



Agricultural Finance Update

Banks' Farm Lending Stabilizes

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Farm debt at commercial banks showed signs of stabilizing at the end of 2021. Driven by a higher balance of both real estate and non-real estate loans, agricultural debt increased for the first time since 2019. While the pullback in lending abated, agricultural loan balances remained below the recent historic average. Farm real estate loans also increased slightly at agricultural banks, but production loans continued to decline and led to further reduction in the concentration of debt among those lenders. The low interest rate environment continued to pressure margins for lenders and sharp asset growth pushed capital ratios lower, but recent strength in earnings performance held overall returns for agricultural banks above the recent historic average.

A relatively strong outlook for the farm economy in 2022 appears likely to continue supporting improvements in agricultural credit conditions. Alongside broad strength in farm finances, delinquency rates on farm loans improved further through the end of the year and liquidity at agricultural banks reached a 20-year high. A rise in production expenses and a reduction in government aid could contribute to higher demand for farm loans in the year ahead and with abundant liquidity, agricultural banks seem to be well positioned to meet borrowers' credit needs.

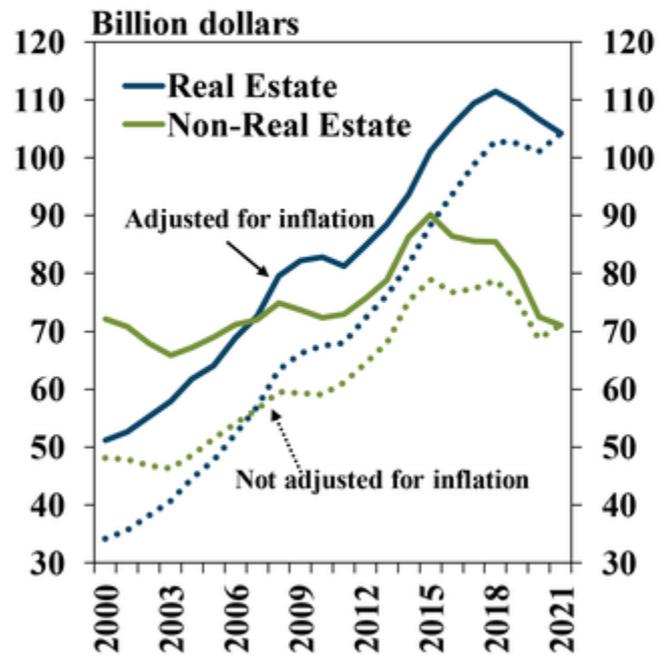
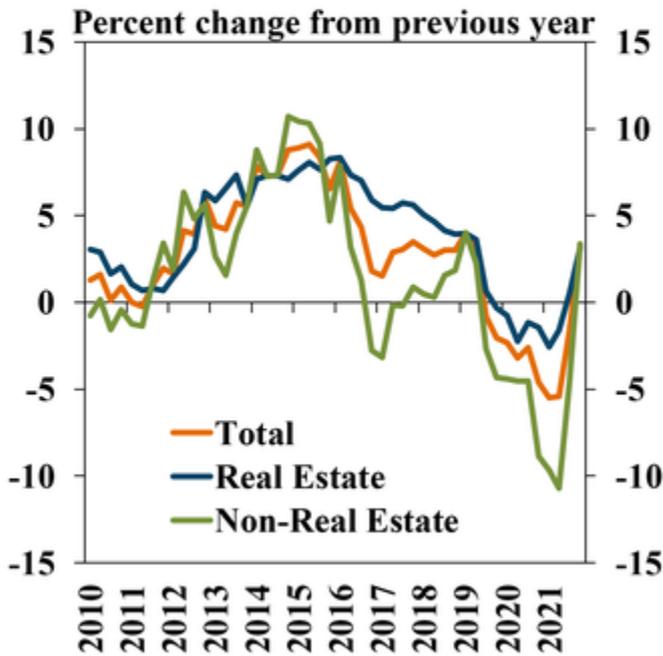
Fourth Quarter Commercial Bank Call Report Data

The balance of outstanding farm loans at commercial banks increased from a year ago, but remained subdued. Following about two years of steady declines, the balance of both real estate and non-real estate farm loans increased about 3% in the fourth quarter (Chart 1, left panel). Despite the slight increase from a year ago, non-real estate loans remained at a decade low after adjusting for inflation and real estate loans remained at about a 5-year low (Chart 1, right panel).

