Where Have All the Customers Gone?

Dispelling the Myths After 25 Years of Changes in Agricultural Credit Markets

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DISPELLING THE MYTHS AFTER 25 YEARS
OF CHANGES IN AGRICULTURAL
CREDIT MARKETS

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INTRODUCTION

The basic legislative authorities governing farm lending[1] by the Farm Credit System (FCS) were enacted in 1971, with only minor changes since then. Implementing regulations were established in 1972 and adjusted further in 1982 via a Farm Credit Administration (FCA) Board policy statement on eligibility and scope of financing issued after 1981 amendments were adopted.

Since 1971, three major trends have changed the customer base of the FCS: declining farm numbers, growth and then decrease in market share, and changes in the structure of eligible borrowing units.

This report benchmarks the primary population now eligible to borrow from the FCS—the potential customers—and describes some of the changes since 1971. The information comes primarily from the U.S. Census of Agriculture for 1969 and 1992.[2] Special analyses of these and other data by the United States Department of Agricultural (USDA) Economic Research Service (ERS) are also used, along with Call Report data of FCA. The report also provides projections for the next decade, when available.

Comparisons are in current dollars, unadjusted for inflation. This basis reflects the size of financing accurately but does not reflect the welfare or purchasing power of farmers or the change in the quantities of inputs. As the base of potential customers changes, the FCA regulations defining eligibility and scope of financing can become increasingly difficult to apply to new types of customers. It is appropriate to review them to ensure that they embody legitimate safety and soundness or scope of authority considerations.

The material is organized under twelve topic questions and a summary.

[1] Authorities for lending to cooperatives were expanded in 1981 to include export financing, and several other changes have occurred since that time.

[2] The 1969 and 1992 Census data are the nearest available to the 1971 and 1995 legislation years and are presumed to reflect the decision environment.

I. WHAT IS THE CURRENT BORROWER BASE FOR THE FARM CREDIT SYSTEM?

About 1.9 million farm operators (1.7 million of whom own some or all of the land they farm), 1.3 million other landowners, and 4,315 farmer cooperatives make up the core of the potential FCS customer base. The rural population also includes 26 million households with over 57 million nonfarm rural residents, some of whom are potential customers for housing loans. We have no comprehensive data on farm-related businesses. Other eligibles include private owners of timberland and aquatic producers and harvesters.

Supporting facts:

1. Farm operators	1,925,300 operators in 1992, farming 945.5 mil. acres
2. Owners of farmland	3 million owners in 1988[3]; less than 5% of land held by nonfamily corporations

farmer owner/operators	50%
farmer owner/operators who are also landlords	6%
landlords not farming	44%

3. Private owners of timberland	347 million acres in 1987
4. Aquatic producers	owners of 110,000 craft with 364,000 employees and harvesters and a 1990 catch of 9.7 billion lb. liveweight of finfish and shellfish
5. Farmer cooperatives	4,315 cooperatives in 1992—off by over 25% in 10 years, $79.3 billion sales in 1992
6. Rural housing	61.6 million population in rural areas in 1990: 57.7 million nonfarm rural and 3.9 million farm population, with 26 million housing units

[3] Data are for most recent available date. Population and agricultural censuses are taken regularly, but in different years. Other data are based on special one-time surveys. The difference in dates is not significant in gaining an overall picture.

II. WHAT ARE THE PROSPECTIVE TRENDS IN NUMBERS OF FARM BORROWERS?

The total number of farms will decline significantly over the next decade. Large numbers of operators over age 65 will be leaving farming, but their farm units are too small to support a new entrant of the next generation. Many of their resources will be combined into other farms. To some extent, this downtrend will be offset by expansion of part-time and residential farms.

The combined effect of these two offsetting trends could be a net decrease of about 38,000 farms per year for the next decade. Though the number of owners of farmland who would be eligible to borrow has no specific limit, specialized investments such as farmland have primarily been held by retired farmers, widows, and descendants of farmers. The numbers of this latter group of owners could increase.

