Agricultural Finance Update

Loan Performance Remains Strong as Farm Debt Grows

by: Cortney Cowley and Ty Kreitman

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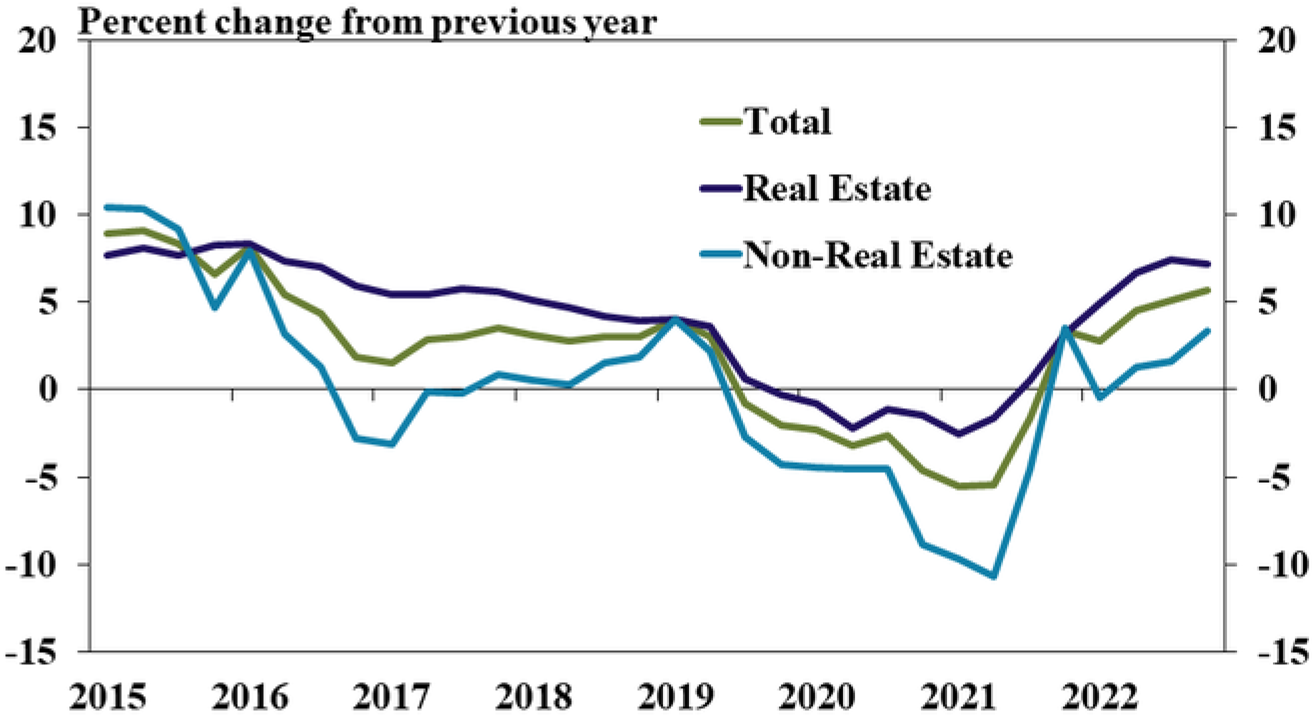
Farm debt at commercial banks grew further in the fourth quarter, and delinquency rates remained historically low. Farm real estate and production loans were about 7% and 3% higher than the previous year, respectively. Agricultural banks expanded both farm and non-farm lending considerably in 2022 which, together with a slowdown in deposit growth, dropped bank liquidity down from recent highs. With higher loan demand and a steep rise in interest rates, profit and capital metrics at agricultural banks improved through the end of last year.

Demand for farm lending grew in 2022 alongside substantial increases in production costs, but the outlook for the agricultural economy in 2023 remained strong. Despite persistent concerns about operating expenses, higher interest rates and intense drought in some areas, commodity prices remained elevated and continued to support profit opportunities. Strength in farm income and liquidity likely contributed to lower delinquency rates on all farm loans, which were less than just 1%.

Fourth Quarter Commercial Bank Call Report Data

Steady growth in real estate and non-real estate farm lending pushed debt balances higher. Total farm debt increased about 6% between the fourth quarter of 2021 and the end of 2022, the fastest pace since early 2016 (Chart 1). Real estate and non-real estate loans increased at an average pace of nearly 6% and 2% during 2022, respectively.

