Ohio Agricultural Lending Outlook: 2021 Updates

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July 27, 2021

For the quarter ending in March 31, 2021, the total amount of agricultural loans issued by FDIC-insured banks dropped to $169.6 billion, while the level of agricultural debt that is in stressed status increased. Increasing the debt obligation may create financial stress for borrowers. To understand whether farmers are able to make timely loan payments, in other words, whether farm income is sufficient for debt to be covered, we can examine delinquency data, which is information that lending institutions report concerning the value of loans that are overdue.

Agricultural Lending Volume

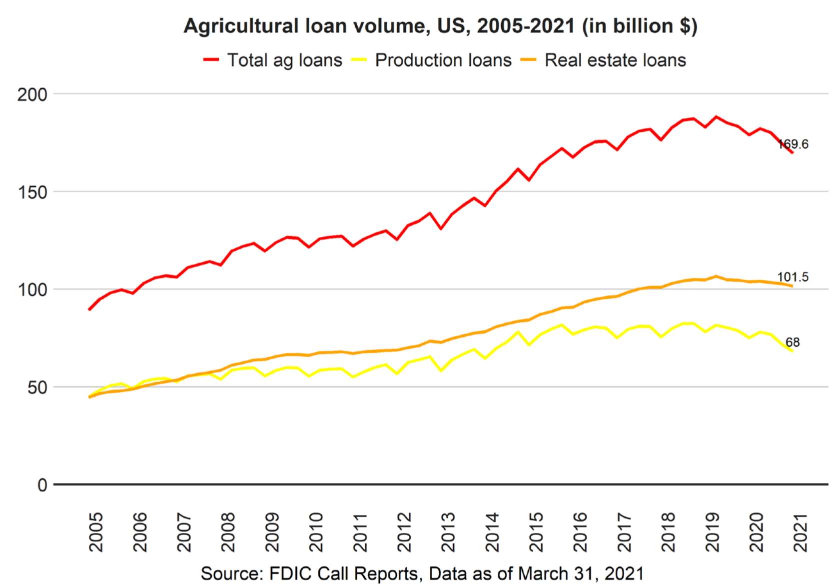

Figure 1: Agricultural loan volume, US, 2005-2021

While debt capital can be used to finance the farm business, the increasing reliance on debt capital creates a concern for the overall farm business capital structure as the increase in the debt level also increases the bankruptcy rate. After reaching their peaks in 2019 at the national level, agricultural production loans and agricultural real estate loans issued by the FDIC-insured banking institutions have decreased in the last two quarters. Of the total agricultural loans issued by FDIC-insured banks that were $169.6 billion as of March 31, 2021, agricultural production loan volume was $68 billion and agricultural real estate loan volume was $101.5 billion (Figure 1). Similar trends are observed for Ohio, as the total amount of agricultural loans slightly dropped to $3.7 billion in 2021, which is the same level as in 2018 (Figure 2). Agricultural real estate loans and agricultural production loans reached $2.7 billion and $1 billion, respectively.

