

Ohio Agricultural Lending Outlook: Fall 2018

Eric C. Davis, Robert Dinterman, and Ani L. Katchova

Farm Income Enhancement Program

Department of Agricultural, Environmental and Development Economics

The Ohio State University

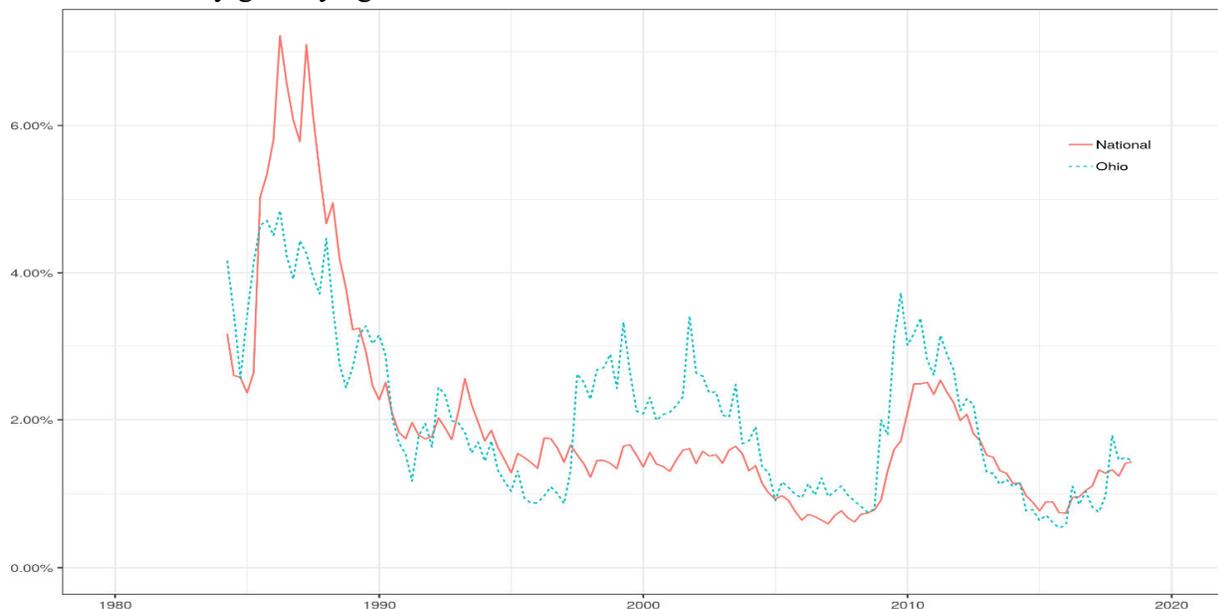
Financial stress is a problem afflicting numerous Americans. The Financial Health Institute describes it as a “result of financial and/or economic events that create anxiety, worry, or a sense of scarcity”¹. When trying to understand the level of financial stress that farmers are facing, the most tangible window through which to glimpse that condition is loan payments. By understanding whether or not farmers are able to make timely loan payments, one can know if farm income is sufficient to allow debts to be covered, and the most common way of doing this is by examining delinquency data, which is information that lending institutions report concerning the value of loans that are more than 90 days overdue.

Agricultural Delinquencies

An agricultural delinquency rate is calculated as follows:

