



Agricultural Finance Update

Farm Real Estate Debt Builds

by: Nate Kauffman and Ty Kreitman

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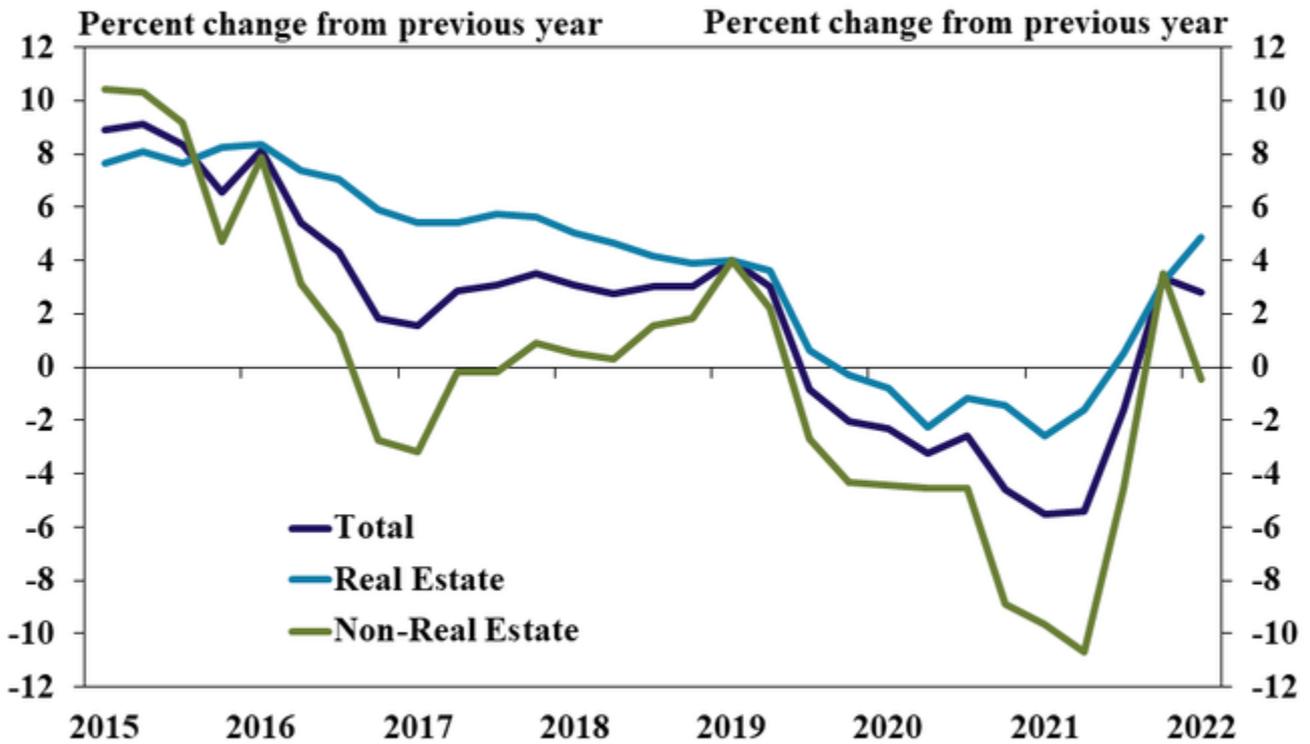
Alongside [soaring farmland values](#), real estate loan balances increased at the fastest pace in nearly four years and drove an increase in overall agricultural lending. Following a sharp pullback over the past two years, non-real estate lending was stable from a year ago. Farm loan performance also continued to improve, but performance at agricultural banks remained limited by compressed net interest margins and a glut of liquidity.

The farm economy remained strong alongside decade-high commodity prices that continued to support farm finances. Many producers have benefitted immensely from strong cash balances, but credit needs may rise as higher input costs weigh on profit margins. Estimates of new loan activity among a sample of commercial banks showed that [farm lending accelerated during recent months alongside an increase in the size of operating loans](#) and many bankers have also reported [expectations of higher loan demand in the months ahead](#).

