

# AgLetter



## FARM DEBT

Farm debt continues to edge upward as expanding production and capital expenditures add to the loan demand facing farm lenders. Final tallies for 1996 are not yet complete. However, reports from three of the main lending institutions that serve farmers—banks, the Farm Credit System and life insurance companies—provide considerable insight on a large share of total farm debt. Those reports, coupled with earlier USDA projections for other lenders, suggest that farm debt approximated \$156.2 billion at the end of 1996, up 3.6 percent from the year before. Of the total, about \$81.7 billion was secured by farm real estate, while the remaining \$74.5 billion constituted the so-called nonreal estate (or all other) farm debt. For the fourth consecutive year, the relative (percentage) rise in nonreal estate farm debt last year slightly exceeded that for farm real estate debt.

Last year's growth in farm debt, while not large from the perspective of the 1960s and 1970s, was considerably above the 2.7 percent annual average of the three previous years. Pending final tabulations, last year's rise may also represent the largest annual rise since the early 1980s. Changes from one year to the next in the amount of farm debt encompass many variables. The most important are those that influence the demand for new loans, the willingness and ability of lenders to extend new credits to farmers, and the ability of farmers to repay existing loans. Current and prospective farm earnings are a key attribute in all three areas. As such, faster debt growth may reflect relatively strong earnings, or it may stem from lower earnings.

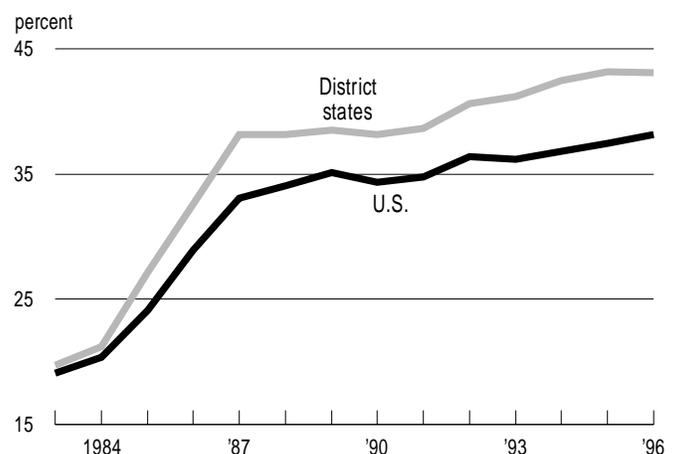
Some observers are inclined to view faster debt growth as an ominous sign. This view has been accentuated by the apparent phasing out of government price support programs for agriculture. And there were components of the farm sector that faced considerable stress last year, especially beef-cow operators. But in most other respects, last year's faster debt growth probably reflected relatively strong earnings among farmers. The combination of very high grain prices and sizable government payments added significantly to the earnings of crop farmers. On the one hand, those high earnings tempered the need for new operating credit while helping to sustain

repayments on existing indebtedness. Reflecting the latter, various surveys point to fairly strong farm loan repayment rates through much of last year, although the pace did slow in the final quarter when grain prices retreated. In addition, outstanding CCC loans—crop price-support loans obtained from the Commodity Credit Corporation—retreated considerably last year.<sup>1</sup>

While high crop earnings may have tempered the demand for new operating loans and sustained loan repayment rates, the relatively prosperous conditions in 1996 also triggered increased capital expenditures and more aggressive bidding on farmland. Unit retail sales of farm tractors and combines rose for the fourth consecutive year in 1996. Moreover, the ongoing structural change in the livestock, dairy, and poultry sectors added to the expenditures on new farm buildings and facilities. In addition, various reports show farmland values for much of the Midwest rose a tenth or more last year with no fall-off in the amount of transfers. The increased borrowings needed to finance these expenditures no doubt added to the faster growth in farm debt last year.

Banks remain the dominant institution serving the credit needs of farmers. The combined portfolio of loans to farmers held by all banks rose 2.8 percent in 1996, reaching \$65.5 billion at year end. The total included \$25.0 billion (up 4.6 percent) in farm loans secured by

The share of bank-held farm loans that are secured by real estate continues to rise



real estate and \$40.5 billion (up 1.8 percent) in all other loans to farmers. Last year's rise for both components fell well short of the trend rate of growth for the last several years.

