

## Ag Lending Update: Ag Banks Trim Farm Lending

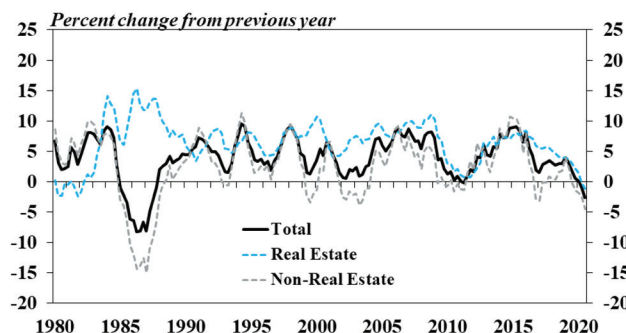
**F**arm loans outstanding at commercial banks declined in the third quarter and non-performing loans edged slightly higher. Reduced lending at agricultural banks contributed most significantly to the further decline in outstanding loan balances. Alongside lower levels of farm debt, delinquency rates on agricultural loans continued to trend higher at a gradual pace.



### Third Quarter Commercial Bank Call Report Data

Agricultural loan balances at commercial banks continued to decrease in the third quarter, according to Call Report data. Most of the recent decrease was driven by non-real estate loans, which were nearly 5% less than the previous year, the largest drop in more

**Chart 1: Farm Debt Outstanding at Commercial Banks**



Note: Annual changes from September 30, 2019 to June 30, 2020 are adjusted to account for changes due to exclusion of Rabobank, N.A. from commercial bank Call Report data beginning September 30, 2019.  
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

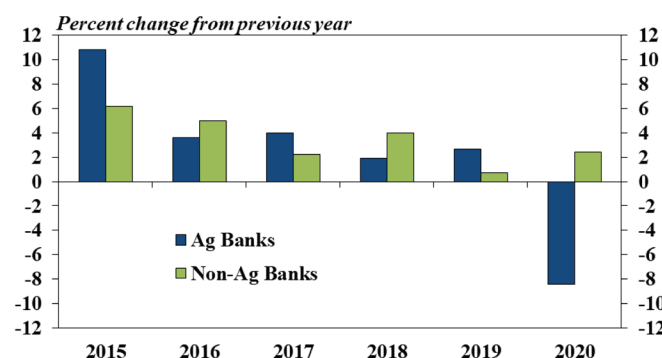
grew by more than 2 percent at all other banks, and all of that increase was at banks with more than \$500 million in total assets.

Also continuing a trend from recent quarters, the rate of non-performing farm loans increased at a steady pace. Compared to the third quarter a year ago, the volume of non-performing farm real estate and non-real estate loans were 16% and 14% higher, respectively (Chart 3). While the volume of total farm loans past due more than 90 days continued to trend upward, loans past due less than 90 days declined by about 20%, an

than 15 years (Chart 1). Farmland loans also decreased for the second consecutive quarter and at a faster pace than the previous quarter. The combined pullback in both loan types led to the largest decline in overall farm debt in any quarter since the late 1980s.

The drop in overall farm debt was driven by lower balances at small banks most concentrated in agricultural lending. Total farm debt declined more than 8% from a year ago at all agricultural banks, and over two thirds of that decline was at agricultural banks with less than \$200 million in total assets (Chart 2). In contrast, balances of agricultural loans

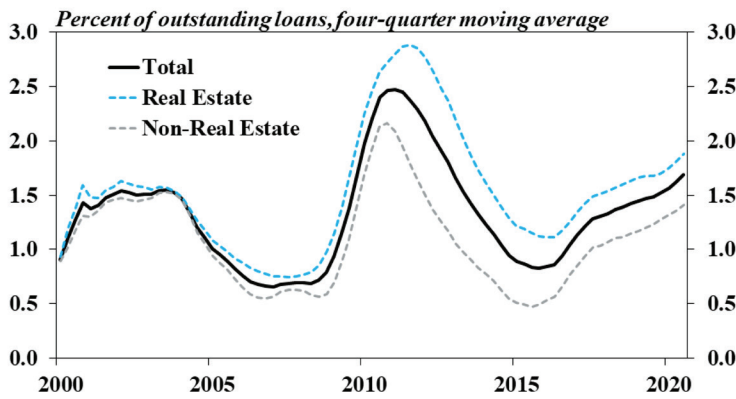
**Chart 2: Total Farm Debt at Commercial Banks, Third Quarter**



Note: Annual changes from 2018 to 2019 are adjusted to account for changes due to exclusion of Rabobank, N.A. from commercial bank Call Report data beginning September 30, 2019.  
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

How Much Risk is Right for You?

**Chart 3: Non-Performing Farm Loans at Commercial Banks**



Note: Includes loans past due 90 or more days still accruing and non-accruing loans.  
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.

Although the overall rate of non-performing farm loans increased, loan quality remained higher at agricultural banks. Difficulties related to the COVID-19 pandemic continued to weigh on farm lending and loan performance, but government programs also may have offset some borrowing needs and supported financial conditions for farmers.

**For more information:**

Kreitman, Ty, Assistant Economist and Cortney Cowley, Economist. Ag Lending Update: Ag Banks Trim Farm Lending. Federal Reserve Main Street Views. DECEMBER 04, 2020. <https://www.kansascityfed.org/research/indicators-data/agfinancedatabook/articles/2020/12-4-2020/ag%20lending%20update%20q3%20commercial%20bank%20call%20report%20data>.

For more information on other sectors of the U.S. economy or to access other Federal Reserve Main Street Views reports, see: <https://www.kansascityfed.org/research/mainstreetviews>.

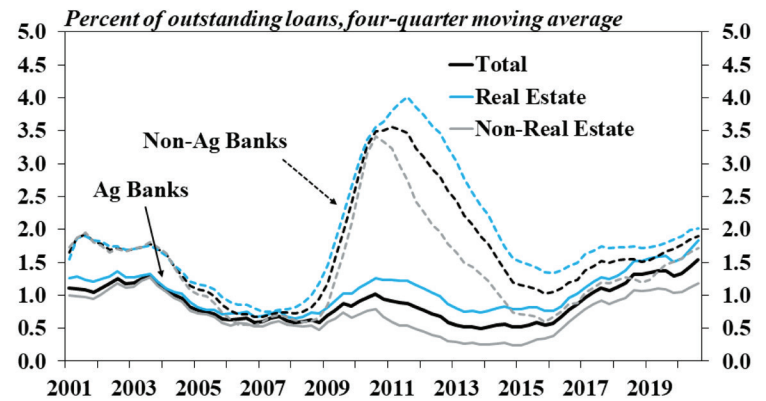
indication of lower volumes of newly delinquent loans in the third quarter.

Importantly, however, the rate of non-performance on farm loans remained lower at agricultural banks than non-agricultural banks. In recent periods of increased delinquency on farm loans, rates of nonperformance have been comparably lower at agricultural banks (Chart 4). Stress in the sector continued to place gradual pressure on the ability of producers to repay loans across all banks, but performance of farm loans continued to be slightly better at agricultural banks.

**Conclusion**

Compared to last year, lending activity at agricultural banks slowed in the third quarter, contributing to lower levels of total U.S. farm debt.

**Chart 4: Non-Performing Farm Loans, Ag Banks vs. Non-Ag Banks**



Note: Includes loans past due 90 or more days still accruing and non-accruing loans.  
Sources: Reports of Condition and Income and Federal Reserve Board of Governors.