Ag Finance Update

Gradual Deterioration in Agricultural Credit Conditions Continues

by: Ty Kreitman and Morgan Mastrianni

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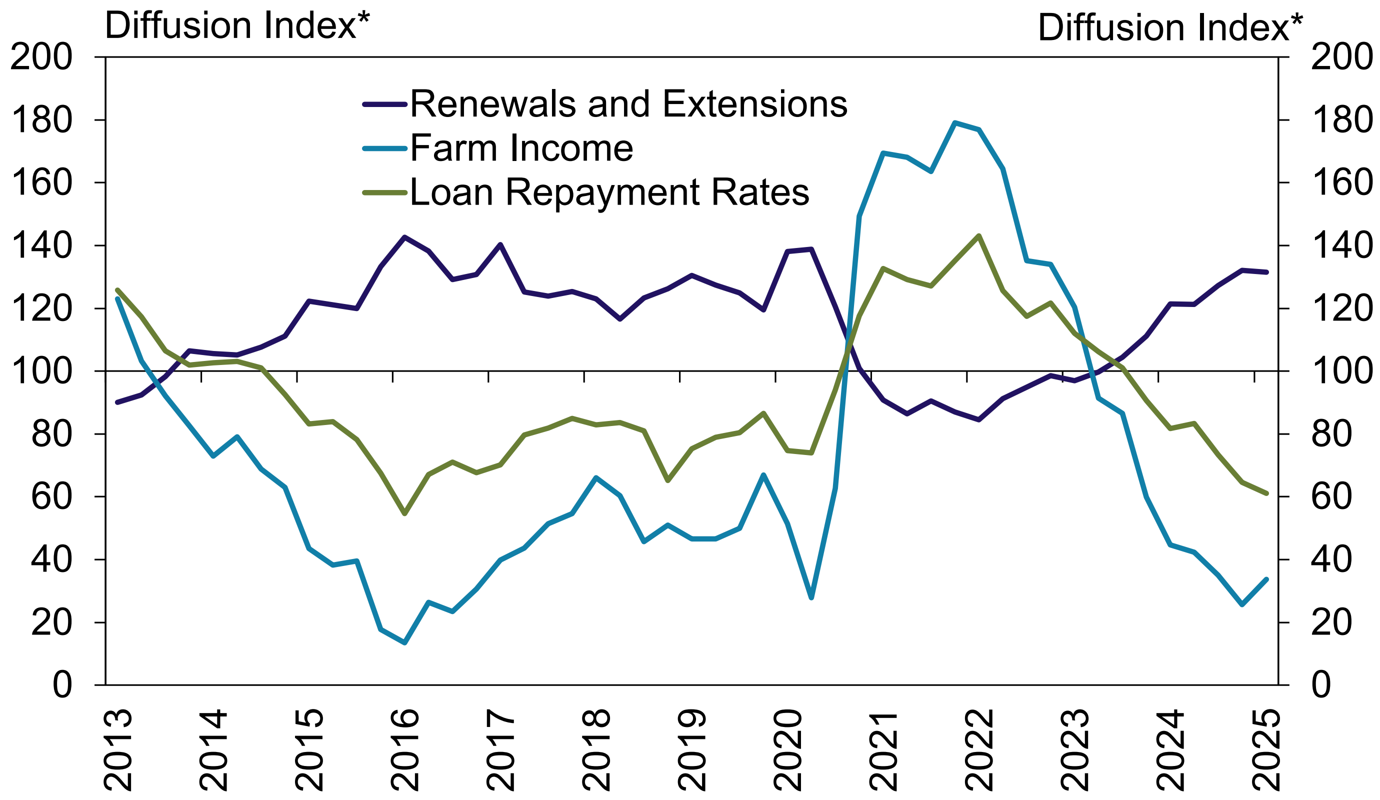
Agricultural credit conditions deteriorated in the first quarter of 2025 and farm real estate values softened in some regions, according to the Federal Reserve Surveys of Agricultural Credit Conditions. Weak crop prices over the past year contributed to lower farm incomes, a decrease in loan repayment rates, and an increase in renewals and extensions. Tighter farm finances also led to growth in loan demand and lenders reported steady increases in collateral requirements. Interest rates on agricultural loans declined slightly but remained relatively high and farm real estate markets continued to cool in most regions.

