Bankers' views on farm credit conditions

In our recent meetings with farm groups, one topic that regularly came up was farm operating loans. Nearly everyone had a story to tell. Some knew of neighbors who were unable to get financing for the 2017 crop. Others heard that bankers had told a neighbor that they would receive financing for 2017, but if low prices and negative cash flows continued, they would have to sell some land to get a loan in 2018.

Based on these informal conversations it was hard for us to tell how widespread problems were though it was clear that everyone was concerned about the impact of continued low prices on their farm operations.

To get a clearer picture we pulled up the most recent ag reports from the Chicago, Dallas, Kansas City, and Minneapolis Federal Reserve Districts. Together these four districts account for a large portion of row crop and livestock production in the US. We will look at these one at a time, because they don't have a common format and the situation varies from district to district.

The Federal Reserve Bank of Chicago (Seventh District which includes all or parts of IA, IL, IN, MI, and WI) (http://tinyurl.com/msjjgu9) reported that at the end of 2016 "agricultural land values…suffered a third consecutive annual decrease." As reported by bank members, "farm credit conditions deteriorated further in the fourth quarter of 2016." Banks experienced higher rates of loan renewals and extensions. Confirming some of what we had heard, "3 percent of farm loan customers were not expected to qualify for operating credit at the banks of the survey respondents."

In addition, "40 percent of the survey respondents reported their banks had tighter credit standards for agricultural loans in the fourth quarter of 2016 relative to the fourth quarter of 2015." And, 24 percent were requiring "larger amounts of collateral for customers to qualify for non-real-estate farm loans during the October through December period of 2016 relative to the same period of a year ago, and only 1 percent required smaller amounts." More ominously, bankers reported charging modestly higher interest year over year.

The Federal Reserve Bank of Dallas (Eleventh District which includes all or parts of LA, NM, and TX) (http://tinyurl.com/mdw6wsa) reported that bankers "noted a need for higher crop and cattle prices," a comment that the farmers and ranchers we talked to would heartily agree with. In the 11th District "real…ranchland and irrigated cropland values increased [in the first quarter of 2017], while real dryland values decreased. But the bankers "expect farmland values to trend down in the coming months."

When asked "What change occurred in credit standards for agricultural loans at your bank in the past three months compared with a year earlier," 16.5 percent of the responding banks indicated that they tightened credit standards while only 1.6 percent reported loosening credit standards. Interest rates on various types of fixed rate agricultural loans increased by between 0.12 percent and 0.14 percent from a year earlier.

The Federal Reserve Bank of Kansas City (Tenth District which includes all or part of CO, KS, MO, NE, NM, OK, and WY) (http://tinyurl.com/lgwrhzc) "reported that "cash rents declined moderately in the fourth quarter 2016. Bankers across the Tenth District noted that persistent weakness in farm income continued to weigh on farmland values." The surveyed bankers reported that "The persistent and widespread deterioration in farm income has occurred alongside increasing loan demand and lower repayment rates. These trends are expected to continue in the first quarter of 2017."

The Tenth District reported, "in the fourth quarter…. farm income fell for the fifteenth consecutive quarter, the longest such streak in survey history. Moreover, 70 percent of bankers expected the downward trend to continue in the first quarter of 2017." The report also said "more than 30 percent of bankers also reported an increase in collateral requirements, the largest share in survey history."

The Federal Reserve Bank of Minneapolis (Ninth District which includes all or parts of MI, MN, MT, ND, SD, and WI) (http://tinyurl.com/kwstyzf) survey report said: 52 percent of respondent banks expected a decrease in the rate of loan repayments; 59 percent expected a decreased level of farm income; 49 percent expected reduced farm household spending; 74 percent expected decreased farm spending; and only 4 percent expected decreased loan demand over the next 3 months.

On the other side, 51 percent expected increased loan renewals or extensions; 17 percent expected increased referral to other lenders; 21 percent expected an increase in the amount of collateral required; and 49 percent expected increased loan demand over the next three months.

The bankers reported that "most customers are coming in with earned net worth losses and reductions in working capital."

Taken together, these reports confirm the content of the discussions we had with farmers and ranchers from across the country. Despite the emphasis some give to the loan-to-asset ratio, if crop and livestock prices do not improve, farmers will be facing some tough decisions in the next couple of years.

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