Supporting facts:

1. *The number of farms has been dropping since 1935, with the average farm size growing.*

The potential number of farm customers has decreased almost continuously since 1935, but the dollar volume of loans outstanding to the farming sector has increased. This increase reflects both higher prices for agricultural assets and increased use of purchased technology on farms. Total lending and asset values decreased briefly but very significantly during the mid-1980s, when weakened export markets and rising real interest rates caused land values to drop.

a. The number of farms is down 30% since 1969, and down 72% since the peak year of 1935.
   - 1.92 million in 1992
   - 2.73 million in 1969
   - 6.80 million in 1935

b. The average acres are up 26%, from 389 acres in 1969 to 491 acres in 1992.

c. Average sales per farm are five times the 1969 level. The average sales in 1969 were $13,756; in 1992, they were $67,929.

d. Farms are highly diverse in size with a wide range in average sales per farm.

Sales class	Number of farms 1969	1992	Percent of farms 1969	1992
Under $9,999	1,780,005	906,517	65	47
$10,000–49,999	896,159	684,918	33	36
Over $50,000	51,995	333,865	2	17

2. *The declining trend in farm numbers will continue.*

   a. Numbers of farms dropped as fast during 1988–1992 as they did during the mid-1980s, yet the earlier period was one of farm distress and the later was one of relative prosperity.

      The earlier drop was dominated by fewer new entries, while the later drop reflected increased numbers of operators reaching retirement age.

Time period	Number per year Entrants	Exits	Net change
1978–1982	100,000	103,000	-3,000
1982–1987	75,000	105,000	-30,000
1987–1992	67,000	99,000	-32,500

b. The reduction in numbers is likely to continue due to the current age structure of farm operators.

   In 1992, 25% of all farm operators (477,650 operators) were age 65 or older, and they tended to be concentrated on farms too small to be stand-alone units for a new entrant. USDA estimates suggest a net decrease of 38,000 per year for 1992–1997 and 39,000 per year for the following 5 years. A decrease of 385,000 would result in farm numbers of 1.54 million in the year 2002, a 20% drop. Many of the retirement-age operators are debt free, while their replacements are likely to require debt financing.

Sources: ERS Agr. Econ. Rept 645, April 1991; Statistical Abstract of the U.S.; and USDA Agricultural Statistics.

III. HOW IS FARMING INTERRELATED WITH RURAL AREAS?

They are increasingly interdependent. One-fourth of farmers do not live on their operations. Nearly 45% of farmers report a primary occupation other than farming, and 92% have some income from nonfarm sources. One-fifth are located in areas where the primary business is farming, but one-third are in metropolitan areas.

Supporting facts:

1. *One-fourth of farm operators who responded to the 1992 Census do not live on the place they operate.*

		Percent of	
Place of residence	Number	Respondents	All operators
On place operated	1,378,701	73	72
Elsewhere	406,560	27	21
Not reported	138,309	0	7

2. *Only about one-fourth of the 2,276 rural (nonmetropolitan) counties are farming-dependent.*

   a. Rural credit markets have become much broader than just farming. In 1992, just 556 counties depended on farming for 20% or more of the proprietor and labor income earned in those counties. The number of farming-dependent counties had dropped 40% since 1969, when 941 counties were farming-dependent.

Rural counties depending on	Percent
Farming	24.4
Manufacturing	22.2
Nonspecialized	22.1
Services	14.2
Government	10.7
Mining	6.4

   b. This finding continues a long-time trend. Most rural counties in the United States have become far less dependent on farming income over a period tracing back over two centuries.

Sources: USDA ERS Rural Devel. Research Report 89, Dec. 1994; Agricultural Outlook, Sept. 1994; and Agricultural Information Bulletin, 710 Feb. 1995.

3. *Most farming is conducted in counties that are not farming-dependent.*

   Fewer than one-fifth of all farms and less than one-fifth of farm output are in these farming-dependent counties.

4. *Farming also takes place in counties that are defined by the Census as metropolitan.*

   a. In 1991, almost 30% of all farms, some 627,000 farm operations, were in nonrural counties.

   b. Metropolitan farms differ from farms in rural counties in one of two ways. A total of 54% are residential farms, having agricultural sales under $10,000 (compared to 43% in rural counties). The other 46% are full-time, intensive, business-oriented operations producing high-value crops.

