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Farm Financial Experience and Agricultural Banking Experience

Statement by

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Farm sector financial experience

Severe financial problems have been concentrated among those farmers who were highly leveraged as the boom of the 1970s ended, usually because they had expanded their operations. However, many highly leveraged farmers are not in financial trouble, because they are operating profitably enough to service their debt, as will be shown by a new analysis of the financial position of commercial farm operators that I will present in the next section of this report. First, however, I will review briefly the aggregate farm sector experience, which shows how present conditions evolved and provides initial insights into the considerable diversity of financial experience among individual farmers.

In constant dollars, as shown on line 3 of Table 1, cash flow before interest payments so far in the 1980s, while down from boom peaks, has remained above the pre-boom (1970-71) level; in contrast, cash flow after interest (line 5) has been significantly lower. In 1984, cash flow was little changed from the average level experienced so far in this decade.

Before interest payments, net income from assets (line 9) in the 1980s has remained above the pre-boom level; after interest payments, net income from equity (line 11) has been negative. In 1984, net income was boosted somewhat by PIK payments distributed early in the year.

As farm land prices reacted to diminished prospects for income growth and higher returns on alternative investments, sizable real capital losses have reversed part of the large capital gains of the 1970s (line 12). By early 1985, agricultural equity, in constant dollars, was reduced to only two-thirds of its level at the beginning of the decade (line 16).

Table 1

Farm cash flow, income, and balance sheet data, selected periods
(Data excluding farm households)

	Item	Pre-boom 1970-71	Boom I 1972-75	Recession I 1976-77	Boom II 1978-79	Recession II 1980-84	Addendum 1984
	Derivation of cash flow (annual average, billions of 1984 dollars)						
1	Gross income................	134	173	162	184	163	162
2	Less: Operating expenses..........	76	90	96	104	95	90
3	Equals: Cash flow before interest...	58	83	66	80	67	72
4	Less: Interest....................	8	10	12	16	21	22
5	Equals: Cash flow after interest....	50	74	53	64	46	50
	Derivation of net income and total return (annual average, billions of 1984 dollars)						
6	Cash flow before interest...	58	83	66	80	67	72
7	Less: Depreciation...............	14	17	20	22	21	19
8	Less: Imputed return to operators' labor and management....	31	30	29	29	27	26
9	Equals: Income from assets..........	13	37	16	29	19	26
10	Less: Interest....................	8	10	12	16	21	22
11	Equals: Income from equity..........	5	27	4	14	-2	5
12	Plus: Real capital gain...........	14	62	76	90	-54	-116
13	Equals: Total real return from equity...............	19	89	79	104	-57	-112
	Balance sheet (end of period, billions of 1984 dollars)						
14	Assets......................	683	880	1017	1191	853	853
15	Less: Debt........................	124	146	177	201	196	196
16	Equals: Equity......................	559	734	840	991	656	656
	Rates (percent)						
17	Income return on assets..............	1.9	4.7	1.7	2.6	1.8	2.9
18	Real capital gain on assets..........	1.4	6.7	7.0	6.7	-6.1	-13.4
19	Total real return on assets..........	3.4	11.3	8.7	9.3	-4.3	-10.6
20	Interest paid........................	6.4	7.1	7.7	8.3	10.4	10.7
21	Real rate of interest................	2.5	.7	2.8	.3	5.1	7.6
22	Total real return on equity..........	3.5	13.5	9.9	11.2	-6.6	-15.7

Data are from Agricultural Finance Databook, Statistical Release E.15, Board of Governors of the Federal Reserve System, July 1985, Tables 101, 112, and 122.

The key aggregate returns derived in Table 1 are shown in Chart 1. In addition to providing an overview of financial experience, these sector totals and averages reveal, as I will discuss, the roots of some of the diversity in financial experience of farmers.

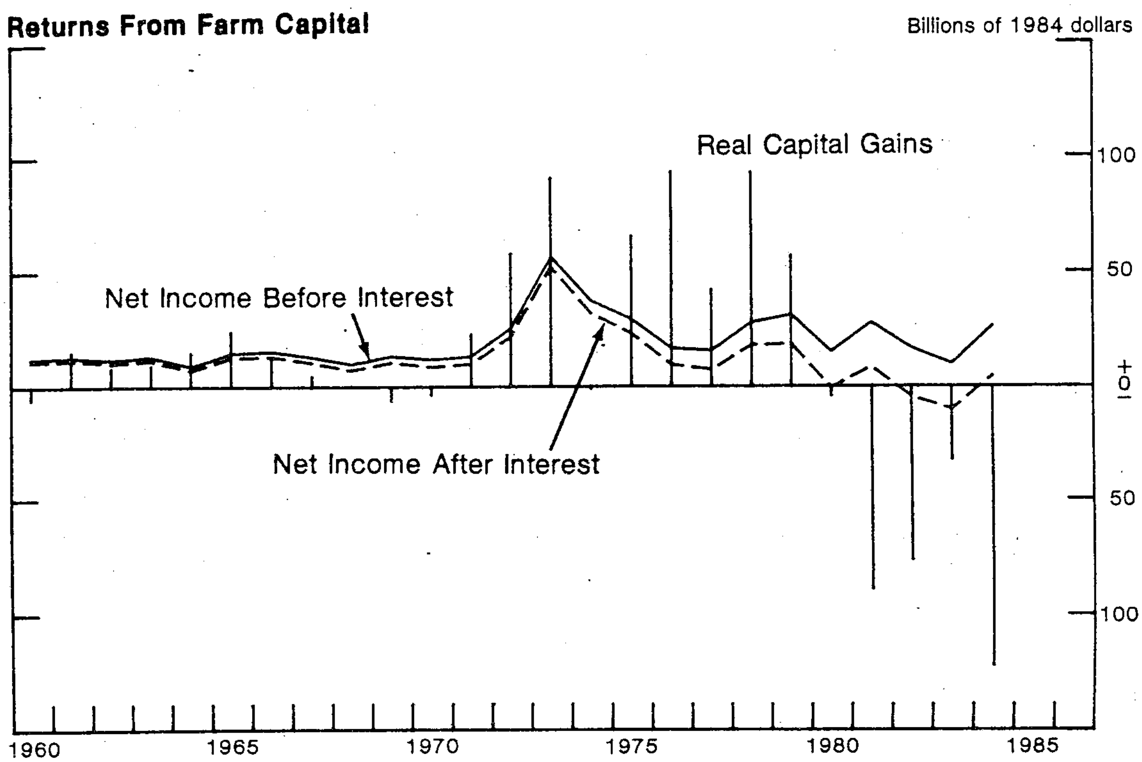
Three key observations can be made. First, although net income before interest payments (solid line in upper panel of chart, from line 9 of Table 1) has fluctuated considerably in recent years, its general level has not changed much since the beginning of this decade. This implies that farmers with little or no debt generally have seen their income maintained. However, as shown by the solid line in the lower panel, their average rate of return has been relatively low.

