Ohio Agricultural Lending Outlook: Fall 2019

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By the end of 2018, the total amount of agricultural loans issued by FDIC-insured banks reached $187.3 billion, while the recent survey data indicates that the level of agricultural debt that is in good standing has decreased in recent years[3]. Increasing the debt obligation creates financial stress for borrowers. In order to understand whether or not farmers are able to make timely loan payments, if the farm income is sufficient for debt to be covered, the most common way of doing this is to examine delinquency data, which is information that lending institutions report concerning the value of loans that are more than 90 days overdue.

Agricultural Lending Volume

Despite concerns about reduced bank liquidity and the newly introduced bank regulation called Basel III, both agricultural production loans and agricultural real estate loans have steadily increased over the recent years on a national level. Of the total agricultural loans issued by FDIC-insured banks that were $187.3 billion as of December 31, 2018, agricultural production loan volume was $82.4 billion and agricultural real estate loan volume was $104.9 billion (Figure 1). For Ohio, the total amount of agricultural loans reached $3.8 billion in 2018. A rapid increase in real estate loans has been observed since 2011, reaching $2.6 billion in 2018.

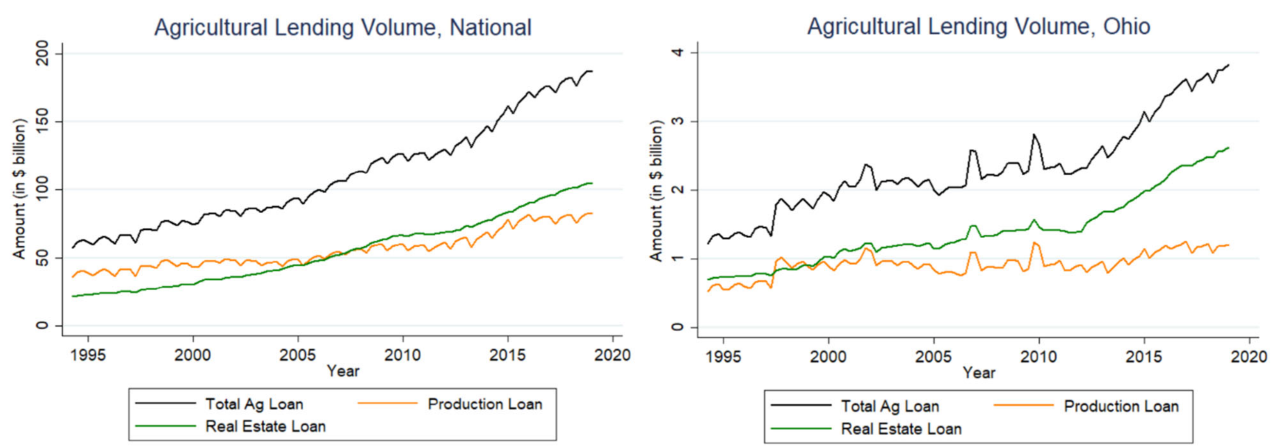

Figure 1: Agricultural Loan Volume[1&2]

Agricultural Loan Delinquency Rates

An agricultural loan delinquency rate is calculated as follows:

(Delinquent Ag Loans ÷ Total Ag Loans * 100)

Agricultural delinquency rates have been less than 2% during most years since 1994. During the Financial Crisis of 2008, the national agricultural delinquency rate was above 2% for multiple years as shown in Figure 2 below. After years of a decrease in delinquency rates after the financial crisis, the delinquency rates have shown upticks in recent years, possibly due to the recent downturn in the farm economy. Still, the delinquency rates are lower than 2%, and these low delinquency rates are a relatively good outcome during years of relatively low farm incomes since the highest farm income of 2013.

