



Agricultural Finance Update

Production Loans Boost Farm Debt

by: Francisco Scott and Ty Kreitman

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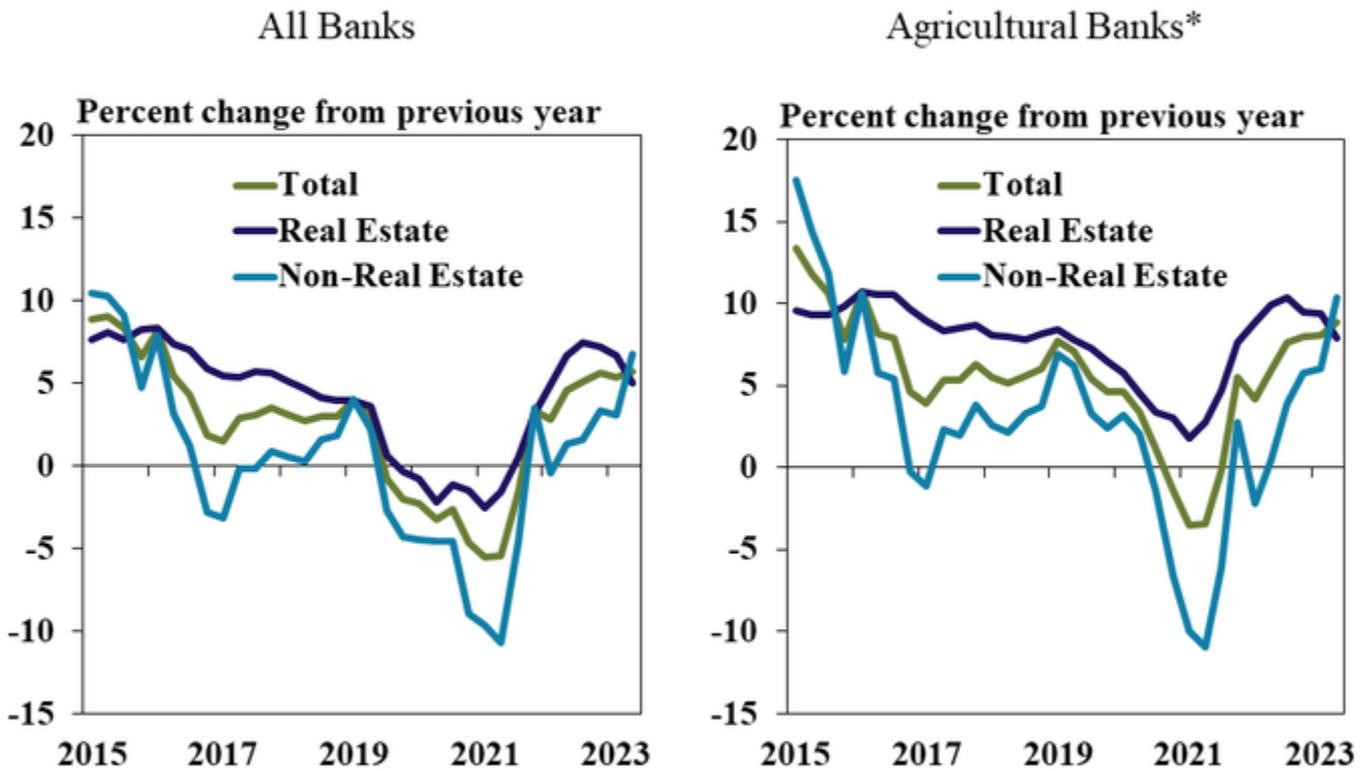
Farm debt continued to increase alongside faster growth in farm production loans. Similar to recent quarters, outstanding agricultural loan balances at commercial banks increased by about 5%. Non-real estate loans increased at the fastest pace since 2016 while growth in real estate loans slowed slightly. Even as debt balances continued to grow, farm loan performance remained strong and delinquency rates edged lower for the third consecutive year. The net interest margin and return on assets at agricultural banks were higher than a year ago, but softened slightly from the previous quarter as funding costs for lenders continued to rise.

The [outlook for agricultural credit conditions remained strong despite a recent moderation in the farm economy](#). A slight pullback in the prices of key farm products and elevated expenses could thin margins for some producers, but farm finances remained strong following several years of considerable strength. Rising production costs and depletion of working capital could further increase credit needs, particularly for producers who have used cash reserves to reduce loan levels in recent years. Although a [growing share of lenders expect farm income and repayment rates to soften](#) in the months ahead, agricultural credit conditions are likely to remain strong through 2023.

Second Quarter Commercial Bank Call Report Data

Faster growth in non-real estate lending kept increases in farm debt steady in the second quarter. Outstanding farm production and farm real estate loans at all commercial banks increased 7% and 5% from a year ago, respectively (Chart 1, left panel). Growth was stronger among agricultural banks, with non-real estate and farmland loans increasing 10% and 8% during the second quarter, respectively (Chart 1, right panel).

