Farm Credit Mid-America Condition and Performance

Rae Ju, Charles Smith, and Ani Katchova[1]

Farm Income Enhancement Program
Department of Agricultural, Environmental, and Development Economics
The Ohio State University
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Highlights

- Farm Credit Mid-America (FCMA) is an important agricultural credit institution in the Farm Credit System, providing agricultural loans, insurance, and leasing to the agricultural sector.
- FCMA's total loan portfolio consisted of several types of loans: 62.9% of real estate mortgage loans, followed by 17.4% of production and intermediate loans and 12.2% of agribusiness loans in 2022.
- FCMA's total percentage of risk loans fell from 1.66% in 2017 to 0.81% in 2022.
- FCMA's net interest income continuously increased, reaching $615 million in 2022, aligning with an upward trend in net income that reached $457 million in 2022.
- FCMA's net interest margin remained relatively stable, remaining at 2.2% from 2018 to 2020, with a slight decline to 2.1% in 2021 and remained the same in 2022.

Introduction

Farm Credit Mid-America (FCMA) is an important agricultural credit institution in the Farm Credit System, servicing an extensive region that includes Indiana, Kentucky, Ohio, Missouri, Tennessee, and Arkansas. As a customer-centric cooperative, FCMA offers a diverse range of financial services. These services, which include but are not limited to agricultural loans, insurance, and leasing, are strategically tailored to meet the needs of the agricultural sector and rural communities. As an integral part of a nationwide network of rural lending cooperatives, FCMA provides expert financial solutions. These solutions are designed to support and sustain the operations of its customers, aiming to boost the agricultural economy and secure the future prosperity of rural communities and the broader agricultural sector.

This report provides a detailed examination of the financial health and performance of Farm Credit Mid-America. Our analysis is based on data sourced from FCMA annual financial reports spanning from 2017 to 2022, providing a comprehensive overview of the financial condition and operations

[1] Rae Ju is a Ph.D. student, Charles Smith is an undergraduate student, and Ani L. Katchova is Professor and Farm Income Enhancement Chair in the Department of Agricultural, Environmental, and Development Economics at The Ohio State University. We thank Melanie Strait-Bok, Senior Vice President of Agricultural Lending for Ohio, for her helpful comments and suggestions.

of FCMA. We have conducted an in-depth analysis of key financial indicators, encompassing loan composition and growth, loan quality and performance, as well as financial health and profitability.

FCMA Loan Portfolio and Growth

Over a three-year period from 2020 to 2022, the geographic distribution of the FCMA loan portfolio volume has remained consistent. Approximately one quarter of the total loan portfolio was in Indiana. Around 20% of the FCMA loan portfolio was located in Ohio, with Kentucky and Tennessee each accounting for about 10% and 13%, respectively. The proportion of loans in Ohio exhibited a modest decline from 2020 to 2022, while the percentage of loans in Kentucky and Tennessee remained relatively stable in the total loan portfolio.