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

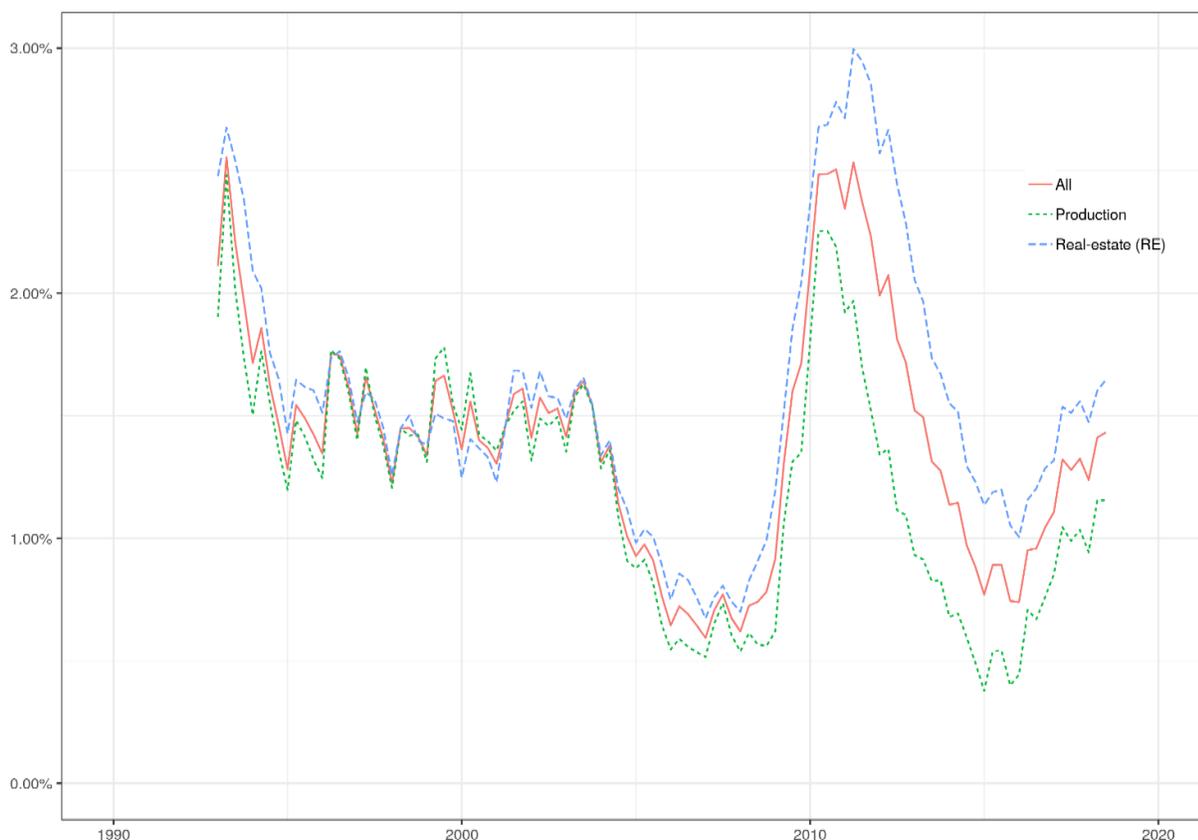
During the Farm Crisis of the 1980s, as can be seen in Figure 1 below, the national agricultural delinquency rate was above 5% for several years. Now, that rate is much lower. In fact, for the past thirty years, the delinquency rate has been less than 2.5% and for the past five years the rate has remained at or under 1.5%. These low delinquency rates are a good story when surrounded by an otherwise relatively gloomy agricultural climate of low farm incomes.



As to Ohio, Figure 1 shows that it fared better than the nation as a whole during the Farm Crisis, but more recently the financial health of Ohio farms has been worse than the national average. In particular, there have been two extended periods where delinquencies in Ohio have been far above the national average. The first period was a roughly a seven-year span bracketing the new millennium, and the second period where fortunes differed dramatically was immediately after the Financial Crisis of 2007-2008. For the past year, Ohio's agricultural delinquency rate has been above the national average again, but in the most recent data that are available, that gap has largely disappeared. Therefore, it is difficult to predict the future delinquency trajectory for Ohio.

Agricultural Loan Types

There are two types of agricultural loans: production loans and real-estate (RE) loans. Production loans are loans used to fund farm operations by enabling farmers to purchase things 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. When agricultural delinquencies are examined by loan type, clear differences emerge. Figure 2 shows that in most years RE loan delinquencies are higher than production loan delinquencies by somewhere between 0.25% and 1.5%. In the past few years, the gap has been around 0.5%.



Production Loan Delinquencies

The most recent 12 months of data between July 2017 and June 2018, displayed in Figure 3, on production loan delinquencies in Ohio reveal that no county had a delinquency rate over 7.5% and only three counties had delinquency rates over 5%. Most counties had delinquency rates of around 2.5% or less. Additionally, there no identifiable geographic pattern or clustering that would suggest a regional concentration of financial stress.

