

AGRICULTURAL BANKING CONDITIONS, FIRST QUARTER, 1985

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Farm debt

Since 1980, when a large gap opened between farm loan interest rates and the typical yield produced by farm assets, indebted farmers have had a strong incentive to reduce debt, but for many this adjustment was frustrated by adverse income and land price developments. Total farm debt finally peaked in the summer of 1983, after having risen every year since 1945. The decline during the past two years totaled \$4.4 billion, or 2.0 percent.

As shown in Table 1, the largest declines occurred at the Commodity Credit Corporation (as it returned grain to farmers during the PIK program) and at production credit associations. These declines were partially offset by expansion at the Farmers Home Administration and commercial banks. Loan growth at the Farmers Home Administration had slowed markedly in 1982 as emergency lending programs initiated by previous administrations expired, but began to pick up as lending and forbearance policies were liberalized in 1984. Bank lending was relatively strong from 1982 through the spring of 1984 as farm loan interest rates at banks became highly competitive with those charged by production credit associations, but that period ended with an unusually large paydown, 4.5 percent, of outstanding farm production loans at banks during the fourth quarter of 1984.

Table 1

Annual percentage change in farm debt outstanding

Type of debt and lender group	1980	1981	1982	1983	1984	Amount outstanding, billions of dollars, 12/31/84
Total debt.....	9.8	10.9	7.5	-5	-1.5	213
Banks.....	1.7	2.5	7.9	8.5	3.2	50
Farm Credit System.....	16.7	16.3	4.7	-2	-1.6	68
Life insurance companies...	6.3	1.1	-2.1	-7	-2.1	12
Farmers Home Adm.....	21.0	19.1	2.8	.5	7.0	26
Commodity Credit Corp.....	-1.8	60.9	92.6	-30.0	-17.7	9
Individuals and others.....	7.7	5.5	1.9	-5	-6.2	48
Real estate debt.....	11.9	10.5	4.0	2.2	-8	112
Banks.....	1.4	-4.1	.6	10.4	9.2	10
Federal Land Banks.....	21.3	21.1	8.8	2.3	.5	49
Life insurance companies...	6.3	1.1	-2.1	-7	-2.1	12
Farmers Home Adm.....	8.5	13.3	3.9	2.7	7.3	10
Individuals and others.....	8.2	5.3	.7	1.0	-7.5	30
Non-real-estate debt.....	7.6	11.3	11.3	-3.4	-2.2	101
Banks.....	1.7	4.4	9.7	8.0	1.8	40
Production credit assns....	8.9	7.5	-3.4	-5.8	-7.2	18
Farmers Home Adm.....	30.9	22.9	2.1	-8	6.9	16
Commodity Credit Corp.....	-1.8	60.9	92.6	-30.0	-17.7	9
Individuals and others.....	6.7	6.0	4.0	-3.0	-3.9	18

Farm debt trends during the first quarter of 1985 were marked by unusually large declines in outstanding farm production loans at both commercial banks and production credit associations, as shown in Table 2. Since quarterly data became available in 1976, farm production loans at commercial banks on average have changed little during the first quarter, as changes have ranged only from -1.7 percent to +2.0 percent. This year, such loans at banks fell by 3.4 percent in the first quarter, and this decline came on top of a relatively large drop in the preceding quarter. By March 31, outstanding farm production loans at banks had fallen to 2.0 percent below a year earlier, the first such year-over-year decline since quarterly data have been collected.

At banks, the recent decline in production loans has been offset in small part by continued strength in loans secured by farm real estate, in which significant growth resumed in 1983 after a relatively flat period dating back to 1978. Given that the volume of farm real estate transactions reportedly has been depressed along with land prices, the recent growth in mortgage loans at banks probably represents refinancing of production loans.