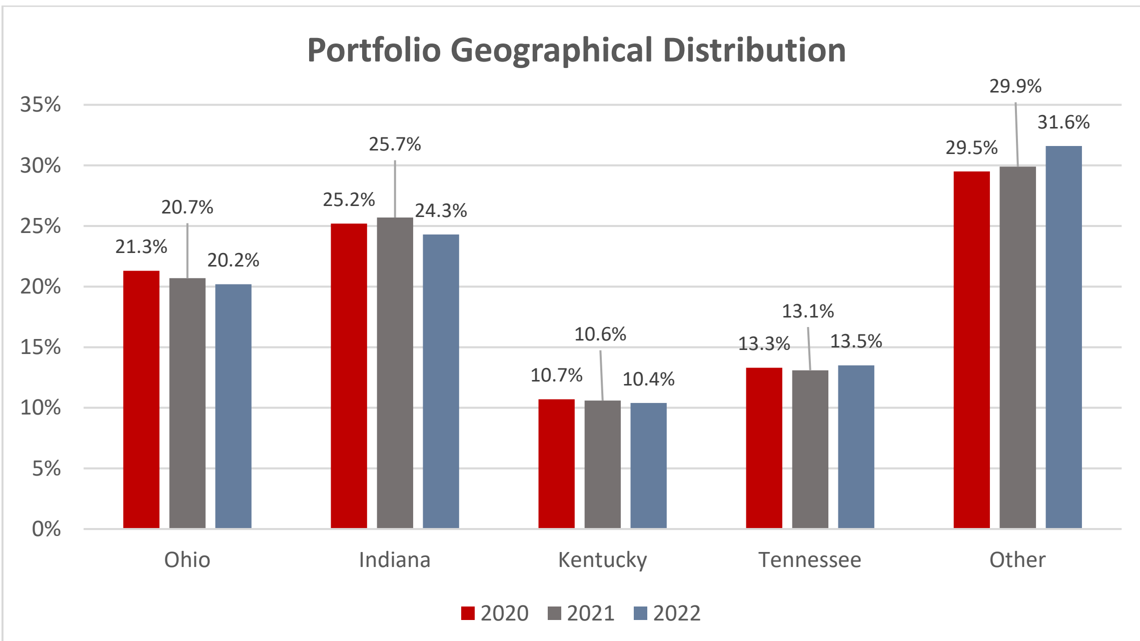

Figure 1: FCMA's Portfolio Geographical Distribution

FCMA classifies its loans into five types: real estate mortgage loans, production and intermediate-term loans, agribusiness loans, rural residential real estate loans, and finance leases and other loans. As of 2022, real-estate mortgages represent the most prevalent type of loans with a substantial proportion of the total loan portfolio of 63%. Following them, production and intermediate-term loans represent 18% in the total loan portfolio, agribusiness accounts for 12%, while rural residential real estate loans make up 3%. There was also a modest decrease in the proportion of real estate mortgage loans from 2017 to 2022, while the share of production and intermediate-term loans slightly increased. Most notably, the proportion of agribusiness loans nearly doubled from 6.7% in 2017 to 12.2% in 2022, whereas the percentage of rural residential real estate and finance leases and other loans declined within FCMA's loan portfolio.