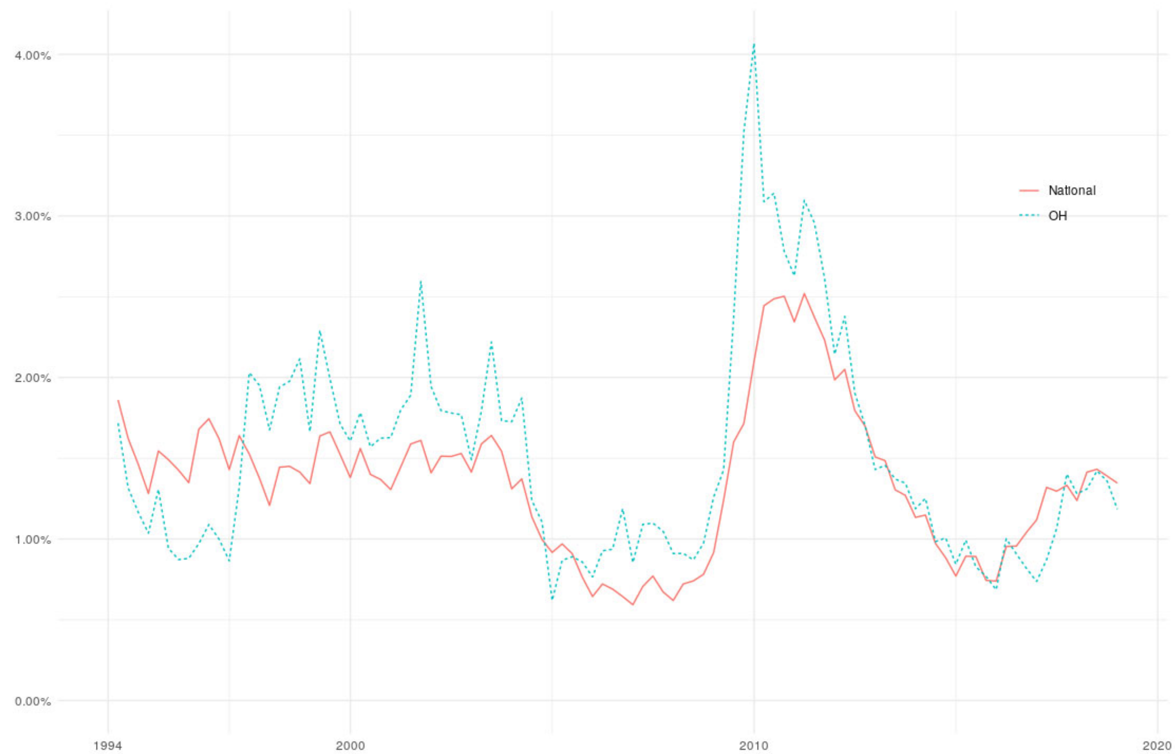

Figure 2: Agricultural Loan Delinquency Rates[1&2]

Figure 2 shows that the delinquency rates for agricultural loans in Ohio have been higher than the national average during the Financial Crisis of 2008. From the mid-2010s, the gap between the delinquency rates for Ohio agricultural loans and the national average has narrowed. The delinquency rates for agricultural loans in Ohio have been mostly below the national average in recent years of agricultural economic downturn, with the gap increasing again by the end of 2018.

Agricultural Delinquency Rates by Loan Types

Delinquency rates of two subcategories of agricultural loans - production loans and real estate (RE) loans - follow similar trends over time. Production loans are loans used to fund farm operations by enabling farmers to purchase inputs like seeds, fertilizer and equipment, and RE loans are primarily used to finance farmland purchases. Production loans typically have shorter terms for their repayment while RE loans typically span at least 15 years. Despite the co-movements, Figure 3 shows that real estate loan delinquency rates have been higher than the production loan delinquency rates in recent years. The gap between the production and real estate loan delinquency rates has widened since the recent financial crisis, reaching a difference in rates of almost 0.5% in 2018.

