evaluations. In general, there has been a push to accelerate the loan underwriting process in recent years to improve the experience for both the borrower and lender. Appraisals can constitute a significant portion of a credit decision timeline, and many lenders have adopted collateral valuation options to help shrink the timeline from application to approval.

Collateral Valuation Programs Utilized by Ag Lenders

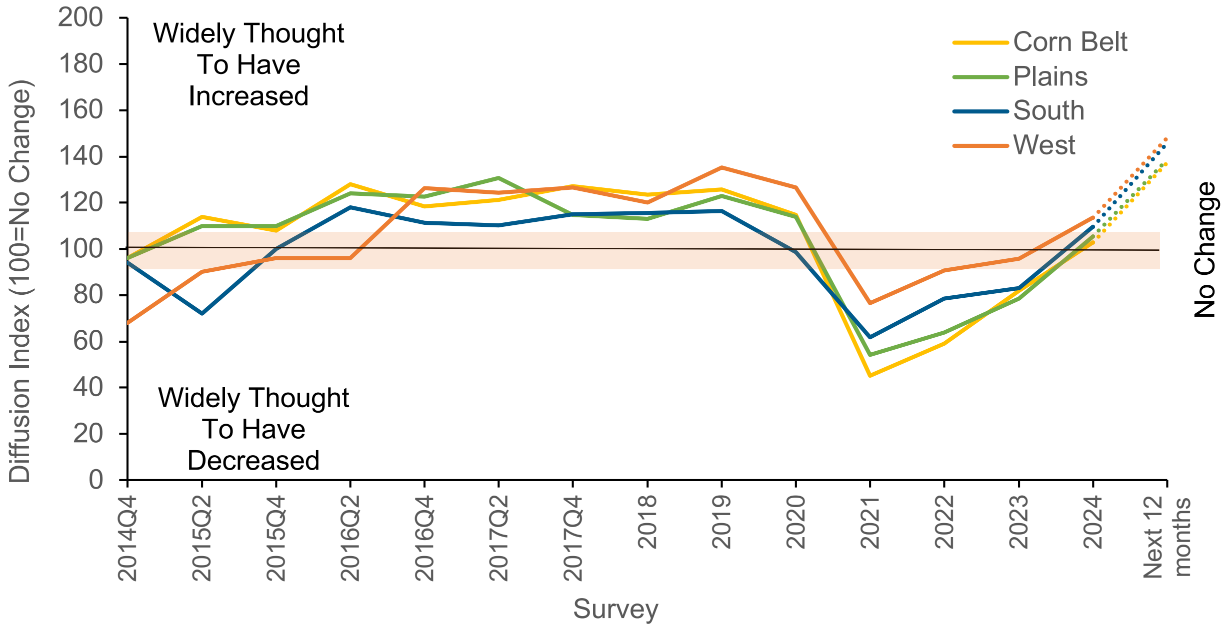


Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q40: What aspect of the loan process have you digitized or made technology investments in over the last year?

Credit Quality

One byproduct of elevated farm incomes over the past several years has been extraordinarily strong loan performance. Delinquency and charge-off rates dropped to historically low levels in 2023, and lenders reported they remained low in this year's survey. Approximately 84% of lenders reported that delinquency and charge-off rates for outstanding agricultural loans were unchanged in August 2024, relative to the previous year. However, cracks have begun to form following the drop in commodity prices this year. As a result, the highest proportion of lenders over the past decade now expect meaningful deterioration in loan performance through mid-2025.