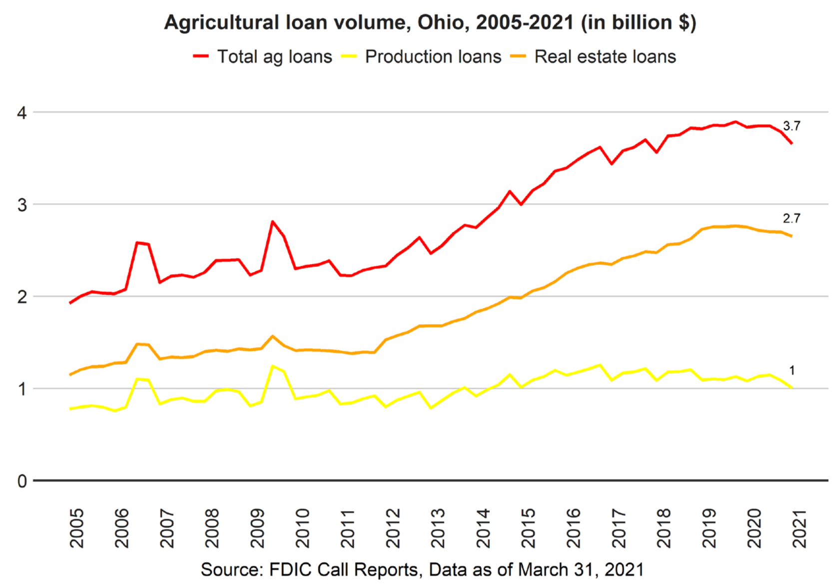

Figure 2: Agricultural loan volume, Ohio, 2005-2021

Farm Financial Distress

Farm financial distress is widely proxied by the amount of agricultural loans that are overdue and under the delinquent status. Delinquent status agricultural loans relative to the total agricultural loans shows the level of financial difficulties that farmers experience in paying off their loan payments. For each FDIC-insured banks, agricultural loan delinquency rate is calculated as:

$$(\text{Delinquent Ag Loans} \div \text{Total Ag Loans} * 100).$$

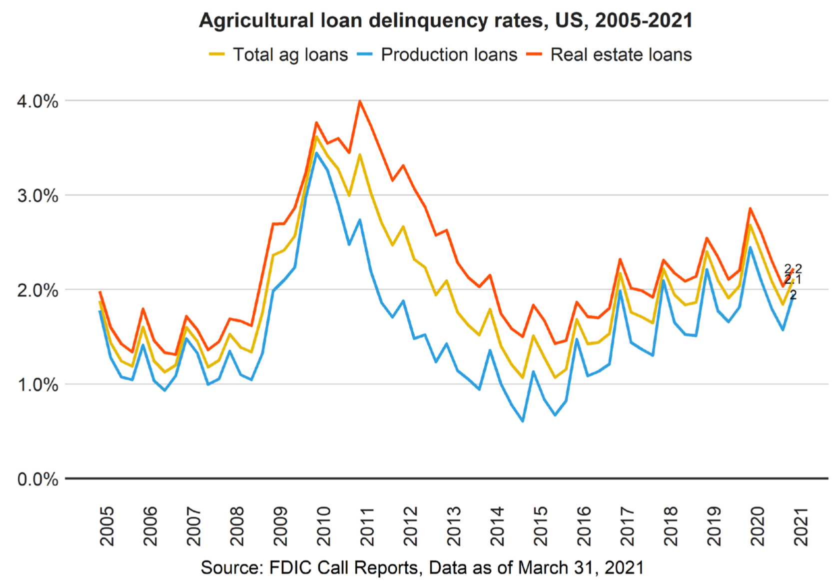

Figure 3: Agricultural loan delinquency rates, US, 2005-2021

Despite the increase in net farm income last year, delinquent status agricultural loans have slightly increased in the first quarter of 2021, reaching 2.1% (Figure 3). More specifically, delinquency rates for farmland real estate loans and agricultural production loans were 2.2% and 2%, respectively. While the delinquency rate of 2.1% is an increase relative to 1.8% of the previous quarter, this is significantly lower than the delinquency rate of 2.7% of 2020 Q1.

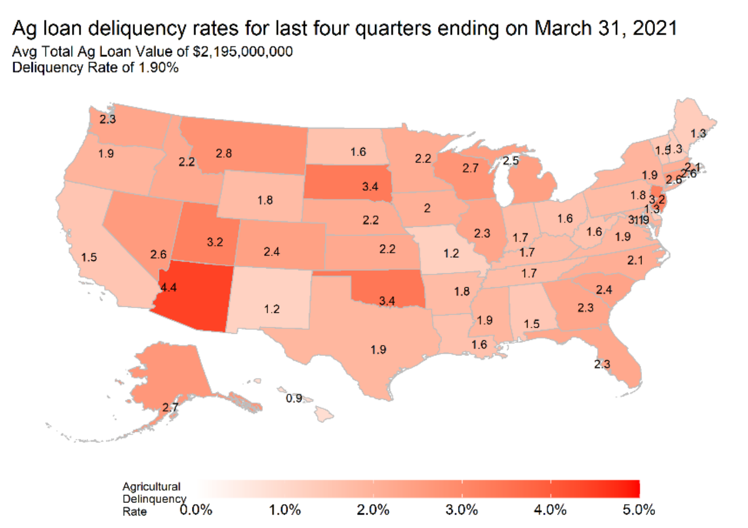

Figure 4:Map of agricultural loan delinquency rates, US

For the last four quarters, on average, the agricultural loan delinquency rate for Ohio was 1.6%. In the first quarter of 2021, the delinquent agricultural loan rate dropped to 1.5% from 1.6% of the previous quarter (Figure 4). Yet, this is slightly higher than the delinquency rate of 1.4% from the first quarter of 2020. Relative to the national level, Ohio once again maintained relatively lower agricultural loan delinquency rates and the gap widened as the US rate has increased slightly in the first quarter of 2021 (Figure 5).