IV. IS CORPORATE FARMING TAKING OVER?

Those who ask this question may use the term "corporate farming" in any of three different ways: (1) farm businesses legally organized as corporations; (2) big business, including nonfamily farming corporations and integrated corporate businesses controlling farm production by contract; or (3) commercial farm businesses of large size, regardless of how they are owned or organized.

Legally incorporated farms are not a major concern. They were only 4% of the number of farm businesses in 1992. Growth in numbers has been mostly a slow evolution from the family farm to corporate farming, done for business or estate-planning reasons. Individual proprietorships continue to be the dominant business type, some 85% of all farms. Nine out of 10 corporate farms are also family held, and 19 out of 20 have fewer than 10 shareholders.

But "corporate farming" becomes far more significant if we use either of the other definitions. This situation is based in two facts:

First, farming is very diverse consisting of—

> (1) a large number of units, perhaps 1.5 million farms, producing a relatively small share of total output, ranging from rural residences with almost incidental output ($1,000 or more in sales) to part-time farmers with more significant farm output. These farm units are more involved in use of farming resources and farm finance than other rural residents but much less than full-time commercial farmers. Farm sales can be quite important to their personal incomes, and their use of farm inputs is significant.
>
> (2) a much smaller number of commercial units (around 400,000) producing most of farm sales. Corporate farms tend to be concentrated among the larger farm sizes and are very important in some commodity sectors. Fewer than 62,000 of the 1.9 million farms produce half of all farm sales, and fewer than 250,000 account for three-fourth of sales. However, this calculation distorts the picture. Measuring size by gross sales tends to emphasize farms producing high-value output and does not provide an accurate picture of value added in farm production.[4]

[4] A cattle feeder buying 800-pound animals, feeding them, and selling fat animals at 1,100 pounds has gross sales equal to the value of an 1,100-pound animal but has produced only 300 pounds of value added. A rancher-feeder may have both gross sales and value added of the entire 1,100 pounds. This failure to net between separate farm businesses means that farm enterprises in which stages of production are carried out by different owners are over-weighted in comparisons using gross sales as a measure of concentration.

Second, a significant portion of individual farmers have contract relationships with vertical integrators in some commodities, especially poultry, specialty crops, and hogs. Data are not readily available on the extent of these practices.

Supporting facts:

1. *Corporate legal organizations are small in numbers but larger in output.*

   a. Over 85% of all farming operations are proprietorships.

Business type	Number	Percent of farms
Individual or family	1,653,491	85
Partnership	186,806	10
Corporate	72,567	4
Other	12,436	1

   b. Most (89% of the 72,567) corporate farms are family held.

   c. Almost all farm corporations are closely held (96% of all farm corporations, both family-held and other, have fewer than 10 shareholders).

Type of corporation	Number	Percent of corporations
Family held		
10 or fewer shareholders	62,755	86.0
more than 10	1,773	2.5
Other		
10 or fewer shareholders	6,914	10.0
more than 10	1,125	1.5

V. WHAT IS THE DISTINCTION BETWEEN PART-TIME AND FULL-TIME FARMERS?

There is no clear distinction between part-time and full-time farming. A significant majority of persons engaged in farming also have some form of nonfarm earnings. Earnings may be from employment off the farm of the operator or family members, from business interests, from investments, or from pension sources. The size of farming operations also varies from those that are incidental to a rural residence, but produce the more than $1,000 in sales required to be counted a farm, to those that are very large, employing both operator and hired workers full time. Part time is not necessarily a way station into or out of farming. It may be a permanent choice of occupation.

Supporting facts:

1. *The population of farm operators is bimodal.*

   a. Fewer than one-fifth of farms produce over three-fourths of product sales. Over three-fourths of farms produce less than one-tenth of sales.

   b. They have a different mix of farm and nonfarm credit needs.