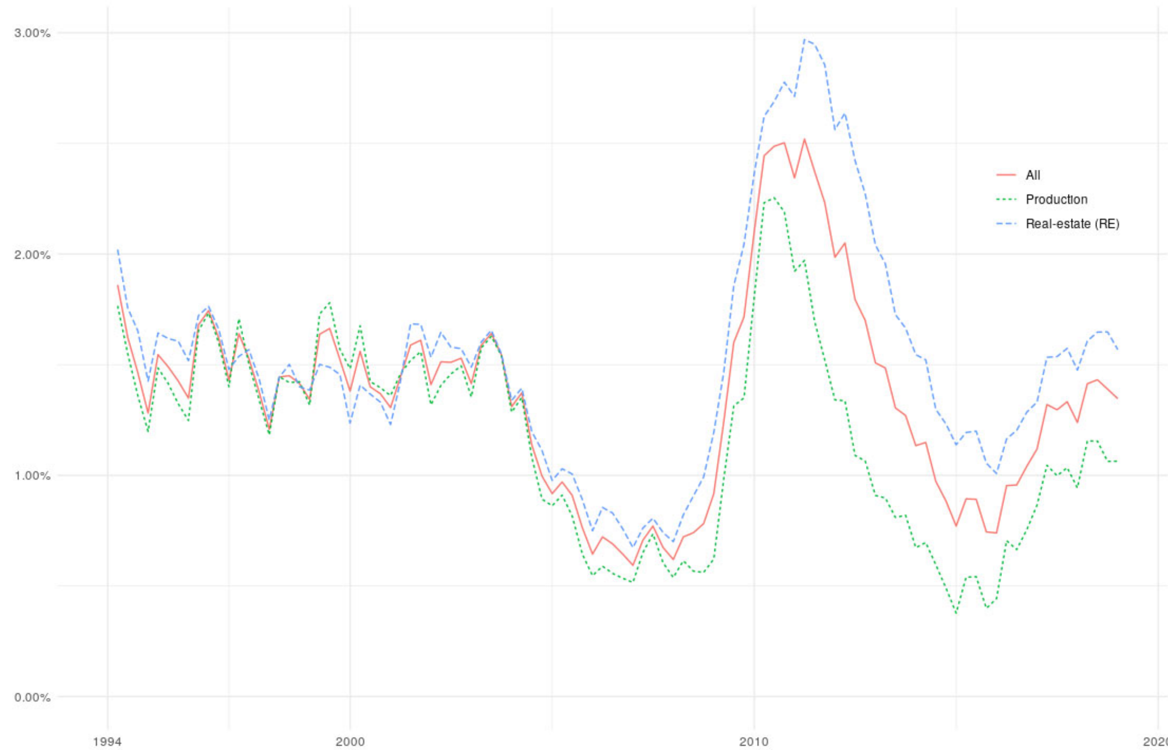

Figure 3: National Ag Loan Delinquency Rates by Type[1&2]

Production Loan Delinquency Rates

Figure 4 maps agricultural production loan delinquency rates at the county level for Ohio, between July 2018 and June 2019. The average delinquency rate for Ohio farm production loans for the recent 12 months was 1.06%, which was lower than the previous year's 1.23%. Similar to the report from the last year, most counties had delinquency rates of around 2.5% or less. Only three counties had delinquency rates over 5% (Lucas, Wyandot, and Washington county). Additionally, there is no identifiable geographic pattern or clustering that would suggest a regional concentration of financial stress.