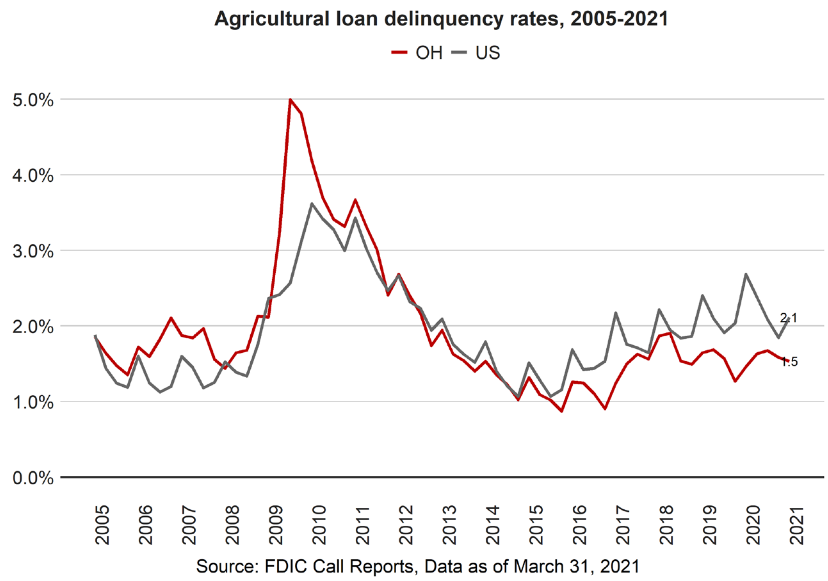

Figure 5: Agricultural loan delinquency rates, Ohio and US, 2005-2021

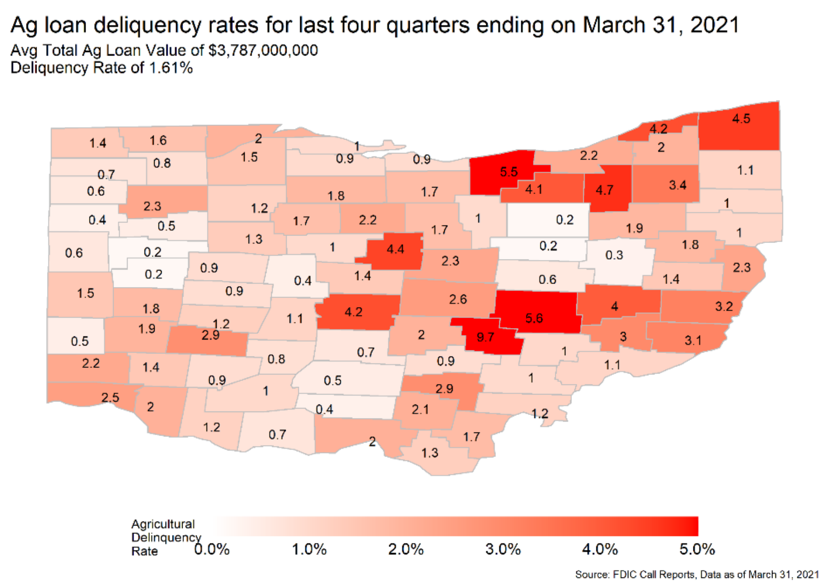

Figure 6:Map of agricultural loan delinquency rates, Ohio

While both the volume of the agricultural loan decreased and the agricultural loan delinquency rate dropped in the first quarter of 2021, it must be noted that the US agriculture experienced an increase in net farm income and net cash income in 2020 which is often attributed to the increase in government payments. A significant reduction in government payments is expected in 2021, and the uncertainty created from surging Delta Covid-19 variant and the concern for high inflation rate imposes great uncertainty in 2021 with respect to agricultural loan performance.