Diffusion Index for Delinquency Trends



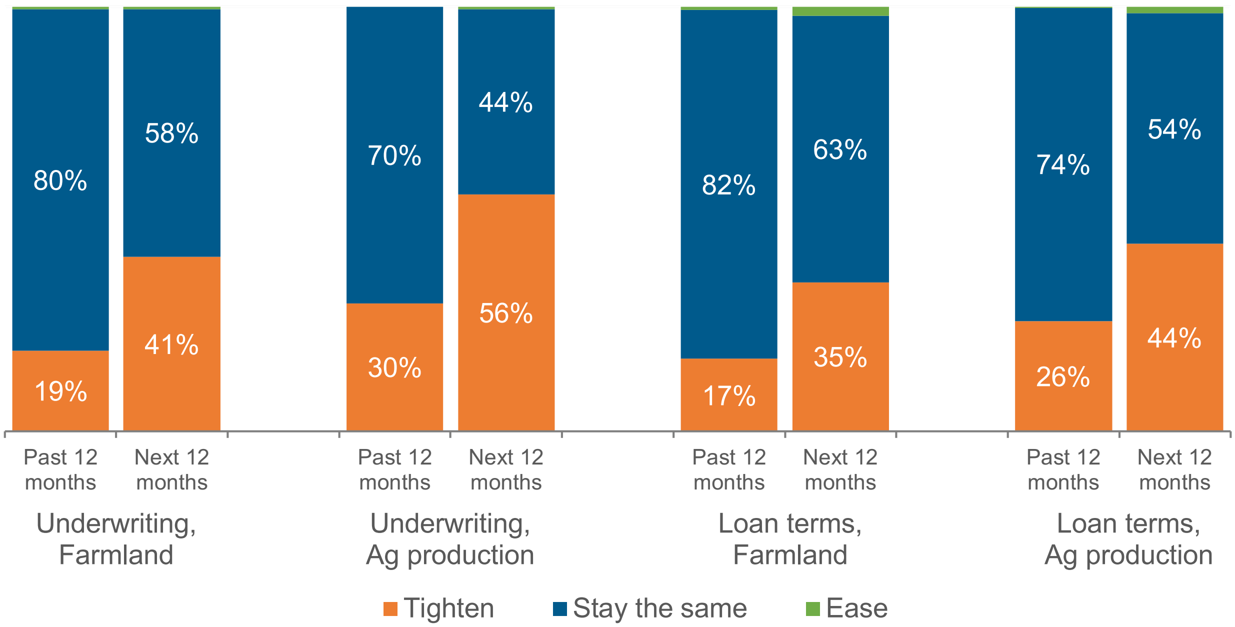
Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Prior to 2016Q4, results from Farmer Mac internal surveys provided for trend. Mean response to Q7/8: During the past 6 or 12 months, how have the following economic conditions changed in your area? How much will they change in the next 6 or 12 months in your area?

With expectations for weaker credit quality, lenders plan to tighten underwriting standards and loan terms for agricultural credit. Two out of 5 respondents plan to tighten underwriting criteria for loans secured by farmland over the next 12 months, and more than half plan to do the same for agricultural production loans — up 22 percentage points and 26 percentage points, respectively. A similar increase in the share of lenders planning to tighten loan terms was reported by survey respondents.

Loan-to-value (LTV) ratios for agricultural loan applicants have remained steady despite the cloudy outlook for the ag economy. Lenders reported the average LTV ratio for loans secured by farmland and agricultural production loans in 2024 was 62% and 66%, respectively, largely unchanged from last year. Despite continued farmland value appreciation and a higher interest rate environment, LTV ratios have remained stable.

Lenders have continued to meet the credit needs of farmers and ranchers. On average, lenders approved 86% of agricultural loan applications received over the past 12 months, in line with last year's approval rate. Of those they denied, respondents estimate that 42% are being approved by competing institutions. Despite tighter credit standards, lenders expect to approve 88% of borrowers' renewal requests.

Agricultural Credit Standards



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Q37 and Q38: During the last 12 months (in the next 12 months) how have credit standards for the following agricultural loans changed for your institution?

Ag lenders will continue to work closely with their borrowers. Lenders have a deep understanding of the needs of farmers and ranchers because, in many cases, they are in the same business. Nearly half of respondents surveyed said that, in addition to lending, they also farm themselves (48%). As one respondent remarked, while the sector is facing "turbulent times," it is just a part of the cyclical nature of agricultural lending: "We've been there before and will be there again," the lender said.

Interest Rate Environment

The interest rate environment, and expectations for potential rate cuts, evolved continuously throughout 2024 in response to a steady flow of economic data. In January, the futures market was pricing in approximately seven interest rate cuts by year's end. By summer, the outlook for rate cuts had dropped to one. The volatility was due in large part to conflicting data points that the Federal Reserve Board of Governors was monitoring closely. While there was uncertainty about the magnitude and pace of rate cuts, there was broad agreement about the direction. Nearly three-quarters of ag lenders (74%) expected short-term interest rates to decrease over the next 12 months and a majority (62%) expected long-term rates to fall. For reader context, no rate cuts occurred in 2024, when the survey was taken.