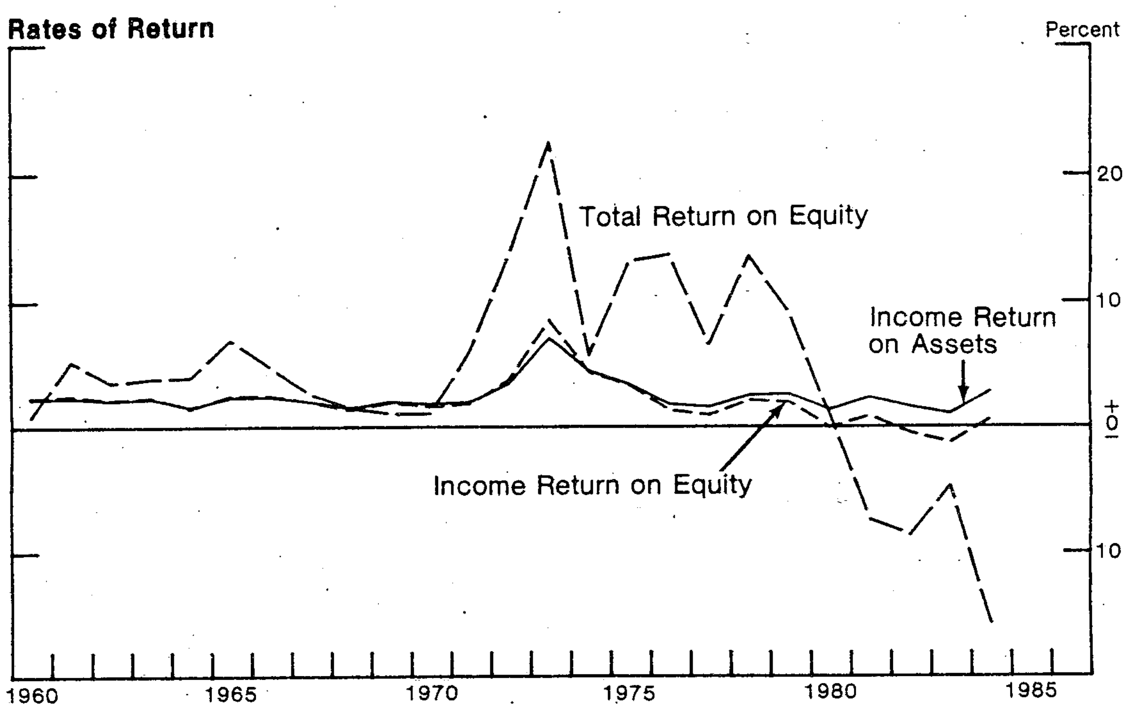
Second, net income after interest payments (dashed line in the upper panel, from line 11 of Table 1) has been averaging near zero in the 1980s, which implies that farmers with average profitability and average debt have been just able to meet their interest charges from current earnings, whereas those with average profitability but heavier debt have seen their earnings fail to cover their debt service.

Third, income in the 1980s has fallen far short of the expectations that were capitalized into land prices during the preceding decade. Consequently, the huge real capital gains experienced in the 1970s--indicated by the vertical bars in the upper panel (from line 12 of Table 1)--have given way to huge capital losses. Thus in the lower panel, the rate of total return--which includes both income and capital gains--has remained negative since 1980. But the swing in wealth has been mainly experienced by owner-operators of extensive acreage, rather than by tenant operators or by farmers whose operations use relatively little land.

Chart 1

Farm Sector Returns





Financial position of individual farmers

While presenting a generally deteriorating picture, the aggregate data reveal some strengths as well as weaknesses. But they do not address two important questions: What proportion of farmers is in financial trouble, and how much of the debt does this group owe?

The foregoing review of aggregate relationships has indicated, however, that several income and balance sheet measures should be considered jointly in assessing the financial position of individual farmers. The USDA's newly improved annual Farm Costs and Returns Survey is the only national database that provides the individual data on income, expenses, assets, and debt required for such an analysis. In a cooperative effort with the Economic Research Service, USDA, we cross-classified these 1984 data for "commercial" farmers--those with sales of $40,000 or more in 1984--by return on assets, return on equity, amount of equity, and debt/asset ratio. Then, using this tabulation in conjunction with the criteria shown in Table 2, the farmers were grouped into four financial positions--good, fair, stressed, and vulnerable. To be considered in "good" financial position, a farmer had to have a favorable combination of returns and equity cushion: with relatively heavy debt, very high returns that appeared adequate to service it; or, with little or no debt, returns that were positive. At the other extreme, a farmer with a highly adverse combination of returns and equity cushion was classified as "vulnerable."

