



Agricultural Finance Update

Farm Debt Climbs but Financial Stress Remains Limited

by: Nate Kauffman and Ty Kreitman

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Farm real estate debt continued to climb and led to a notable increase in agricultural loan balances at commercial banks.

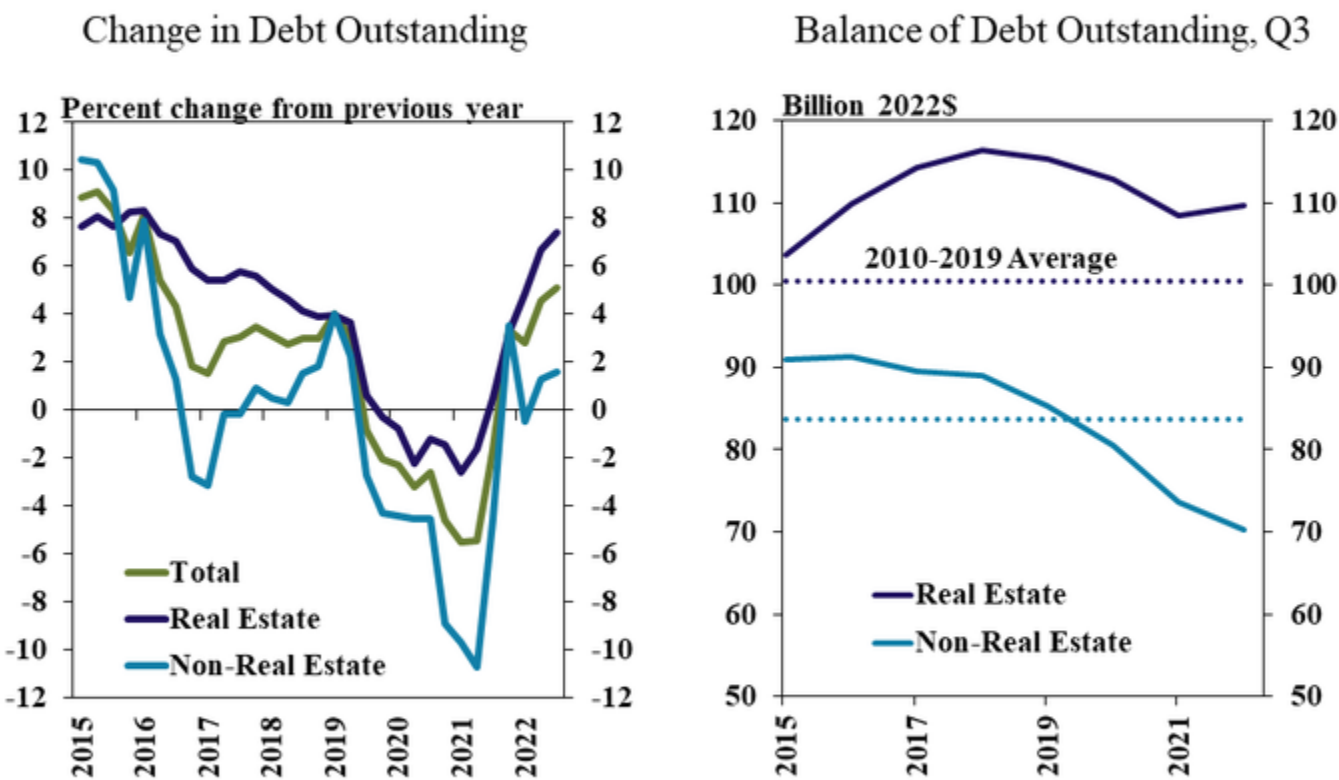
Farm real estate debt continued to climb and led to a notable increase in agricultural loan balances at commercial banks. The pace of farm loan growth increased further in the third quarter and was faster among agricultural banks than those with less concentrated agricultural lending portfolios. Despite the increases in loan balances, farm finances remained strong and delinquency rates on agricultural loans reached an all-time low. As [interest rates edged higher](#), increases in both agricultural and non-agricultural lending also supported earnings for farm lenders.