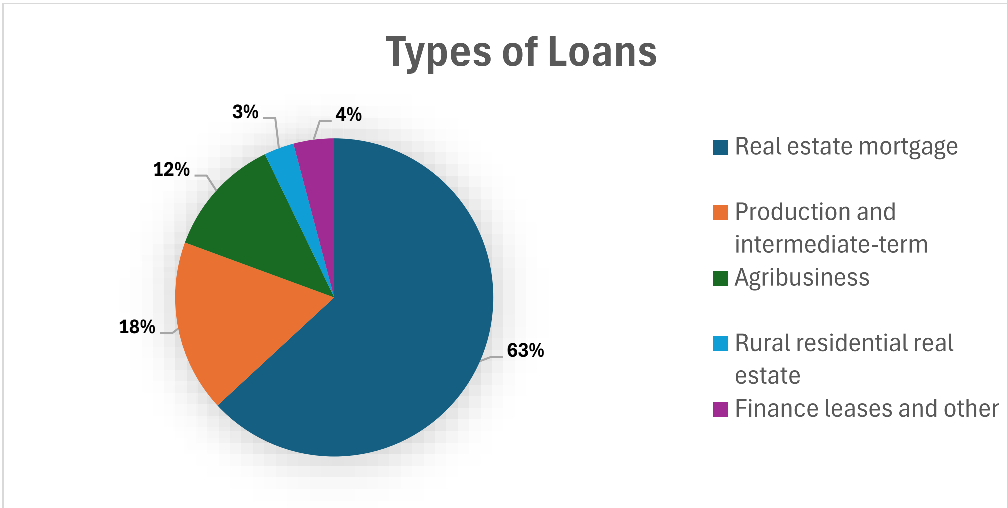

Figure 2: FCMA 2022 Loan Type Distribution

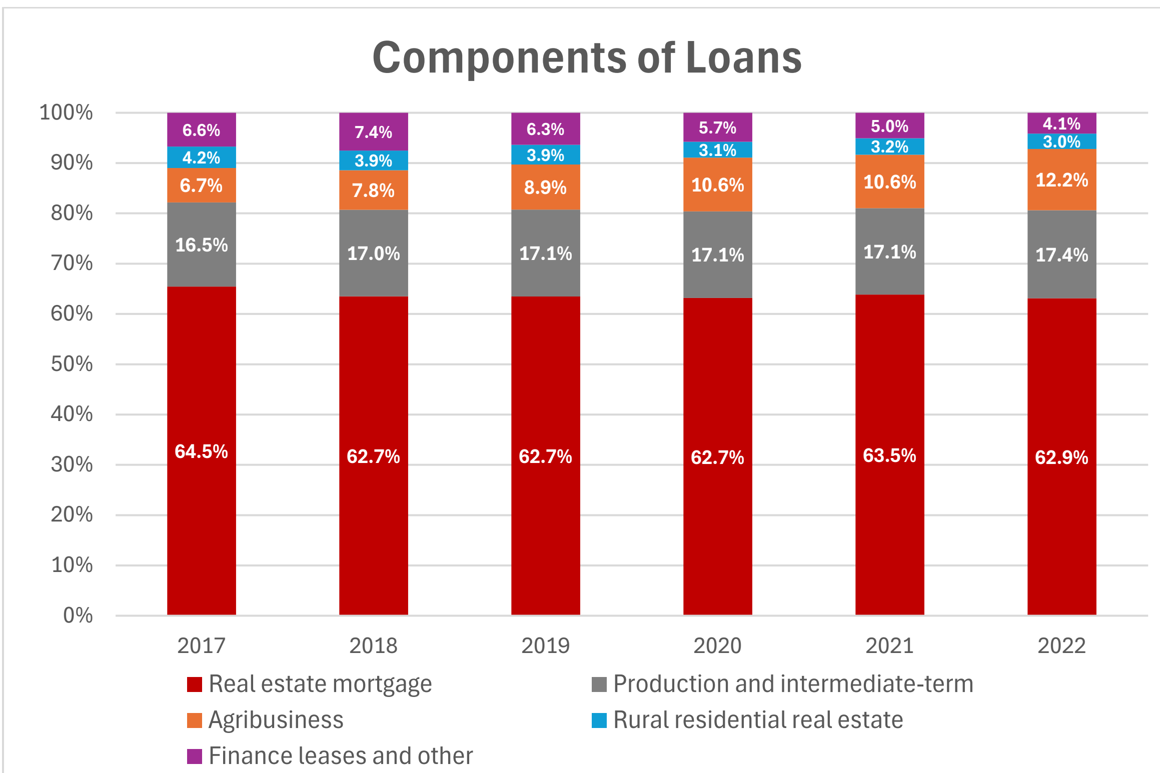

Figure 3: FCMA Loan Composition Trends Over Time

Examining FCMA's loan growth by loan type, we find that real-estate mortgage, production and intermediate-term, and agribusiness loans exhibited positive growth between 2017 and 2022. In contrast, rural residential real estate loans showed varied growth and financial leases exhibited continuous decline between 2019 and 2022.

