



Agricultural Finance Update

Non-Real Estate Lending Lifted Farm Debt in 2023

by: Nate Kauffman and Ty Kreitman

March 28, 2024

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Farm debt at commercial banks grew at a steady pace through the end of 2023 while loan delinquencies remained historically low. Alongside strong growth in non-real estate lending, total farm debt at commercial banks increased just short of 5% over the past year. Non-real estate debt climbed at an increasingly swift pace throughout 2023 and ended the year near the 20-year average. Farm real estate debt remained well above historic averages, but growth slowed notably.

Demand for agricultural production loans picked up from many lenders in 2023 alongside a moderation in agricultural commodity prices that thinned profits and increased financing needs. However, a sizeable portion of lenders also continued to report subdued farm loan demand as many borrowers remained flush with cash after several years of considerable strength in farm incomes.

The financial strength of recent years also bolstered loan performance and helped keep loan delinquencies at historically low levels. Looking ahead - the farm economy is expected to soften further in 2024, which will be a risk to farm finances and agricultural credit conditions and could put additional upward pressure on loan demand.

Fourth Quarter Commercial Bank Call Report Data

Growth in agricultural production loans strengthened through the end of the year, while growth in real estate debt continued to soften. Non-real estate farm debt was up more than 7% from the same time a year ago, continuing over a year of strong growth (Chart 1). Growth in farm real estate debt, however, continued to slow through the end of the year, increasing by less than 3% from the previous year.

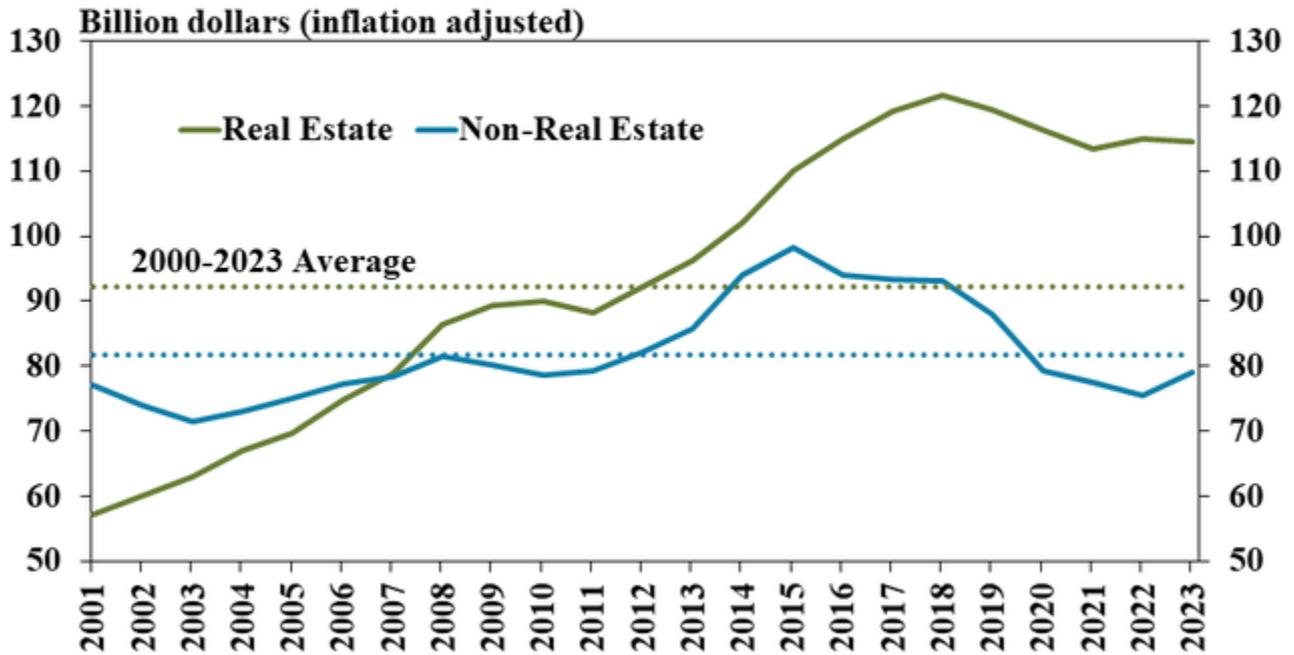
Chart 1: Farm Debt Outstanding at Commercial Banks



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

Real estate debt remained elevated despite more tempered growth and non-real estate debt rebounded closer to average levels. After adjusting for inflation, farm real estate debt retracted from a record high in 2018 but was still 25% above the recent historical average through the end of 2023 (Chart 2). Non-real estate debt grew from relatively low levels a year ago and neared its longer-term average.