Chart 1: Farm Debt Outstanding at Commercial Banks

Change in Outstanding Loan Balances

Outstanding Loan Balances, Q4



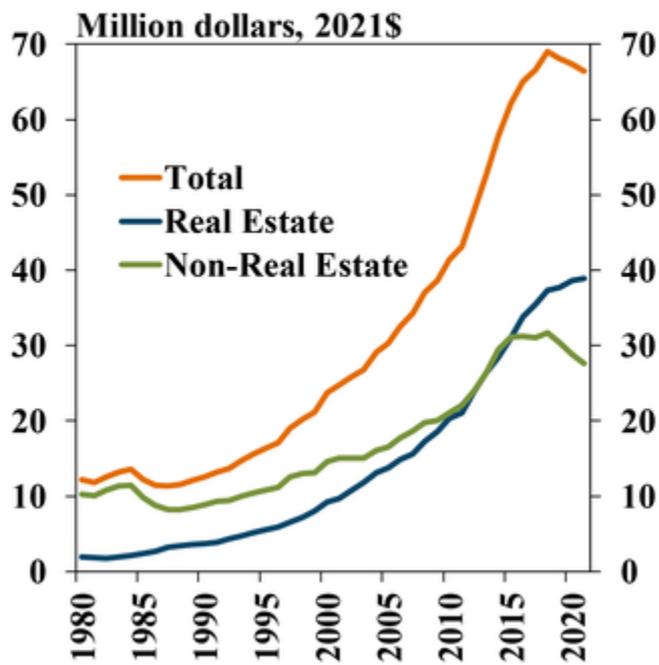
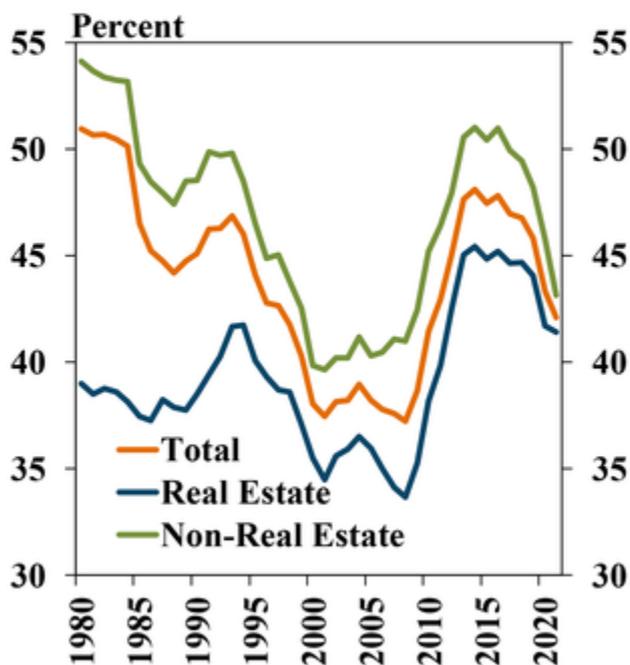
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

Consistent and widespread declines in agricultural lending across commercial banks has led to lower concentrations of farm debt at agricultural banks. Farm real estate loan balances increased slightly at agricultural banks, but production loans continued to decline, pushing the share of farm debt held at lenders most concentrated in agriculture to the lowest level in about 10 years (Chart 2, left panel). After a sharp and persistent buildup in previous years, the recent pullback in non-real estate lending has also driven a reduction in the amount of farm debt per agricultural bank (Chart 2, right panel).