Very generally, most farmers classified as "vulnerable" are probably in financial trouble now, while most of those classified as "stressed" are probably headed for such trouble over the next few years unless their returns improve. The present returns of those classified in "fair" financial position also appear inadequate to sustain their equity

Table 2

Criteria for classification of commercial farm operators by financial position

Financial position was determined by joint consideration of four indicators: return on assets, return on equity, amount of equity, and debt/asset ratio.

Return on assets is net cash operating income (before interest payments) as a percentage of owned assets.
Return on equity is net cash operating income (after interest payments) as a percentage of equity (owned assets minus debt).
Equity is owned assets minus debt.
Debt/asset ratio is debt as a percentage of owned assets.

Financial position is	if	Debt/asset ratio is	and	Return on assets is	and	Return on equity is
Operators with equity under $50,000:						
Good		under 40		above 0		
		40 to 70		above 5		
		over 70		above 15		
Fair		under 40		-5 to 0		
		40 to 70		0 to 5		
		over 70		5 to 15		
Stressed		under 40		-15 to -5		
		40 to 70		-5 to 0		
		over 70		0 to 5		
Vulnerable		under 40		under -15		
		40 to 70		under - 5		
		over 70		under 0		
Operators with equity above $50,000:						
Good		under 40		above 0		above 0
		40 to 70		above 5		above 5
		over 70		above 15		above 15
If not good, then Fair		under 10		above -15		above -15
		10 to 40		above -5		above -5
		40 to 70		above 0		above 0
		over 70		above 5		above 5
If not good or fair, then Stressed		under 10				
		10 to 40		above -15		above -15
		40 to 70		above -5		above -5
		over 70		above 0		above 0
If not good, fair, or stressed, then Vulnerable						

or to service fully their debt over the longer term, but the possibility of default appears to be fairly remote.

As shown in the upper panel of Table 3, the higher the operator's debt/asset ratio, the less likely that he was considered to be in good financial position. Even among the heavily indebted operators, however, a substantial proportion were operating profitably enough to stay out of the stressed and vulnerable classes.

The right-hand column in the upper panel of the table shows that 70 percent of commercial farm operators were classified in good financial position. The middle panel indicates that these farmers owned 65 percent of the operator-owned assets of commercial farmers, and the bottom panel indicates that they owed 51 percent of the debt of these farmers.

At the other pole of financial position, 10 percent of all commercial farmers were classified as vulnerable. This group owned 10 percent of the operator-owned assets of commercial farmers, and owed 23 percent of the total debt of these farmers.

Table 3

Distribution of commercial farm operators and their assets and debt, by relative debt and financial position
January 1985

Financial position	Debt/Asset ratio (percent) Under 10	10 to 40	40 to 70	Over 70	Percentage of total
	Percentage distribution of operators				Operators
Good...........	29	26	11	5	70
Fair...........	5	4	2	2	13
Stressed.......	1	3	2	1	7
Vulnerable.....	*	2	5	4	10
	Percentage distribution of assets				Assets
Good...........	29	26	8	2	65
Fair...........	9	5	2	2	18
Stressed.......	1	4	2	1	7
Vulnerable.....	*	2	5	3	10
	Percentage distribution of debt				Debt
Good...........	2	23	16	9	51
Fair...........	1	5	4	6	16
Stressed.......	*	4	4	3	10
Vulnerable.....	*	2	11	11	23

* Less than 0.5 percent.

Data for 634,000 "commercial" farms with sales of $40,000 or more in 1984, from the 1984 Farm Costs and Returns Survey, ERS, USDA. Classifications by financial position were specified by the author, as shown in Table 2.

Lender debt by financial position of their farm borrowers

The enhanced USDA survey also asked farmers to indicate their sources of debt. Table 4 shows how debt to each of three major institutional sources--banks, the Farm Credit System, and the Farmers Home Administration--was distributed by financial position of the borrower. Bank loans were in slightly weaker hands than borrowings from the Farm Credit System, while, as expected, the Farmers Home Administration had the highest proportion of loans to vulnerable farmers. Operators classified as vulnerable owed 25 percent of the debt held by banks, compared with 20 percent of the debt held by the Farm Credit System.

Table 4

Percentage distribution of commercial farm operators
and their assets and debt, by financial position
January 1985

Financial position	Operators	Assets	Total debt	Debt owed to-- Banks	Farm Credit System	Farmers Home Adm.
Good.........	70	65	51	47	53	39
Fair.........	13	18	16	15	15	18
Stressed.....	7	7	10	13	12	12
Vulnerable...	10	10	23	25	20	31
Total.....	100	100	100	100	100	100

Data for 634,000 "commercial" farms with sales of $40,000 or more in 1984, from the 1984 Farm Costs and Returns Survey, ERS, USDA. Classifications by financial position were specified by the author, as shown in Table 2.

Trends in 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 5, 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 picked 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 5

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

Data are from Agricultural Finance Databook, Statistical Release E.15, Board of Governors of the Federal Reserve System, July 1985, Tables 541 and 551.

Recent changes in farm debt

Farm production loans at banks rose by 4.6 percent during the second quarter of 1985, a seasonal increase on the weak side of the normal range. This increase, however, contrasts sharply with no rise at all in outstanding loans at production credit associations (Table 6). But lending by the Farmers Home Administration (FmHA) rose sharply, reflecting the administration's decision to accommodate most loan demand from borrowers that could qualify under rather liberal terms. In the new fiscal year, in anticipation of continued high loan demand, the FmHA has implemented new arrangements designed to allow more of the demands to be met expeditiously through guarantees of loans made by banks and PCAs. Loan volume at the Commodity Credit Corporation (CCC) fell seasonally during the second quarter, but is now rising rapidly as farmers obtain price support loans for relatively high proportions of their large crops. In earlier years during which farmers made large use of CCC loans, they reduced their outstanding loans at banks and PCAs by more than the average seasonal decline.