[The outlook for the agricultural economy](#) through the end of 2022 was generally positive, but some pressures remained looking ahead to next year. Profit opportunities for most producers across the sector remained favorable and continued to support farm finances. [Agricultural credit conditions](#) also remained strong, but improvement has been more measured in recent months alongside the pressures associated with uncertainty about commodity prices, intense drought and higher expenses. Despite some notable risks, farm finances remained bolstered by strong incomes in recent years and sharp growth in farm real estate values.

Third Quarter Commercial Bank Call Report Data

Growth in farm real estate loans picked up in the third quarter while increases in production lending remained more measured. Real estate and non-real estate loans grew about 7% and 2% from a year ago, respectively (Chart 1). Adjusting for inflation, farmland lending remained above the recent average and ticked up after declining slightly in recent years, while production lending remained subdued.

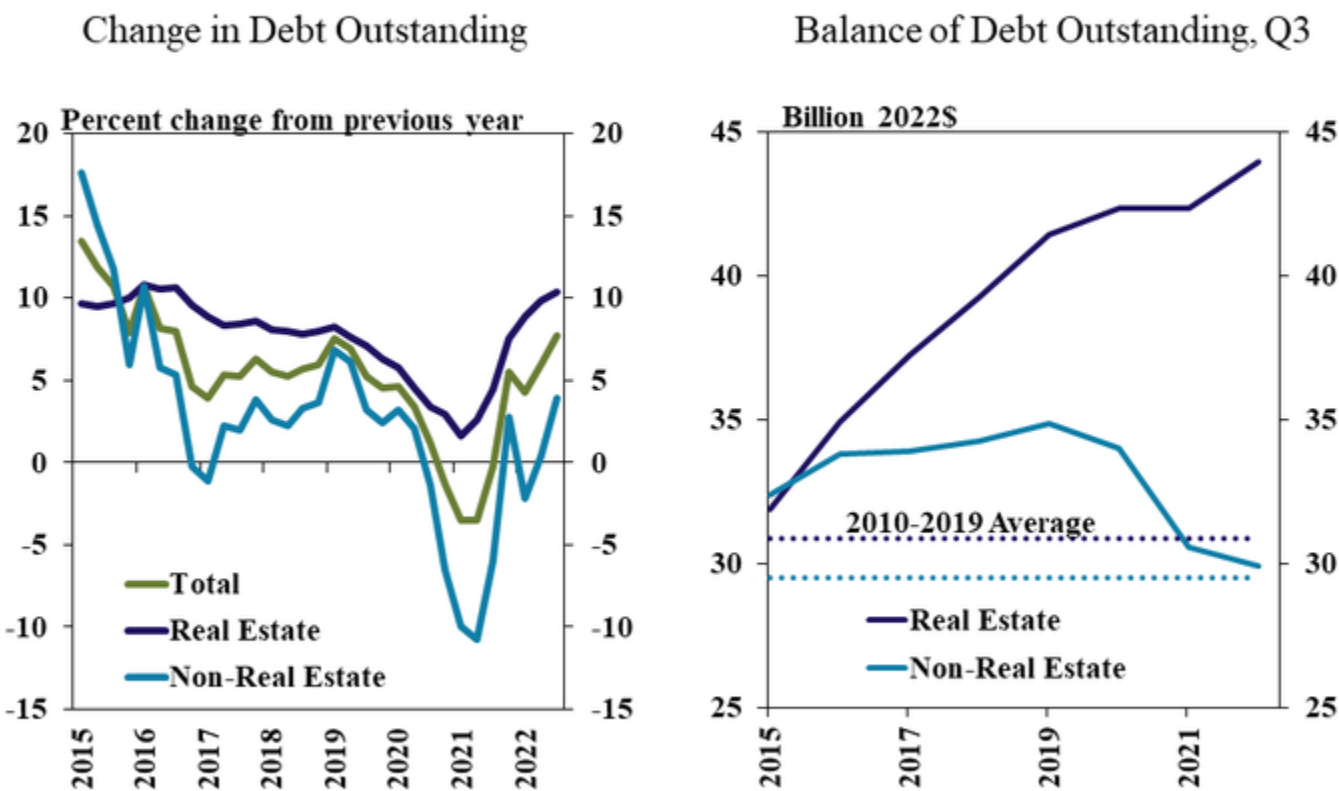
Chart 1: Farm Debt Outstanding at Commercial Banks



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

Considerable growth in farm real estate lending drove a faster pace of growth in lending among agricultural banks. Real estate and non-real estate loan balances at agricultural banks in the third quarter were 10% and 4% higher than a year ago, respectively (Chart 2). The quick rise in farmland lending pushed real estate loan balances at those banks to historically high levels and production loans continued to move towards the recent average.