	1992 percentage of	
Sales class	farm numbers	value of farm sales
Under $9,999	47.1	1.9
$10,000–49,999	25.8	7.3
$50,000–99,999	9.8	8.3
$100,000–499,999	14.9	36.6
Over $500,000	2.4	45.9

2. *Many operators engaged in farming also have major nonfarm employment.*

   a. A large majority (92% of the 1.92 million farm operators) have off-farm income from some source.

   b. Nearly half (45%) reported in 1992 that their principal occupation was not farming.

c. More than one-third (35%) worked off farm full time (200 days or more).[5]

d. Nearly half (49%) reported nonfarm employment by operator and/or spouse in 1988.

Operator	17.9
Both	27.6
Spouse only	3.7

3. *Farm income is a minor source of household income for all farm operators as a group (1991 data).*

Source of household income	Percent of income
Wages and salaries	43
Business income	24
Other off-farm sources	14
Farm income	11
Interest and dividends	8

4. *Both dependence on farm income and kind of nonfarm income vary with farm size.*

a. Small farms averaged $34,022 household income in 1991, typically consisting of a small farm loss and positive earnings from other sources.

b. Farms with sales over $500,000 had household incomes over $150,000, 88% from farm sources.

c. Household income was much higher for farm operators whose primary occupation is not farming—$45,633 vs. $29,088 for those who are primarily farmers.

Sources: USDA ERS Agricultural Income and Finance, June 1993 and Dec. 1993; USDA ERS Agr. Econ. Rept 645, April 1991.

[5] A farm is defined as a business producing $1,000 or more in sales, while full-time off farm is defined in average days of nonfarm work. Either the farm production occurs outside the nonfarm work hours or family members do the farm work.

VI. HOW BIG IS THE ROLE OF NONFARM LANDLORDS?

They provide over one-third of the real estate assets used in farm production.

The number of tenant farmers (those who rent all the land they operate) has decreased over the past generation to fewer than 200,000. A majority of farmers (1.7 million) are now owners or part owners of the land they operate. Some owners even have additional land that they rent out to other farmers.

However, nonfarm landlords remain key players in providing investment capital to the part-owner farmers, by owning and renting out 36% of all farmland (84% of rented acres). The landlord population is highly varied. About 180,000 are active farm operators who own additional land. Another 1.3 million are not engaged in farming, but this group includes a large number of widows and children of farmers, or their heirs.

Supporting facts:

1. *Most farm operators own at least some of the land they operate.*

   A total of 58% are full owners of the property farmed, and nearly 90% of farm operators own part of the land they operate. Decreases in the proportion of tenants and increases in part owners have been occurring since 1940.

2. *Full-owner farms on average have fewer acres than the farms of part owners and tenants.*

Type of operator	Percent of operators	Average acres
Full owner	58	266
Part owner	31	882
Tenant	11	566

3. *Farmers own 64% of all farmland.*

4. *Nonfarmer landlords own 36% of all farmland and 84% of the land rented by farm operators.*

5. *Farm operators who rent out some of their land to other farm operators own 7% of farmland.*

Type of owner	Land Acres (mil.)	Percent of farm acres
Farm operator		
Farming all owned acreage	540.7	57
Rented to other farmers	62.6	7
Nonfarmer landlord	342.3	36
All owners	945.6	100

Sources: Bureau of Census Statistical Brief SB93/10, May 1993, and Census of Agriculture, 1992, Table 46.

6. *Ownership is somewhat concentrated, but this fact is more related to intensive vs. extensive farming enterprises than to income-producing capacity.*

   Only 8%, or just over 100,000, of the 1.3 million nonfarm landlords, own over half of the 342.3 million acres owned by all landlords. Some of this concentration is due to the large acre size of range cattle operations.

7. *Landlords are a diverse group but tend to have farming links.*

   a. A total of 85% of nonfarm landlords live within 150 miles of the farm operation.

   b. A total of 40% are female sole owners; another 30% are female co-owners.

   c. Two-thirds are at least 60 years old.