The USDA series on farm debt focuses on the business-related component of loans to farmers and thus excludes the household-related financings of farm families. As such, the above totals for bank loans to farmers will likely translate into about \$61.7 billion in the USDA series on farm debt. The share of farm debt owed to banks had been rising steadily, from around 22 percent in the early 1980s to a peak of just under 40 percent at the end of 1995. However, the available reports show most other lenders recorded faster growth in farm loans than banks in 1996. Consequently, the share of farm debt owed banks likely edged nominally lower last year.

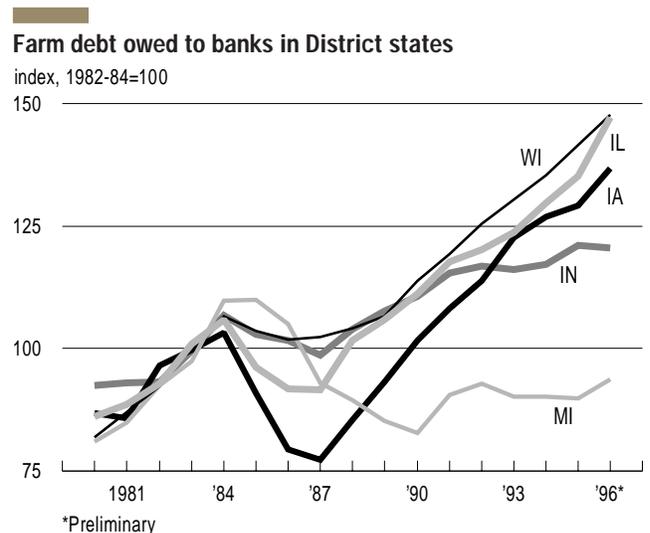
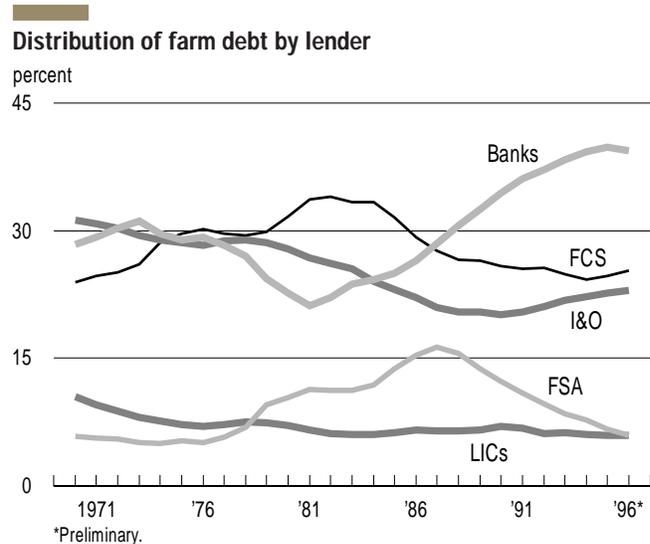
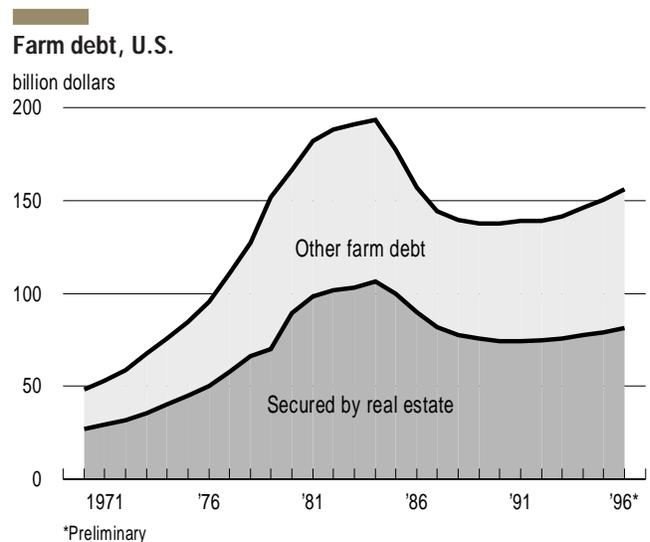
The fastest growth appears to have been in the Farm Credit System (FCS), the second largest institutional lender serving farmers. The reports from this cooperatively-owned system of entities that lends mostly to farmers and their cooperatives (as well as certain other rural-related borrowers) shows their portfolio of loans to farmers rose about 6 percent in 1996. That gain will likely translate into about \$39.7 billion in farm business debt owed to the FCS when the USDA completes its final estimates.