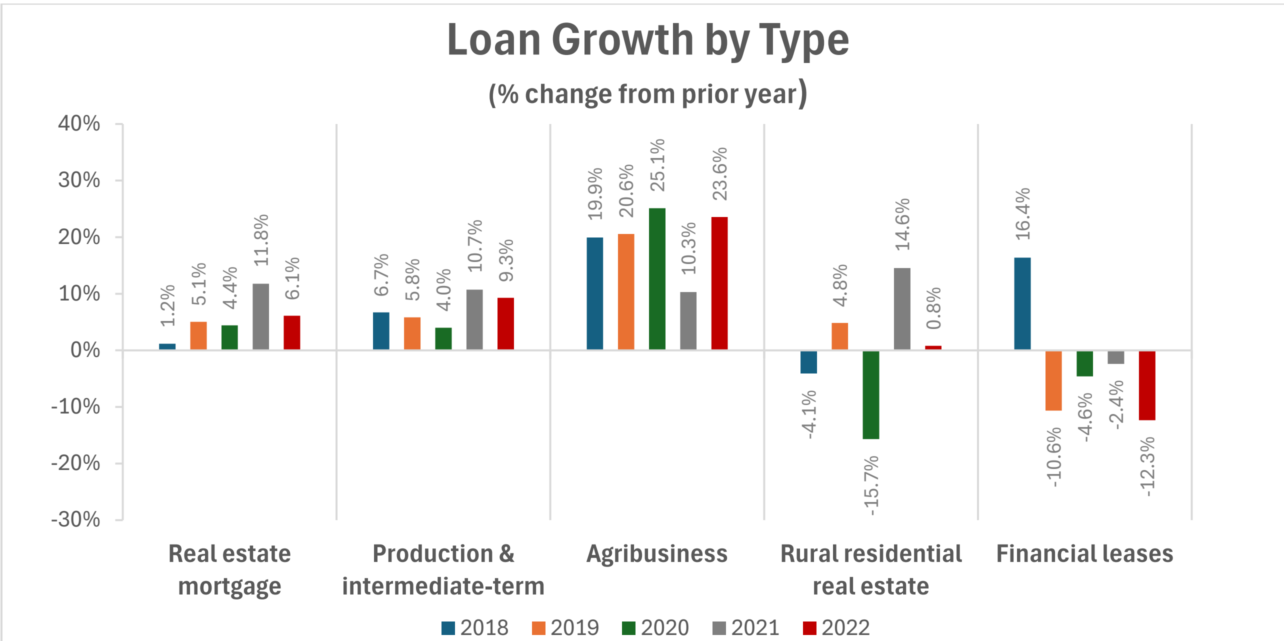

Figure 4: Loan Growth by Type

In 2022, the concentration of FCMA's loan portfolio reveals a diverse mix of loan types, with corn and soybeans and other crops holding the largest shares at 19.4% and 19.0%, respectively. The next significant categories include landlords at 10.2%, cattle at 9.5%, and processing and marketing at 9.1%. Smaller portions of the portfolio are allocated to other livestock and timber, making up 6.5% and 6.3%, respectively. Poultry and eggs, dairy and rural home loans constitute 4.1%, 3.7% and 3.0% of the portfolio, respectively.

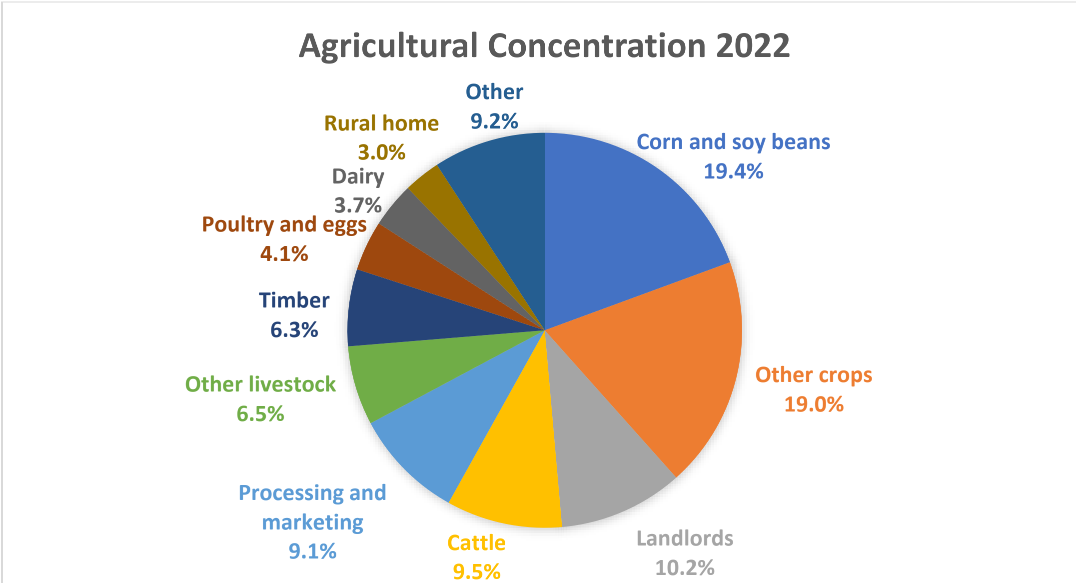

Figure 5: FCMA 2022 Loan Portfolio by Agricultural Concentration

FCMA's assets include net loans and allowances, investments in AgriBank, investment securities, accrued interest receivable, and other assets. The asset growth increased rapidly from 2017 to 2022, reaching a peak of 12.4% in 2021 before declining again in 2022. Loan growth has followed a similar trend as assets. While FCMA's total assets and loans have increased since 2017, total assets and loans have increased at a more rapid rate with total assets outpacing total loans in 2021 and 2022. Notably, the loan volume reached $29 billion in 2022, while the total asset volume reached $32 billion in the same year.