First Quarter Federal Reserve District Ag Credit Surveys

Agricultural credit conditions weakened during the first quarter alongside gradual deterioration in a variety of farm financial metrics. Loan renewals and extensions, on average, increased at a pace similar to recent quarters and farm loan repayment rates declined at a faster pace across all Districts (Chart 1). Indicators of credit conditions weakened as the share of respondents reporting farm incomes lower than a year prior remained similar to last quarter.

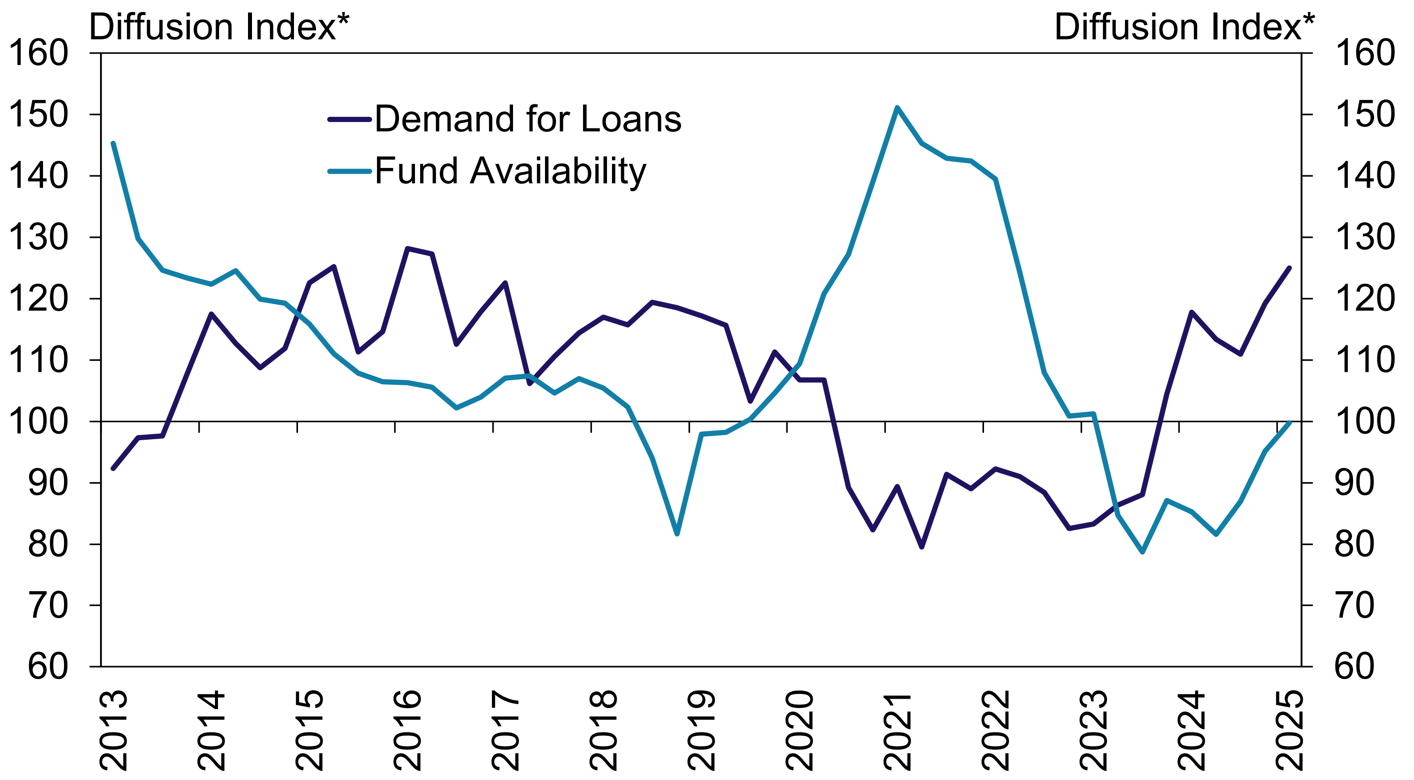
Chart 1: Farm Income and Credit Conditions



*Lenders responded by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of survey respondents who responded "lower" from the percentage who responded "higher" and adding 100.
Note: Each index is the average of individual indices for the Dallas, Chicago, Kansas City, Minneapolis and St. Louis Districts. Information about farm income is only collected for the Kansas City, Minneapolis, and St. Louis Districts.
Source: Federal Reserve Surveys of Agricultural Credit Conditions

Demand for farm loans also continued to grow as farm finances tightened, but credit availability was steady. Demand for non-real estate loans, on average across all Districts, increased at the fastest pace since 2016 (Chart 2). As demand for farm loans continued to grow, availability of funds among agricultural lenders remained unchanged following gradual declines throughout 2024.