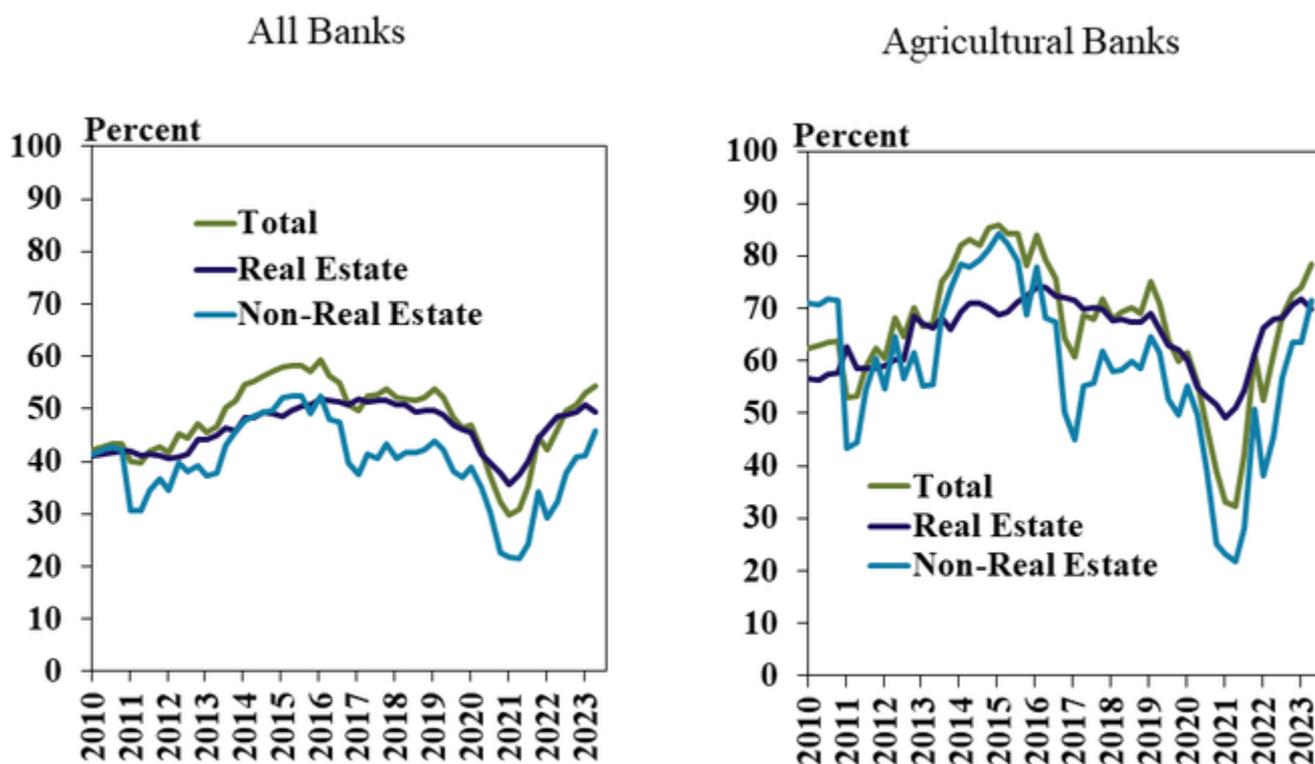
Chart 1: Farm Debt Outstanding at Commercial Banks



*Includes a static panel of 997 agricultural banks from the quarter ending June 30, 2023.
 Note: 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

Growth in farm loan balances was more pronounced than in recent years, particularly for agricultural banks. Farm debt increased from a year ago at slightly more than half of all banks, the largest share since 2016 (Chart 2, left panel). In comparison, farm loan balances grew at nearly 80% of agricultural banks (Chart 2, right panel).

