

## ■ Agricultural Credit

Farm business debt at the end of 1995 was \$150.6 billion, up \$3.9 billion from 1994. Farm real estate debt rose \$1.5 billion from 1994 to \$79.1 billion at the end of 1995. Farm business nonreal estate debt was \$71.5 billion at the end of 1995, up 3 percent from 1994.

Farmers and lenders, despite concern about reduced short-term profitability in some livestock enterprises, maintain confidence in the long-run profitability of agriculture. The availability and use of credit play a significant role in the sustained profitability of farm enterprises. A symbiotic relationship exists between agricultural producers and their lenders; the health of one depends on the condition of the other.

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 10 to 40 years, and are ordinarily used to purchase farmland or to make major capital improvements to farm property. 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.

At the end of 1995, the Farm Credit System held \$24.8 billion in farm business real estate loans and \$12.5 billion in nonreal estate loans. In total, the Farm Credit System held about 25 percent of farm business loans. While the Farm Credit System experienced difficulty in increasing loan balances and in regaining market share, it continued to report improved financial performance. Falling interest rates improved their earnings during 1990-95. Improved borrower financial conditions strengthened Farm Credit System performance.

Commercial banks held more than 40 percent of all farm business debt by the end of 1995, accounting for \$22.2 billion in real estate loans (28 percent of total) and \$37.7 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 \$9.1 billion, giving them an 11-percent share of the farm business mortgage market. The Farm Service Agency (which includes the former Farmers Home Administration) direct loans to farm businesses dropped by \$1.4 billion in 1995 as the Agency reduced its problem loan portfolio. The "Individuals and others" classification is composed primarily of sellers financing the sale of farmland, input suppliers, and some minor lending agencies. These accounted for \$18.0 billion in real estate loans and \$16.2 billion in nonreal estate loans at the end of 1995.

Table 3-1.

## Farm business debt, selected years

	<i>Farm debt outstanding, December 31</i>										
	1950	1960	1970	1980	1985	1990	1991	1992	1993	1994	1995
<b>Real estate debt:</b>	<i>\$ Billion</i>										
Farm Credit System	0.8	2.2	6.4	33.2	42.2	25.9	25.3	25.4	24.9	24.6	24.9
Life insurance companies	1.1	2.7	5.1	12.0	11.3	9.7	9.5	8.8	9.0	9.0	9.1
Banks	0.8	1.4	3.3	7.8	10.7	16.3	17.4	18.8	19.6	21.1	22.3
Farm Service Agency	0.2	0.6	2.2	7.4	9.8	7.6	7.0	6.4	5.8	5.5	5.1
Individuals and others	2.1	4.4	10.3	27.8	25.8	15.2	15.6	16.1	16.7	17.5	18.0
<b>Total</b>	<b>5.2</b>	<b>11.3</b>	<b>27.5</b>	<b>89.7</b>	<b>100.1</b>	<b>74.7</b>	<b>74.9</b>	<b>75.4</b>	<b>76.0</b>	<b>77.7</b>	<b>79.3</b>
<b>Nonreal estate debt:</b>											
Banks	2.4	4.7	10.5	30.0	33.7	31.3	32.9	32.9	34.9	36.7	37.7
Farm Credit System	0.5	1.5	5.3	19.7	14.0	9.8	10.2	10.3	10.5	11.2	12.5
Farm Service Agency	0.3	0.4	0.7	10.0	14.7	9.4	8.2	7.1	6.2	6.0	5.1
Individuals and others	2.5	4.5	4.8	17.4	15.1	12.7	13.0	13.2	14.2	15.2	16.2
<b>Total</b>	<b>5.7</b>	<b>11.1</b>	<b>21.2</b>	<b>77.1</b>	<b>77.5</b>	<b>63.2</b>	<b>64.3</b>	<b>63.6</b>	<b>65.9</b>	<b>69.1</b>	<b>71.5</b>
<b>Total</b>	<b>10.9</b>	<b>22.4</b>	<b>48.8</b>	<b>166.8</b>	<b>177.6</b>	<b>138.0</b>	<b>139.2</b>	<b>139.1</b>	<b>142.0</b>	<b>146.8</b>	<b>150.8</b>

Source: USDA, Economic Research Service, Rural Economy Division.