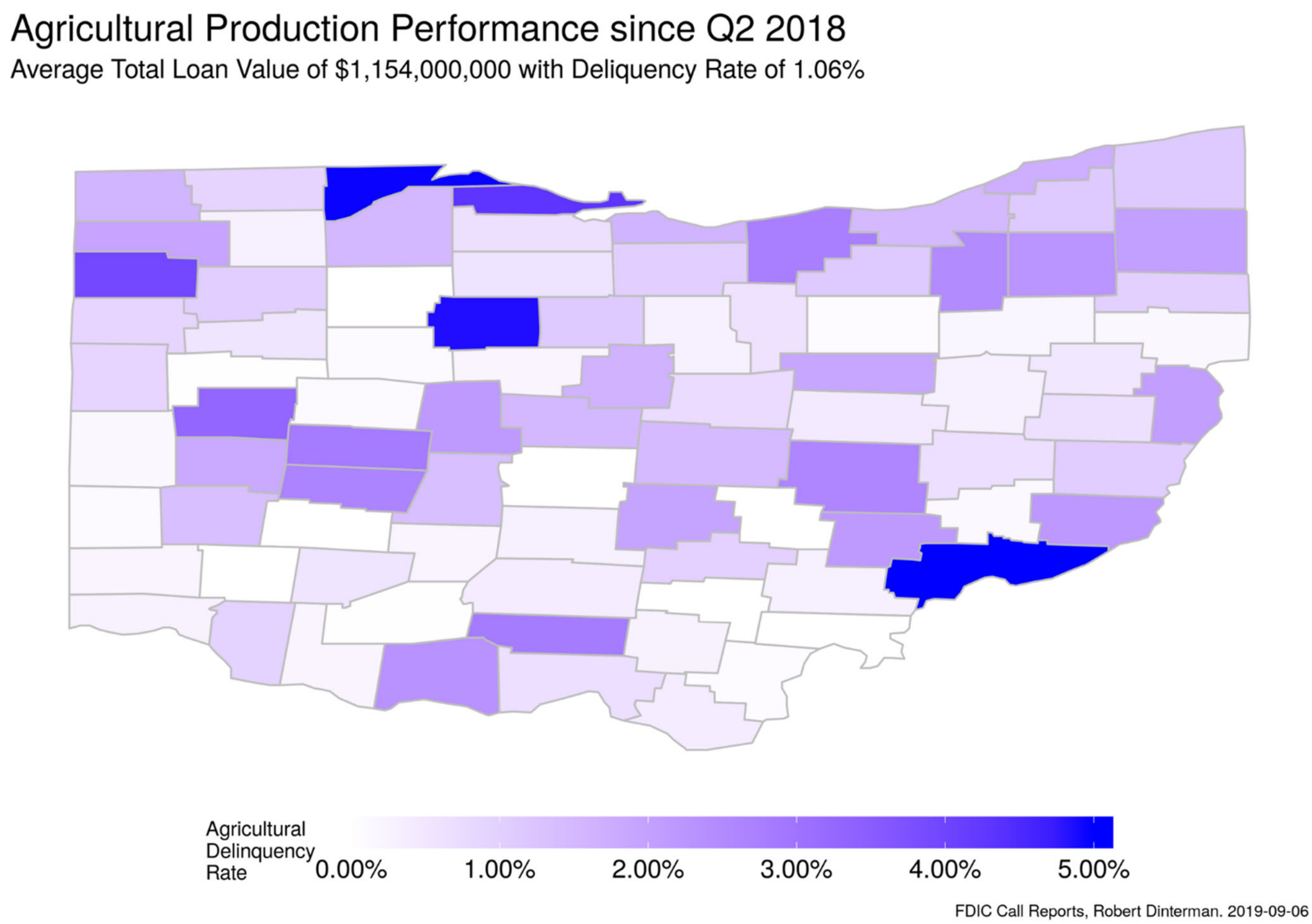

Figure 4: Ohio Agricultural Production Loan Delinquency Rates, July 2018- June 2019[1&2]

Real Estate Loan Delinquency Rates

Similar to the national average, delinquency rates for real estate loans have been higher than those for production loans. The state average delinquency rate for real estate loans did decrease from the previous year's, from 2.05% to 1.83%, but was still higher than the average delinquency rate for production loans. Thirteen counties have experienced real estate loan delinquency rates higher than 5% since the second quarter of 2018, and the geographic distribution shows that counties in the northern region of the state were experiencing higher delinquency rates.