Chart 2: Share of Banks with Increases in Farm Debt



Note: 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

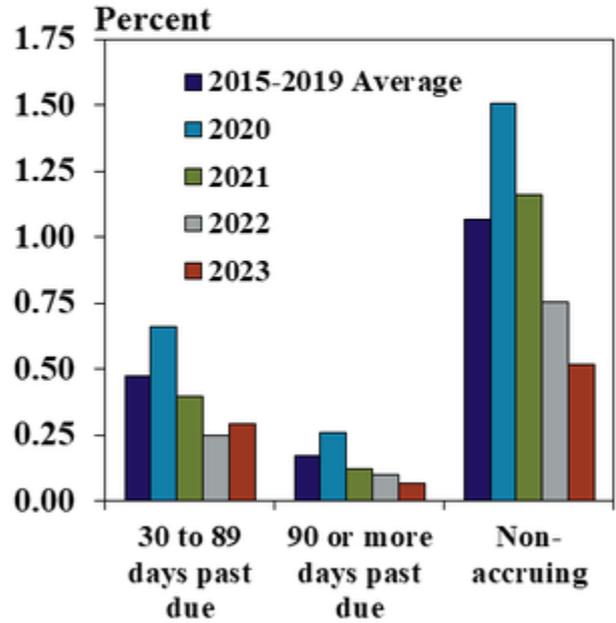
Broad strength in farm finances continued to support gradual improvement in loan performances. Delinquency rates improved further in the second quarter and reached the lowest level since 2010 for real estate and non-real estate loans (Chart 3, left panel). A reduction in balances of non-accruing loans and loans past due of 90 days or more counterbalanced a slight uptick in shorter term past dues (Chart 3, right panel). Despite a small increase in short term delinquencies, overall credit quality at agricultural banks remained strong.

Chart 3: Farm Loan Delinquency Rates at Commercial Banks, Q2

Delinquency Rate by Loan Type



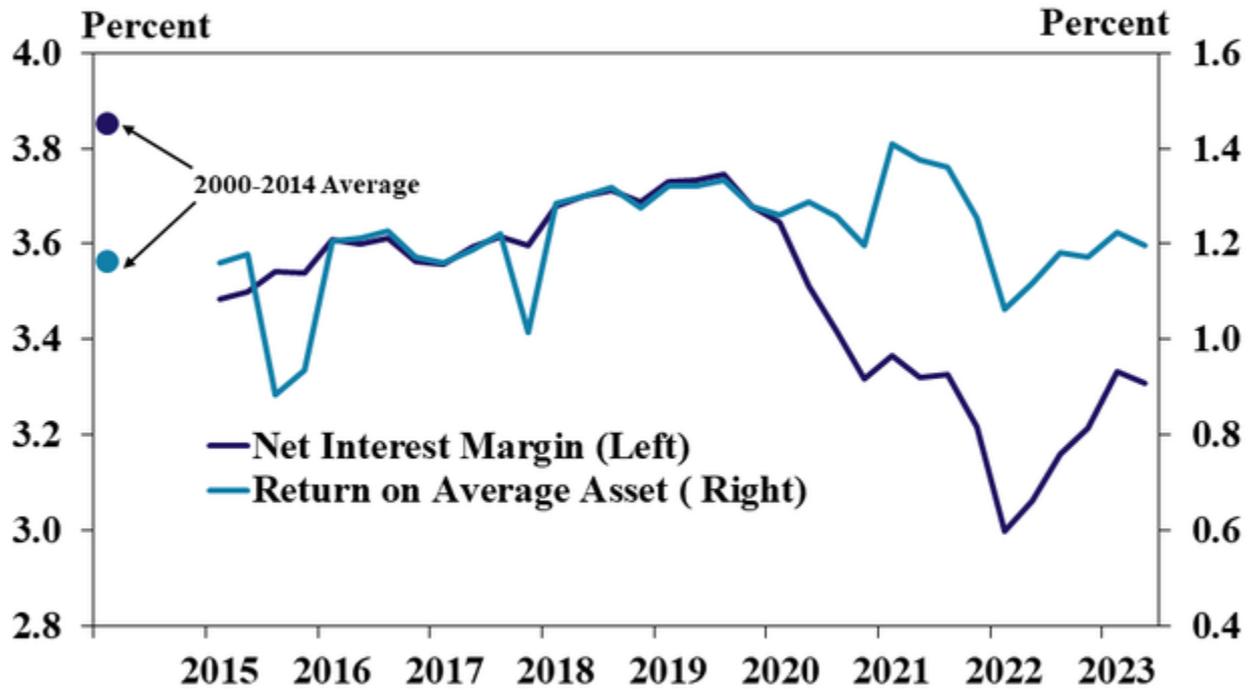
Delinquency Rate by Past Due Duration



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

Earnings at agricultural banks remained sound, despite a slight pullback from last quarter. While ag banks experienced a decrease in growth in interest margins from the previous quarter, margins remained 25 basis points higher than the same time last year and were consistent with the levels in 2021 (Chart 4). Return on average assets was largely steady from last quarter and profitability remained near the average from 2000-2014.