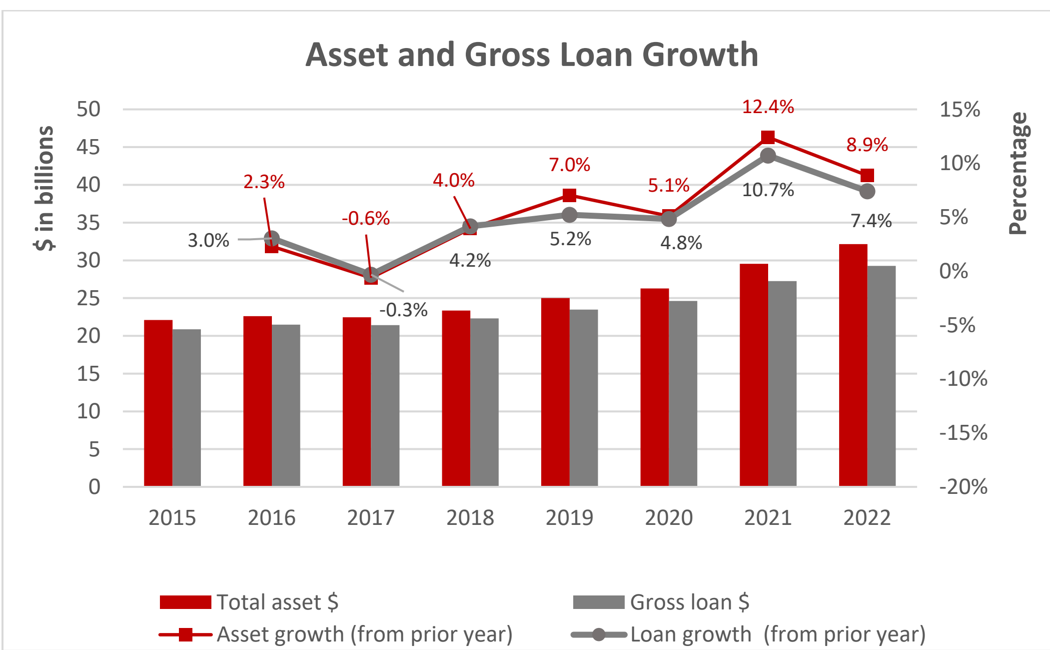

Figure 6: FCMA Asset and Loan Growth

FCMA Risk Assessments and Loan Quality

Loans classified by FCMA as less than acceptable are determined based on their credit requirements and an investigation into the borrowers' financial status. From 2020 to 2022, the percentage of loans deemed less than acceptable decreased across all loan types. Notably, less than acceptable production and intermediate-term loans, encompassing loans for medium-term financing for items like livestock, farm equipment and agricultural facilities, have experienced the largest decrease from 10.2% in 2020 to 3.9% in 2022. Overall, from 2020 to 2022, the total percentage of loans classified as less than acceptable fell from 6.5% to 2.9%, indicating an improvement in loan portfolio quality. FCMA attributes this overall decrease in the proportion of less than acceptable loans to their proactive engagement and reclassification of delinquent loans.

