Ag Finance Update

Farm debt continues to rise, but delinquencies remain low

by: Nate Kauffman and Ty Kreitman

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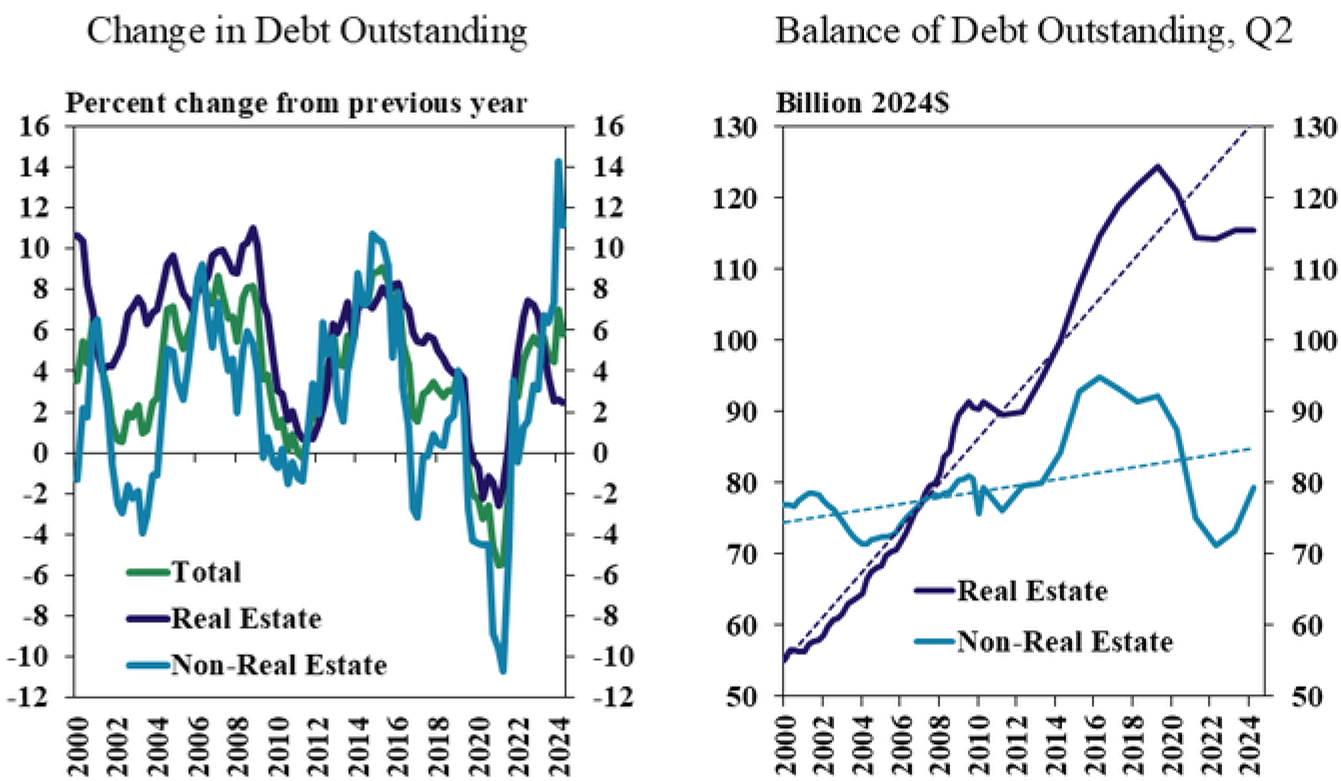
Farm operating debt at commercial banks continued to increase at a rapid pace through mid-year. According to quarterly call reports, outstanding non-real estate farm debt at commercial banks grew about 10% from a year ago during the second quarter. The rise was even more substantial at agricultural banks where debt balances have rebounded to longer-term trends. A moderation in the agricultural economy and lower farm sector liquidity has spurred higher financing needs and credit conditions have also shown signs of tightening. However, despite inching slightly higher, delinquency rates on farm loans remained limited through mid-year.