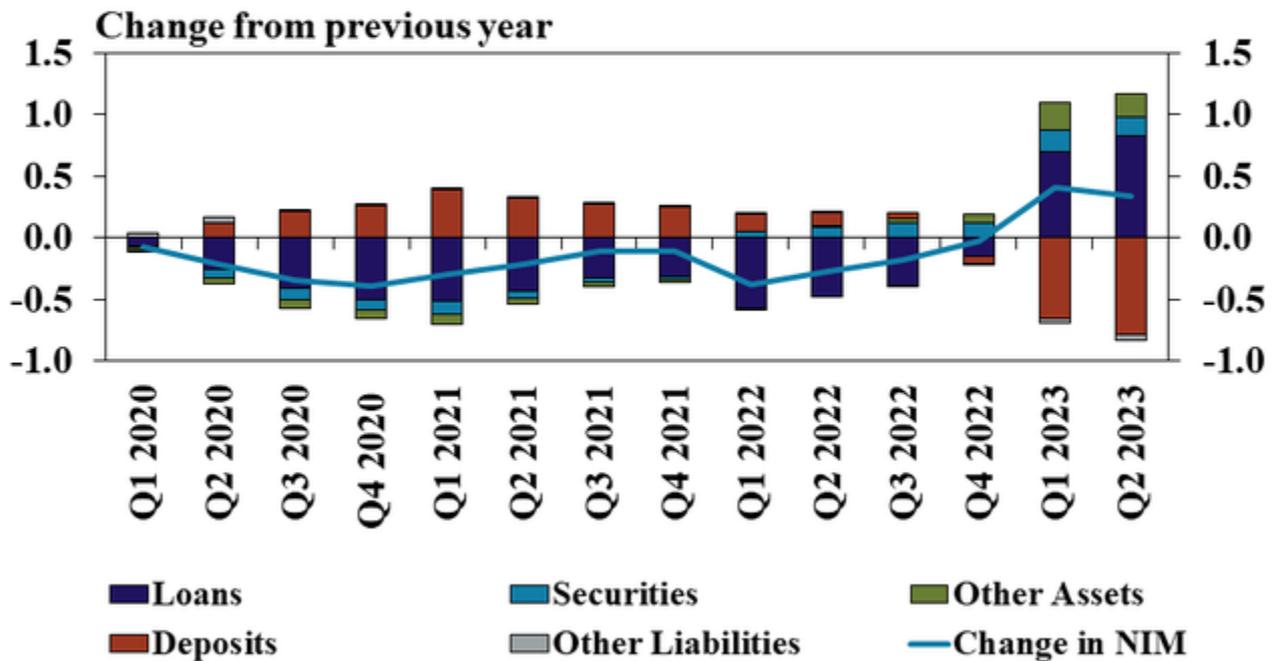
Chart 4: Earnings Ratios at Agricultural Banks



Note: 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

Strong growth in loan interest over the past year continued to offset higher deposit expenses and support net interest margins. Net interest margins at agricultural banks increased from a year ago during the last two quarters, reversing the negative trend in margins since 2020 (Chart 5). Higher net interest incomes in early 2023 were largely attributed to stronger income generated from loans, which more than offset growth in deposit expenses that have dampened margins.

Chart 5: Contributions to Change in the Net Interest Margin (NIM) at Agricultural Banks



Note: 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

Despite improving from a year ago, interest margins flattened slightly over the past quarter alongside a considerable rise in funding costs. The share of interest expenses to average liabilities at agricultural banks reached the highest levels since 2010 (Chart 6). Higher benchmark interest rates and strong competition have put upward pressure on deposit costs and led many community banks to source other forms funding, pushing up funding costs and putting downward pressure on margins.

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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Francisco Scott is a senior economist at the Economic Research Department of the Federal Reserve Bank of Kansas City. His current research focuses on agricultural industrial organization, industry consolidation and market power, regional economics, and policy. Francisco joined the Bank in 2021 after completing his Ph.D. in Agricultural Economics at Purdue University.

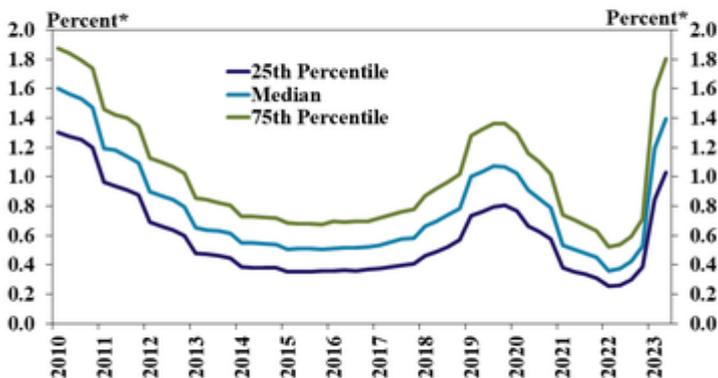


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Ty Kreitman is an associate economist in the Regional Affairs Department at the Omaha Branch of the Federal Reserve Bank of Kansas City. In this role, he primarily supports the Federal Reserve Bank of Kansas City and the Federal Reserve System efforts 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.

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**Chart 6: Interest Expense-to- Liabilities
at Agricultural Banks**



*Total interest expense divided by average total liabilities less demand deposits.
Note: 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