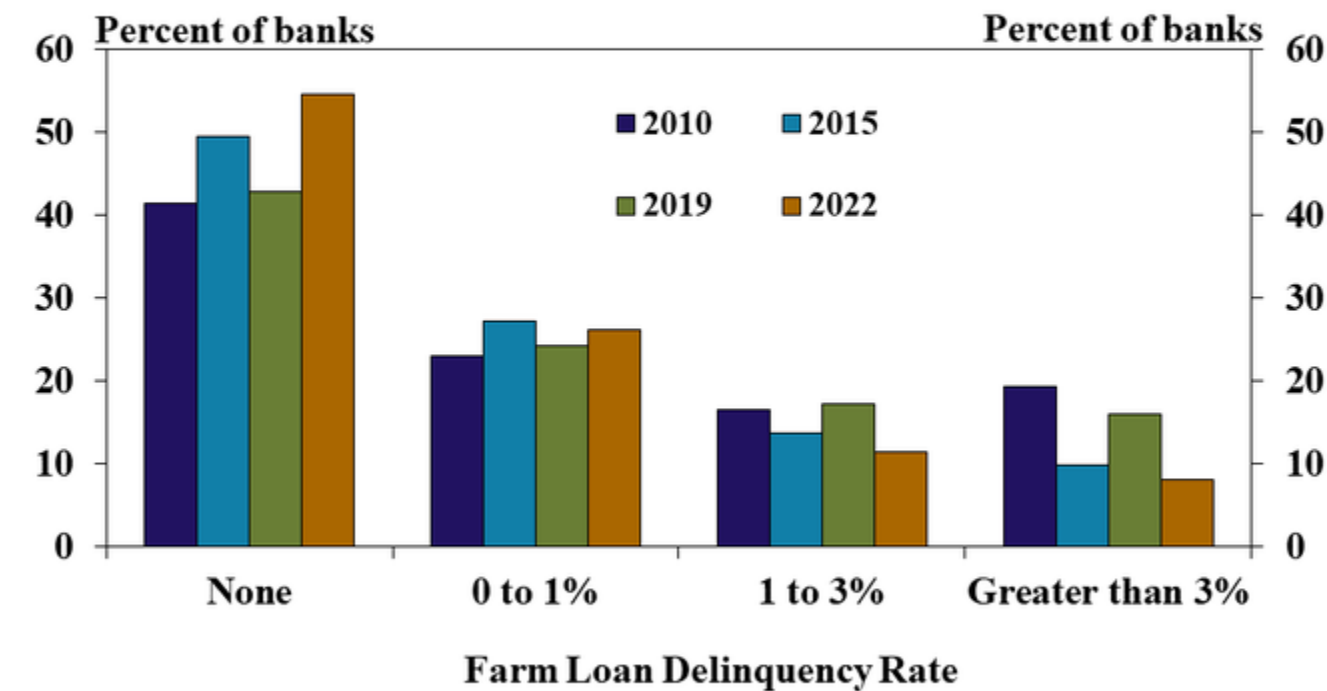
Chart 2: Farm Debt Outstanding at Agricultural Banks



Note: Figures above are calculated using a panel of 1,042 agricultural banks from Q3 2022. Agricultural Banks are defined as banks with total agricultural loans comprising at least 25% of total loans.
Sources: Reports of Condition and Income and Federal Reserve Board of Governors

Farm loan performance continued to strengthen steadily, and improvement has been broad. In fact, farm loan delinquency rates were less than 1% in about 80% of commercial banks with agricultural loans, and about half of all lenders reported no past dues (Chart 3). Moreover, less than 10% of commercial banks reported farm loan delinquencies greater than 3%, which was the lowest share on record.