Table 6

Change in farm debt outstanding at major institutional farm lender groups

Type of debt and lender group	Percentage change		Billions of dollars		Addendum: Amount outstanding, billions of dollars, 6/30/85
	Second quarter 1985	Year ended 6/30/85	Second quarter 1985	Year ended 6/30/85	
Total	1.0	-.5	1.6	-.8	166.2
Banks	4.3	-1.2	2.1	-.6	50.7
Farm Credit System	-1.5	-6.2	-1.0	-4.4	65.5
Life insurance companies	-.4	-3.6	.0	-.5	12.1
Farmers Home Adm.	7.6	9.0	2.1	2.4	29.2
Commodity Credit Corp.	-14.7	33.3	-1.5	2.2	8.7
Real estate debt	-.6	-.6	-.5	-.5	81.4
Banks	3.1	6.3	.3	.6	10.6
Federal Land Banks	-2.0	-2.5	-1.0	-1.3	48.0
Life insurance companies	-.4	-3.6	.0	-.5	12.1
Farmers Home Adm.	1.8	5.8	.2	.6	10.7
Non-real-estate debt	2.6	-.4	2.1	-.4	84.8
Banks	4.6	-3.0	1.8	-1.2	40.1
Production credit assns.	.1	-15.0	.0	-3.0	16.7
FICBs*	-4.6	-17.2	.0	-.2	.7
Farmers Home Adm.	11.3	10.9	1.9	1.8	18.5
Commodity Credit Corp.	-14.7	33.3	-1.5	2.2	8.7

* Federal Intermediate Credit Bank discounts for farm financing institutions other than production credit associations (mainly agricultural credit corporations formed by commercial banks).

Data are from Agricultural Finance Databook, Statistical Release E.15, Board of Governors of the Federal Reserve System, July 1985, Tables 542 and 552, as updated for this report. As described on page 23 of the Databook, for some lender groups the level of these quarterly series differs from the level of the corresponding annual series shown in Table 5.

Farm loan interest rates at commercial banks

The average interest rate on farm production loans made at banks fell to 12.3 percent in the Federal Reserve System's August survey, down about 2.5 percentage points from the most recent peak reached a year earlier (Table 7). The decline was sharper at large banks at which farm loan rates tend to follow more closely changes in the national prime rate. At smaller banks, where farm loan rates appear to reflect changes in the average internal cost of funds, rates fell about 2 percentage points and in August still averaged nearly 13 percent. In addition to the lag resulting from the tendency toward average-cost pricing, farm loan rates are probably being affected by the desire to cover increased nonperforming loans and charge-offs.

Table 7

Average effective interest rate on farm loans made
at commercial banks
(percent)

Period	All banks	Large banks	Other banks
Annual			
1977..........	8.8	8.5	9.0
1978..........	9.6	10.2	9.4
1979..........	11.9	13.6	11.4
1980..........	15.2	16.2	15.0
1981..........	18.5	19.8	18.1
1982..........	16.7	16.1	17.0
1983..........	13.5	12.1	14.1
1984..........	14.1	13.1	14.4
Quarterly			
1983-Q1.......	13.8	12.5	14.1
-Q2.......	13.2	12.0	13.9
-Q3.......	13.6	12.2	14.1
-Q4.......	13.6	11.8	14.2
1984-Q1.......	13.5	12.2	14.1
-Q2.......	14.2	13.3	14.5
-Q3.......	14.8	14.4	14.9
-Q4.......	14.2	13.4	14.4
1985-Q1.......	13.2	11.7	13.8
-Q2.......	13.0	11.5	13.6
-Q3.......	12.3	10.6	12.9

Effective rates shown are estimates from the Federal Reserve survey of terms of bank lending to farmers.

In recent quarters, most "large banks" (survey strata 1 to 3) had over $500 million in total assets, and most "other banks" (survey strata 4 to 6) had total assets below $500 million.

Data are from Agricultural Finance Databook, Statistical Release E.15, Board of Governors of the Federal Reserve System, July 1985, Table 625, as updated for this report.

Farm loan delinquencies and charge-offs at all commercial banks

Delinquency rates on farm loans at banks have been trending upward, as shown in Chart 2. On June 30, past due and nonperforming farm production loans at all banks, at 9.0 percent of such loans outstanding, were down seasonally from the annual March peak but up substantially from 6.6 percent a year earlier. The middle panel of the chart indicates that much of the upward trend has consisted of increases in the amount of farm loans in nonaccrual status, which, at all banks, in June amounted to 5.2 percent of farm production loans. This increase occurred in spite of the rising trend in farm loan charge-offs, shown in the lower panel. In the first half of 1985, farm loan charge-offs were running at about double last year's pace which, for 1984 as a whole, saw charge-offs equal to about 2.2 percent of farm loans outstanding.