First Quarter Commercial Bank Call Report Data

An increase in farm real estate debt boosted agricultural loan balances in the first quarter. Agricultural real estate loans increased about 5% from a year ago, which was the fastest pace of growth since 2018 (Chart 1). Production loans showed further signs of stabilizing and were nearly unchanged from this same time in 2021 after declining most of last year.

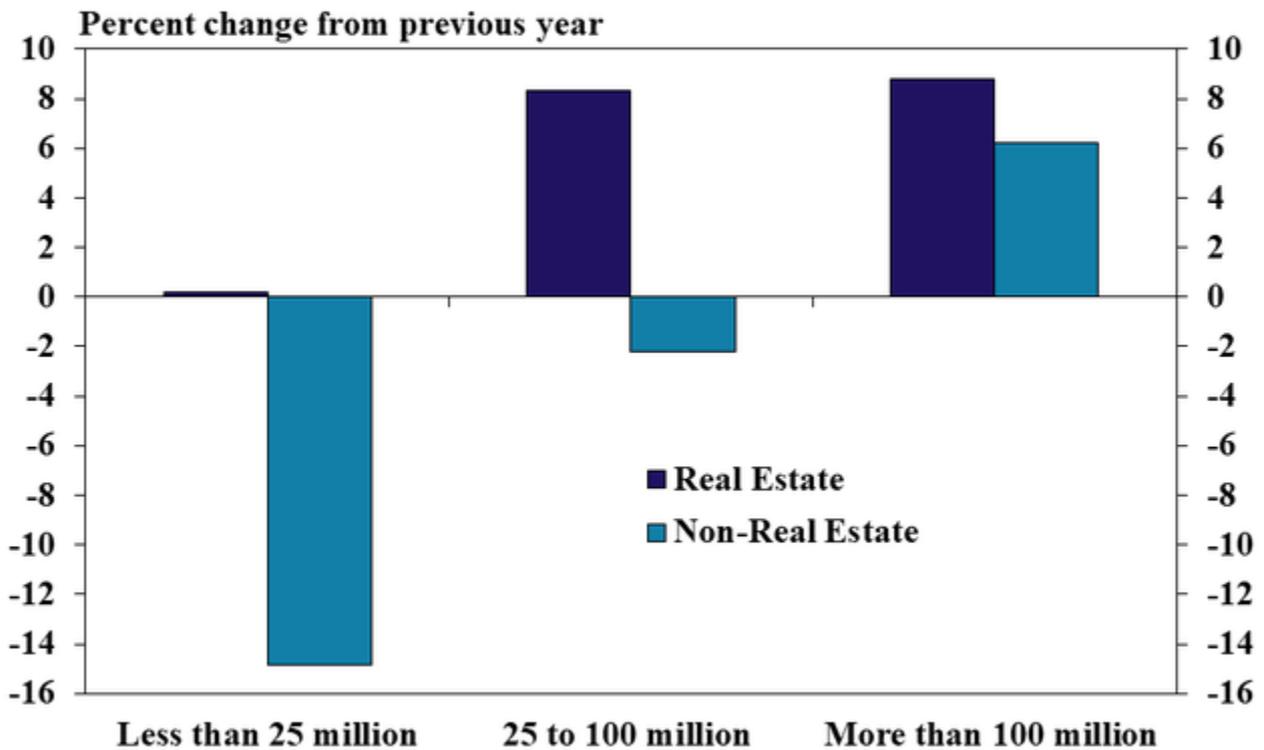
Chart 1: Farm Debt Outstanding at Commercial Banks



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

The growth in farm loans was driven by higher outstanding balances at large and mid-sized agricultural lenders. Farm real estate loans increased about 10% from a year ago at banks with large and mid-sized farm loan portfolios, but were mostly stable at the smallest farm lenders (Chart 2). In contrast, non-real estate debt was substantially lower at banks with small agricultural portfolios and increased at the largest lenders.

