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Ag Lenders Diligent on Risk Management

by:

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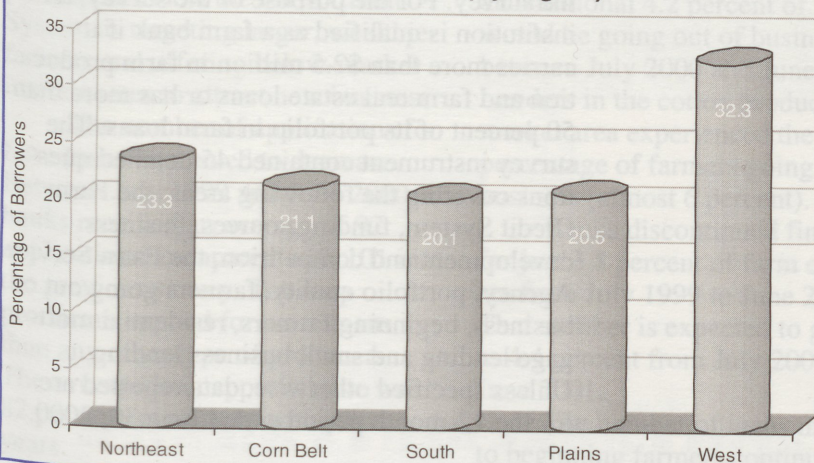
Banks requiring their farm borrowers to use crop insurance rose from 44 percent in 1999 to 49 percent in 2000, according to the annual ABA Farm Credit Survey. Crop insurance was most likely to be required by banks serving cotton farmers, as reported by 94 percent of these institutions, and was least likely to be required by those serving dairy farmers (35 percent). Also of interest, the smaller the bank, the more likely for it to require crop insurance: 57 percent of banks with less than \$50 million in assets required crop insurance,

compared with 35 percent of banks with more than \$300 million in assets.

While the percentage of banks requiring borrowers to utilize hedging practices or to have a contract for goods produced did not change significantly over the year, more banks reported having such policies on a case-by-case basis. On average, 22 percent of banks' farm borrowers had contracts for their agricultural products. This percentage rose to 28 when reported by institutions with more than \$300 million in assets. The percentage of borrowers with contracts also differed from region to region, from 20 percent of banks in the South to 32 percent of banks in the West. Similar differences were observed among banks that are oriented on different types of farming. While more than half of the borrowers who engaged in fruits and nuts farming had contracts, just 10 percent of borrowers involved in tobacco agricultural products did so.

Despite continued financial stress in the ag sector, the overall quality of the farm loan portfolio showed moderate improvement during the survey period, which could be attributed in part to banks' attention to risk management. As

Customers Who Have Contracts (by region)



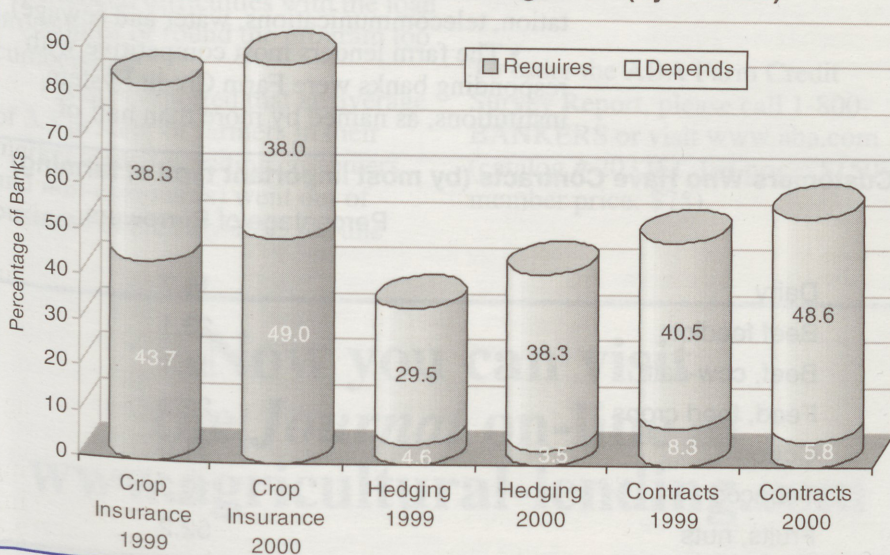
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of June 30, 2000, the average percentage of farm loans delinquent 30 days or more at banks reporting delinquencies was 2.2 percent of outstandings and 2.1 percent of loans. A substantial proportion (38 percent) of agricultural banks reported no delinquency for the