Chart 2

Delinquency and Charge-off Rates on Farm Production Loans
Insured Commercial Banks

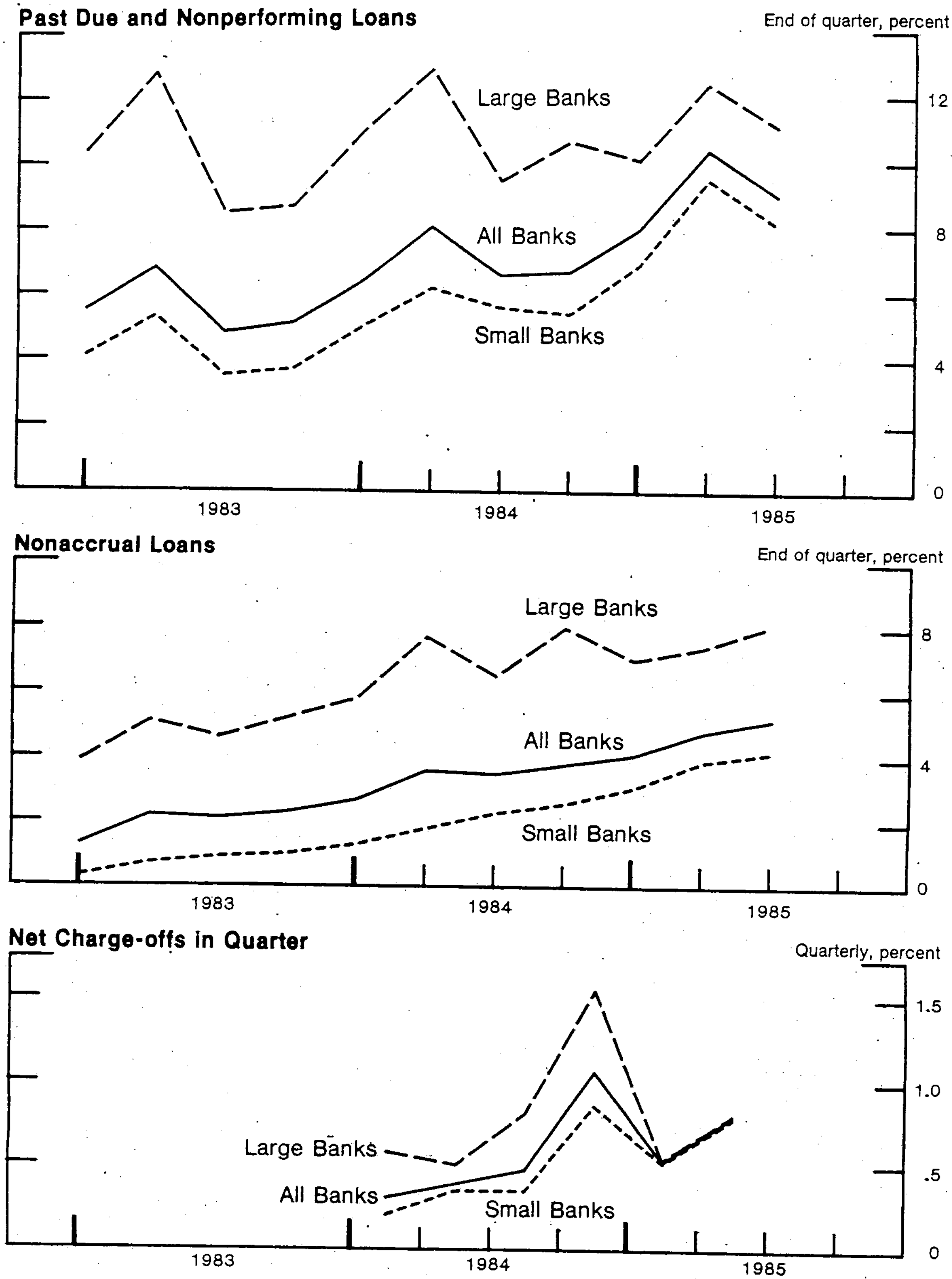


Table 8

Estimated delinquent farm production loans
Insured commercial banks
June 30

Class of delinquent loans	1983	1984	1985
	Billions of dollars		
Total	1.9	2.7	3.6
Past due 30 to 89 days and still accruing	.5	.6	.7
Nonperforming	1.4	2.1	2.9
Past due 90 days or more and still accruing	.5	.6	.7
Nonaccrual	.8	1.4	2.1
Renegotiated	*	.1	.2
	As percentage of outstanding farm production loans		
Total	4.8	6.6	9.0
Past due 30 to 89 days and still accruing	1.3	1.5	1.7
Nonperforming	3.5	5.1	7.3
Past due 90 days or more and still accruing	1.3	1.5	1.7
Nonaccrual	2.1	3.5	5.2
Renegotiated	.1	.1	.4
Addendum: Nonaccrual loans at--			
Large banks**	4.6	6.5	8.1
Other banks	.9	2.3	4.2

* Less than $0.05 billion.
** Large banks have total assets of $300 million or more.

Data are estimates of national totals for farm non-real-estate loans. For June 30, 1985, estimates are based on reports from banks that hold about 92 percent of such loans. Earlier, only large banks that hold about one-fourth of such loans reported nonaccrual and renegotiated farm loans; for other banks, estimates of delinquent farm loans are based on study of delinquent total loans at these banks.

Table 9

Net charge-offs of farm production loans
Insured commercial banks

Period	Estimated amount, millions of dollars	As percentage of farm loans outstanding at end of period
Annual		
1984..................	900	2.2
Quarterly		
1984-Q1...............	120	.3
-Q2...............	160	.4
-Q3...............	195	.5
-Q4...............	425	1.0
1985-Q1...............	200	.5
-Q2...............	320	.8

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.

Total loan delinquency and charge-off rates at agricultural banks

With farm loan delinquency and charge-off rates rising, total loan experience has been deteriorating at banks that are heavily involved in farm lending. Chart 3 shows experience with both total loans and, when available, farm loans at the nation's 5,000 agricultural banks--those banks at which the ratio of farm loans to total loans now exceeds 17 percent. It is evident that the lower delinquency rates on nonfarm loans at these banks have been helping to mitigate the adverse trend in the quality of their farm loans. In particular, recent nonaccrual and charge-off rates have been much higher on the farm portion of their loan portfolio. Thus even the limited diversification of loans at agricultural banks has helped their financial condition.

