

# Agriculture

## AN EIGHTH DISTRICT PERSPECTIVE

Spring 1985

### Financial Stress in Agriculture: A Look at Bank Data

The incidence of financial stress in agriculture has been alleged to be a widespread phenomenon. To support this claim, analysts have cited higher rates of farm foreclosures, continuing declines in real farm income and high debt-to-asset ratios for a growing segment of medium-sized farms. They also have cited statistics on the deteriorating balance sheets of agricultural banks as another indicator that rural areas have not yet joined the economic recovery that began in late 1982. In fact, according to some analysts, the agricultural banking data is more alarming than the situation described by farm balance sheets because the failure of agricultural banks would adversely affect many rural businesses in addition to farmers.

#### Problem Banks: A Definition

The status of a bank can be assessed with a variety of measures, but our immediate interest concerns the solvency and future viability of agricultural banks. With this in mind, problem banks can be defined as those for which the value of delinquent loans exceeds the sum of total bank capital and loan loss reserves. The latter two items represent the resources of a bank to absorb loan losses. Using this comparison, if all loans currently delinquent were written off, loan losses would exceed bank equity and the banking firm would be insolvent. This definition of "problem banks" should not be confused with the technically

**Table 1**  
**Problem Banks: The United States vs. The Eighth District**

	December 31, 1984		December 31, 1983		December 31, 1982	
	Number	Percent	Number	Percent	Number	Percent
<b>U.S. Problem Banks</b>						
Rural <sup>1</sup>	374	59%	265	53%	242	48%
Urban	262	41	234	47	264	52
TOTAL	636	100%	499	100%	506	100%
<b>District Problem Banks</b>						
Rural	37	88%	31	91%	33	89%
Urban	5	12	3	9	4	11
TOTAL	42	100%	34	100%	37	100%

<sup>1</sup>Rural banks are defined as all banks not in a Metropolitan Statistical Area. Urban banks are defined as those in an MSA.

In this issue we review the most recent data on agricultural banks in the Eighth District and compare them with data for earlier time periods, non-agricultural banks and U.S. averages. We find support for the contention that the status of agricultural banks nationally has deteriorated. In contrast, however, the status of District banks has changed little in the past two years.



more complex ratings used by the three bank regulators.

Using these standards, the data in table 1 indicate 636 problem banks in the U.S. as of December 31, 1984. Of this total, 374 were rural banks, outside a Metropolitan Statistical Area (MSA); 262 were banks in urban locations. The rows of the table also show that, while the number of problem



**Table 2**  
**Problem Banks: Agricultural vs. Non-Agricultural Banks**

	<u>December 31, 1984</u>		<u>December 31, 1983</u>		<u>December 31, 1982</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<b>U.S. Problem Banks</b>						
<b>(Agricultural</b>						
<b>Loan Ratio)</b>						
Greater Than 25%	203	32%	105	21%	72	14%
Less Than 25%	433	68	394	79	434	86
TOTAL	636	100%	499	100%	506	100%
<b>District Problem Banks</b>						
<b>(Agricultural</b>						
<b>Loan Ratio)</b>						
Greater Than 25%	11	26%	12	35%	9	24%
Less Than 25%	31	74	22	65	28	76
TOTAL	42	100%	34	100%	37	100%

banks in rural areas has increased by over 54 percent since December 1982, the number of urban problem banks fell slightly.

The data for the Eighth District are revealing in that the District includes 9.7 percent of all U.S. banks, but its 42 problem banks represent only 6.6 percent of the total. Thus, on average, the status of Eighth District banks is somewhat better than that of U.S. banks as a whole. This indication that District banks are in relatively better condition is reinforced by comparing the 14 percent increase in the number of problem banks in the District to the 26 percent increase in the number of problem banks nationally. The composition of problem banks in the national and District comparisons also is revealing. The mix of problem banks in the District from rural and urban locations is essentially unchanged from two years ago whereas, nationally, rural banks have represented a sharply rising share of the problem bank group. In the District, however, a relatively larger absolute share of problem banks is found in rural locations.