8. *Farmland prices are determined in thin markets.*

   a. Only 3.5% of farmland changes ownership in an average year.

   b. Only 51% of land acquisition transactions qualify as arm's-length. The rest are by inheritance, gift, within-family sales, and other methods. Nonoperators are more likely to acquire by inheritance or gift than are farm operators.

   c. Thus, transfers of only 1.8% of the farmland (51% of 3.5%) in a normal year establish the "market price" for all farmland.

VII. ARE FOREIGN OWNERS TAKING OVER U.S. FARMS AND FARMLAND?

Not at all. U.S. citizens who are farm operators are the dominant influence. Foreign ownership of agricultural land is only about 1%. It is concentrated in a few areas and products, and the extent has not changed much in the 20 years that data have been reported. Even these percentages may overstate foreign influence. With the development of the North American Free Trade Agreement (NAFTA), it has been suggested that farming and ownership of farming assets may become more diversified among the three NAFTA countries.

Supporting facts:

1. *Total ownership by foreigners is a tiny share.*

   Noncitizens owned just over 1%, or 14.5 million acres, of U.S. privately held farmland at the end of 1992.

2. *Even this overstates the foreign impact.*

   a. Over half (54%) of "foreign" ownership is actually land owned by U.S. corporations but it must be counted as foreign because 10% or more of the corporate stock is foreign owned.

   b. Most is in extensive uses, not high-value products.

      - A total of 49% is forest, 31% is pasture and other, 17% is cropland, and 3% is nonagricultural.

      - The greatest acreage is in Maine timberland (14% of privately held acreage), and 90% of this is owned by four companies (two of which are U.S. corporations having some foreign owners).

   c. A total of 25% of foreign owners are Canadian, another 49% are European, and 3% are Japanese.

Sources: U.S. Bureau of Census Statistical Brief 93-10, May 1993; USDA ERS Agricultural Information Bulletin 682, Sept. 1993; USDA ERS Summary Report 23 on Foreign Ownership, Statistical Bulletin 653, June 1993.

VIII. HOW IMPORTANT ARE THE FINANCING OF FARM INVESTMENTS AND PRODUCTION EXPENSES?

Both kinds of farm capital requirements have quintupled since the 1971 Farm Credit Act was enacted. This has made reinvestment into expanding the business very important both as a use of farm business funds and as a use for credit. It has also made entry into farming even more dependent on renting or leasing assets. This growing interdependence between farmers and their input suppliers, along with the increased access the latter have to commercial paper sales and other financial markets, has made supplier financing an expanding alternative to traditional sources of institutional credit for farmers.

Supporting facts:

The following data on per-farm resource requirements are in current dollars, not deflated, because we are interested in financial requirements rather than changes in the quantity of these resources being used.

	Dollars per farm	
Category	1969	1992
Land and buildings	$75,714	$357,056
Machinery and equipment	9,770	48,605
Annual production expense	13,756	67,927

IX. HOW MANY FARMERS BORROW AND FROM WHOM?

Equity continues to be the dominant source of financing for both farm operations and ownership of agricultural assets. Fewer than half of farm operators have any debt. Typically, the rate of return on farmland assets will not self-finance a mortgage debt that even approaches the 85% lending limit of the FCS. So income from other sources is required to fully amortize such debt.

The great increase in investments and operating costs means that both the amount of debt and the amount of equity financing have grown substantially over the past 20 years. Dollar volume is much higher for all lenders.

Debt market shares have shown significant cycles. During the 1970–1985 period, FCS mortgage volume increased because of the rising price of farmland based on growing world markets and the increased ability of the FCS to finance farmers who had smaller amounts of their own equity to invest. Loan limits were changed in 1971 from 65% of normal agricultural value to 85% of fair market value. Although few loans were made at the maximum, borrowers with less equity could participate. In fact, the proportion of farm operators who were pure tenants declined during this period. FCS operating loan share grew between 1979 and 1983 because of illiquidity of commercial banks and high interest rates.

Both short- and long-term market share dropped for the FCS after the land price correction of the mid-1980s and the financial problems of FCS institutions. During this same period, commercial banks enjoyed strong liquidity and grew in market share in both real estate and operating credit areas.