Second Quarter Commercial Bank Call Report Data

Growth in farm production loans stayed strong through mid-year as the agricultural economy continued to soften. The outstanding balance of real estate and non-real estate (operating) loans at commercial banks increased about 2% and 10% from a year ago, respectively (Chart 1). The rapid increase in non-real estate debt pushed balances nearer to, but still below the historical trend after adjusting for inflation. Growth in real estate debt, however, has remained subdued following a substantial retraction in 2021.

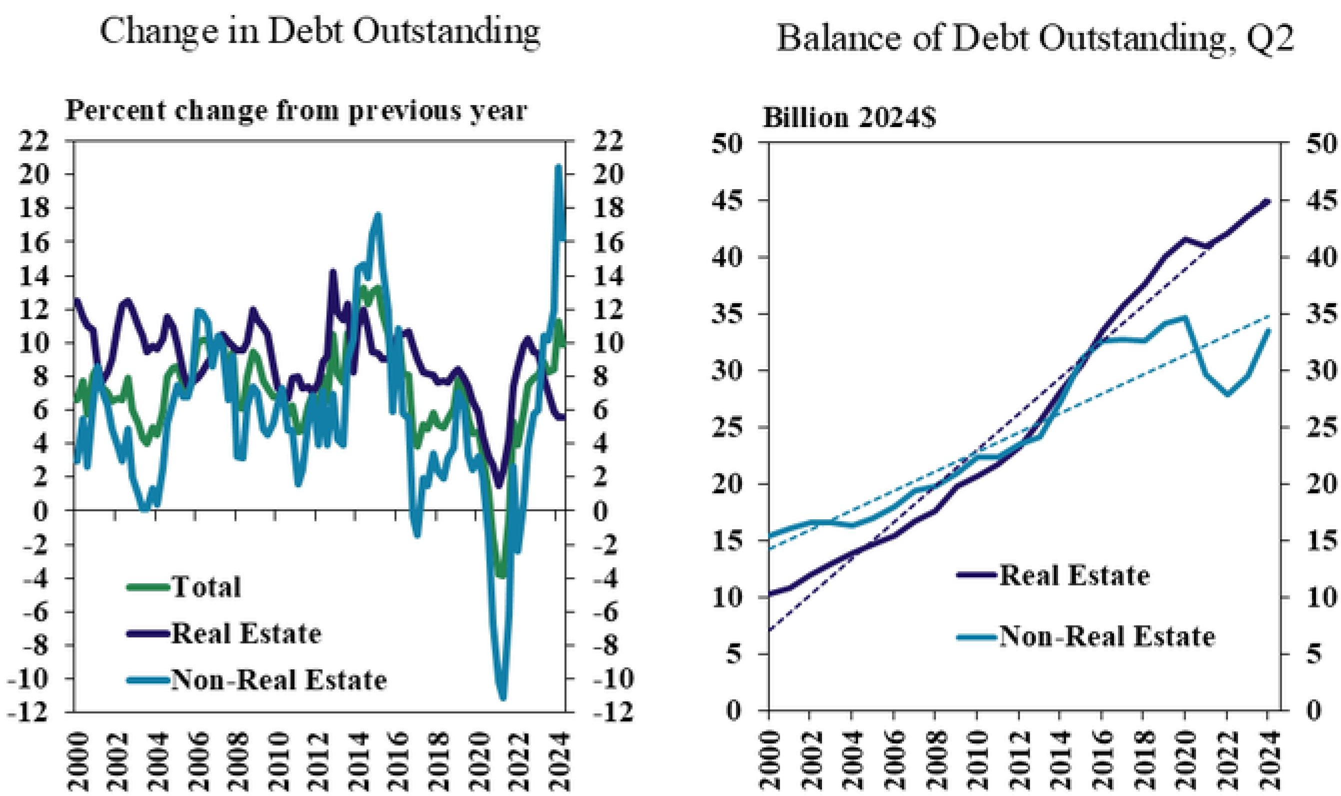
Chart 1: Farm Debt Outstanding at Commercial Banks