## Agricultural Banks

Table 2 looks at problem banks, not in terms of location, but rather the composition of their loan portfolios. Agricultural banks are identified as those having more than 25 percent of outstanding loans in agricultural loans.

The national data again reveal a relative deterioration in the status of agricultural banks, comparable to that of rural banks. While the total number of problem banks has increased 26 percent since 1982, the number of problem agricultural banks has almost tripled. The number of problem non-agricultural banks was nearly constant over the same period.

The District data, however, again go against national trends. Although the percent of agricultural problem banks was higher than the national average two years ago, the number of problem agricultural banks has changed only from nine to 11, and the share of problem banks engaged in significant agricultural lending has remained nearly constant at 26 percent. In contrast, agricultural banks nationally have grown from 14 percent of all problem banks to 32 percent of the total in just two years.

However, several limitations in the bank data should be mentioned. For example, they do not account for the possibility that banks are turning down some farmers' loan requests. By keeping only their best farm borrowers, banks would be able to maintain low delinquency rates. Those farmers refused credit would turn to the government's "lender of last resort," the Farmers Home Administration (FmHA). To the extent this is occurring, the bank data would paint an overly optimistic picture of agriculture's financial condition. Banks also may avoid high delinquency rates by restructuring an otherwise overdue loan into a new loan.

## Conclusion

Analysts have cited agricultural banking data as evidence of a continuing recession in rural areas. While national averages do indicate a sharp increase in the number of problem banks located in rural areas or engaged in agricultural lending, conditions for Eighth District banks remain largely unchanged over the past two years.

—Michael T. Belongia and Kenneth C. Carraro

## EIGHTH DISTRICT AGRICULTURAL DATA

<b>Prices and Costs<sup>1</sup></b>	Dec. 1984	Jan. 1985	Feb. 1985	Average for 1984	Percent Change	
					Year-To-Date 1985 <sup>2</sup>	Same Period Year Ago
<b>CONSUMER PRICE INDEX (% change)</b>						
Nonfood	0.2%	0.3%	0.3%	0.3%	0.5%	0.8%
Food	0.4	0.3	0.6	0.3	0.8	2.7
<b>PRODUCTION COSTS FOR FARMERS (% change)</b>						
All inputs	0.0	0.7	0.0	-0.1	0.7	0.6
Fertilizer	-1.4	0.0	0.0	0.2	0.0	0.0
Agricultural chemicals	0.0	0.0	0.0	0.2	0.0	0.0
Fuels and energy	-1.0	-1.5	-1.5	-0.1	-3.0	1.0
<b>PRICES RECEIVED BY FARMERS (% change)</b>						
All products	-1.5	0.0	0.0	-0.3	0.0	2.9
Livestock	1.4	0.0	0.7	0.1	0.7	5.6
Crops	-3.8	0.8	-1.6	-0.7	-0.8	0.7
<b>FEEDER CATTLE</b>						
Wholesale price - Kansas City (\$/cwt.)	\$66.28	\$68.40	\$69.08	\$65.32	4.2	4.4
<b>FEEDER PIGS</b>						
Wholesale price - So. Missouri (\$/head)	\$35.58	\$44.85	\$44.02	\$39.13	23.7	57.3
<b>BROILERS</b>						
Wholesale price - 12-city (¢/lb.)	48.81¢	52.85¢	51.94¢	55.54¢	6.4	7.2
<b>TURKEYS</b>						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	97.31¢	77.24¢	65.83¢	74.44¢	-32.4	-14.3
<b>CORN</b>						
Wholesale price - No. 2, yellow - St. Louis (\$/bu.)	\$ 2.75	\$ 2.86	\$ 2.84	\$ 3.27	3.3	-4.1
<b>SOYBEANS</b>						
Wholesale price - No. 1, yellow - Central Illinois (\$/bu.)	\$ 6.07	\$ 6.04	\$ 5.97	\$ 7.15	-1.6	-5.1
<b>WHEAT</b>						
Wholesale price - No. 1, hard winter - Kansas City (\$/bu.)	\$ 3.76	\$ 3.76	\$ 3.74	\$ 3.80	-0.5	-3.6
<b>LONG-GRAIN RICE</b>						
Wholesale price - Arkansas (\$/cwt.)	\$18.08	\$18.00	\$18.00	\$18.43	-0.4	-2.1
<b>COTTON</b>						
Average price received by U.S. Farmers (¢/lb.)	55.80¢	52.10¢	47.90¢	65.47¢	-14.2	-1.8