Total farm business debt peaked at $194 billion in 1984, fell to a low of $137 billion in 1989, and was $148 billion at the end of 1994, 23.6% below the peak.

Supporting facts:

1. *Equity financing is more dominant in agriculture than other industries.*

    a. The debt-to-asset ratio for the agricultural sector as a whole fluctuates around the level of 20% on a current value basis. Even adjusting for the fact that most industry data are on a book or cost basis, this means that agriculture uses more equity, or is less leveraged financially.

b. The sector data include both the equity of owners who are farmers and the farm equity of nonfarm landlords. Much of this equity is in farmland and can be accessed only by selling or borrowing against the land.

2. *Fewer than half of farm operators have any debt.*

a. Just 45% of all farm operators reported any interest paid on farm debt in 1992.

b. Full-time farmers are more likely to have debts. Two-thirds of the operators with debt consider their primary occupation to be farming.

Category of Farm Operator	All operators (%)	By primary occupation (%) Farming	Other
All farm operators	100	55	45
Operators with no interest expense	55	26	29
Operators with interest expense			
on real estate debt	32	20	12
on non-real estate debt	26	18	8
on either or both	45	29	16

c. Type of debt varies by primary occupation.

Those who list farming as a primary occupation are about equally likely to have real estate and non-real estate debt. Those who list another primary occupation are less likely to have any debt. When they do, it is more likely to be real estate debt.

d. Young farm operators (age 35 or under) are more likely to have debt.

They made up 11% of all farm operators: 57% had interest paid on debt and 43% did not, almost the reverse of percentages for all farmers.

Category of Farm Operator	All operators	By primary occupation Farming	Other
	Percent of all farm operators		
All farm operators	100	55	45
Operators age 35 or under	11	6	5
	Percent of farm operators age 35 or under		
With interest expense			
for real estate loan	33	20	13
for non-real estate loan	38	26	12

3. *Sources of debt financing are changing.*

   a. Sources continue to be dominated by commercial banks, which were gaining market share in the first half of the 1990s while the FCS was losing share. This trend in market share appears to have ended in 1995.

   b. Agricultural supplier credit has increased and insurance company mortgages have decreased.

      Suppliers of credit include farm supply cooperatives and farm machinery companies. Some have broadened their financing services well beyond financing the inputs they sell and have innovated in simple, quick- response service.

   c. Vertical integration, especially in hog and broiler production, has made it difficult to identify the "farm operator–producer" for determining eligibility from the FCS.

4. *Shares of farm debt have shown both trends and cycles.*

   a. The FCS is still the largest farm mortgage lender, but it has been yielding share to commercial banks.

   b. Commercial banks have long been the dominant supplier of shorter term loans, and that share has been increasing.

Market Shares of Farm Business Debt

Year	FCS	Banks	Life ins.	Farmers Home Administration	Indiv.
1960	16.6	27.1	11.8	4.4	40.1
1970	24.0	28.3	10.5	5.9	31.2
1980	31.8	22.6	7.2	10.5	28.0
1985	31.6	25.0	6.3	13.8	23.2
1990	25.9	24.5	7.0	12.3	20.2
1995	24.3	40.7	6.2	6.7	22.0

Sources: Nontraditional Lenders in Agricultural Credit Markets. Agribusiness, vol 10:4:341ff. 1994; Bruce Sherrick, Steve Sonka, James Monke, and USDA ERS; Farm Income and Finance.

c. The FCS has been the dominant lender to farmer cooperatives, with over 60% of the market. However, the most recent data available on cooperative borrowing are for 1987.

5. *The FCS plays an important role in ensuring competition among lenders serving farmers.*

a. USDA ERS reports that 25% of U.S. rural counties are served by only one or two commercial banks. These banks may be able to earn excessive profits and operate inefficiently. (Source: Agricultural Outlook. May 1994, pg. 19.)

b. The Federal Reserve Bank of Dallas reported in 1995 that most rural counties in Texas have three or fewer commercial banks, and a significant number have only one. Statewide branch banking had reduced concentration of assets in both urban and rural markets, but concentration remained high in rural areas.