Chart 2: Farm Debt Outstanding at Agricultural Banks

Share of Debt at Commercial Banks, Q4

Debt Per Agricultural Bank, Q4

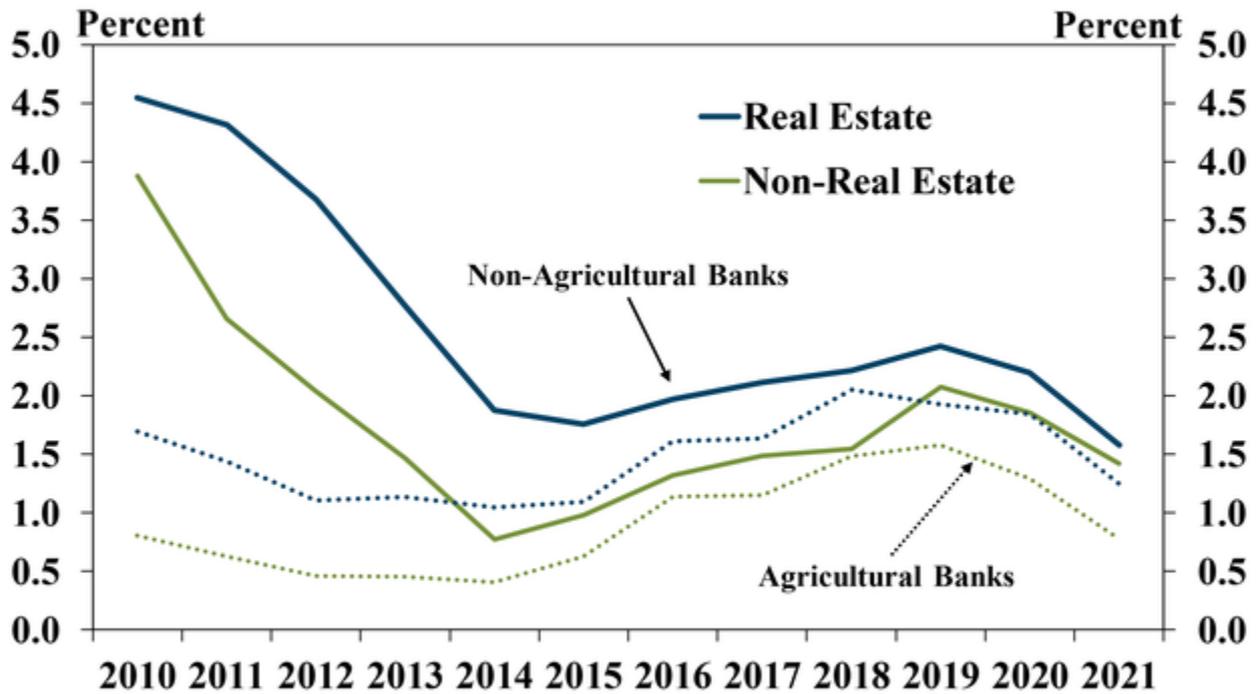


Note: Agricultural Banks include all banks with farm loans comprising at least 25% of total loans.

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

Broad strength in farm finances continued to drive improvements in agricultural loan performance for all commercial lenders. Delinquency rates on real estate and non-real estate farm loans dropped by about 60 basis points and 50 basis points from a year ago, respectively (Chart 3). Rates of delinquency among both agricultural banks and non-agricultural banks reached the lowest levels since 2015.