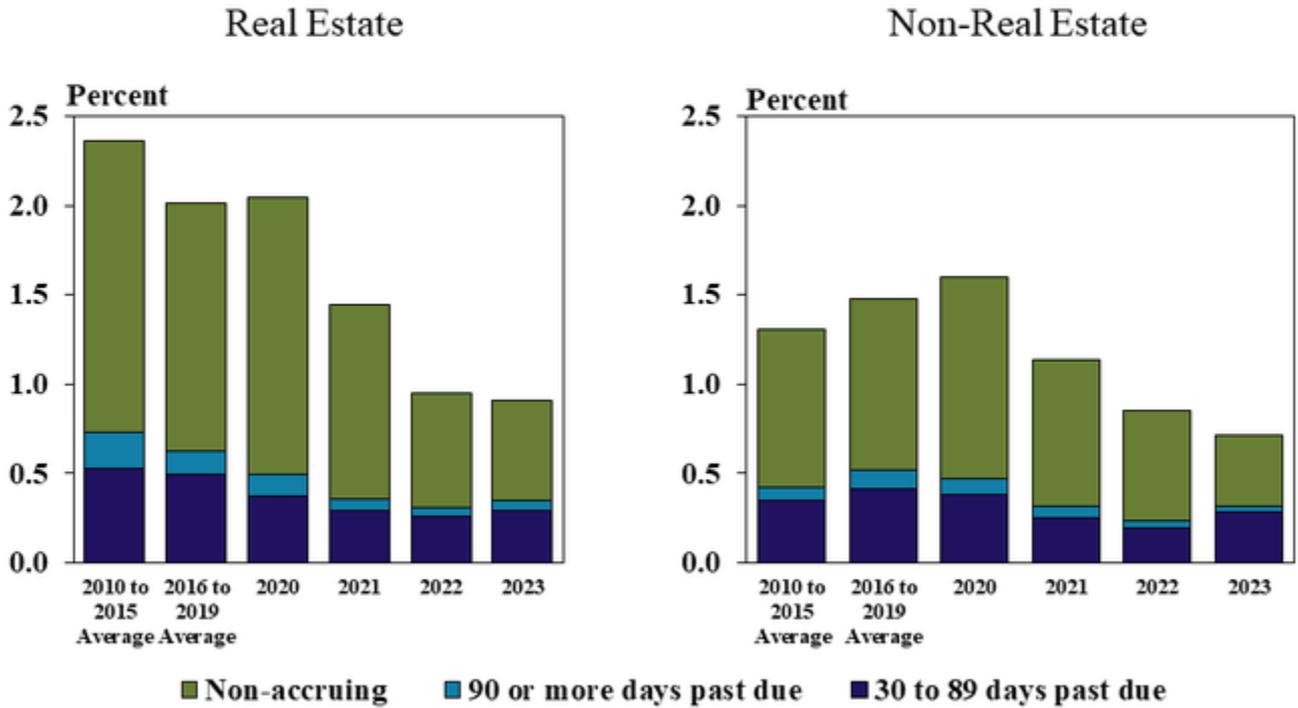
Chart 2: Farm Debt Outstanding at Commercial Banks, Q4



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

Despite steady growth in debt throughout the year and a moderation in farm income, loan performance remained strong. The rate of delinquency on both real estate and non-real estate farm loans fell slightly in 2023 and remained at historic lows (Chart 3). Longer-term delinquency rates drove the gradual improvement, but the share of loans past due less than 90 days increased slightly.

Chart 3: Farm Loan Delinquency Rates at Commercial Banks, Q4

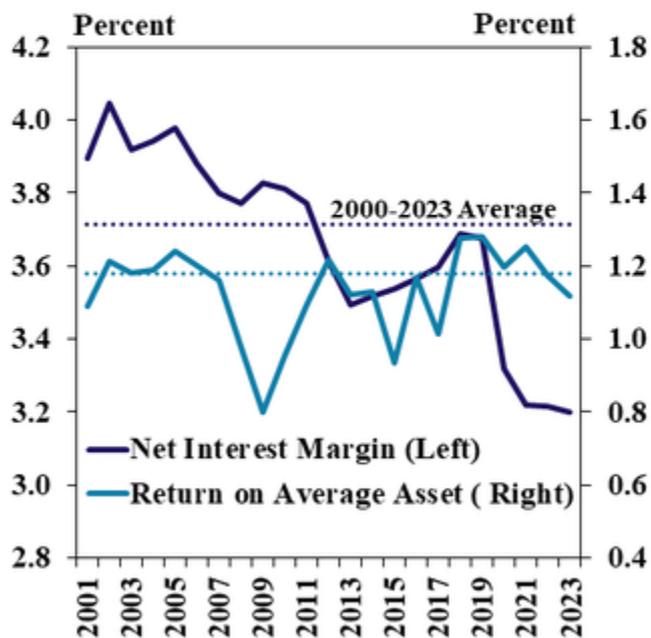


Sources: Reports of Condition and Income and Federal Reserve Board of Governors

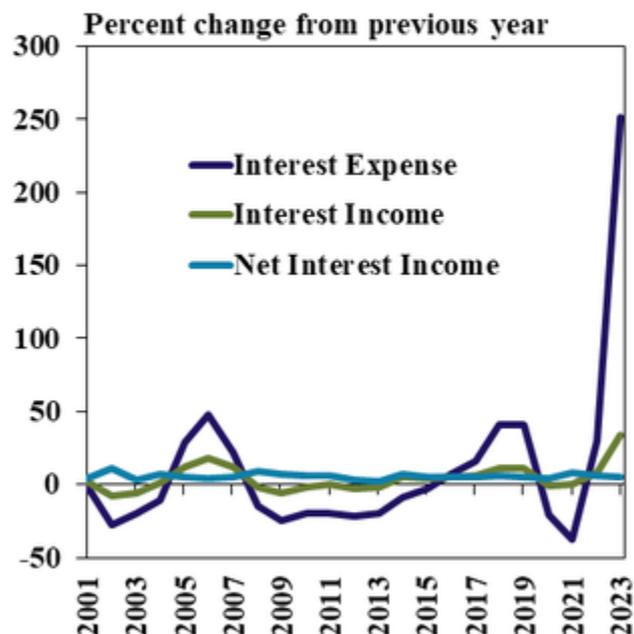
While credit quality was solid, profits for agricultural banks were tempered by slim net interest margins. The return on average assets for agricultural banks decreased from last year and ended 2023 slightly below the average return since 2000 (Chart 4, left panel). Profits softened as the net interest margin remained subdued alongside a rapid growth in funding costs that has outpaced growth in interest income (Chart 4, right panel).

Chart 4: Select Financial Indicators at Agricultural Banks, Q4

Earnings Ratios



Interest Expense and Income



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

[Data and Information Commercial Bank Call Report Historical 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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