Chart 2: Non-Real Estate Loan Demand and Fund Availability



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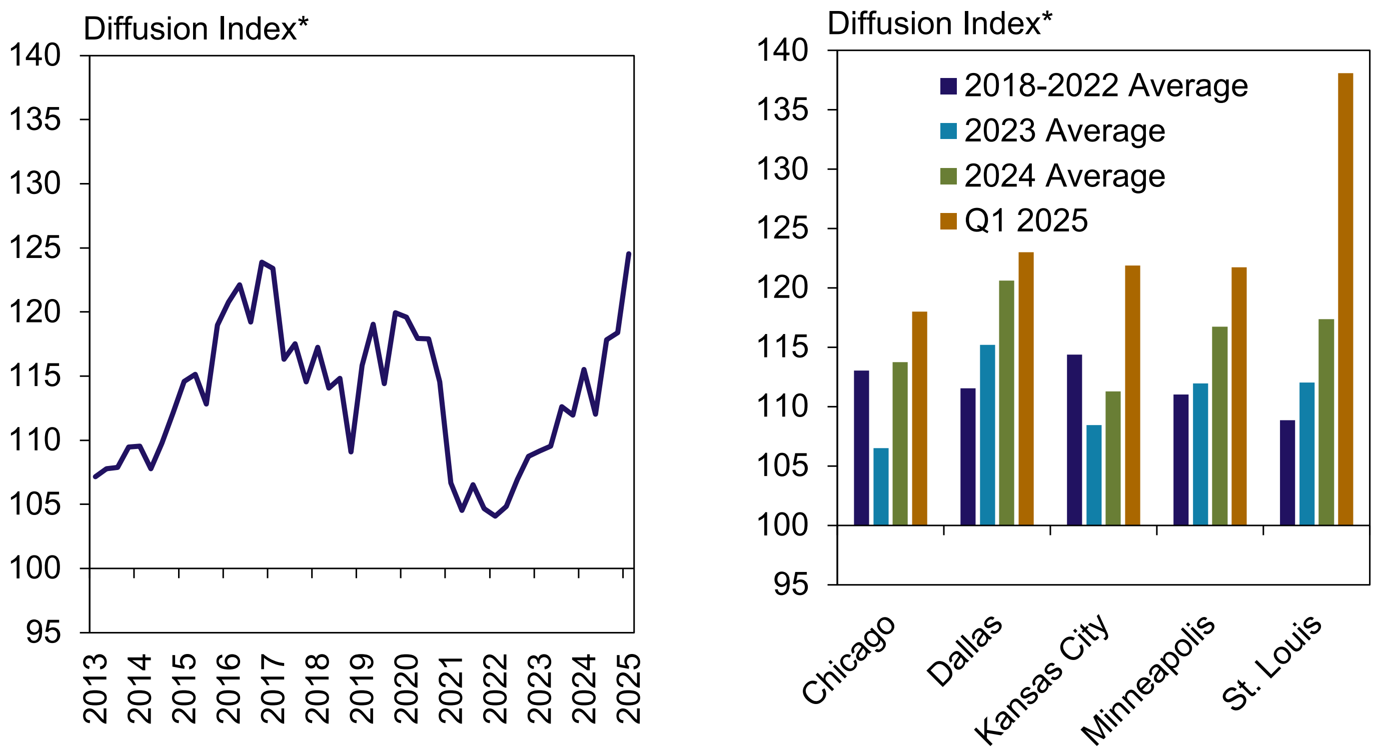
Note: Each index is the average of individual indices for the Dallas, Chicago, Kansas City, Minneapolis and St. Louis Districts.
Source: Federal Reserve Surveys of Agricultural Credit Conditions

As credit conditions weakened and demand for loans increased, more lenders reported tighter credit standards. The share of respondents that reported an increase in collateral requirements compared with a year ago was the highest in over a decade across all Districts (Chart 3). The most notable increase in collateral requirements was reported in the St. Louis District, where farm finances for the quarter were weaker than in other regions.