Chart 2: Farm Debt by Farm Loan Portfolio Size, Q1 2022

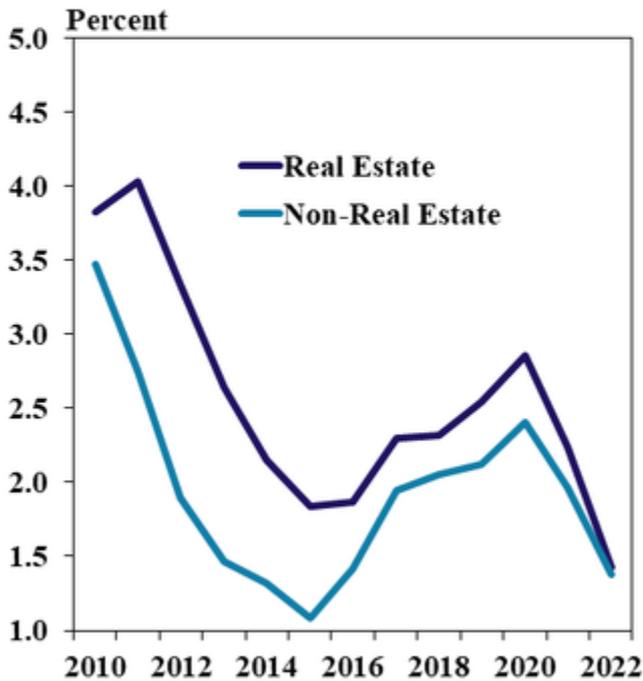


Note: Changes are calculated using the sum of total ag loans at banks within each category during the current and previous period.
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

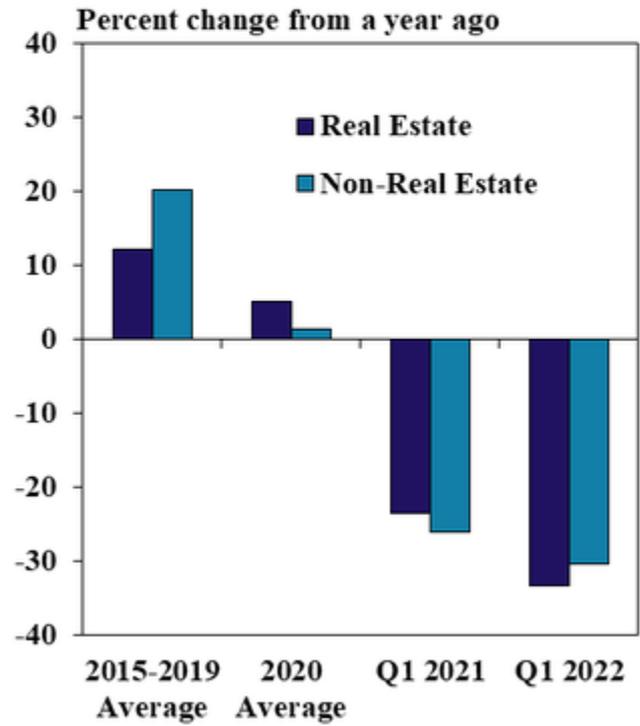
Alongside strong farm finances, loan performance improved further. The delinquency rate on farm real estate loans dropped to the lowest level on record for the first quarter and the rate of delinquency on production loans reach the lowest level since 2015 (Chart 3). The drop to historic lows was driven by continued sharp reductions in the volume of delinquent loans.