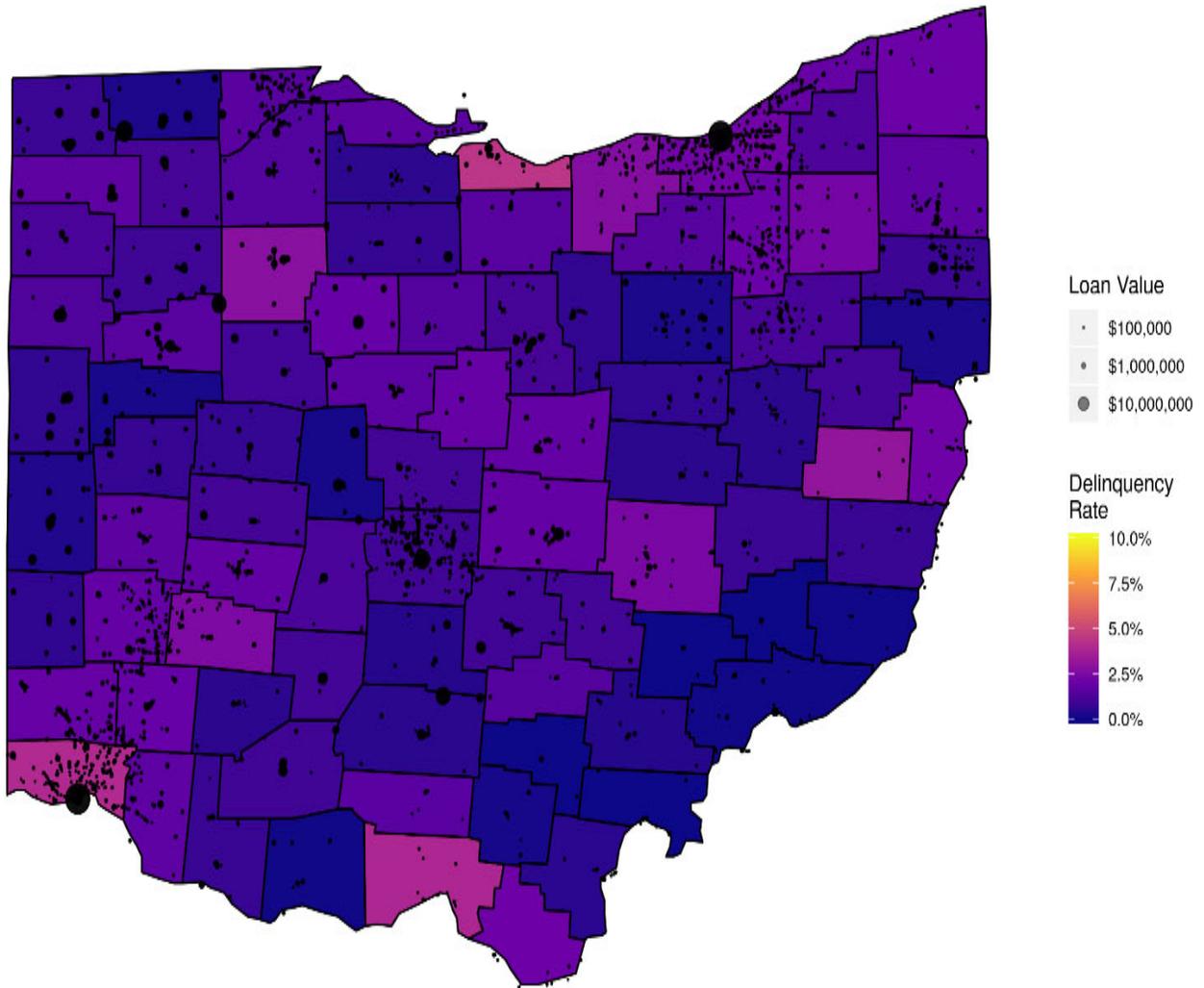


Figure 3: Ohio Agricultural Production Loan Delinquency Rates, July 2017- June 2018³

Real-Estate Loan Delinquencies

Delinquency rates for real-estate loans are far higher than those for production loans, a fact also noted in Figure 2. Particularly worrying is the fact, shown in Figure 4, that two counties in Northeastern Ohio have delinquency rates around 10% and another three nearby counties have rates around 7.5%. These higher rates suggest that greater attention needs to be placed on how, to whom, and under what terms these real-estate loans are issued.