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

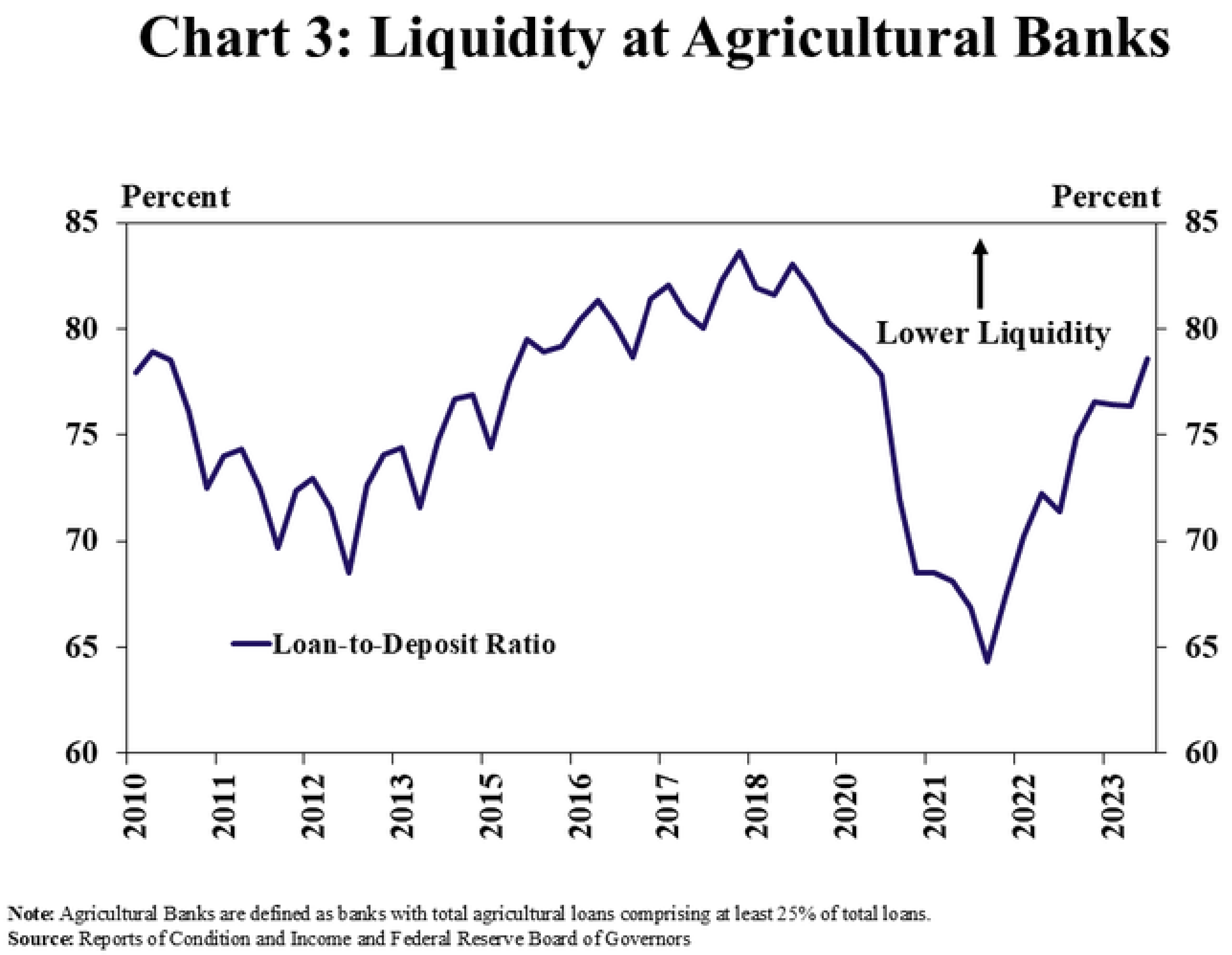
The increase in farm debt was notably more pronounced among agricultural banks. The outstanding balance of real estate and non-real estate (operating) loans at commercial agricultural banks increased roughly 6% and 15% from a year ago, respectively (Chart 2). For those lenders, real estate and non-real estate debt balances were near the long-term trend.