X. WHAT ARE THE FCS LENDING PATTERNS?

Loan volume outstanding from the FCS at midyear 1995 was $55.7 billion in gross loans, up slightly from the mid-1984 volume of $54.7 billion. By year-end 1995 gross volume was $58.6 billion.

Almost three-fourths of this volume is to farmers and other borrowers under Titles I and II of the Farm Credit Act. Over two-thirds of the farmer loans are secured by real estate, but not all of these loans are used to purchase land.

The other one-fourth is to farmer cooperatives under Title III. More than four-fifths of the cooperative loans are domestic, with the remainder supporting agricultural exports.

Supporting facts:

1. *The FCS has become more diversified in its loan portfolio.*

   As a result of nearly a decade of limited growth in farm mortgage lending, currently just half the portfolio is long-term real estate loans, compared with 67% at the end of June 1985. In contrast, lending to cooperatives has grown from 10.9% to 26% of outstanding volume from June 1985 to June 1995.

FCS Loans Outstanding on June 30, 1995

	Customer	Loans by type	Percent of FCS volume
	$ billions		
To cooperatives	$ 14.6		26
domestic		$ 11.9	21
international		2.7	5
To farmers and others	41.1		74
long-term real estate		28.0	50
short/intermed.		13.1	24
All loans	55.7	55.7	100

2. *Loans to farmers continue to be the dominant lending under Titles I and II of the Farm Credit Act.*

    a. Over 91% of the loans under Titles I and II are farm loans, either secured by agricultural real estate or for eligible short- and intermediate-term farm purposes. Some of these funds may be used for residence, family, and other needs of farm operators as well as for farm operations.

    b. About 4% are for rural housing, and the remaining 5% are for processing and marketing, aquatic, or other purposes.

FCS Loans Outstanding to Farmers and Others
Under Titles I and II on June 30, 1995

		$ Billions		Percent share
Agricultural real estate		25.8		63
Agricultural non-real estate		11.7		28
Rural housing		1.6		4
All other		1.2		3
processing/mktg.	0.261		0.6	
farm-rel. business	0.136		0.3	
aquatic	0.078		0.2	
other	0.759		1.9	
Unidentified*		0.751		2
Total Title I and II loans		41.089		100

* Loans that are bank assets reported in Call Reports, but not identified by type in the Loan Account Reporting System (LARS) database.

3. *Type of security on loans is a fairly good, but imperfect, measure of the primary use of the funds.*

(NOTE: The following data are based on FCA's Loan Accounting and Reporting System (LARS), but exclude the $0.75 billion in unidentified amounts reported above.)

    a. About four-fifths of the number and almost seven-eighths of the amount of loans secured by real estate are used primarily for agricultural real estate. Rural housing purposes bring the totals to well over 90% of both number and amount of Title I lending for real estate purposes.

    b. Nearly 96 of every 100 loans and nine-tenths of the amount of loans not secured by real estate are used for agricultural non-real estate purposes.

FCS Loans by Purpose and Title, June 30, 1995
Based on LARS Data*

Loan purpose	Percent of number: Title I	Title II	All loans	Percent of amount: Title I	Title II	All loans
Ag real estate	82.1	1.3	49.5	87.5	4.9	63.9
Rural housing	12.1	1.2	7.7	5.5	0.5	4.1
Ag non-real estate	4.6	95.9	41.4	4.3	90.6	28.9
Processing/mktg.	0.0	0.3	0.1	0.3	1.6	0.6
Farm-rel. bus.	0.1	0.5	0.3	0.2	0.7	0.3
Aquatic	0.1	0.3	0.2	0.1	0.5	0.2
Other	1.0	0.5	0.8	2.2	1.2	1.9

*Percentages of amounts differ from the previous table because the LARS loan account data do not include $0.75 billion of loans included in Call Report data.

4. *The FCS supplied slightly less than a proportionate share of its financing to young farmers.*

   a. 6.2% of farm operators in 1992 were 35 or younger and had debt.

   b. 4.7% of the number and 3.9% of the volume of FCS loans in 1994 were to this group.

