

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY
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For Immediate Release
January 25, 2012

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RISING FARM INCOME BOOSTS FARMLAND VALUES AND BANK PROFITS ACCORDING TO FEDERAL RESERVE AGRICULTURAL FINANCE DATABOOK

Strong farm income propelled farmland values to record highs and strengthened loan portfolios at agricultural banks at the end of 2011, according to the Federal Reserve System's Agricultural Finance Databook.

Crop prices remained historically high but volatile through the fall harvest, underpinning robust farm income expectations in areas with favorable yields. Cropland values across the Corn Belt and northern Plains soared to all-time highs with many states posting annual value gains between 20 and 40 percent. Brisk bidding at farmland auctions kept prices high and enticed landowners to place their land holdings up for sale.

Agricultural bank profits improved as borrowers repaid farm debts. In the third quarter, the return on assets at agricultural banks rose further and remained stronger than their banking peers. The share of delinquent farm real estate loans fell, and delinquent non-real estate loan volumes hit their lowest level since 2009.

Rising farm incomes boosted liquidity in the farm sector and slowed non-real estate lending in 2011. Agricultural bankers reported soft operating loan demand throughout the year. With more deposits and limited gains in non-real estate loan volumes, the average loan-to-deposit ratio at agricultural banks plunged to its lowest level in a decade during the third quarter with weaker activity in the fourth quarter.

Commercial banks struggled to maintain market share in an extremely competitive lending environment. Intense competition for loans led to more favorable loan terms, reduced interest rates and lengthening of some loan maturities by agricultural lenders.

The Agricultural Finance Databook is a quarterly compilation of national and regional agricultural finance data. The complete release is available at www.kansascityfed.org/research/indicatorsdata/agfinance.

As the regional headquarters of the nation's central bank, the Federal Reserve Bank of Kansas City and its branches serve the seven states of the Tenth Federal Reserve District: Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

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