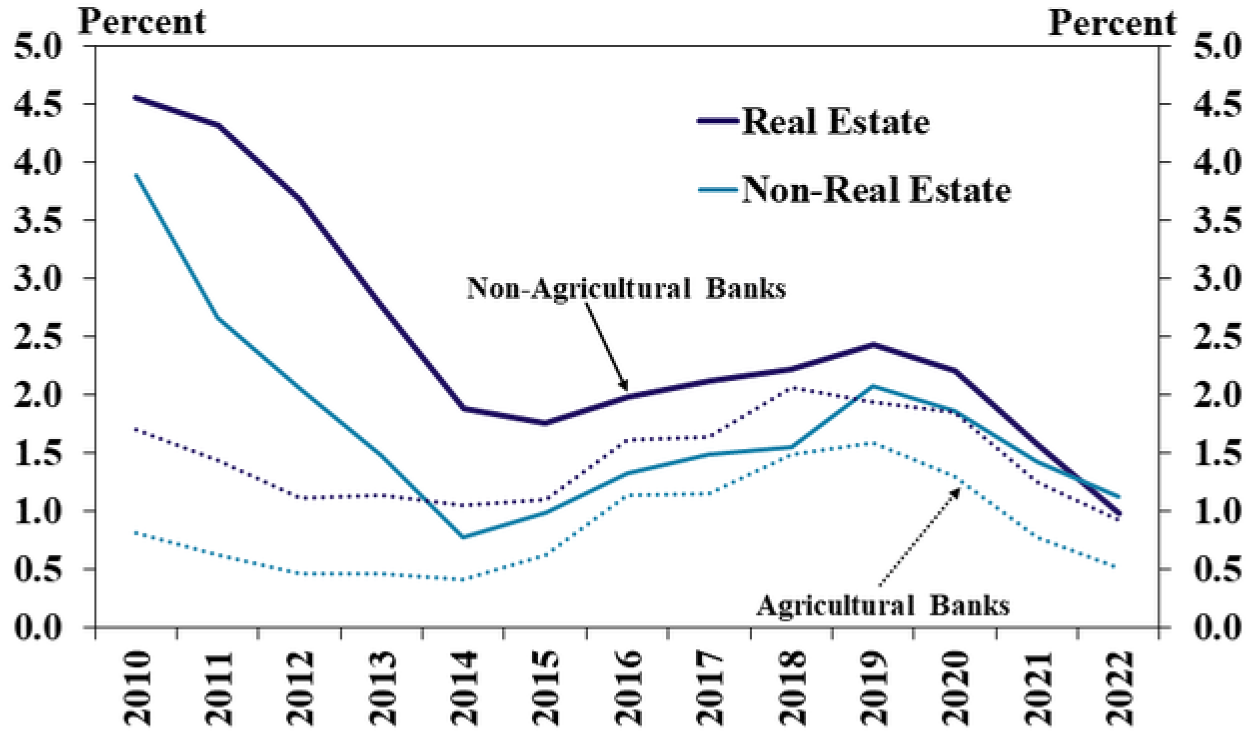
Chart 1: Farm Debt Outstanding at Commercial Banks



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

Loan performance continued to improve gradually alongside strength in farm finances despite increases in debt. Rates of delinquency on farm loans at both agricultural and non-agricultural banks during the fourth quarter edged lower for the third consecutive year (Chart 2). Strong farm income in recent years has bolstered liquidity for many producers and led to historically low rates of past dues on agricultural loans[1]