XI. WHAT PROCESSING, MARKETING, AND OTHER SERVICES DO FARMERS BUY?

Available data give only an incomplete picture. In 1992, $130.8 billion in farm production expenses were incurred. A large proportion of these purchases were made from agricultural businesses or from other farms. However, Census of Agriculture data do not identify processing and marketing activities conducted as part of a farming business.

Category of production expense	$ Billions in 1992
Livestock purchased	$23.0
Feed purchased	24.1
Fertilizer/chemicals/seed	18.6
Labor—hire and contract	15.3
Energy	8.7
Interest expense	8.1
Other	33.0

XII. HOW BIG IS THE RURAL HOME FINANCING MARKET?

The potential appears to be very large. The number of people living in rural areas is nearly 16 times the number living on farms, even though the definition of farms includes some units that are primarily rural residences. Rural people reside in some 26 million housing units of all types and have varying needs for housing- related finance. Rural residences have enjoyed less favor in housing finance because they are more diverse than urban properties, offering less uniform collateral. This makes them less easily merged into the various programs of Fannie Mae and Freddie Mac for securitizing such loans.

Rural housing loans have become relatively significant for the FCS in the North Central and Southeastern parts of the United States, but are subject to a 15% portfolio limit in each lending institution. All persons identified in Census data reported for rural areas are potentially eligible, because Census rural areas by definition contain only villages of under 2,500 population. Housing loans made to farm operators are considered to be part of farm financing, not rural home financing.

Supporting facts:

1. *A large portion of the U.S. population lives in rural areas, and most of them are not farm operators.*

    a. One-fourth of the U.S. population, 61.6 million people, lived in rural areas, according to the 1990 U.S. Census. Of these, 3.9 million lived on farms.

        • Numbers of rural population are up from 53.9 million in 1970, but percentage of total population that is rural is down from 27% in 1970.

    b. A rural area is anything not classified as urban. Urban generally includes all places of 2,500 or more population that are incorporated, but excludes rural portions of extended cities.

        • In 1990, 13,307 incorporated places under 2,500 population were counted. This represented 69% of all incorporated places but only 6.4% of the U.S. population. Residents are currently eligible for FCS loans.

- Another 16,929 incorporated places had 2,500 to 9,999 population, making up 19% of places and 12% of the U.S. population. Going to 20,000 population, as proposed in the Clayton Bill (H.R. 4379) in 1994, would add 1,038 places, making up 5.4% of number and 9.6% of population. Neither of these groups is FCS-eligible currently.

2. *One-fourth of U.S. housing units, some 26.0 million units, were in rural areas.*

3. *The FCS has loans on only a small portion of rural residences.*

    a. The FCS had 49,126 rural home loans as of June 30, 1993, with a 1994 year-end outstanding balance of $1.749 billion.

    b. A total of 98% of the number and 93% of the amount were in loans of under $100,000. Just 43 loans, totaling $12.8 million, exceeded $200,000.

XIII Summary

- Agriculture's profile is not as clearly defined as it once was.
- Farmers and other borrowers are a heterogeneous group. Nonfarm landlords and rural residents, as well as farm operators, are important groups. The result is a diverse mix.
- Future trends are going to create more changes, as exemplified by the large numbers of farm operators who have passed the age of 65 and by the increase in concentration and vertical integration.
- Equity financing overwhelmingly dominates the agricultural sector. Over half of all farms have no debt. But to the other half, debt financing is very important.
- The FCS and commercial banks have been the dominant suppliers of farm loans. But trade credit and nontraditional sources have gained in recent years. Some of this gain is associated with vertical integration and contract production.
- Market shares in real estate-secured financing are larger in the FCS than for commercial banks, but the reverse is true for debt not secured by real estate.
- The security offered on farm debt is not the same as the purpose for which the borrowed funds are used. Significant amounts of operating debt are secured by real estate.
- Lending to cooperatives has gained in FCS portfolio in the past decade, while farm mortgage lending has dropped.
- These changes require periodic adjustments in FCA policies and regulations to keep them workable as the customer base changes.

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