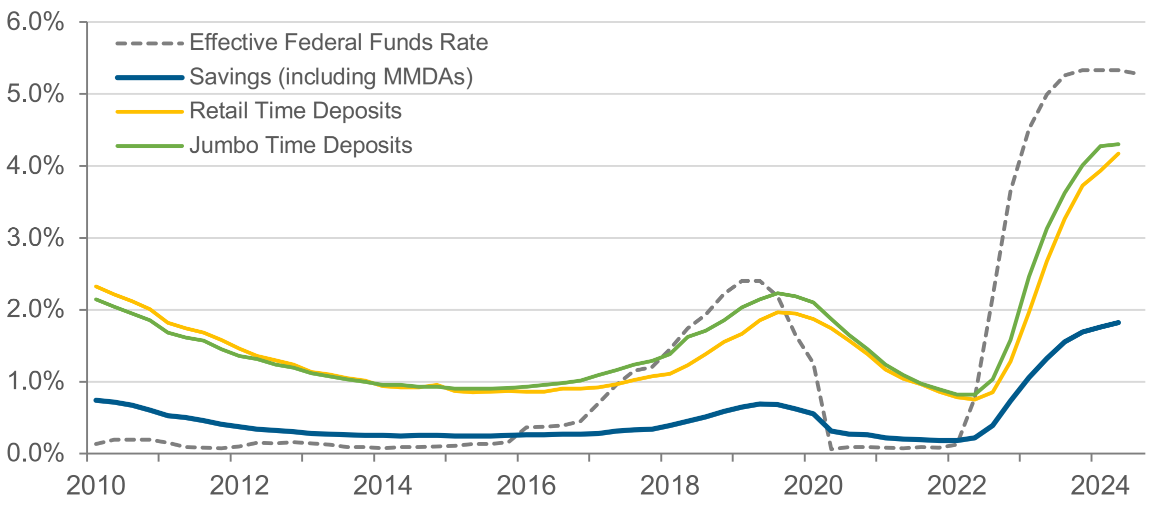
Ultimately, the Federal Open Market Committee voted at the September meeting to cut the federal funds rate by 50 basis points, to a target range between 4.75% and 5.0%. The Fed has signaled it intends to cut rates by another 25-50 basis points by the end of 2024, and will bring rates down an additional 100 basis points in 2025.

While elevated rates and healthy loan demand supported interest income in 2024, lenders are feeling the squeeze on interest expense. The average cost of deposits for ag banks (defined as commercial banks with a high concentration of agricultural loans), for example, reached a decade-long high in the second quarter of 2024, according to ABA analysis of S&P Global data. The rapid pace of rate hikes that began in March 2022 also left the banking industry with large unrealized losses on their balance sheets.

The higher interest rate environment has also presented challenges for farmers and ranchers who rely on debt to finance their operations. One respondent commented that farmers who fail to make a profit will need to capitalize or carry over their losses: "Unless interest rates come down substantially, interest expense will jump and become an additional serious impediment to regaining profitability."

Rate cuts would be beneficial for lenders that are more liability-sensitive as funding costs come down. Lower rates will also reduce unrealized losses on the balance sheet. It is less clear, though, whether rate cuts will be a net benefit for lenders with large variable rate loan portfolios that are more sensitive on the asset side of the balance sheet. For agricultural borrowers, rate cuts could help alleviate some of the pressures weighing on farm profitability. Unsurprisingly, interest rate volatility remained among the top three concerns facing lenders this year.