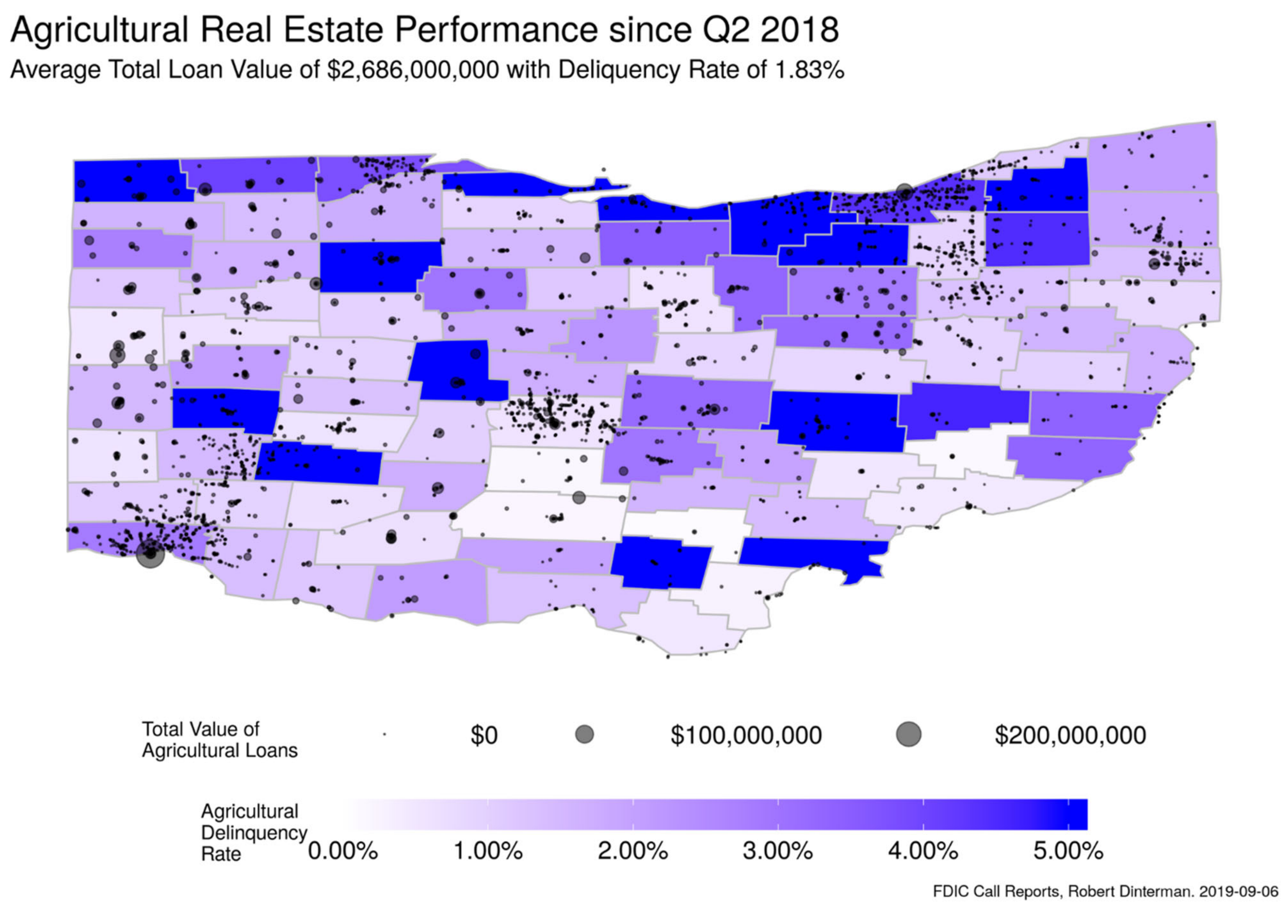

Figure 5: Ohio Agricultural Real Estate Loan Delinquency Rates, July 2018- June 2019[1&2]

Sources: [1]Chicago Fed: https://www.chicagofed.org/banking, [2]FDIC: https://www5.fdic.gov, [3]Kansas Fed: https://www.kansascityfed.org/research/