Farm Lending Performance and Trends in the U.S.: How Does the Current Situation Compare?

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As many who are involved with the U.S. agricultural sector are aware, U.S. farmers are having to deal with financial situations not seen in the agriculture sector since the mid 1980s. Over the past two years, real prices (prices adjusted for inflation) of agricultural commodities produced in Missouri have been critically low. Critical refers here to the ability of the price received by producers to cover cash costs. In many instances commodity prices have dropped below critical. However, supplemental government program payments and government disaster relief payments have helped some producers weather the financial turbulence.

There is considerable concern for the survival of the small- and medium-sized agricultural producers. One indication of the financial performance of agricultural producers during the past two years, relative to historical measures, is agricultural lending performance on agriculture loans. The next few paragraphs summarize U.S. data assimilated from an Economic Research Service bulletin (AIS-74, February 200) titled, "Agricultural Income and Finance."

Figure 1 is used to graphically depict the historical trend in farm loan volume delinquent 30 days or more. In 1998 farm loan delinquencies spiked to over 3% of total agriculture loans, but by 1999 this number was down to below 2%. The spike in 1998 may have been due to the supplemental government AMTA payments being received late in 1998, allowing producers to repay debt obligations and shore up their financial status late in 1998. During 1999, record government payments may have held down farm loan delinquencies. However, farm loan delinquencies for 1998 were the highest since 1985, and only in 1991, since the late 1980s, was farm loan delinquencies greater than 1999 (except 1998).

Figure 2 is used to indicate banks' farm borrowers who had bank financing discontinued during the year. Almost 2% of borrowers had financing discontinued in 1998 and 1999. These values for 1999 were the highest since 1987. It may have been that many borrowers had been on financial probation for the years prior to 1998 and 1999, and the low commodity prices of 1998 and 1999 acted to expedite financing discontinuation. Figure 3 shows lender expectations of the percentage of borrowers thought to have financing discontinued by the following June (for instance, the 1999 bar is for up through June 2000). In 1998 and 1999 lenders have not been optimistic about borrower financing opportunities. Lenders are projecting nearly 4.5% of borrowers will have financing discontinued by June 2000. This value is up slightly from 1998. Furthermore, for both 1998 and 1999 the percentage expectations exceeded most of those values estimated for the 1980s.

Banks' farm borrowers loaned-up to practical limit in June of the survey year exceeded 35% in 1999 (figure 4). This value was up nearly 3 percentage points from 1998. And, the percentage of farm borrowers loaned-up to practical limit in June 1999 was the largest for any of the years since the beginning of the survey in 1982. While farmers have heavily utilized financing credit, land value growth and government farm program payments have helped to shore up the balance sheet and income statement.
If not 1998, then 1999 may have been the year that many farmers contemplating their future in, or retirement from, agriculture liquidated voluntarily. Figure 5 indicates the percentage of liquidation due to normal attrition, voluntary liquidation and legal foreclosure (there was an other category not shown here). In 1999, 40% of farmers liquidating did so voluntarily. This value was the largest since 1985. Legal foreclosures in 1998 and 1999 were considerably below average for the 1983 to 1999 period. Again, this is an indication that while there have been tough financial times in the agriculture sector, farmers are hanging on and those that decide to exit from agriculture are doing so voluntarily.

There is currently some indication of price recovery in the livestock and crop sectors. If the drought conditions of 1999 don't occur in 2000 and supplemental government payment occur, and if crop prices again head down, then Missouri producers are likely to have another below average year. But, it is likely they will continue to stay in business for another year based on lender perceptions indicated in the figures.

Figure 1. Farm Loan Volume Delinquent 30 Days or More (source: ERS)
Figure 2. Banks' Farm Borrowers Who had Bank Financing Discontinued (source: ERS)

Figure 3. Farm Borrowers Expected to have Financing Discontinued during Year Ending Next June (source: ERS)
Figure 4. Banks' Farm Borrowers Loaned-up to Practical Limit in June of Year Denoted (source: ERS)

Figure 5. Source of Borrowers Exit from Agriculture (source: ERS)