In recent years, nonreal estate farm loans have been the fastest growing component of the farm debt owed the FCS. Preliminary figures show nonreal estate farm loans held by the FCS rose 12 percent for the second consecutive year in 1996. The largest component of the farm debt owed to the FCS is secured by real estate. It appears farm real estate debt owed the FCS rose about 3.7 percent in 1996, reaching \$25.8 billion at year end. It was the second consecutive annual rise in such loans, reversing the downturn of the prior ten years. The FCS remains the largest lending institution providing real estate financing to farmers, but their roughly 31.5 percent share now out-ranks banks by only 3 percentage points. During the first half of the 1980s, the FCS accounted for over 40 percent of the farm debt secured by real estate while the share owed banks averaged less than 10 percent.

Life insurance companies have also provided a year-end update on farm loans, virtually all of which are secured by real estate. A report from the American Council of Life Insurance shows their member companies recorded a 4.0 percent rise in farm loans in 1996. As tracked by the USDA, that implies some \$9.46 billion in farm business real estate debt was owed to life insurance companies (LICs) at the end of 1996.

In addition to the lenders noted above, final tabulations on farm sector debt await USDA estimates for the Farm Service Agency (FSA) and for the catch-all category

identified as individuals and others. The FSA is the successor to the Farmers Home Administration. Farm debt owed this federal government agency has been trending steadily lower for 11 years, reflecting cuts in programs that lend directly to farmers and the belated write-offs



and restructurings for the large share of its portfolio that became uncollectible over the years. Earlier, the USDA projected that the amount of farm debt owed the FSA declined 8 percent in 1996. The estimated \$9.3 billion in such debt outstanding at the end of 1996, if supported by final tallies, would mark a drop of over 60 percent from the peak of 11 years ago.

The amount of farm debt owed to individuals and others (I&O) is substantial. But relative to the reports that help track the performance at other farm lenders, the information for this category of lenders is limited. However, it has been among the fastest growing sources of credit for farmers in recent years. Earlier, the USDA projected that the amount of farm debt owed to individuals and others reached \$35.9 billion as of the end of 1996. That marked an increase of 5.1 percent from the year before and it extended the record of relatively strong growth that has characterized this component of farm debt during the 1990s. Since 1990, the amount of farm debt owed to individuals and others has risen nearly 29 percent, virtually matching the strong performance of banks over the same period. The rise in nonreal estate farm lending over that period has been especially strong (37 percent) as farmers increasingly turn to non-conventional lenders (such as farm equipment manufacturers, merchants and dealers of farm inputs, and farm-supply cooperatives) to finance their operations. Increasingly, the farm loans provided through these sources encompass all types of credits, not just loans to finance the product of the entity providing the financing.

While the reports that track farm debt nationwide are becoming more complete for 1996, comparable information for individual states still awaits further compiling by the USDA. Currently, information on farm loans held by banks is about all that is available at the state level. Farm loans held by all banks in the five states comprising the Seventh Federal Reserve District rose 5.6 percent last year, double the gain reported by banks nationwide. Farm loans secured by real estate rose 5.3 percent among banks in District states while nonreal estate farm loans rose 5.8 percent. The performance in farm loans at banks for individual District states varied widely last year. Farm loans at banks in Indiana declined marginally last year, reflecting modest cuts in both the real estate and the nonreal estate components. At the other extreme, farm loans at banks in Illinois rose nearly 9 percent, with strong gains for both real estate and nonreal estate farm loans. The rise in farm loans among all banks in Iowa approached 6 percent while that for banks in both Michigan and Wisconsin approximated 4 percent. Nonreal estate farm loans paced the rise in farm loans among Iowa banks while the real estate component dominated the growth in

farm loans at banks in Michigan and in Wisconsin. The reasons behind the widely varying farm loan growth rates are not entirely clear.

