



Ag Banks Trim Farm Lending

by: Ty Kreitman and Cortney Cowley

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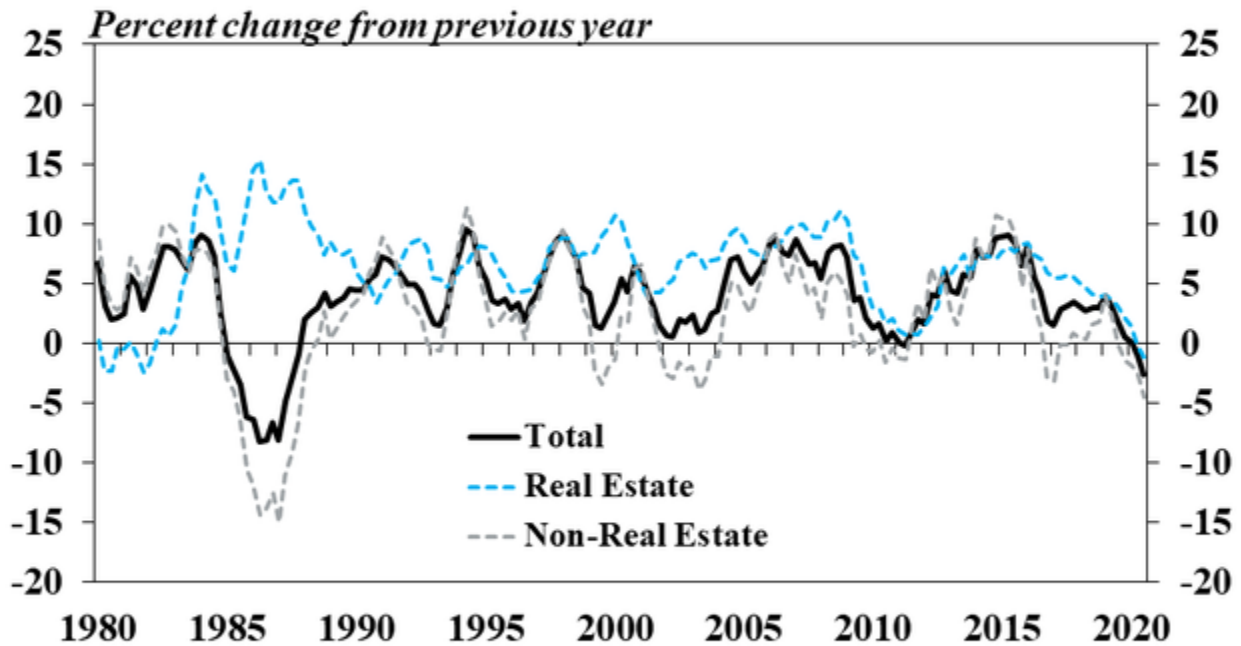
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Farm loans outstanding at commercial banks declined in the third quarter and non-performing loans edged slightly higher. Reduced lending at agricultural banks contributed most significantly to the further decline in outstanding loan balances. Alongside lower levels of farm debt, delinquency rates on agricultural loans continued to trend higher at a gradual pace.

Third Quarter Commercial Bank Call Report Data

Agricultural loan balances at commercial banks continued to decrease in the third quarter, according to Call Report data. Most of the recent decrease was driven by non-real estate loans, which were nearly 5% less than the previous year, the largest drop in more than 15 years (Chart 1). Farmland loans also decreased for the second consecutive quarter and at a faster pace than the previous quarter. The combined pullback in both loan types led to the largest decline in overall farm debt in any quarter since the late 1980s.