Table 2

Change in farm debt outstanding at farm lending institutions
First quarter, 1985

Type of debt and lender group	Billions of dollars	Percent
Total debt.....	-1.3	-.8
Banks.....	-1.2	-2.4
Farm Credit System.....	-1.5	-2.2
Life insurance companies...	-.3	-2.6
Farmers Home Adm.....	.5	1.7
Commodity Credit Corp.....	1.3	14.7
Real estate debt.....	-.1	-.2
Banks.....	.2	1.4
Federal Land Banks.....	-.2	-.3
Life insurance companies...	-.3	-2.6
Farmers Home Adm.....	.2	1.9
Non-real-estate debt.....	-1.1	-1.4
Banks.....	-1.3	-3.4
Production credit assns....	-1.2	-6.9
Farmers Home Adm.....	.3	1.7
Commodity Credit Corp.....	1.3	14.7

Farm loan experience at commercial banks

Farm loan charge-offs. During the first quarter of 1985, net charge-offs of farm production loans at commercial banks totaled about \$200 million, equal to 0.5 percent of such loans outstanding, and up by 60 percent over charge-offs in the first quarter of 1984 (Table 3). First quarter results are an uncertain indicator of full-year charge-offs, however, because a disproportionately large share of annual charge-offs is taken at year-end. But in view of the rising loan delinquencies discussed in the next section, it appears likely that farm loan charge-offs will continue to exhibit year-over-year increases in coming quarters.

In the first quarter, banks in Iowa accounted for one-fifth of the national charge-offs of farm production loans. Four states--Iowa, California, Nebraska, and Missouri--accounted for over half the total. These states plus Minnesota, Kansas, and South Dakota had two-thirds of national charge-offs.

In 1984, net charge-offs of farm production loans totaled about \$900 million, equal to 2.2 percent of such loans outstanding at year-end. Of this total, about \$240 million was charged off by banks in California, equal to 6.1 percent of their year-end farm loans outstanding. In other states, net charge-offs were equal to 1.8 percent of outstanding loans. This average was exceeded in eight midwestern states, Alabama, and Georgia. After California, the highest charge-off rates were in Missouri, at 3.0 percent, and in Iowa, at 2.9 percent.

Table 3

Net charge-offs of farm production loans at commercial banks

Period	Estimated amount, millions of dollars	As percentage of farm loans outstanding at end of period
<u>Annual</u>		
1984.....	900	2.2
<u>Quarterly</u>		
1984-Q1.....	120	.3
-Q2.....	160	.4
-Q3.....	195	.5
-Q4.....	425	1.0
1985-Q1.....	200	.5

Data are estimates of national charge-offs of farm non-real-estate loans, based on reports from banks that hold about 92 percent of the outstanding national volume of such loans. Additional uncertainty of the estimates arises because small banks report only charge-offs of "agricultural loans" as defined by each bank for its internal purposes. Banks first reported these data on the March 1984 report of income.

Delinquent farm loans. Estimated delinquency rates on farm production loans have been trending upward since such data were first required of some banks in December 1982. In particular, the relative amount of nonaccrual loans is estimated to have risen each quarter, reaching 4.7 percent of farm production loans outstanding at the end of March (Table 4). (Estimates of delinquent loans as of December 31, 1984, have been corrected as shown in the table on page 16.) Barring unexpected improvement in farm income and asset values, the continued rise in nonaccrual loans portends further increases in farm loan charge-offs.

In contrast to the rather steady climb in nonaccrual loans, farm production loans past due but still accruing have shown considerable seasonal variation, with each year's peak occurring in March. On March 31 of this year, total nonperforming loans had risen to about 7.0 percent of outstanding production loans, up from about 5.7 percent a year earlier. Another 3.4 percent of production loans were past due 30 to 89 days; thus, over 10 percent of farm production loans were delinquent at the end of the first quarter.

Table 4

Estimated delinquent farm production loans at commercial banks
March 31

Class of delinquent loans	1983	1984	1985
	<u>Billions of dollars</u>		
Total.....	2.5	3.3	4.0
Past due 30 to 89 days and still accruing.....	1.0	1.0	1.3
Nonperforming.....	1.5	2.3	2.7
Past due 90 days or more and still accruing.....	.7	.7	.8
Nonaccrual.....	.8	1.5	1.8
Renegotiated.....	*	.1	.1
	<u>As percentage of outstanding farm production loans</u>		
Total.....	6.8	8.4	10.4
Past due 30 to 89 days and still accruing.....	2.8	2.7	3.4
Nonperforming.....	4.0	5.7	7.0
Past due 90 days or more and still accruing.....	1.8	1.8	2.1
Nonaccrual.....	2.2	3.8	4.7
Renegotiated.....	.1	.1	.2

* Less than \$0.05 billion.