Although farm loans at all banks in District states rose substantially last year, trends for individual banks varied considerably. At the end of 1995, there were just over 1,900 banks in the five District states that had a portfolio of farm loans. During 1996, less than 60 percent of those banks expanded their farm loan portfolio. Farm loans among those "expanding" banks rose more than a fifth, propelling their share of all bank-held farm loans from 63 percent at the end of 1995 to 73 percent one year later. Another 5 percent of the farm-lending banks (holding a comparable share of farm loans at all banks) went out of existence in 1996 as a result of mergers and acquisitions and/or restructurings into branching systems among banks previously organized as a multi-bank-holding company. Presumably, the bulk of the farm loans held by the banks that went out of existence went to the acquiring and/or surviving banks and probably accounted for much of the extraordinarily large gains recorded by some of the "expanding" banks. The remaining 35 percent of the banks with a portfolio of farm loans at the end of 1995 recorded a decline in that portfolio during 1996. Farm loans at these "cutting" banks fell by a tenth. Among the District states, the share of banks with farm loans that went out of existence in 1996 was noticeably higher in Iowa and Wisconsin. Similarly, a proportionately large share of the "cutting" banks were located in Michigan while Iowa registered a proportionately large share of the "expanding" banks.

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<sup>1</sup> CCC loans are not included in USDA farm debt figures. To the extent that loans from traditional farm lenders are a substitute for CCC loans, the indicated 1996 rise in farm debt may be somewhat overstated.

*AgLetter* (ISSN 1080-8639) is published monthly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice president, Mike A. Singer, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

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## SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers</b> ( <i>index, 1990-92=100</i> )	May	107	0.9	-4	7
<b>Crops</b> ( <i>index, 1990-92=100</i> )	May	117	1.7	-11	1
Corn (\$ per bu.)	May	2.68	-4.3	-35	11
Hay (\$ per ton)	May	118.00	0.9	24	29
Soybeans (\$ per bu.)	May	8.42	2.3	9	51
Wheat (\$ per bu.)	May	4.09	-0.5	-29	11
<b>Livestock and products</b> ( <i>index, 1990-92=100</i> )	May	100	1.0	3	14
Barrows and gilts (\$ per cwt.)	May	58.60	7.7	2	56
Steers and heifers (\$ per cwt.)	May	68.80	1.3	19	8
Milk (\$ per cwt.)	May	13.10	-2.2	-8	7
Eggs (¢ per doz.)	May	64.3	-2.3	-7	16
<b>Consumer prices</b> ( <i>index, 1982-84=100</i> )	May	160	-0.1	2	5
Food	May	157	0.0	3	6
<b>Production or stocks</b>					
Corn stocks ( <i>mil. bu.</i> )	March 1	4,494	N.A.	18	-20
Soybean stocks ( <i>mil. bu.</i> )	March 1	1,056	N.A.	-11	-23
Wheat stocks ( <i>mil. bu.</i> )	March 1	822	N.A.	0	-15
Beef production ( <i>bil. lb.</i> )	April	2.10	6.5	-3	13
Pork production ( <i>bil. lb.</i> )	April	1.45	1.7	-3	3
Milk production* ( <i>bil. lb.</i> )	May	11.8	3.0	2	0
<b>Receipts from farm marketings</b> ( <i>mil. dol.</i> )	February	13,343	-35.9	3	0
Crops**	February	6,144	-44.4	0	12
Livestock	February	7,126	-9.3	7	0
Government payments	February	74	-96.1	-61	-90
<b>Agricultural exports</b> ( <i>mil. dol.</i> )	March	4,984	1.2	-9	-1
Corn ( <i>mil. bu.</i> )	March	165	7.7	-23	-16
Soybeans ( <i>mil. bu.</i> )	March	67	-36.5	-28	-20
Wheat ( <i>mil. bu.</i> )	March	59	-4.1	-47	-45
<b>Farm machinery sales</b> ( <i>units</i> )					
Tractors, over 40 HP	May	7,215	-15.8	22	25
40 to 100 HP	May	4,631	3.0	19	18
100 HP or more	May	2,584	-36.5	28	40
Combines	May	582	-4.9	18	-6

N.A. Not applicable

\*\*20 selected states.

\*\*Includes net CCC loans.



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Federal Reserve Bank of Chicago  
Public Information Center  
P.O. Box 834  
Chicago, Illinois 60690-0834  
312-322-5111

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