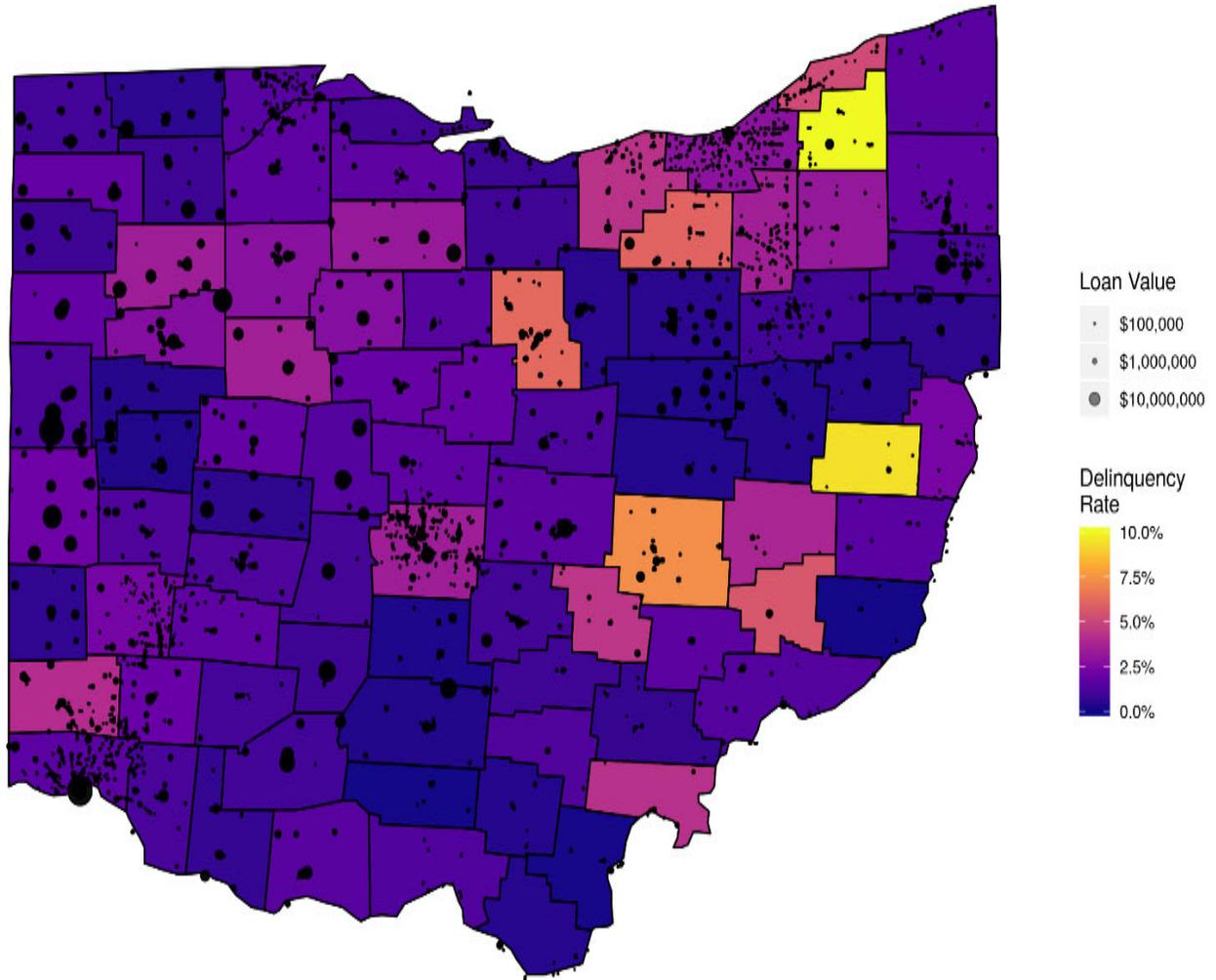


Figure 4: Ohio Agricultural Real Estate Loan Delinquency Rates, July 2017- June 2018^{2&3}

Sources: ¹Financial Health Institute: <http://www.financialhealthinstitute.com>, ²Chicago Fed: <https://www.chicagofed.org/banking>, ³FDIC: <https://www5.fdic.gov>