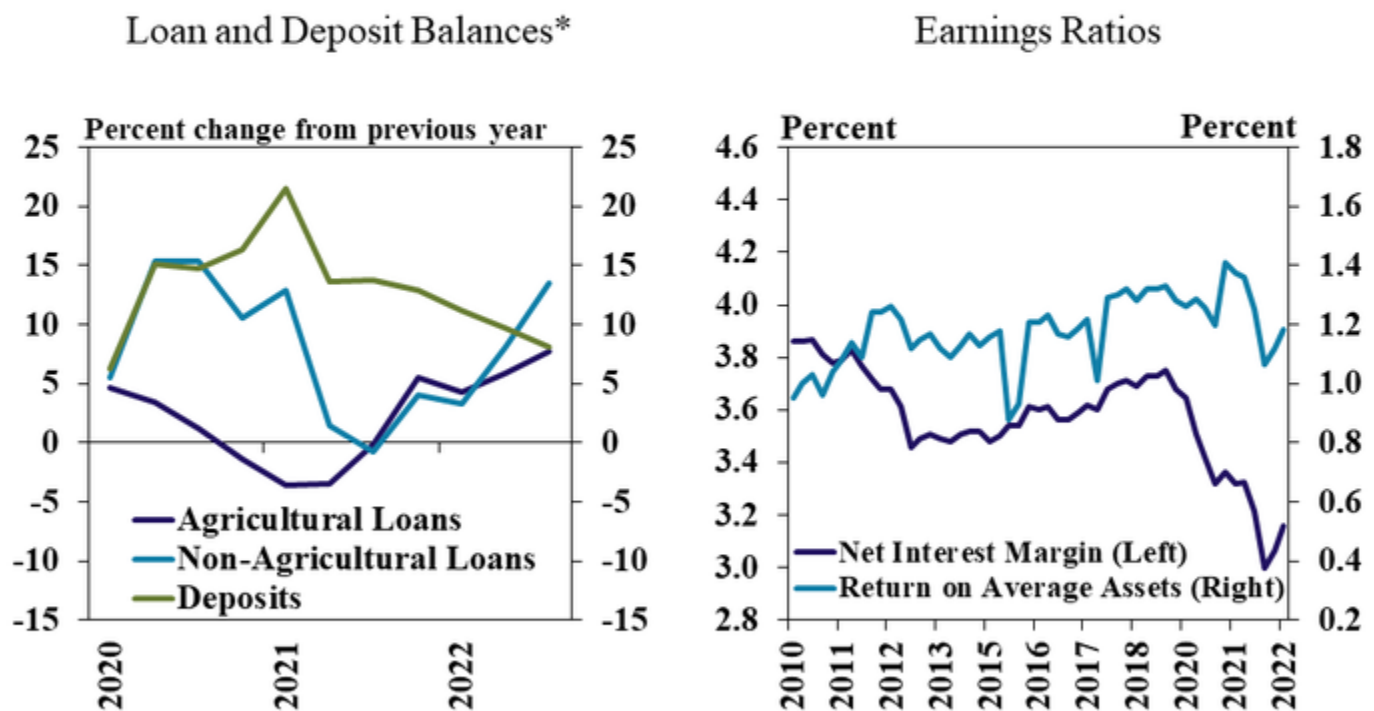
Chart 3: Share of Commercial Banks by Farm Loan Delinquency Rate, Q3



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

Earnings also continued to improve alongside [higher interest rates](#) and loan growth. Liquidity at agricultural banks remained strong, but total loan growth outpaced deposit growth for the first time since 2019 as loan balances, particularly non-agricultural loans; rose considerably (Chart 4, left panel). Lending has grown alongside a sharp rise in interest rates, supporting an increase in the net interest margin and return on assets at agricultural banks for the second consecutive quarter (Chart 4, right panel).