The quality of loans at agricultural banks has been deteriorating most rapidly in the Great Plains and western Corn Belt. In Tables 10 and 11, data are shown for agricultural banks in Iowa as well as nationally to illustrate the more adverse experience in this region.

At Iowa agricultural banks, as shown in Table 10, delinquency rates on total loans have risen to levels somewhat above those at all agricultural banks nationally. A year earlier, the Iowa delinquency rates had been about equal to national averages at agricultural banks, and two years earlier they had been slightly lower.

At all agricultural banks, net charge-offs of all loans in the first half of 1985 averaged 0.72 percent of outstandings, compared with 0.41 percent in the first half of 1984 (Table 11). In five states (Colorado, Iowa, Missouri, Nebraska, and Oregon) first-half charge-offs exceeded 1 percent of outstanding loans.

Chart 3

Delinquency and Charge-off Rates on Loans at Agricultural Banks

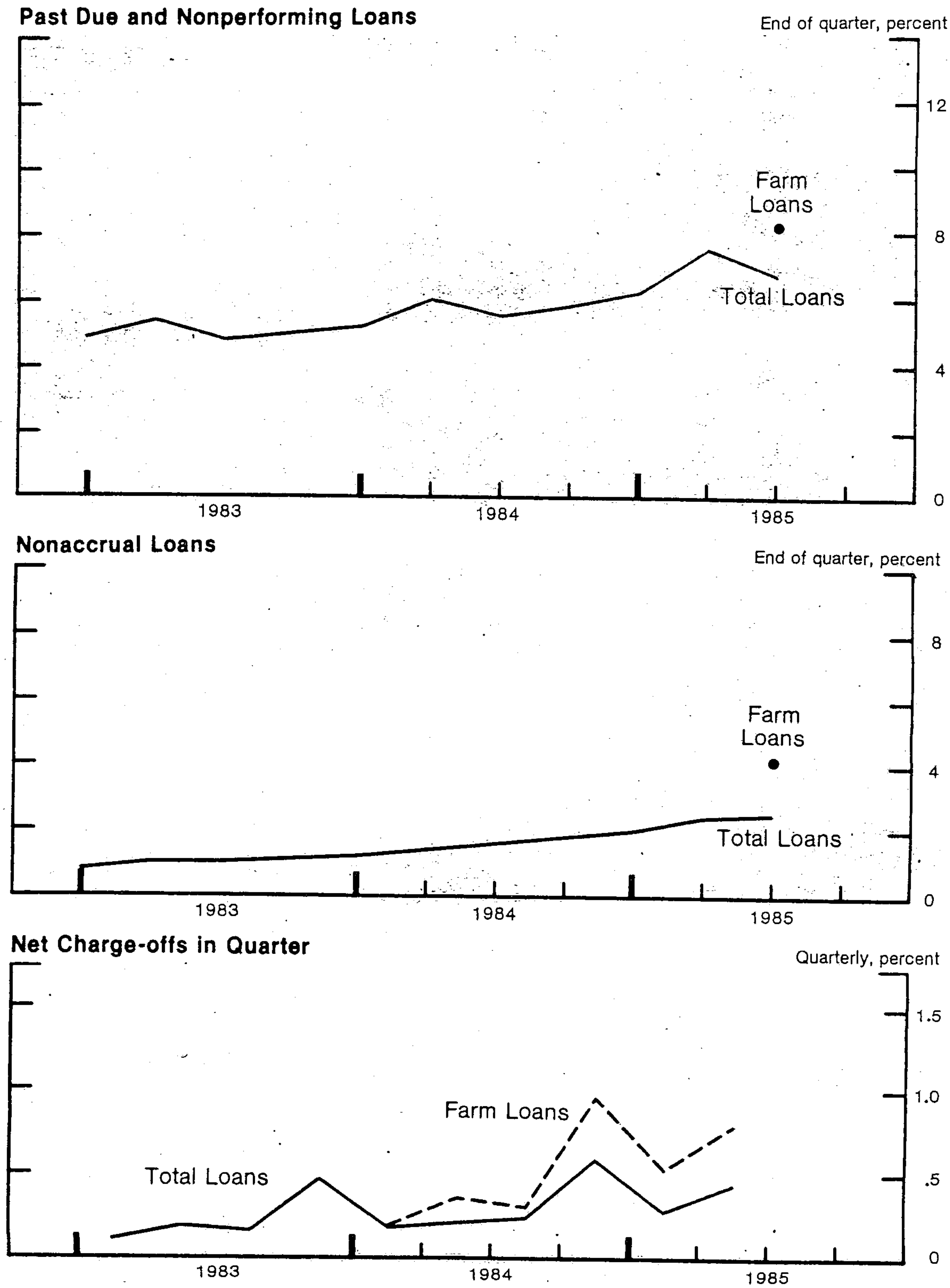


Table 10

Delinquent loans as a percentage of total loans outstanding
Agricultural banks
June 30

Type of delinquency	1983	1984	1985
		United States	
Total	4.8	5.5	6.7
Past due 30 to 89 days and still accruing	2.0	2.1	2.2
Nonperforming	2.9	3.4	4.4
Past due 90 days or more and still accruing	1.6	1.6	1.6
Nonaccrual	1.0	1.6	2.5
Renegotiated	.2	.2	.3
		Iowa	
Total	4.3	5.4	7.2
Past due 30 to 89 days and still accruing	1.5	1.7	1.9
Nonperforming	2.8	3.6	5.3
Past due 90 days or more and still accruing	1.6	1.7	1.8
Nonaccrual	1.0	1.7	3.1
Renegotiated	.2	.2	.5

Agricultural banks are insured commercial banks at which the ratio of farm loans to total loans is above the unweighted average of such ratios at all insured commercial banks (currently about 17 percent). The farm loan ratio at agricultural banks now averages about 37 percent, and these banks hold about 60 percent of all farm loans in the banking system.