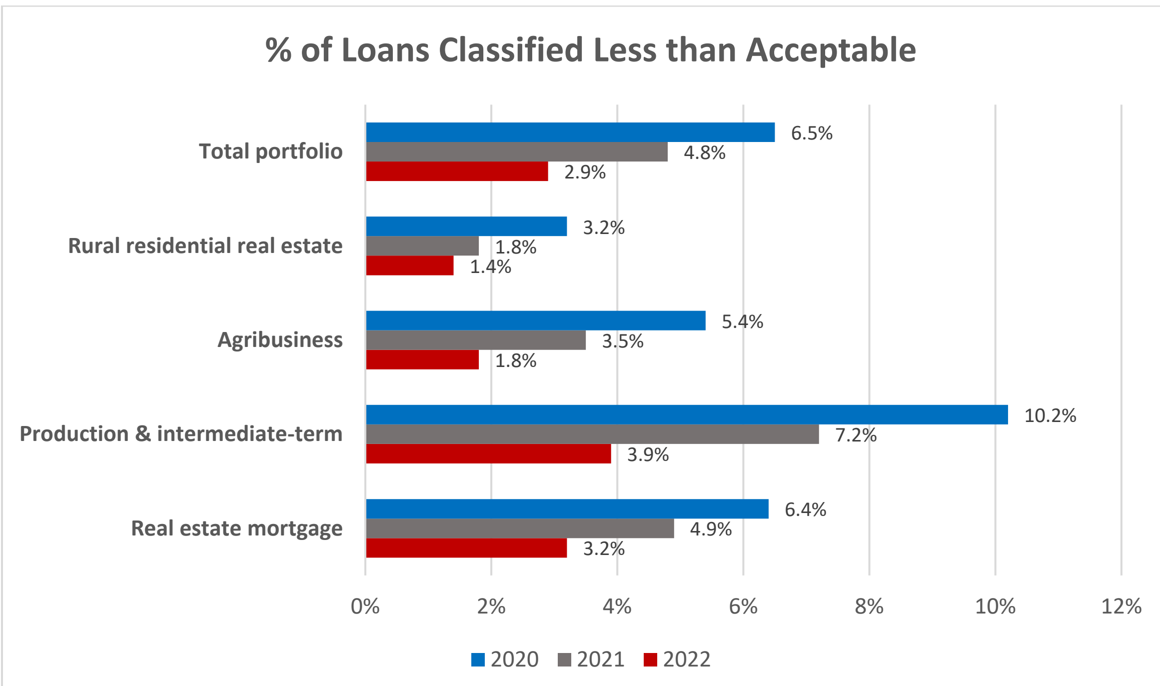

Figure 7: FCMA Loans Classified as Less Than Acceptable

FCMA risk loans are classified as loans with a possibility that not all principal and interest will be collected. The risk loans are classified as total non-accrual, accruing restructured, and accruing 90+ days due. The volume of risk loans exhibited a consistent decline from 2017 to 2022 ($356 million to $237 million), driven primarily by a continuous decrease in total non-accrual loans, however there was an increase in loans accruing 90 days+ past due. Additionally, the percentage of risk loans declined from 1.66% to 0.81% between 2017 and 2022.

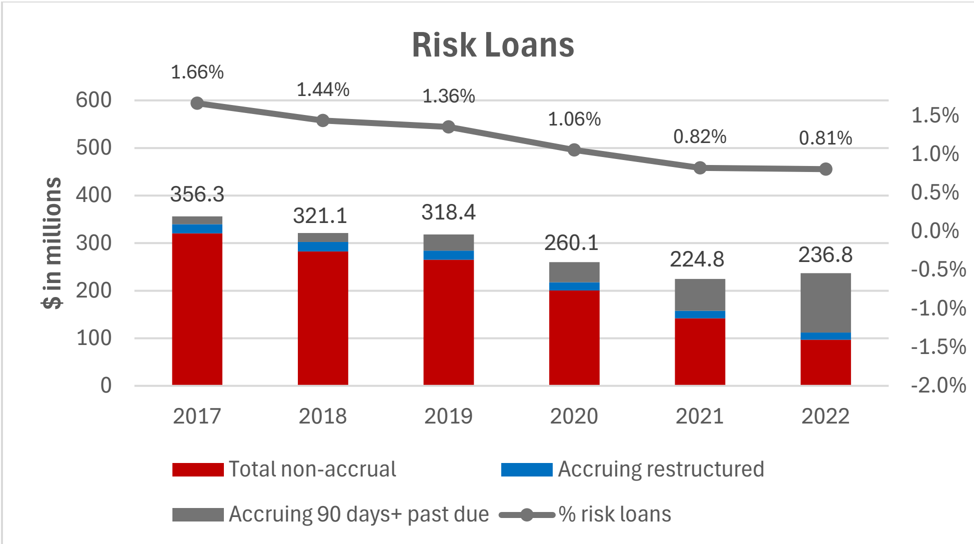

Figure 8: FCMA Risk Loans

FCMA Financial Performance and Analysis

Gross interest income, which is revenue collected from loan interest, is the majority of FCMA's income. The gross interest income grew from $944 million in 2018 to over $1 billion in 2019. This was followed by a decline to $924 million in 2020 and $896 million in 2021, during the COVID-19 pandemic. FCMA bounced back strong in 2022 with a five year high of $1.12 billion gross interest income. Net income was $457 million in 2022, while net interest income grew year over year to $615 million in 2022.