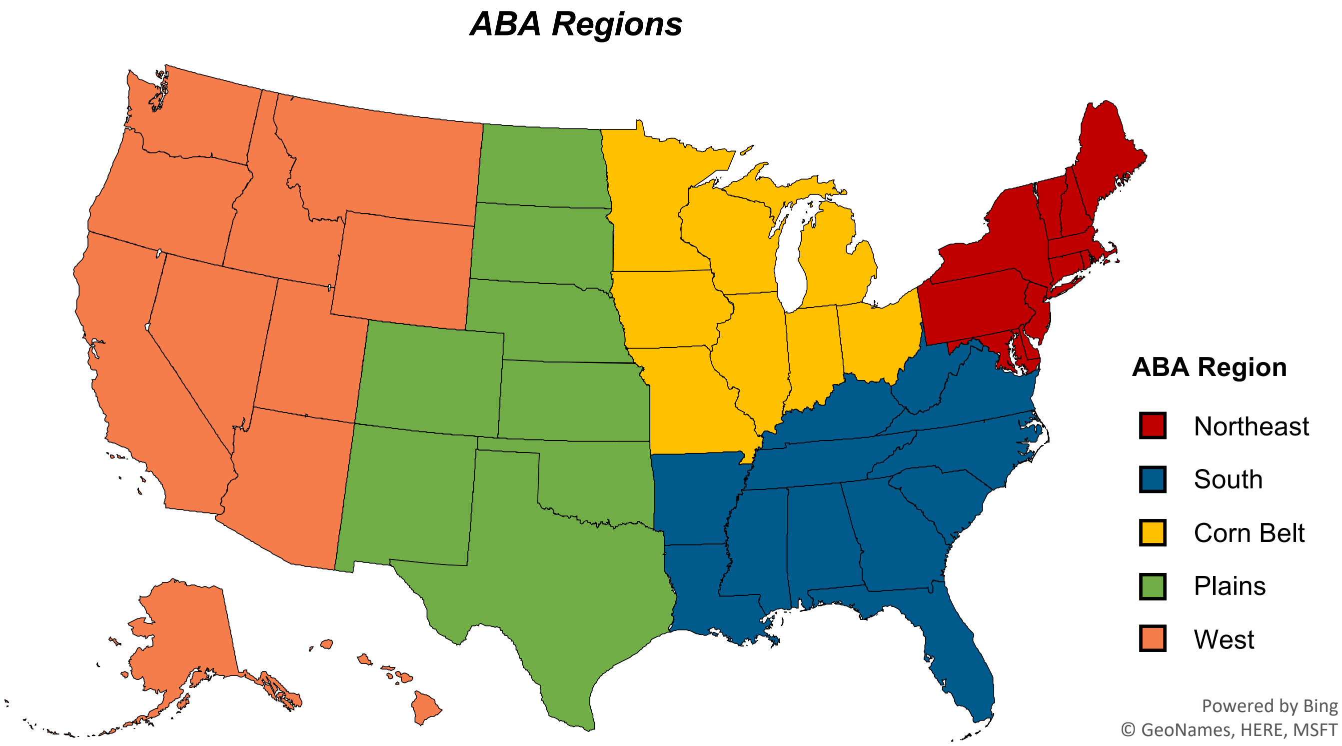
Agricultural Bank Funding Costs (Quarterly Average)



Source: S&P Global, Federal Reserve, ABA analysis
ABA defines farm agricultural banks as any bank whose farm loan concentration was greater than or equal to the unweighted industry average.

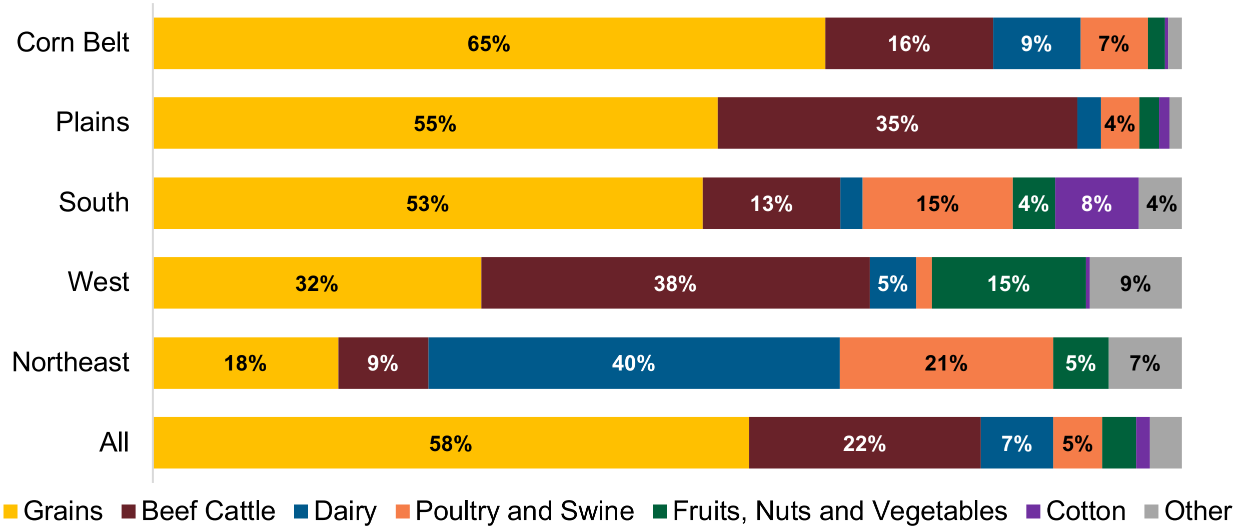
About the Survey Respondents

More than 450 agricultural lenders completed the ABA-Farmer Mac Agricultural Lender Survey in August. The responses came from a diverse set of institutions, ranging from those with under $50 million in assets to those with more than $1 billion in assets. Half of the responses came from lenders at institutions with $500 million or less in assets (50%). Regionally, the responses were somewhat concentrated in the Corn Belt and Plains (50% and 30%, respectively), which is expected given the high proportion of agricultural production and lending that occurs in those states.



