Agricultural Credit

The availability and use of credit plays a significant role in the sustained profitability of farm enterprises. In this regard, a symbiotic relationship exists between agricultural producers and their lenders; the health of one depends on the condition of the other. As farmers enjoyed relative prosperity in 1993, the major institutional lenders serving agriculture experienced continuing improvement in their financial condition, and further gains were seen in 1994. Commercial banks, the Farm Credit System (FCS), and Life Insurance Companies continue to report declining loan delinquencies, foreclosures, net loan charge-offs, and restructurings. Total farm business debt at the end of 1993 was $141.9 billion, up slightly from 1992.

Lenders generally reported that agricultural credit demand was up only slightly in 1993, while credit availability remained adequate. Farmers affected by the Midwest flood and Southeast drought may have experienced loan repayment problems, as lenders in those areas reported an increase in loan renewals and extensions. Generally, lenders are actively seeking new borrowers, but their perception of a tighter regulatory environment appears to be leading them to exercise greater caution in granting loan approval. Lenders report adequate funds for all creditworthy borrowers, but they are applying stricter eligibility requirements in qualifying all loan applicants, including farmers. At the same time, farmers do not appear eager to use their improved incomes to leverage a new round of credit-financed expansion.

Loans made to agricultural producers are classified as real estate and nonreal estate loans in the farm sector accounts. Real estate loans generally have terms of from 10 to 40 years, and are ordinarily used to purchase farmland or to make major capital improvements to farm property. Much of the growth of commercial bank real estate loans during the 1980's was due to the use of farm real estate as security for refinancing of production and intermediate-term loans. Farm business real estate debt was $76 billion at the end of 1993, up $1 billion from 1992. Nonreal estate loans are typically made for loan terms of less than 10 years, with the term depending on the purpose of the loan: seasonal operating loans are made for less than 1 year, while loans to purchase machinery and equipment or livestock may run for 7 years or more. Farm business nonreal estate debt was $65.9 billion at the end of 1993, up over 3 percent from 1992.

At the end of 1993, the FCS held $24.9 billion in farm business real estate mortgage debt, and $10.5 billion in nonreal estate loans. In total, the FCS held about 25 percent of all farm business debt. The financial health of the FCS continued to improve in 1993, as the FCS reported systemwide net income of $1.2 billion on total net interest income of almost $2 billion. Furthermore, in recent years the System's overall loan portfolio has improved as the average cost of funds continued to decline. The spread between interest earned on loans outstanding and interest paid on bonds issued increased from 1.24 percent in 1990 to 2.62 percent in 1993. This translated into a more competitive loan pricing environment for the FCS as a whole.

Commercial banks held more than 38 percent of all farm business debt by the end of 1993, accounting for $19.6 billion in real estate loans (26 percent of total) and $34.9 billion in nonreal estate debt (53 percent). Life insurance companies maintained their presence in the agricultural credit market, as their total farm business debt rose slightly to $9 billion, giving them an 11-percent share of the farm business mortgage market. The "Individuals and others" classification is composed primarily of sellers financing the sale of farmland in real estate lending, and input suppliers and relatively minor lending agencies in the nonreal estate debt category. These accounted for $16.7 billion in real estate loans and $14.2 billion in nonreal estate debt at the end of 1993.

Table 3-1.

Farm business debt, selected years

	Farm debt outstanding, December 31										
	1950	*1960*	*1970*	*1980*	*1983*	*1986*	*1989*	*1990*	*1991*	*1992*	*1993*
Real estate debt:						*$ Billion*					
Farm Credit System	0.8	2.2	6.4	33.2	44.3	35.6	26.7	25.7	25.2	25.3	24.9
Life insurance companies	1.1	2.7	5.1	12.0	11.7	10.4	9.0	9.6	9.5	8.7	9.0
Banks	0.8	1.4	3.3	7.8	8.3	11.9	15.6	16.2	17.3	18.7	19.6
Farmers Home Administration	0.2	0.6	2.2	7.4	8.6	9.7	8.1	7.6	7.0	6.4	5.8
Individuals and others	2.1	4.5	10.5	29.3	30.3	22.8	15.9	15.0	15.5	16.0	16.7
Total	5.2	11.3	27.5	89.7	103.2	90.4	75.4	74.1	74.5	75.0	76.0
Non-real-estate debt:											
Banks	2.4	4.7	10.5	30.0	37.1	29.7	29.2	31.3	32.9	32.9	34.9
Farm Credit System	0.5	1.5	5.3	19.8	19.4	10.3	9.5	9.8	10.2	10.3	10.5
Farmers Home Administration	0.3	0.4	0.7	10.0	12.9	14.4	10.8	9.4	8.2	7.1	6.3
Individuals and others	2.5	4.5	4.8	17.4	18.6	12.1	12.2	12.7	13.0	13.2	14.2
Total	5.7	11.1	21.3	77.1	87.9	66.6	61.9	63.2	64.3	63.6	65.9
Total	10.9	22.4	48.8	166.8	191.1	157.0	137.2	137.4	138.8	138.6	141.9

Source: Economic Indicators of the Farm Sector: National Financial Summary, 1993, ECIFS 13-1, December 1994, USDA, ERS.

Figure 3-1.

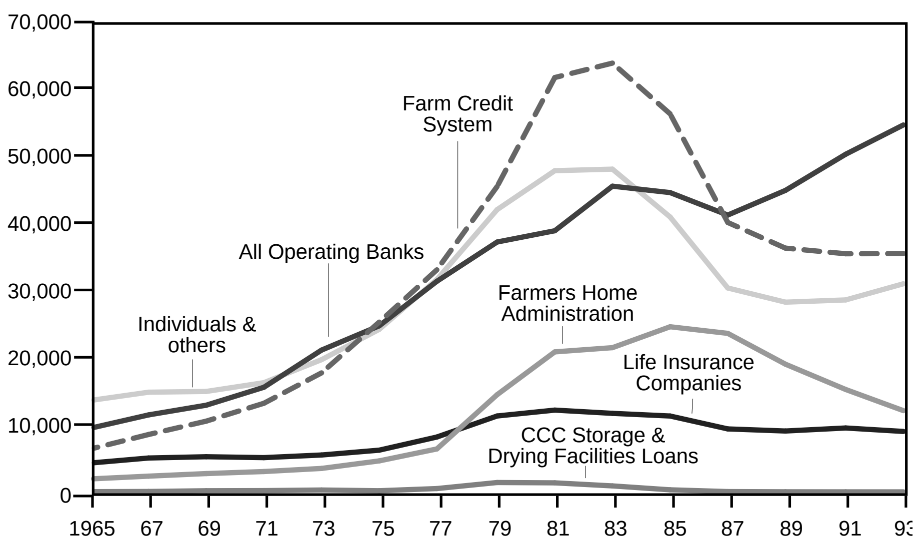
Farm Business Debt[1]

[1]Debt secured by farms assets and for operating purposes.

Source: Economic Indicators of the Farm Sector: National Financial Summary, 1993, ECIFS 13-1, December 1994, USDA, ERS.

Figure 3-2.

Farm business debt by lender



Individuals and others include Commodity Credit Corporation real estate loans.

Source: Economic Indicators of the Farm Sector: National Financial Summary, 1993, ECIFS 13-1, Dec. 1994, USDA, ERS.