Chart 1: Farm Debt Outstanding at Commercial Banks

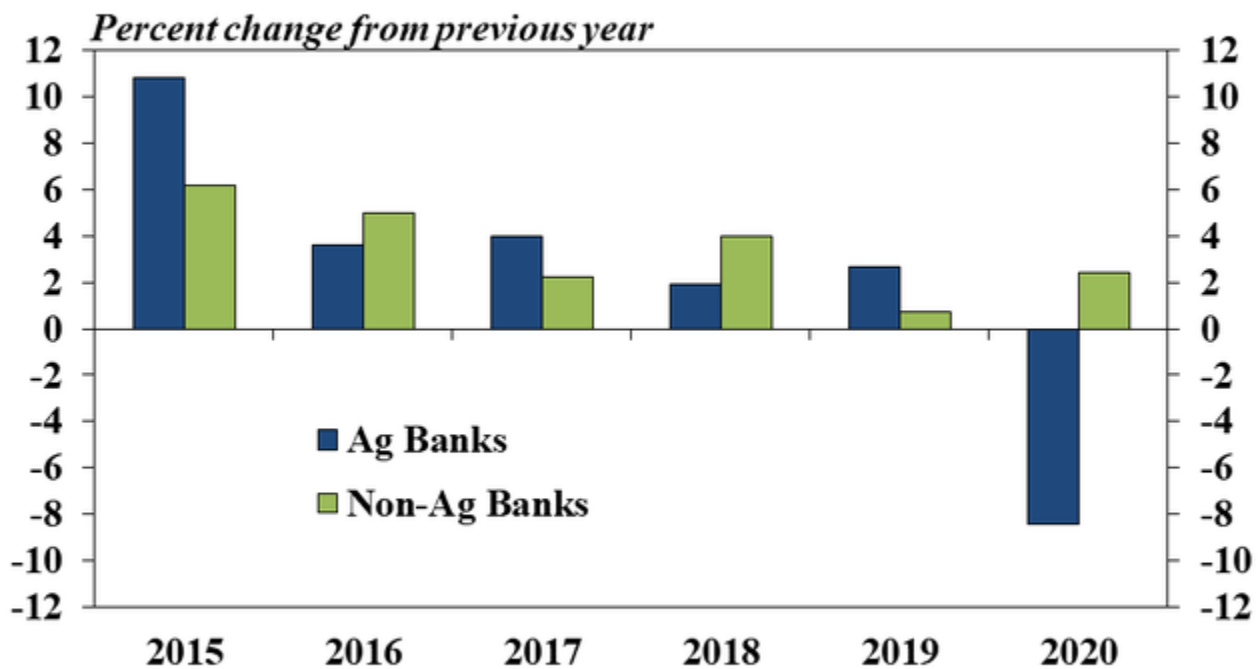


Note: Annual changes from September 30, 2019 to June 30, 2020 are adjusted to account for changes due to exclusion of Rabobank, N.A. from commercial bank Call Report data beginning September 30, 2019.

Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

The drop in overall farm debt was driven by lower balances at small banks most concentrated in agricultural lending. Total farm debt declined more than 8% from a year ago at all agricultural banks, and over two thirds of that decline was at agricultural banks with less than \$200 million in total assets (Chart 2). In contrast, balances of agricultural loans grew by more than 2 percent at all other banks, and all of that increase was at banks with more than \$500 million in total assets.

Chart 2: Total Farm Debt at Commercial Banks, Third Quarter

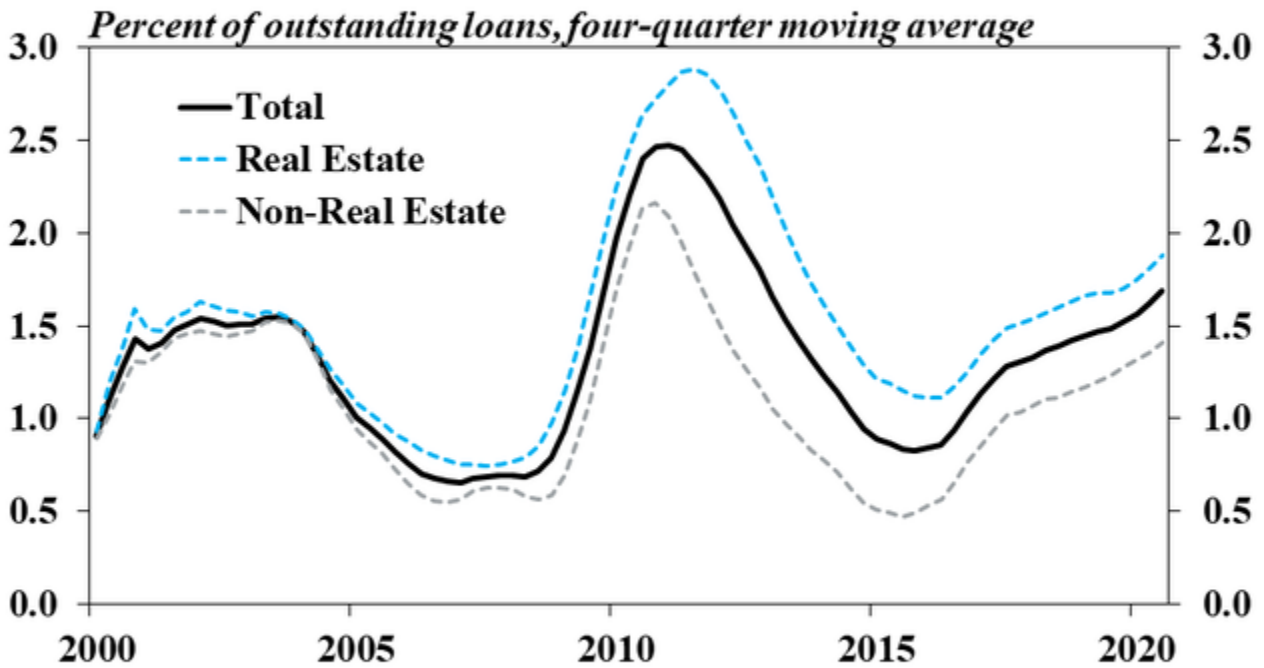


Note: Annual changes from 2018 to 2019 are adjusted to account for changes due to exclusion of Rabobank, N.A. from commercial bank Call Report data beginning September 30, 2019.

Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

Also continuing a trend from recent quarters, the rate of non-performing farm loans increased at a steady pace. Compared to the third quarter a year ago, the volume of non-performing farm real estate and non-real estate loans were 16% and 14% higher, respectively (Chart 3). While the volume of total farm loans past due more than 90 days continued to trend upward, loans past due less than 90 days declined by about 20%, an indication of lower volumes of newly delinquent loans in the third quarter.

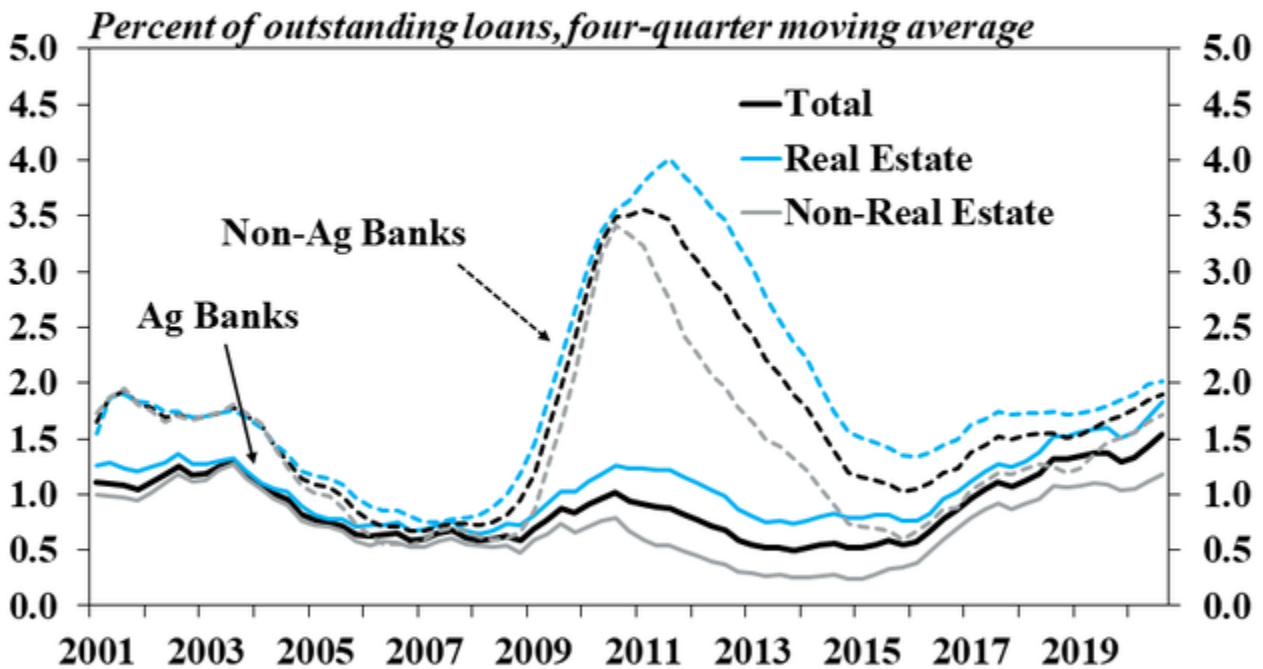
Chart 3: Non-Performing Farm Loans at Commercial Banks



Note: Includes loans past due 90 or more days still accruing and non-accruing loans.
 Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

Importantly, however, the rate of non-performance on farm loans remained lower at agricultural banks than non-agricultural banks. In recent periods of increased delinquency on farm loans, rates of non-performance have been comparably lower at agricultural banks (Chart 4). Stress in the sector continued to place gradual pressure on the ability of producers to repay loans across all banks, but performance of farm loans continued to be slightly better at agricultural banks.

Chart 4: Non-Performing Farm Loans, Ag Banks vs. Non-Ag Banks



Note: Includes loans past due 90 or more days still accruing and non-accruing loans.
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

Conclusion

Compared to last year, lending activity at agricultural banks slowed in the third quarter, contributing to lower levels of total U.S. farm debt. Although the overall rate of non-performing farm loans increased, loan quality remained higher at agricultural banks. Difficulties related to the COVID-19 pandemic continued to weigh on farm lending and loan performance, but government programs also may have offset some borrowing needs and supported financial conditions for farmers.

Data and Information

[Historical Data](#)

[Tables](#)

[About the Commercial Bank Call Report Data](#)

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Ty Kreitman is an associate economist in the Regional Affairs Department at the Omaha Branch of the Federal Reserve Bank of Kansas City. In this role, he primarily supports the Federal Reserve Bank of Kansas City and the Federal Reserve System efforts surrounding agricultural economics research, analysis and outreach. His responsibilities include co-authoring the *Tenth District Survey of Agricultural Credit Conditions* and *Agricultural Finance Updates*. Ty joined the Bank in 2015 as an assistant bank examiner in the Examinations & Inspections Department at the Omaha Branch and transferred to his current position in 2018. He holds a B.A. degree in Economics and Finance from the University of Nebraska-Lincoln and a M.A. degree in Financial Economics from Youngstown State University.