Data are estimates of national totals for farm non-real-estate loans. Estimates of loans past due and still accruing are based on reports from banks that hold about 92 percent of the outstanding national volume of such loans. However, only large banks that account for about one-fourth of such volume report nonaccrual and renegotiated farm loans; for other banks, the amount of such farm loans was estimated using their reports on the amount of total loans in these categories. On the June 1985 report of condition, small banks will also report nonaccrual and renegotiated farm loans. The estimates shown above will be revised as indicated by this new information.

Conditions at agricultural banks

Much attention has recently focused on the small rural banks with a relatively high degree of concentration in farm lending. There are now about 5,000 "agricultural" banks with a farm loan ratio that is above the current average (about 17 percent) of the farm loan ratios at all banks. On average at these banks, farm loans constitute 37 percent of total loans; however, many of their other loans are to businesses and individuals significantly affected by the farm economy.

Conditions at many agricultural banks have been dominated by recent adverse loan experience. Their farm loan delinquencies are not fully known, as most of these banks have not been required to report their nonaccrual farm loans. They do, however, report fully on their total loan experience.

Total loan charge-offs. Net charge-offs of all loans at agricultural banks have risen substantially since 1980, as shown in Table 5. In 1984, such charge-offs were equal to 1.2 percent of loans outstanding at year-end. This was about double the relative level at other small banks, the reverse of the situation that had prevailed for many years before 1983.

Among all agricultural banks, relative charge-offs in 1984 rose with the degree of concentration in farm lending. At banks at which farm loans constituted over half of the loan portfolio, average net charge-offs exceeded 1.5 percent of loans outstanding. And, as shown in Table 5, average charge-offs at all agricultural banks in several key farm states also exceeded that level.

In the first quarter of 1985, net charge-offs at agricultural banks were equal to 0.28 percent of loans outstanding at the end of the quarter, nearly double the relative charge-offs a year earlier. Agricultural banks in Iowa had the highest average charge-off rate, 0.55 percent, followed by banks in Nebraska, at 0.45 percent.

Table 5

Net charge-offs of loans at agricultural banks
as a percentage of loans outstanding at end of period

Area	1980	1981	1982	1983	1984	First quarter	
						1984	1985
United States....	.32	.43	.69	.93	1.22	.15	.28
Selected midwestern states:							
Illinois.....	.37	.42	.63	.68	.81	.08	.24
Iowa.....	.31	.34	.67	.92	1.71	.21	.55
Kansas.....	.38	.53	.87	1.02	1.71	.18	.20
Minnesota.....	.19	.25	.41	.67	1.11	.10	.26
Missouri.....	.40	.49	.68	.96	1.54	.15	.37
Nebraska.....	.34	.32	.74	.93	1.85	.24	.45

Agricultural banks are insured commercial banks with an above-average farm loan ratio; that is, a farm loan ratio above the average of the farm loan ratios at all insured commercial banks (16.67 percent on March 31, 1985).

Total delinquent loans. Loan delinquency rates at agricultural banks are rising, portending continued high charge-off rates. Only two years ago, loan delinquency rates still were lower at agricultural banks than at other small banks. By the end of 1983, delinquent loans at agricultural banks had reached the same relative level that other small banks had experienced during the last recession. Then by March 1985, as shown in Table 6, delinquent loans at agricultural banks had risen to 7.5 percent of total loans, well above the average at other small banks.

Of the four categories of delinquent loans, nonaccrual loans rose most rapidly during the past two years. At all agricultural banks, nonaccrual loans rose from 1.0 percent of total loans in March 1983 to 2.4 percent of total loans in March 1985. At banks most heavily concentrated in farm loans, the relative increase was even sharper.