<b>U.S. Exports</b>	Oct 1984	Nov. 1984	Dec. 1984	Average for 1983	Percent Change	
					Year-To-Date 1984 <sup>2</sup>	Same Period Year Ago
Corn (mil. bu.)	155.0	246.0	208.0	157.6	18.1%	0.9%
Soybeans (mil. bu.)	40.9	93.4	87.3	69.5	17.2	-17.3
Wheat (mil. bu.)	141.0	100.0	134.0	125.7	1.9	46.2
Rice (rough equivalent, mil. cwt.)	4.9	5.0	4.6	5.9	-9.2	20.8
Cotton (thou. bales)	307.0	507.0	660.0	459.7	-0.5	67.9

**Receipts<sup>3</sup>**

<b>CROPS (millions of dollars)</b>						
United States	\$6,013	\$6,502	\$6,539	\$5,851	20.2	-27.4
District (seven-state total)	1,078	1,345	1,269	1,277	21.7	-33.0
<b>LIVESTOCK (millions of dollars)</b>						
United States	5,698	6,156	5,874	5,771	-2.0	4.0
District (seven-state total)	932	990	934	934	-6.4	10.1



### Non Real Estate Farm Debt Outstanding

	Banks			PCAs <sup>4</sup>		
	Outstanding (\$ millions)	Percent Change		Outstanding (\$ millions)	Percent Change	
		12/83 - 12/84	12/82 - 12/84		12/83 - 12/84	12/82 - 12/84
U.S.	\$39,858	2.3%	10.3%	\$19,136	- 7.3%	- 14.0%
Eighth District <sup>5</sup>	2,833	4.0	16.6	NA	NA	NA
Arkansas	480	9.4	20.7	361	- 2.3	- 9.7
Kentucky	697	7.0	14.0	442	- 13.8	- 29.3
Missouri	1,465	- 2.4	5.5	395	- 12.3	- 16.1
Tennessee	367	3.1	5.5	396	- 15.6	- 25.8

### Agricultural Bank Loan Performance<sup>6</sup>

	Percent of Overdue Farm Loans at Agricultural Banks			Percent of Net Loan Charge-Offs at Agricultural Banks		
	12/84	12/83	12/82	12/84	12/83	12/82
	U.S.	3.7%	2.9%	2.7%	1.34%	0.94%
Eighth District <sup>5</sup>	5.0	2.9	3.2	1.13	0.83	.71
Arkansas	3.6	2.5	3.8	0.93	0.64	.57
Kentucky	3.7	3.1	2.2	0.88	0.88	.77
Missouri	5.4	3.3	3.4	1.65	1.02	.75
Tennessee	7.1	3.2	4.0	1.80	1.50	1.20

### Agricultural Production Loan Interest Rate<sup>7</sup>

	Banks		PCAs	
	2/85	2/84	1/85	1/84
Eighth District Average	12.5%	13.3%	12.9%	12.0%

<sup>1</sup> The consumer price index components are seasonally adjusted. All other data are not seasonally adjusted.

<sup>2</sup> Percent change from December of previous year, based on the most recent month available.

<sup>3</sup> Data for receipts are seasonally adjusted by this Bank.

<sup>4</sup> Source: Farm Credit Banks of Louisville and St. Louis, Farm Credit Administration.

<sup>5</sup> Includes all of AR and parts of IL, IN, KY, MO, MS and TN.

<sup>6</sup> Agricultural banks are defined as those with more than 25 percent of total loans in agricultural loans.

<sup>7</sup> Interest rate data are for different dates. PCA rates are weighted averages for Arkansas and Missouri, not adjusted for stock purchase requirements.

Source: Farm Credit Banks of St. Louis.