Chart 4: Select Financial Indicators at Agricultural Banks



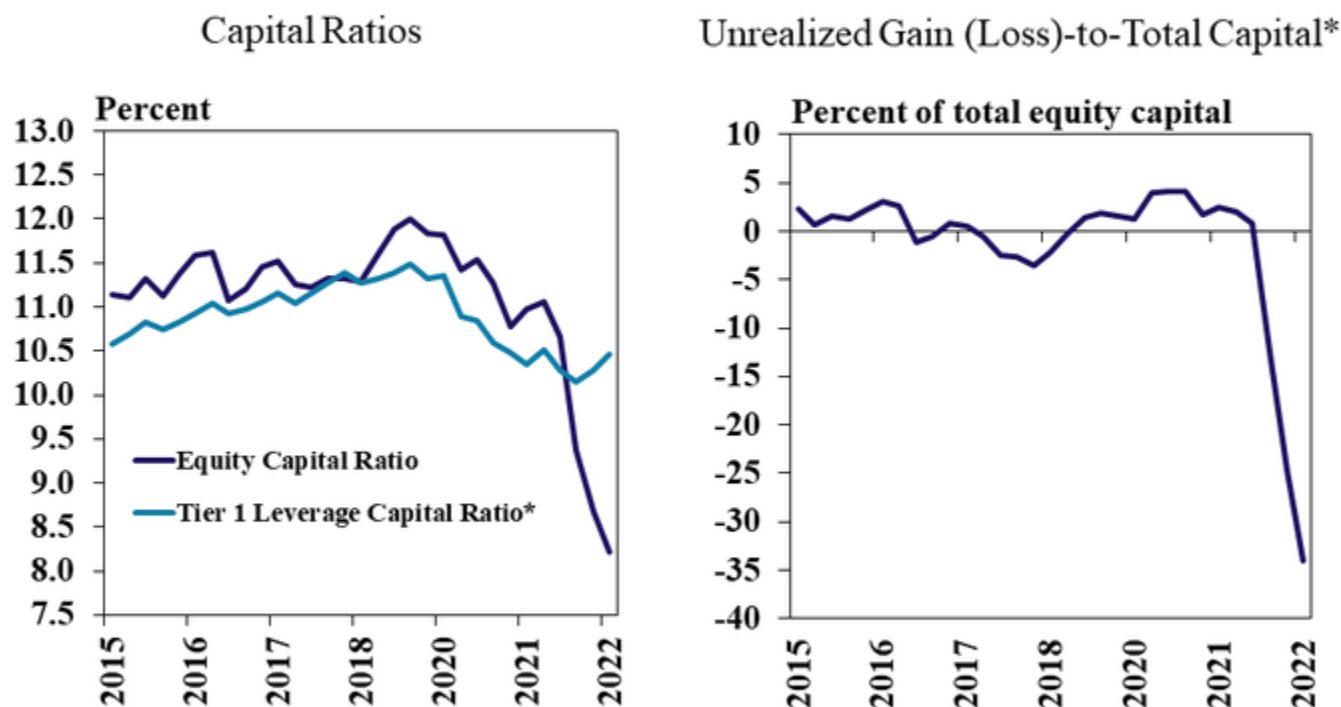
*Calculated using a panel of 1,042 agricultural banks from Q3 2022.

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Source: Reports of Condition and Income and Federal Reserve Board of Governors

Strong liquidity and credit conditions provided a firm buffer, but unrealized losses continued to pressure some measures of capital. The Tier 1 Leverage Capital Ratio at agricultural banks increased slightly alongside higher earnings, but substantial unrealized losses continued to push the equity capital ratio lower (Chart 5). Losses attributed to holdings of investment securities totaled nearly 35% of equity capital for farm lenders, however, ample liquidity and strong loan performance appeared likely to prevent most banks from having to sell securities and formally realize those losses.

Chart 5: Capital and Unrealized Losses at Agricultural Banks



*Unrealized gains (losses) are included in the calculation of accumulated other comprehensive income (AOCI). Banks may elect to "opt-out" of including AOCI in the calculation of Tier 1 Leverage Capital utilized for regulatory purposes. However, these amounts are included in the calculation of the equity capital variable utilized in the Ag Finance Update – Commercial Bank Call Report data tables.

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Source: Reports of Condition and Income and Federal Reserve Board of Governors

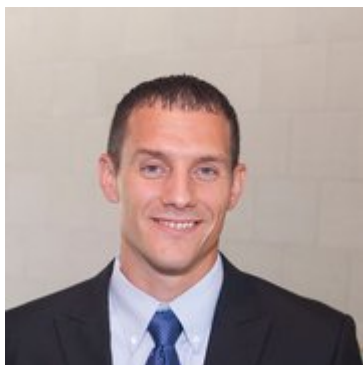
Data and Information

[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.