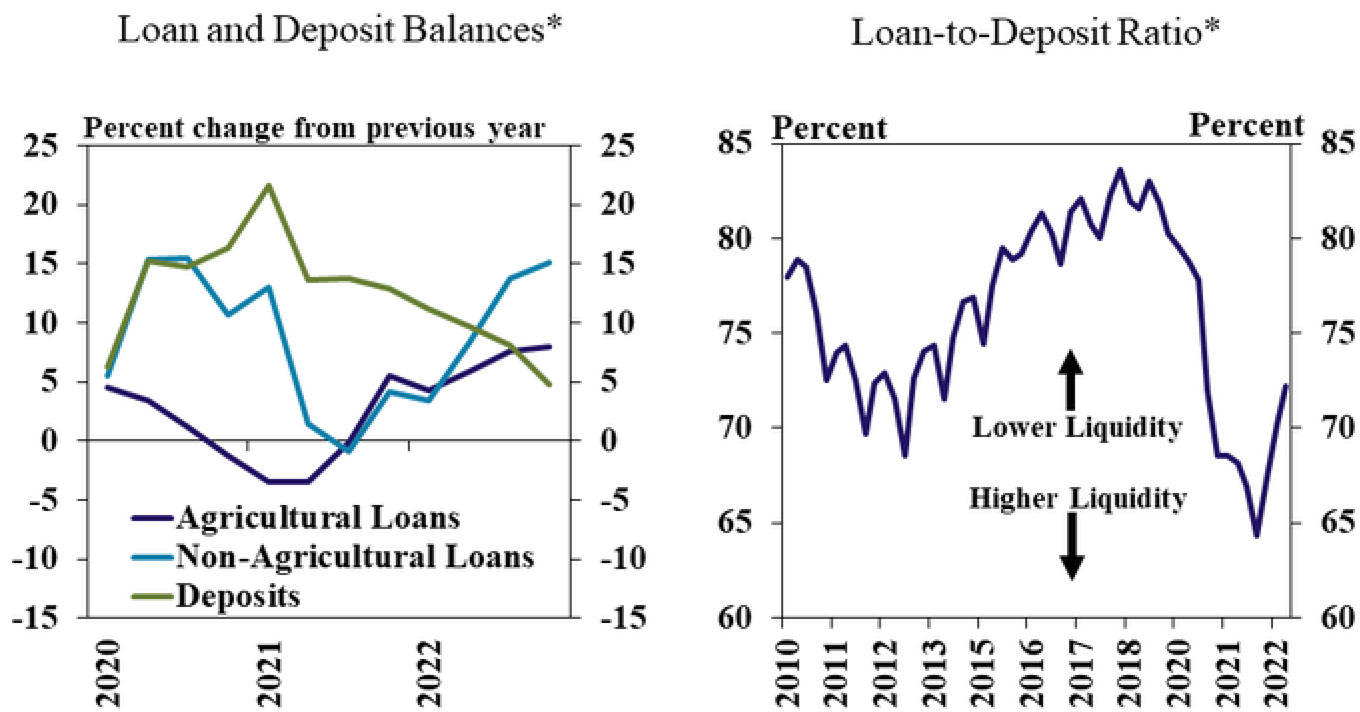
Chart 2: Farm Loan Delinquency Rates, Q4



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

Notable increases in farm and non-farm lending led to a moderation in liquidity at agricultural banks. Loan balances grew considerably faster than deposit balances at banks most concentrated in agricultural lending at the end of 2022 (Chart 3). Demand for both agricultural and non-agricultural lending at farm banks grew throughout the year as deposit growth stabilized, and the loan-to-deposit ratio increased from multi-decade lows.

