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An Analysis of Risk Premia in U.S. Farm-Level Interest Rates


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"An Analysis of Risk Premia in U.S. Farm-Level Interest Rates"

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Traditional "family" farms may face certain forms and sources of risks, while modern, corporate farm structures may face other types of risk. The belief that agriculture has greater inherent financial risk than other sectors of the economy underlies the philosophy of most government farm programs. Identifying the determinants of farm financial risk is essential to understanding the effects and operation of farm programs. Policymakers may desire to direct support toward certain segments of the farming population on the basis of differences in realized financial risks. Therefore, the objective of this article is to empirically consider factors related to financial risks on U.S. farms.

Our results confirm that a number of farm and operator characteristics are strongly associated with financial risk, as least as it is perceived by agricultural lenders. Risk is considered higher for farms with less wealth (net worth) and for farms with more loans. Diversification appears to be strongly related to lenders' risk perceptions.

Results also show that agricultural lending rates differ significantly across different types of lenders. The lowest interest rates occur on loans from private individuals. Government agency loans have the next lowest rate. Loans from commercial lenders, such as commercial banks and savings and loans, tend to have the highest interest rate.