Lender portfolios tended largely to reflect the regional distribution of survey respondents, such as high concentrations in grains and cattle, but there was some diversity by region. Respondents in the West and Plains reported a higher percentage of cattle than other regions. Lenders from the West also reported a higher share of fruits, nuts and vegetables. Lenders responding from the South reported a higher percentage of cotton and lenders from the Northeast reported a higher percentage of dairy. The portfolio distributions by region align closely with regional production practices.

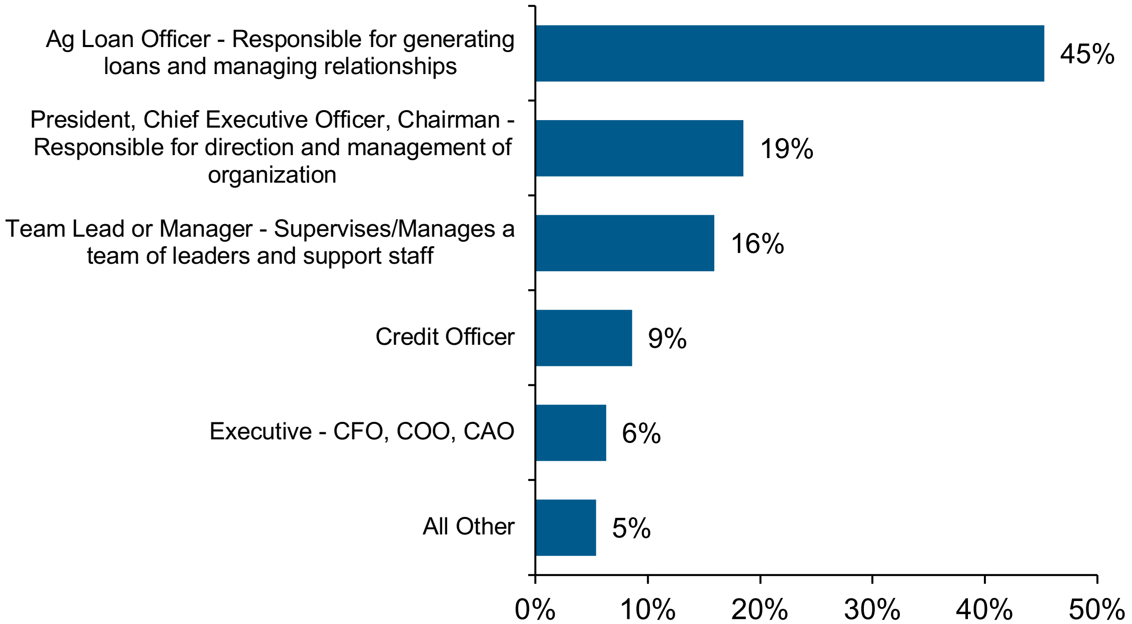
Lender Portfolios Vary by Region



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q11: What percentage of your agricultural credit portfolio is in the following?

Survey respondents hold a variety of roles at their respective institutions. The most common title or role reported was an agricultural loan officer (45%). Other titles include executives, presidents and team managers. The distribution of job roles in many ways reflects the numeric distribution of these roles within the ag lending space. Including all levels of roles ensures the survey results reflect the views of the agricultural lending space from different vantage points. .

Survey Respondent Job Responsibilities



Source: ABA-Farmer Mac Agricultural Lender Survey, August 2024
Mean response to Q5: What is your role at your institution?

About ABA and Farmer Mac

The American Bankers Association is the voice of the nation's $23.9 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard $18.8 trillion in deposits and extend $12.5 trillion in loans.

Farmer Mac is driven by its mission to increase the accessibility of financing for American agriculture and rural infrastructure. As a secondary market for our nation's agricultural and rural infrastructure credit, we provide financial solutions to a broad spectrum of customers supporting rural America, including agricultural lenders, agribusinesses and rural electric cooperatives. We are uniquely positioned to facilitate competitive access to financing that fuels growth, innovation, and prosperity in America's rural and agricultural communities. Additional information about Farmer Mac is available on Farmer Mac's website, www.farmermac.com.

ABA and Farmer Mac have been working together for more than a decade to offer the financial and educational tools bankers need to serve their agricultural customers.

FARMER MAC
Accelerating Rural Opportunities

American Bankers Association®