Table 6 also illustrates the more drastic shift in loan performance experienced by agricultural banks in certain midwestern states such as Iowa. Two years ago, when loans at agricultural banks nationally were in better condition than loans at other small banks, loans at Iowa agricultural banks were in even better shape. Now, loans at the Iowa banks are in noticeably worse condition than those at agricultural banks nationally.

Table 6

Delinquent loans at agricultural banks as a percentage
of total loans outstanding
March 31

Type of delinquency	1983	1984	1985
		<u>United States</u>	
Total.....	5.4	6.0	7.5
Past due 30 to 89 days and still accruing.....	2.5	2.6	3.0
Nonperforming.....	2.9	3.5	4.5
Past due 90 days or more and still accruing.....	1.8	1.8	1.8
Nonaccrual.....	1.0	1.4	2.4
Renegotiated.....	.1	.2	.2
		<u>Iowa</u>	
Total.....	4.8	6.0	8.4
Past due 30 to 89 days and still accruing.....	2.1	2.3	3.0
Nonperforming.....	2.6	3.7	5.4
Past due 90 days or more and still accruing.....	1.6	1.9	1.9
Nonaccrual.....	.9	1.6	3.1
Renegotiated.....	.1	.2	.3

Agricultural bank failures. For a small but rising number of agricultural banks, loan losses were large enough to cause failure. In 1983, only 7 of the 44 insured commercial banks that failed, or 16 percent, were agricultural banks. Last year, as shown in Table 7, the proportion rose to 32 of the 78 failures, or 41 percent. Still, farm loans constituted only 10 percent of total loans at the banks that failed.

By the second half of 1984, however, agricultural banks accounted for well over half of all bank failures. This trend continued in the first half of 1985. Through July 5, nearly two-thirds of the 54 bank failures were agricultural banks, and farm loans constituted 23 percent of the total loans at all of the banks that failed.

Table 7

Agricultural bank failures and farm loans at failed commercial banks

Period	Number of bank failures			Farm loans at all failures	
	Total	Agricultural	Agricultural as percentage of total	Millions of dollars	As percentage of total loans at failures
<u>Annual</u>					
1981.....	7	1	14	3	4
1982.....	35	11	31	49	3
1983.....	45	7	16	62	2
1984.....	78	32	41	199	10
1985 through July 5:					
	54	35	65	268	23
<u>Quarterly</u>					
1981-Q1....	3	1	33		
-Q2....	1	0	0		
-Q3....	1	0	0		
-Q4....	2	0	0		
1982-Q1....	5	2	40		
-Q2....	10	3	30		
-Q3....	11	3	27		
-Q4....	9	3	33		
1983-Q1....	11	1	9		
-Q2....	15	1	7		
-Q3....	12	2	17		
-Q4....	7	3	43		
1984-Q1....	13	3	23		
-Q2....	30	7	23		
-Q3....	17	10	59		
-Q4....	18	12	67		
1985-Q1....	20	13	65		
-Q2....	32	21	66		

Corrected data for Table 3 of Agricultural Banking Experience, 1984

Estimated delinquent farm production loans at commercial banks
December 31

Class of delinquent loans	1982	1983	1984
	<u>Billions of dollars</u>		
Total.....	2.0	2.5	3.2
Past due 30 to 89 days and still accruing.....	.9	1.0	1.1
Nonperforming.....	1.0	1.5	2.1
Past due 90 days or more and still accruing.....	.4	.4	.4
Nonaccrual.....	.6	1.1	1.6
Renegotiated.....	*	.1	.1
	<u>As percentage of outstanding farm production loans</u>		
Total.....	5.5	6.4	8.0
Past due 30 to 89 days and still accruing.....	2.6	2.5	2.8
Nonperforming.....	2.9	3.9	5.3
Past due 90 days or more and still accruing.....	1.2	1.1	1.1
Nonaccrual.....	1.6	2.7	4.0
Renegotiated.....	.1	.1	.2

* Less than \$0.05 billion.