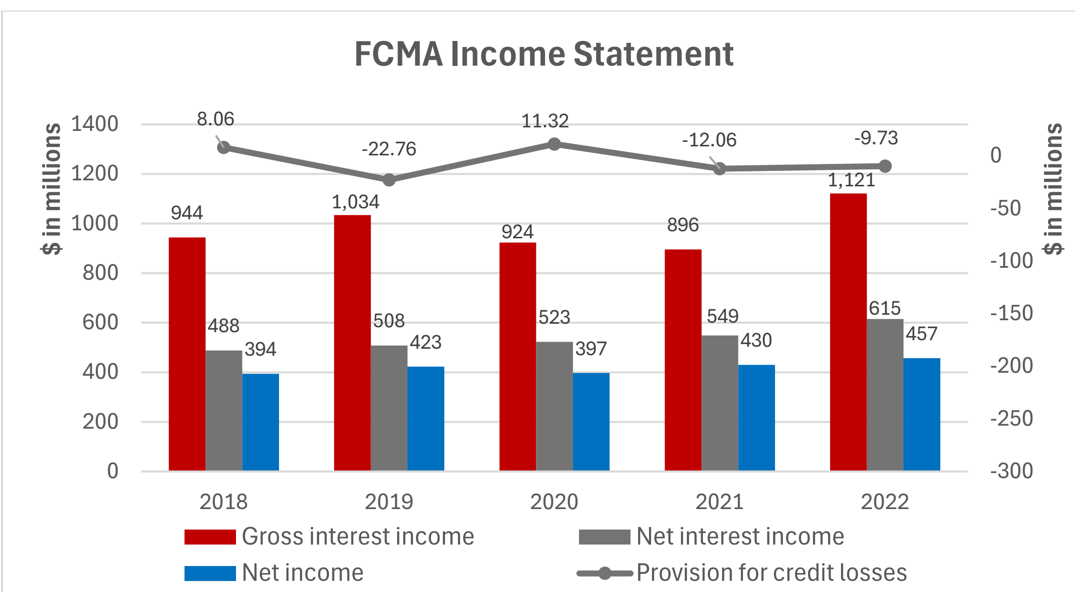

Figure 9: FCMA Income Statement

From 2018 to 2022, FCMA's net interest income, comprising of interest income minus interest expenses, experienced a steady growth from $488.3 million to $614.8 million. The net interest margin slightly declined from 2.2% in 2018-2020 to 2.1% in 2021 and 2022. The net interest margin, representing the ratio of net interest income to the average of FCMA's earning assets, shows a consistent level of profitability over the last 5 years.