Chart 3: Farm Loan Delinquency Rates, Q4

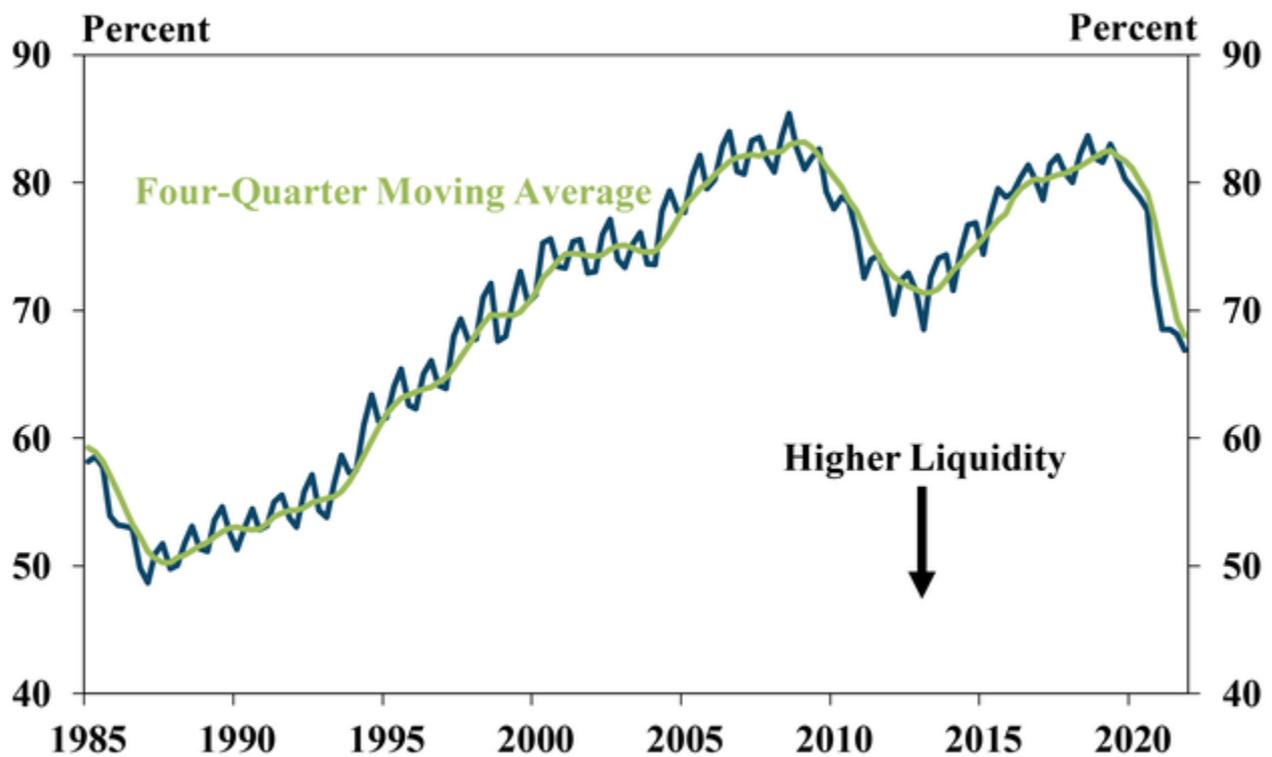


Note: Delinquent farm loans include all agricultural loans past due 30 or more days or non-accruing. Agricultural Banks include all banks with farm loans comprising at least 25% of total loans.

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

With tepid loan growth and surges in deposits, liquidity at agricultural banks also remained abundant. The loan-to-deposit ratio at agricultural lenders reached the lowest level in more than 20 years in the fourth quarter (Chart 4). The elevated level of funds has contributed to a sharp growth in assets for lenders and has also likely put downward pressure on interest margins.

Chart 4: Loan-to-Deposit Ratio at Agricultural Banks



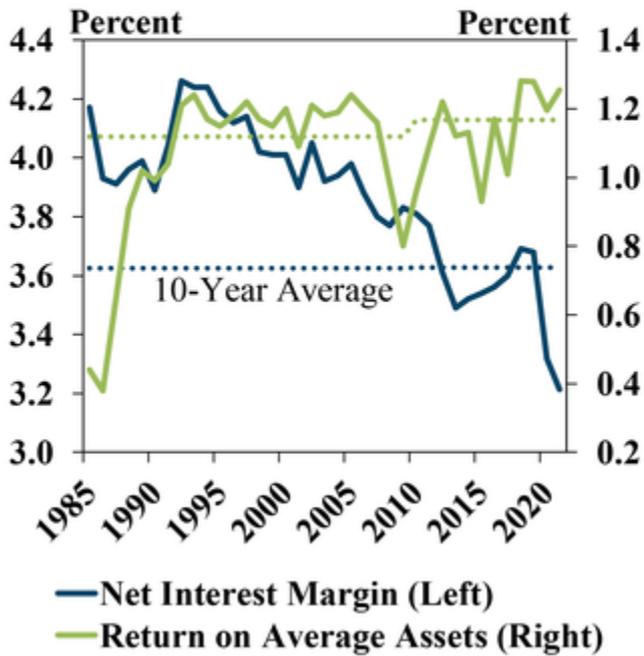
Note: Agricultural Banks include all banks with farm loans comprising at least 25% of total loans.