Chart 2: Farm Debt Outstanding at Agricultural Banks



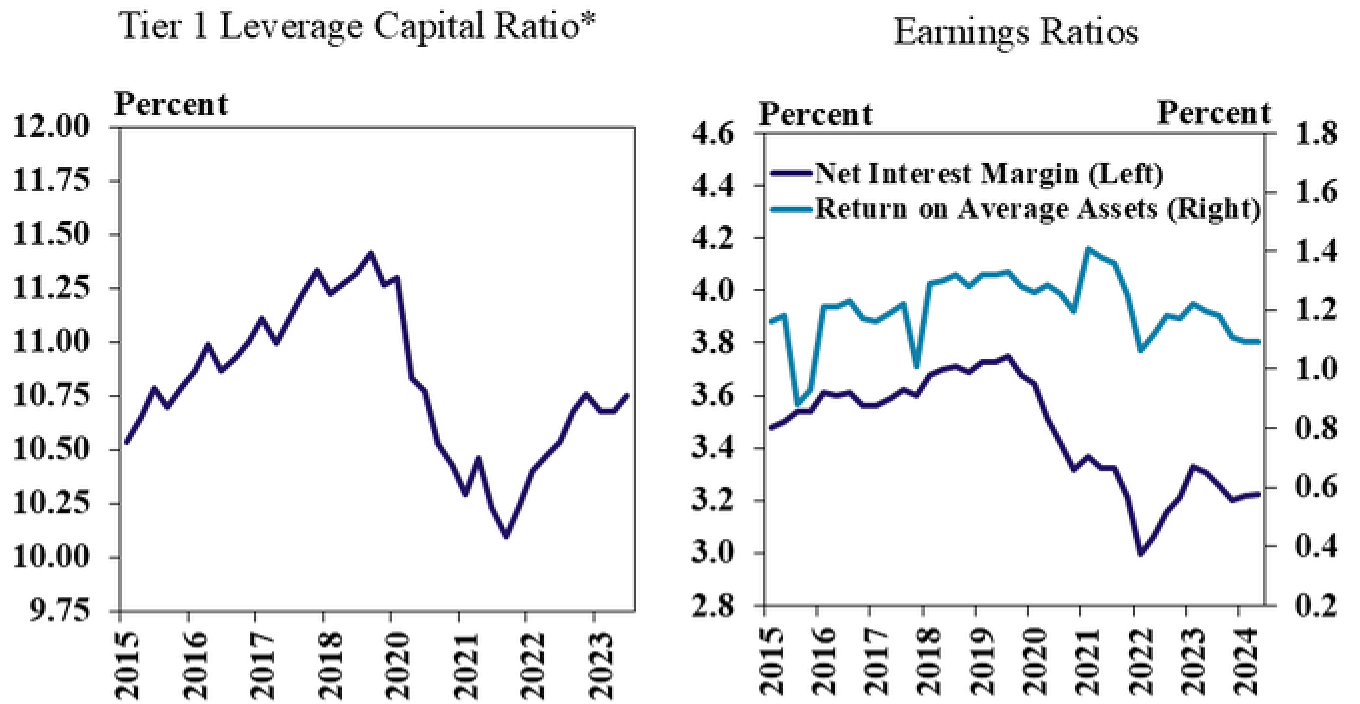
Note: Agricultural Banks are defined as banks with total agricultural loans comprising at least 25% of total loans. Figures above are calculated using the same 968 agricultural banks from Q2 2024 in every quarter.
Sources: Reports of Condition and Income and Federal Reserve Board of Governors

Liquidity for agricultural lenders has tightened alongside recent loan growth. The loan-to-deposit ratio among farm lenders increased to the highest level since 2020 (Chart 3). Agricultural bank liquidity has declined from record levels alongside strong loan growth and elevated competition for deposits that has led to increased use of alternative sources of funding at community banks.