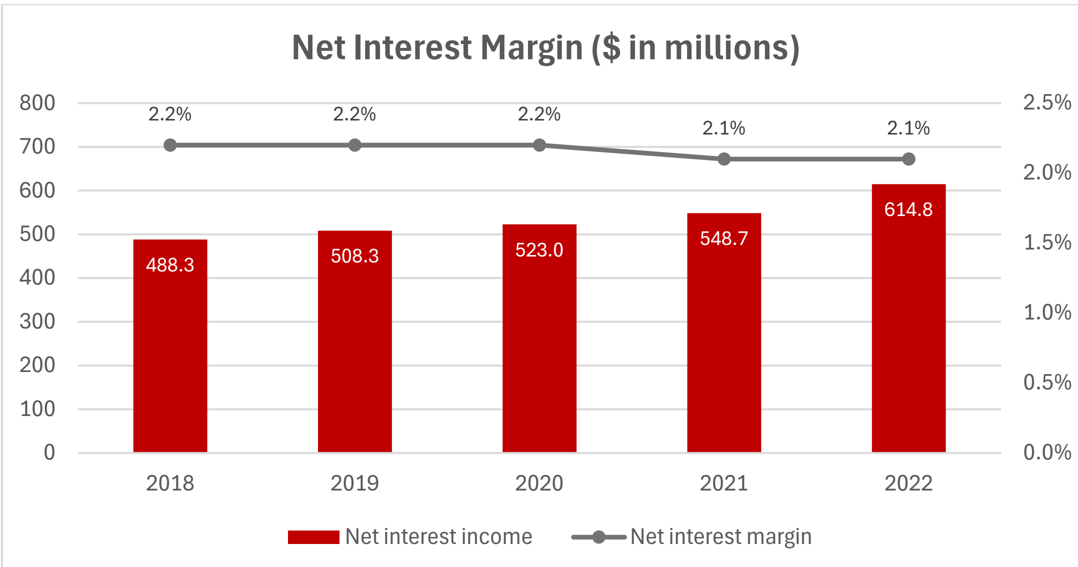

Figure 10: Net Interest Margin

FCMA's capital ratios are indicators of financial stability and regulatory compliance by measuring a bank's capital to its risk-weighted assets. The total capital ratio was at 20.3% in 2017 and peaked in 2018 at 21.4% before it decreased for several years in a row to 16.6% in 2022. Similarly, the tier 1 capital ratio, a key metric of a bank's core equity capital compared with its total risk-weighted assets, also reached its highest at 21.2% in 2018 and subsequently decreased to 16.4% in 2022. Notably, the two ratios have converged since their peak from a difference of 0.5% in 2018 to 0.2% in 2022. The capital ratio needs to be sufficient to cover potential losses, but higher ratio is not necessarily better.

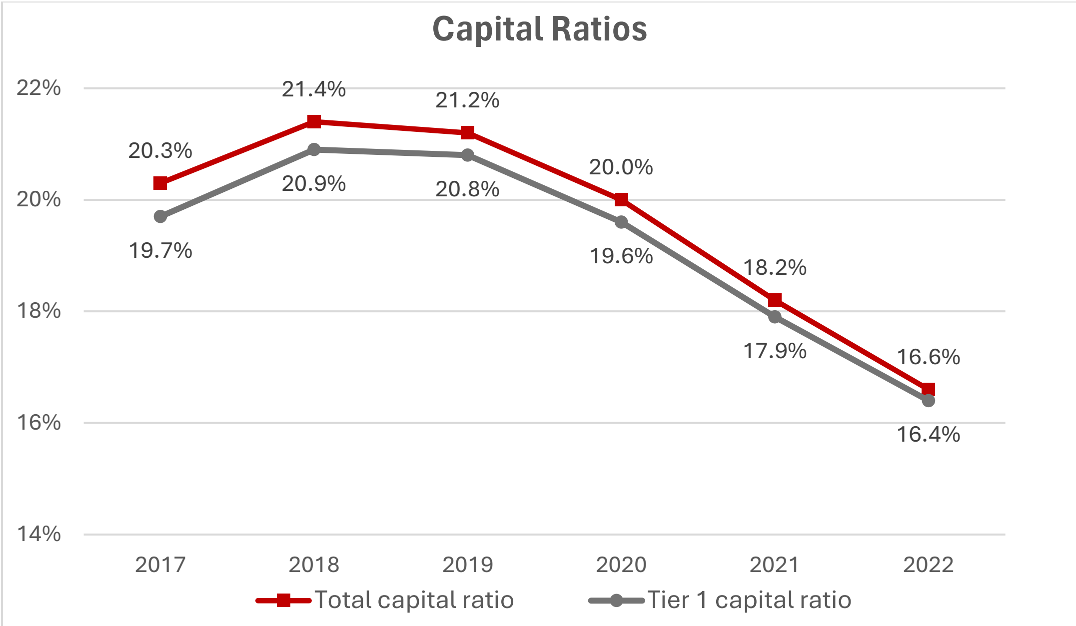

Figure 11: Capital Ratios

References

1. Farm Credit Mid-America Financial Reports, available at: https://www.fcma.com/company/financial-reports