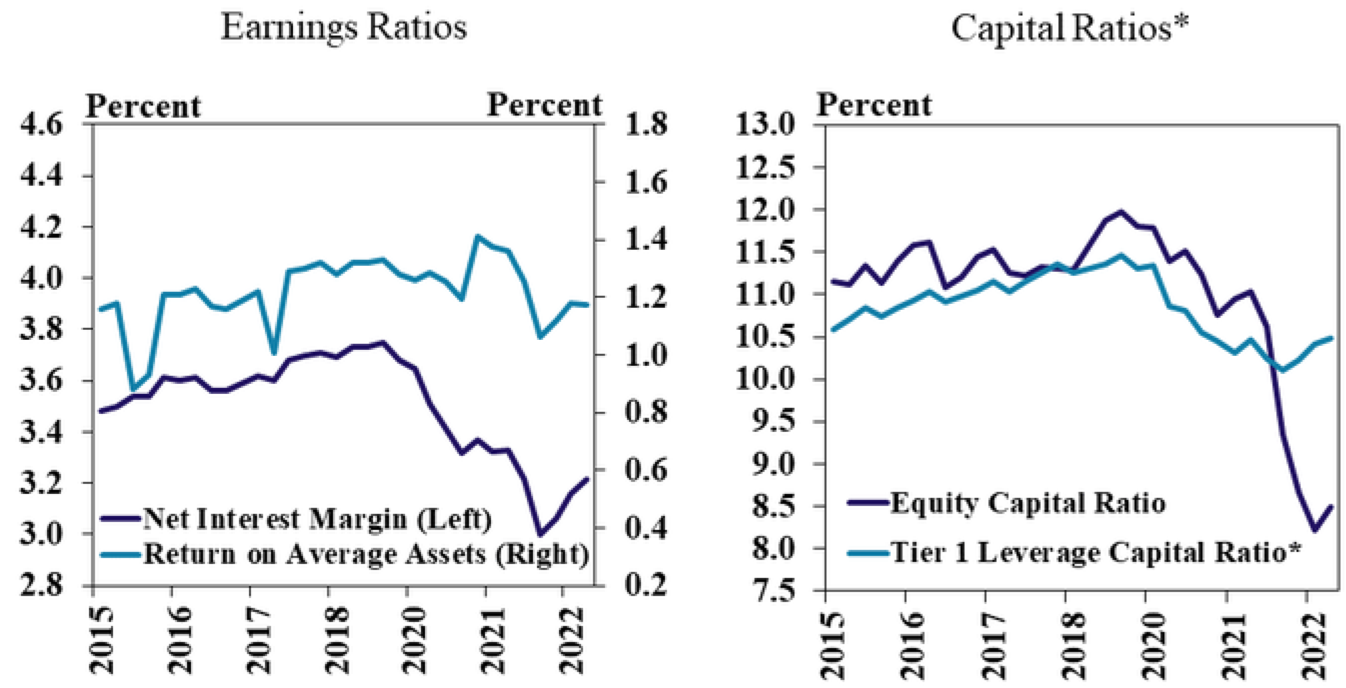
Chart 3: Select Financial Indicators at Agricultural Banks



*A higher loan-to-deposit ratio corresponds with lower bank liquidity and a lower loan-to-deposit ratio corresponds to higher bank liquidity.
Note: Calculated using a panel of 1,032 agricultural banks from Q4 2022. Agricultural banks are defined as banks with total agricultural loans comprising at least 25% of total loans.
Source: Reports of Condition and Income and Federal Reserve Board of Governors

Growth in lending and higher interest rates contributed to improvement in financial performance at agricultural banks. Following steady contractions in recent years, profits at agricultural banks increased in 2022 alongside an increase in net interest margins (Chart 4). Higher earnings also supported a gradual rise in capital reserves throughout the year, despite some ongoing pressure from unrealized losses associated with securities holdings.

Chart 4: Select Financial Indicators 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.
Note: Figures above are calculated using a panel of 1,032 agricultural banks from Q4 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

Endnotes

[1] According to the USDA Farm Sector Income Forecast, net farm income rose 8% in 2022 from the previous year after growing 43% in 2021. Similarly, working capital (a measure of farm liquidity) on U.S. farms rose by more than 40% in 2021 compared with the previous year and remained steady in 2022.

Data and InformationCommercial Bank Call Report Historical Data
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About the Commercial Bank Call Report Data

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Cortney Cowley serves as Oklahoma City Branch Executive and Assistant Vice President for the Federal Reserve Bank of Kansas City. Cowley joined the Bank in 2015 as an economist and was promoted to senior economist in 2021. In 2025, Cowley began her role as Branch Executive.As Oklahoma City Branch Executive, Cowley is the Bank's lead officer and economist in Oklahoma. She recruits and works closely with the Oklahoma City Branch Board of Directors and is responsible for briefing Kansas City Fed President Jeff Schmid, a member of the Federal Open Market Committee, on economic trends in the state. She also serves as a special advisor on agriculture to Governor Miki Bowman at the Federal Reserve Board of Governors. Cowley's team conducts research and surveys on key regional issues such as energy, manufacturing and migration.Cowley holds a Ph.D. in Agricultural Economics from Oklahoma State University, as well as a master's degree in Civil Engineering from Colorado State University and a bachelor's degree in Biosystems Engineering from Oklahoma State University, where she was named a Harry S. Truman Scholar. She is a member of the Economic Club of Oklahoma, Downtown Club of Oklahoma City, the Agricultural and Applied Economics Association and serves as an economic advisor on the campaign cabinet of the United Way of Central Oklahoma. Cowley, along with her husband and eight-year-old twins, lives on a small farm northwest of Oklahoma City.

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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.