reporting period. A year ago, 36 percent of banks reported no delinquent loans. For banks reporting, delinquencies averaged 2.4 percent of outstandings and 2.1 percent of loans as of June 30, 1999.

The ABA Farm Credit Survey was conducted in the fourth quarter

Banks Requiring Borrowers to Manage Risk (by method)



2000. A total of 347 farm banks participated in the survey. For the purpose of the survey, an institution is qualified as a farm bank if it carries more than \$2.5 million in farm production and farm real estate loans or has more than 50 percent of its portfolio in farm loans. The survey instrument contained 45 detailed questions covering the following areas: the Farm Credit System, funding sources, business development and competition, the Farm Service Agency, portfolio quality, farmers going out of business, beginning farmers, residential mortgage lending and small business lending. Unless specified otherwise, data reported are for the 12-month period ended June 30, 2000.

Listed below are highlights of other survey findings:

- More than half of the respondents stated that their deposit growth lagged behind loan demand. Almost 6 percent of respondents turned down creditworthy loan applications because of a lack of loanable funds.

- The leading rural development issue facing respondents' market area was financing for business start-ups and expansions, unchanged from the previous survey. The second most critical issue was infrastructure (transportation, telecommunications, water and sewage).

- The farm lenders most competitive with responding banks were Farm Credit System institutions, as named by more than half of

Customers Who Have Contracts (by most important type of farming)

Percentage of Borrowers

Dairy	15.7
Beef feedlots	23.1
Beef, cow-calf	18.1
Feed, food crops	22.3
Cotton	31.0
Tobacco	10.3
Fruits, nuts	52.2

participating banks. Overall, survey participants view the Farm Credit System as targeting larger, wealthier farmers and offering below-market interest rates to attract new business.

- The number of applications for farm loans continued to decrease. Between July 1999 and June 2000, banks received an average of 92 applications, compared with 101 in the previous survey. Tobacco producers applied for more loans than any other type of producers. The average loan approval rate was 82 percent, consistent with prior years.

- The majority of participants (83 percent) were lenders for Farm Service Agency (FSA)-guaranteed loans. More than two-thirds reported that they made FSA-guaranteed loans during July 1999 to June 2000. The dollar volume of such new loans was \$764,483 per bank, compared with \$1,124,962 per bank in the previous survey. Participants that opted for not making any FSA-guaranteed loans foremost had experienced difficulties with the loan procedures or found the program too cumbersome.

- Banks reported that an average of 3.3 percent of farmers in their market areas (including customers and non-customers) went out of business in the July 1999 to June

2000 period. Banks anticipated that an additional 4.2 percent of farmers would be going out of business between July 2000 and June 2001. Lenders in the cotton production market area experienced the highest percentage of farmers going out of business (almost 6 percent).

- Banks discontinued financing for just 3.8 percent of farm customers from July 1999 to June 2000. That number is expected to grow up to 4.4 percent from July 2000 to June 2001.

- The number of loans made to beginning farmers continued to decline in 2000 from the levels attained in 1998 and 1999. Beginning farmers in the dairy and poultry markets were most likely to approach their lenders about farm loans.

- Survey respondents cited low commodity prices and the decline in the number of farmers as the most significant factors that threaten agricultural lending in the coming 12 months.

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