Table 11

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

Area and year	First half	Full year
United States		
1980..............	.07	.32
1981..............	.09	.43
1982..............	.15	.69
1983..............	.29	.93
1984..............	.41	1.22
1985..............	.72	
Iowa		
1980..............		.31
1981..............		.34
1982..............		.67
1983..............		.92
1984..............		1.71
1985..............	1.31	

See note to Table 10.

Distribution of agricultural banks by delinquency and charge-off rates

At a majority of agricultural banks, loan delinquency and charge-off rates are below the average levels shown in the preceding section, as these averages were affected by very high rates at a small number of banks. In Table 12, the upper panel shows that most agricultural banks still have relatively low levels of nonperforming loans. However, the proportion with a very high level of such loans is rising.

In similar fashion, the lower panel indicates that a majority of agricultural banks charged off relatively few loans in the first half of this year. But a substantial and rising minority experienced relatively large losses that will exert a significant negative impact on their 1985 earnings. About one-fifth of all agricultural banks charged off over 1 percent of total loans during the first half of 1985, about double the proportion that had experienced this level of charge-offs during the first half of the preceding year.

Table 12

A. Distribution of agricultural banks by relative nonperforming loans

Nonperforming loans as a percentage of total loans	Percentage distribution, June 30 1983	1984	1985	Number of banks, June 1985
Under 2.0...............	53.7	46.0	37.2	1,845
2.0 to 4.9.............	31.7	33.2	32.7	1,624
5.0 to 9.9.............	11.9	16.3	21.2	1,053
10.0 to 14.9...........	1.9	3.2	6.1	304
15.0 to 19.9...........	.5	.7	1.6	81
20.0 and over..........	.2	.5	1.2	58
Total................	100.0	100.0	100.0	4,965

B. Distribution of agricultural banks by relative first-half charge-offs

Net charge-offs as a percentage of total loans, first half of year	Percentage distribution 1983	1984	1985	Number of banks, first half, 1985
Under 0.10................	60.9	55.9	41.7	2,070
0.10 to 0.49..............	23.6	23.8	24.4	1,211
0.50 to 0.99..............	8.3	9.6	13.5	670
1.00 to 2.49..............	5.4	7.4	13.6	677
2.50 to 4.99..............	1.3	2.4	4.9	243
5.00 and over.............	.5	.9	1.9	94
Total..................	100.0	100.0	100.0	4,965

See note to Table 10.

Agricultural bank failures

More agricultural banks have been moving into vulnerable positions such as those illustrated in the two upper panels of Chart 4. Many of the agricultural banks that have failed were earlier found among the banks at which delinquent loans exceeded total capital. The generally upward trend in the number of agricultural banks in that potentially vulnerable position suggests that failures of agricultural banks may continue at recent higher levels shown in the last panel of the chart.

Through October 21, agricultural banks accounted for 57 percent of the failures of insured commercial banks in 1985, and farm loans represented 19 percent of the total loans at all of the failed banks (Table 13). Both proportions are considerably above those in earlier years.

On average, the agricultural banks that have failed have been relatively small. Among those that have failed in 1985, assets at the beginning of the year averaged $22 million, compared with an average of $31 million at all agricultural banks. As shown by the list in Table 14, farm loans exceeded $10 million at only 10 of the banks that have failed this year, and at only two of the banks that have failed since June. Assets at the 54 agricultural banks that have failed totaled about $1.2 billion at the beginning of the year, or only 39 percent of the total assets of about $3.0 billion at all 94 failed commercial banks. Assets at all of the approximately 5,000 agricultural banks total about $150 billion.