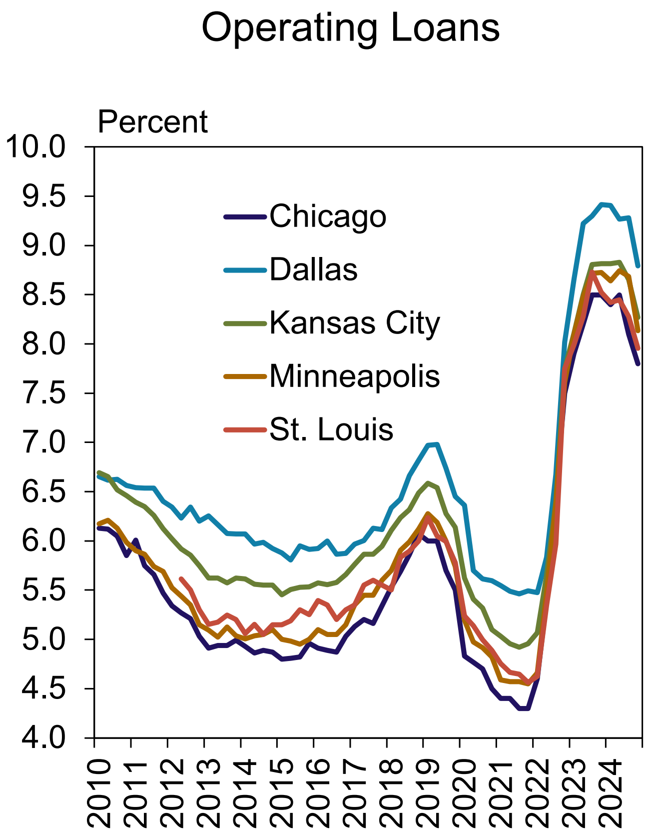
Chart 3: Collateral Requirements

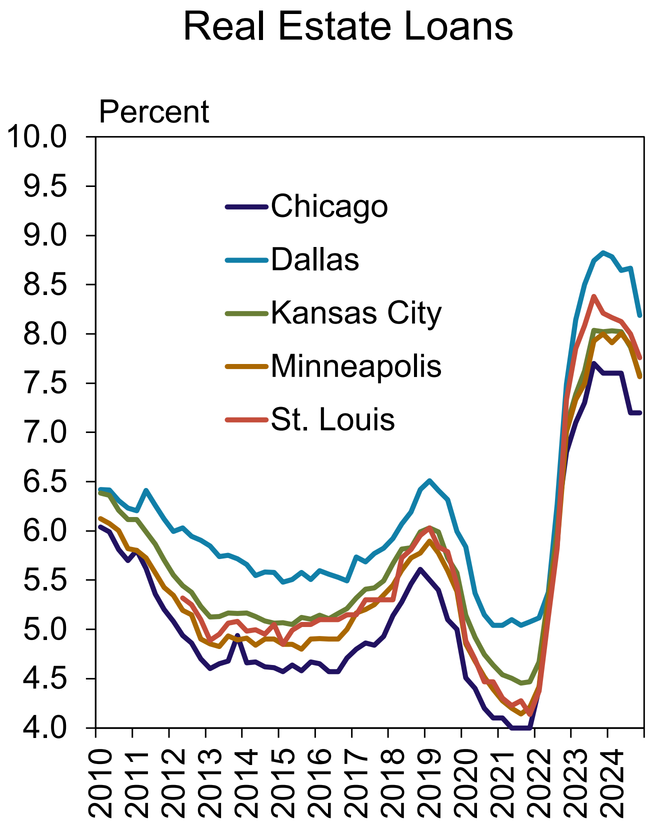


*Lenders responded by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of survey respondents who responded "lower" from the percentage who responded "higher" and adding 100.
Note: The index in the left panel is the average of individual indices for the Dallas, Chicago, Kansas City, Minneapolis, and St. Louis Districts. The survey for the Dallas District refers to 'credit standards' and all other surveys refer to 'collateral requirements'.
Source: Federal Reserve Surveys of Agricultural Credit Conditions

Farm loan interest rates continued to decrease from highs reached in 2023 and 2024. On average across all Districts, rates on both operating and real estate loans were about 60 basis points less than a year ago (Chart 4). Farm loan interest rates have declined over the past year alongside lower benchmark rates; however, they remained elevated relative to recent historical averages.

