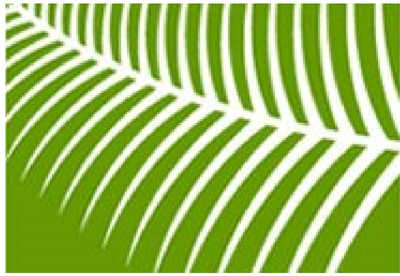

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Special Report

Agricultural Loan Portfolios Remain Healthy

by Steven R. Koenig

Steven R. Koenig is a senior economist with USDA's Economic Research Service in Washington, D.C.

Agricultural loan portfolios remain healthy, despite two years of low farm commodity prices. Most farm lenders continue to report strong profitability and good loan quality. The spillover of lower commodity prices onto farm loan portfolios has been mitigated by a large federal safety net. Even without any further federal assistance, USDA forecasted in September that direct federal payments to farmers could hit $15.5 billion in 1999, second only to the 1987 record. As long as federal transfers to farmers remain high, the effect of low commodity prices on the performance of agricultural loans will likely remain subdued.

Federal payments are underpinning 1999 net farm income, which in September was projected to be $43.5 billion, down only slightly from the average for the 1990s. When coupled with continued healthy off-farm incomes and generally strong farm balance sheets going into the farm economy downturn, the stabilizing effect of federal payments on incomes has enabled many producers to make their loan payments and maintain their creditworthiness.

With relatively steady net farm income, a strong general economy, and growing urban demand for land, farmland prices appear to be holding up in most regions. Regional surveys indicate some slippage in values and rental rates, but the declines have not been large or widespread so far. This is very important to agricultural lenders because farmland remains the primary asset backing farm loans.

This said, growing evidence that the financial strength of some farmers is weakening means farm financial conditions bear close monitoring. Loan delinquency rates and other loan quality measures are now showing an uptick for most major farm lender groups. Lender surveys also continue to report greater farm loan restructurings and renewals. More repayment problems will crop up after harvest and the effect of this year's adverse weather is fully known. Some regions will be hit harder than others will.

Another indication of weakening farm financial conditions was a rise in Farm Service Agency (FSA) lending during 1999. FSA farm loan programs provide another substantial safety net to family-sized farmers. Demand was up the most for guaranteed loans, as lenders used the programs to shore up

weak credits. FSA received supplemental appropriations to handle the demand.

Total farm debt now stands at $172 billion, up $33 billion from 1992. USDA analysis shows that much of this debt is now concentrated among very large farms and highly leveraged farms. A significant consolidation in agricultural production has occurred since the farm financial stress of the 1980s. Hog production is the most dramatic example. This structural change suggests that the financial difficulties of relatively few large farms can have a larger impact on the total quality of agricultural loans than might have been the case just a decade ago.

Like farms, consolidation in farm lenders has also occurred. Larger, geographically dispersed lenders are now in a better position to handle regional or commodity specific lending risks. However, this is still not the case for small farm banks, particularly those with less than $50 million in assets and relatively large farm loan portfolios.

While farm lending profitability may suffer going into 2000, federal support of farm incomes should help keep nonperforming farm loan volume at a manageable level for most lenders. Total equity capital is high at farm banks and the Farm Credit System. This equity offers a substantial cushion if a modest rise in nonperforming loan volume was to occur for these lenders. **jal**