Chart 4

Number of Potentially Vulnerable Banks and Bank Failures

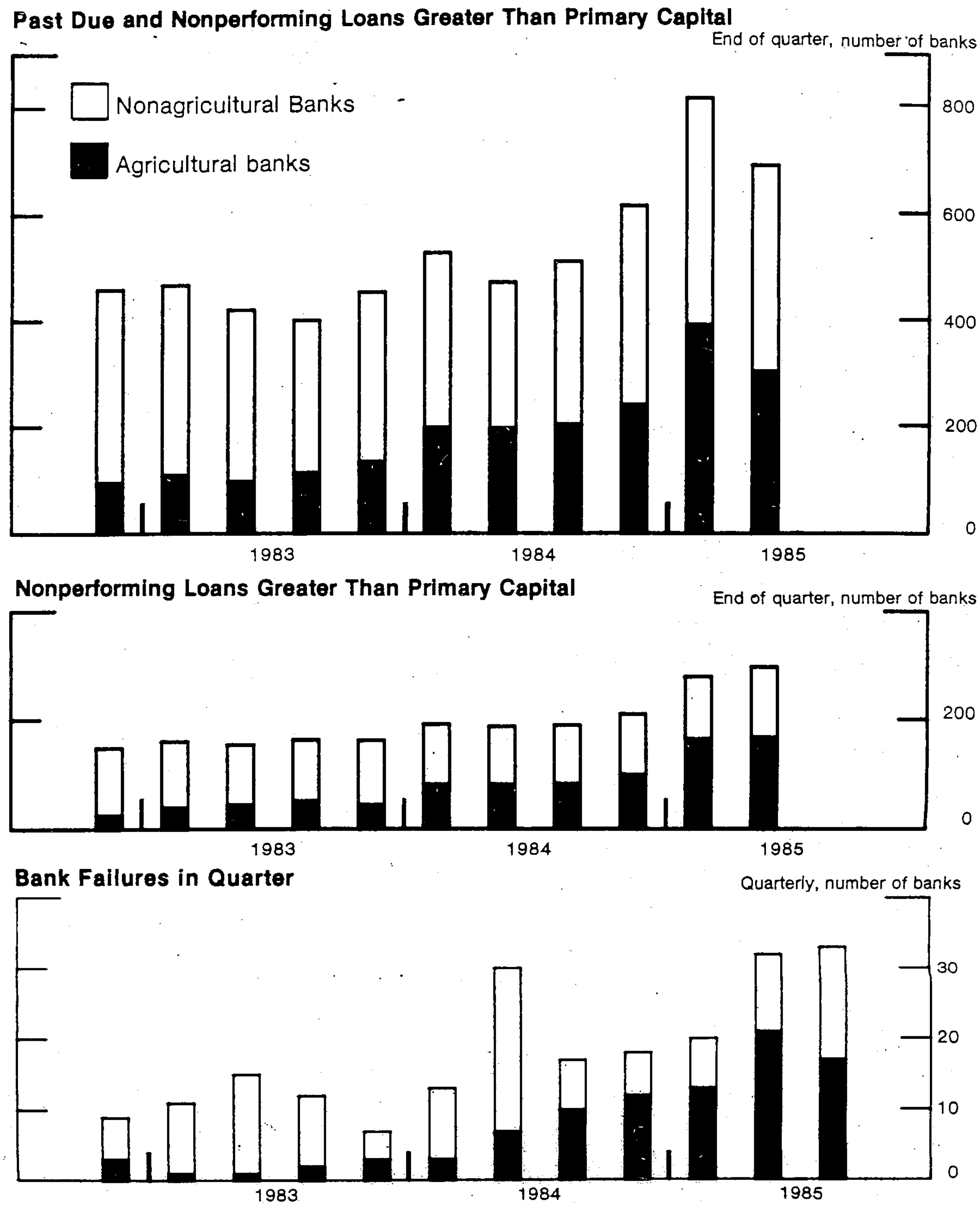


Table 13

Agricultural bank failures and farm loans at failed commercial banks

Period	Number of bank failures			Farm loans at all failed banks	
	Total	Agricultural banks	Agricultural as percentage of total	Millions of dollars	As percentage of total loans
Annual					
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 October 21:					
	94	54	57	388	19
Quarterly					
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		
-Q3...	33	17	52		

Loan data are as of the beginning of the year in which the bank failed, except for a few banks which submitted their last report on September 30 of the preceding year.

See note to Table 10.

Table 14

Farm loans at insured commercial banks that failed in 1985, through October 21

Number	Month	State	Millions of dollars, 12-31-84: Total assets	Millions of dollars, 12-31-84: Farm loans	Farm loans as percent of total loans at bank, 12-31-84
1	1	WY	3 *	0 *	0 *
2	1	NE	5 *	2 *	51 *
3	1	OR	9	0	0
4	1	OK	38	2	18
5	1	TX	37	11	55
6	1	IA	22 *	6 *	40 *
7	2	TN	18 *	0 *	0 *
8	2	IA	26	11	65
9	2	OK	17	3	31
10	2	TN	24 *	1 *	4 *
11	2	CA	44	0	0
12	2	CO	18	9	71
13	2	MN	39	16	52
14	2	IA	8	3	63
15	3	FL	39	0	0
16	3	NE	17	4	45
17	3	IA	16	7	67
18	3	IL	5	1	39
19	3	CA	82	15	24
20	3	CO	55	0	0
21	4	OK	3	0	12
22	4	CA	58	0	0
23	4	NE	3	1	60
24	4	OR	18	5	36
25	4	CA	31	0	0
26	4	TX	39	5	17
27	4	CO	17	9	87
28	4	IA	14	6	63
29	4	CA	44	0	0
30	5	KS	68	8	19
31	5	IA	17	9	62
32	5	MO	51	5	13
33	5	IA	38	16	65
34	5	OK	37	9	32
35	5	TX	43	0	0
36	5	TX	57	2	4
37	5	NE	15	10	90
38	5	AR	23	3	16
39	5	OR	128	35	39
40	5	MN	25	9	52
41	5	NE	8	4	62
42	5	NE	4	2	73
43	5	NE	6	3	60
44	6	WY	45	5	17
45	6	KS	9	4	58
46	6	MN	45	15	56
47	6	WI	31	6	31
48	6	KS	4	1	21
49	6	IA	7	2	34
50	6	OK	100	0	0
51	6	NY	141	0	0
52	6	TN	21	1	5
53	7	KS	9	3	46
54	7	AL	45	0	0
55	7	OK	18	0	0
56	7	KS	10	6	68
57	7	TX	18	9	69
58	7	CO	5	0	0
59	7	MO	6	2	37
60	7	KS	23	7	68
61	7	WY	21	0	2
62	7	KS	34	1	5
63	7	KS	26	0	2
64	8	TX	18	0	0
65	8	MN	25	9	54
66	8	NE	13	8	77
67	8	IA	6	3	78
68	8	OK	39	0	0
69	8	IL	15	4	38
70	8	KS	6	2	64
71	8	TX	22	0	0
72	8	AL	87	2	5
73	8	KS	11	3	36
74	8	MO	13	2	35
75	8	MO	8	1	26
76	8	NM	268	0	0
77	9	TN	27	4	25
78	9	CO	11	0	6
79	9	TN	14	0	0
80	9	NM	36	1	3
81	9	NY	31	0	0
82	9	NE	5	3	60
83	9	KS	30	11	54
84	9	TX	29	0	1
85	9	OK	4	1	34
86	10	FL	17	0	0
87	10	OK	24	4	29
88	10	WY	22	1	9
89	10	MO	236	26	16
90	10	OK	13	1	14
91	10	TX	16	2	15
92	10	OK	13	3	33
93	10	MN	5	2	66
94	10	UT	93	2	3
Total........			2975	388	19

* Data as of September 30, 1984.