Chart 4: Average Farm Loan Interest Rates

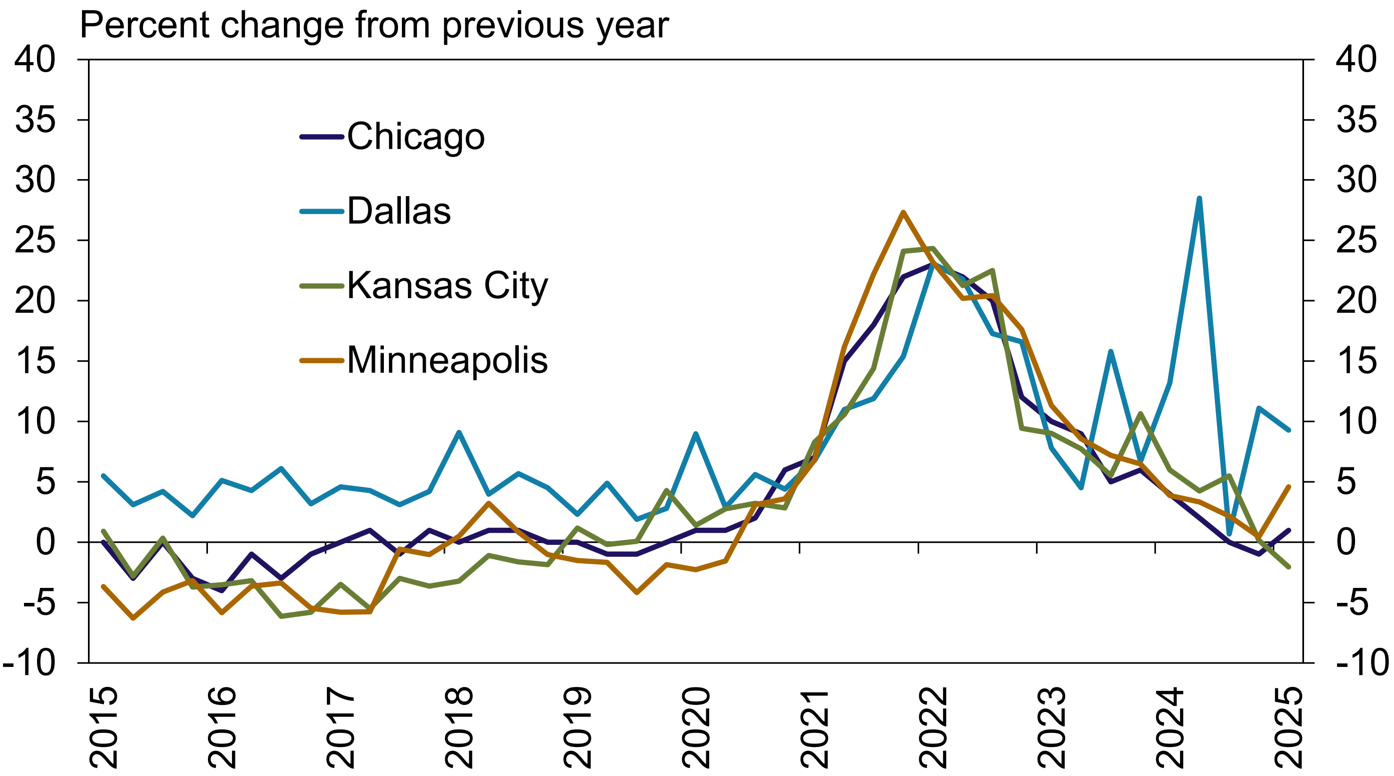




Note: Shown as average fixed and variable rates for each loan type. St. Louis survey began in 2012.
Source: Federal Reserve Surveys of Agricultural Credit Conditions

Agricultural real estate valuations remained strong, but land markets softened in many areas alongside weaker farm finances and relatively high interest rates. Nonirrigated cropland values increased by less than 5% from the previous year in the Chicago and Minneapolis Districts and decreased slightly in the Kansas City District (Chart 5). Values in the Dallas District increased notably, with local contacts continuing to report strong recreational and investor demand.

Chart 5: Nonirrigated Cropland Values



Source: Federal Reserve Surveys of Agricultural Credit Conditions

Federal Reserve Ag Credit Surveys Historical Data
Federal Reserve Ag Credit Surveys Tables
About the Federal Reserve Ag Credit Surveys

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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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