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

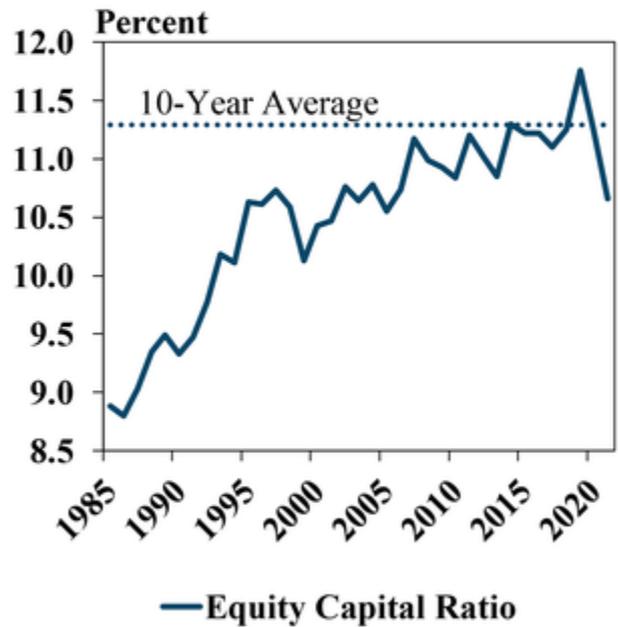
Net interest margins for agricultural banks reached historic lows in the fourth quarter, but profits remained strong. The low interest rate environment put further downward pressure on margins, but [support from lower interest expenses, fewer provisions and higher noninterest income during 2021 continued to drive strong returns](#) (Chart 5, left panel). Alongside robust growth in assets that was consistent across commercial banks, the equity capital ratio for farm lenders dropped sharply below the 10-year average (Chart 5, right panel).

Chart 5: Select Financial Indicators at Agricultural Banks

Earnings Ratios, Q4



Equity Capital Ratio, Q4



Note: Agricultural Banks include all banks with farm loans comprising at least 25% of total loans.

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

Data and Information

[Commercial Bank Call Report Historical Data](#)

[Commercial Bank Call Report Data Tables](#)

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

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Nate Kauffman is Senior Vice President and Omaha Branch Executive at the Federal Reserve Bank of Kansas City. In his role as the Kansas City Fed's lead economist and representative in the state of Nebraska, Nate provides strategic direction and oversight for the Omaha Branch, regional research, and economic outreach throughout the state. He serves as a local connection to the nation's central bank and is responsible for briefing the Kansas City Fed's president – a member of the Federal Open Market Committee – on regional economic and business activity. In addition, Nate serves as Executive Director of the Bank's Center for Agriculture and the Economy. He is a leading voice on the agricultural economy throughout the seven states of the Tenth Federal Reserve District and the broader Federal Reserve System. Nate oversees several Bank and Federal Reserve efforts to track agricultural economic and financial conditions. He also speaks regularly on the agricultural economy to industry audiences and the news media, including providing testimonies at both U.S. Senate and U.S. House Agriculture Committee hearings. Nate joined the Federal Reserve in 2012. He received his Ph.D. in economics from Iowa State University. Prior to receiving his Ph.D., Nate spent three years in Bosnia and Herzegovina coordinating agricultural economic development projects. Nate lives in Omaha with his wife and four children.



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