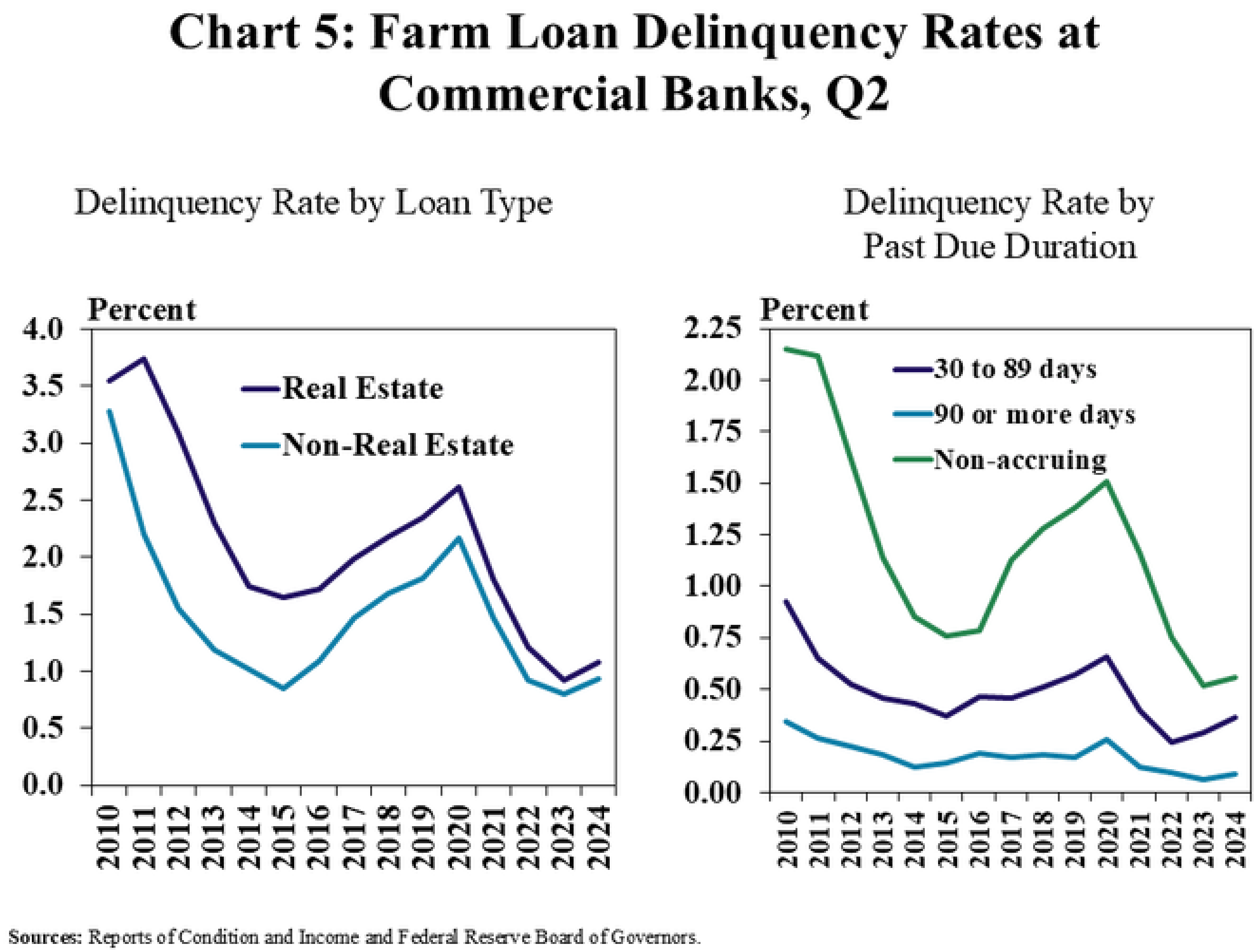
Capital levels at agricultural banks improved slightly alongside steady earnings. The tier 1 leverage capital ratios increased modestly from the previous quarter, remaining solid but below the 10-year average (Chart 4, left panel). The net interest margin and return on assets at agricultural banks was mostly unchanged over the quarter as elevated funding costs kept margins tight (Chart 4, right panel).

Chart 4: Capital and Earnings at Agricultural Banks



*This capital ratio excludes unrealized gains (losses) and is not reported in Ag Finance Update tables. 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: 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

Credit conditions have tightened along with farm finances in recent months, but loan delinquency rates remained low. About 1% of real estate and non-real estate farm loans were past due at least 30 days in the second quarter, a slight increase from record low levels a year ago (Chart 5, left panel). Roughly half of the increase was attributed to newly delinquent loans past due 30 to 89 days (Chart 5, right panel).



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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 is the Kansas City Fed’s principal expert in agricultural economics. 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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