Chart 3: Delinquent Farm Loans

Farm Loan Delinquency Rate



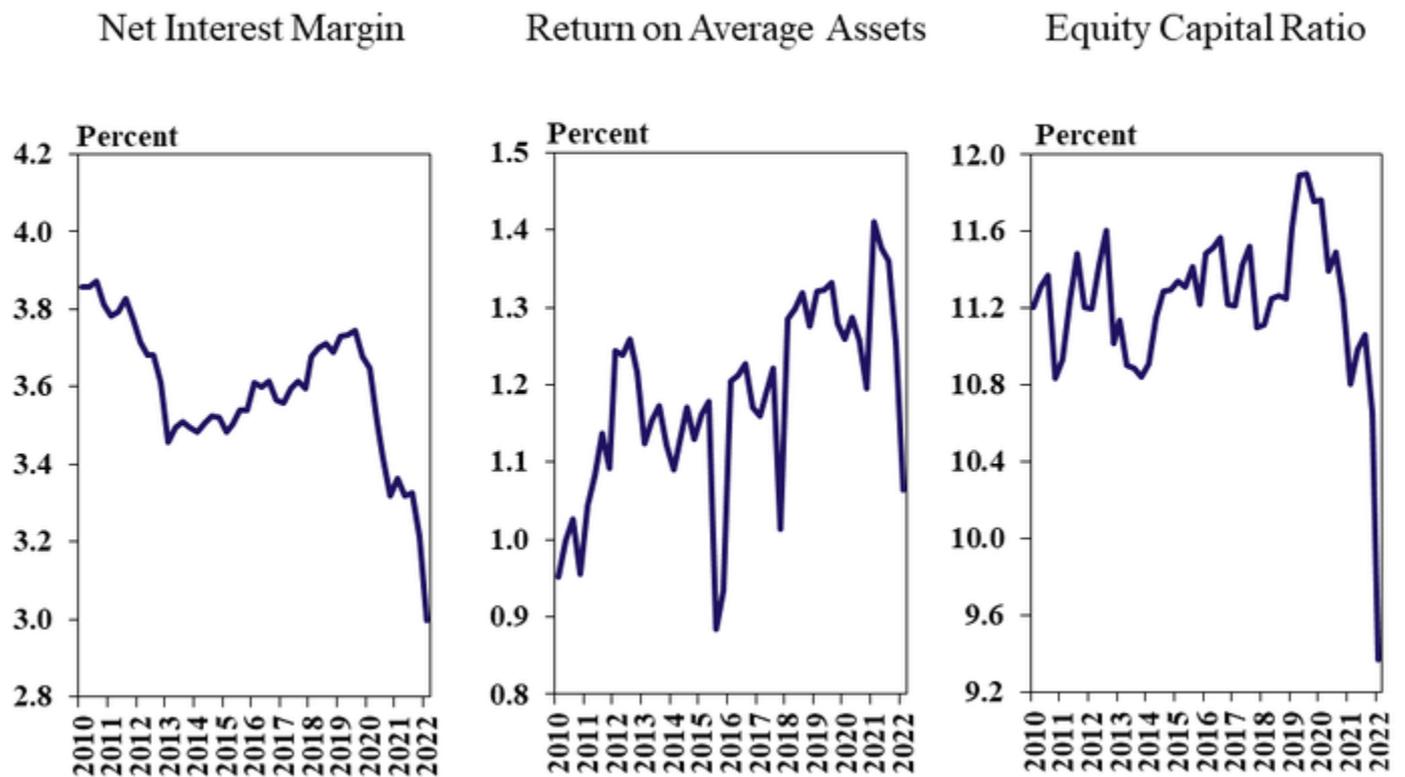
Volume of Delinquent Farm Loans



Note: Delinquent farm loans include all agricultural loans past due 30 or more days and non-accruing.
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

Despite strong credit conditions, financial performance at agricultural banks continued to be constrained by subdued loan demand and the low interest rate environment. Historically low interest rates together with an abundance of liquidity and soft farm loan demand during the past year pushed net interest margins to all-time lows and put downward pressure on overall returns (Chart 4). The drop in returns also contributed to a notable decline in capital ratios.

Chart 4: Select Financial Indicators at Agricultural Banks



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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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.