

Don't Bank on It

Farmers Face Significant Barriers to Credit Access During Economic Downturn



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National Family Farm Coalition

The Rural Advancement Foundation International-USA

Farm credit is the backbone of American agriculture. During the recent economic downturn, America's family farmers faced significant barriers to accessing farm credit, which endangered their economic security and the stability of rural communities and food production in America. This national survey of farm credit counselors and farm advocacy organizations demonstrates the critical, growing and overlooked gaps in credit availability for our nation's farmers at a time when they need it most.



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EXECUTIVE SUMMARY

Farmers Face Delays, Denials and Bureaucratic Roadblocks in Accessing Farm Loans

The economic downturn and Wall Street-driven banking crisis have undermined the security of all Americans. Rising unemployment, household debt and a significantly constrained credit market continue to compromise the financial health of all households and small businesses, but the impact on farmers has been widespread and largely ignored in discussions of the economic downturn.

Farmers of any scale rely on credit to keep their operations running. Most farmers take out annual operating loans to buy inputs like seeds, fertilizer and livestock in order to plant their crops and maintain their herds. Farmers who cannot access timely credit for operating loans face economic uncertainty that can threaten the viability and survival of their farms. Rising unemployment, health care costs and consumer debt loads have further endangered farm households — half of whom already rely on off-farm jobs to supplement their farm income.¹

To assess this situation, Farm Aid, Food & Water Watch, the National Family Farm Coalition and the Rural Advancement Foundation International-USA surveyed farm credit counselors and farm advocacy organizations across the country. These organizations provided direct or indirect financial counseling services to an estimated 2,700 farmers in 2010 — either seeking loans from private lending institutions or negotiating with the U.S. Department of Agriculture (USDA) Farm Service Agency. Respondents overwhelmingly reported that it has been harder for farmers to obtain loans and that farmers have faced unique credit and debt burdens during this economic downturn.

Eighty-five percent of surveyed respondents reported that farmers have had more difficulty accessing farm loans since 2009 than in previous years, more than half reporting that farmers have had significantly more difficulty accessing credit. Seventy percent of surveyed respondents reported that more farmers were being rejected for commercial farm loans than in prior years. The great majority of those surveyed (86 percent) reported that demand for Farm Service Agency (FSA) direct loans was higher since the start of 2009. FSA direct loans are generally the last resort for farmers looking to secure credit when other lenders have turned them down. The survey also found that farmers were having difficulty accessing operating loans promptly enough to keep their farms operating smoothly and that household financial issues, such as credit card debt and unemployment, undermined the financial stability of family farms.

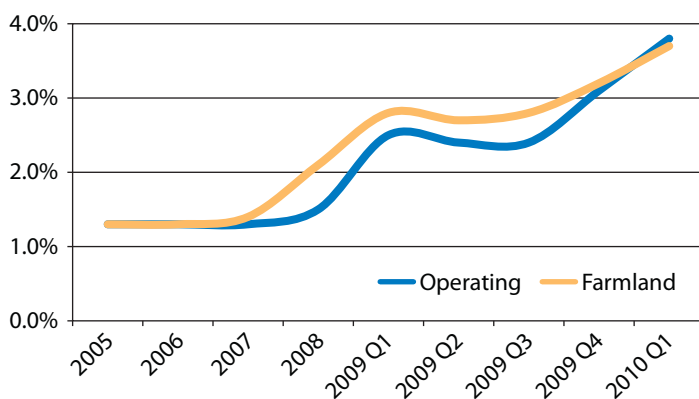
M E T H O D O L O G Y

The report surveyed 22 organizations that provide direct farm credit counseling — serving an estimated 2,700 farmers in 2010 — and interviewed an additional five farm advocacy groups that do not provide direct credit counseling to farmers. Each of the 27 farm credit counseling and farm advocacy organizations was interviewed by telephone for about one hour in July 2010 on agricultural credit conditions, credit availability and credit terms for farmers at both commercial lenders and Farm Service Agency offices. Surveyed organizations were located in 17 states, although many operate regional or national networks of credit counseling services.

Background: Farm Borrowers and Agricultural Lenders Distressed

Like the economy at large, America's farm economy struggled over the past two years. Total net farm income fell by more than a quarter (down by \$24 billion) in 2009.² Average family farm net cash income fell by 14.0 percent, from \$21,400 in 2008 to \$18,500 in 2009.³ Although farm incomes are projected to have rebounded somewhat in 2010, many farms are still in a precarious financial condition. For many farmers, especially livestock producers in the dairy and hog sectors, persistently low prices over the past few years have left their operations with costs that can far exceed their incomes. Stagnant or declining farm incomes, rising input costs and lower prices for many farm products have undermined the finances of many farms.

FIGURE 1 **Farm Loan Delinquency Rates Rise Steeply Over Past Three Years**



Source: Federal Reserve Board

Dovetailing with these trends, farm loan performance has deteriorated over the past three years as farm borrowers endured increasing financial stress. (See Figure 1.) According to the Federal Reserve Board, farm loan delinquency rates nearly tripled between 2007 and the first quarter of 2010. In 2007, about one out of 100 farmers was delinquent on operating and farmland loans (1.3 and 1.4 percent, respectively) and by the first quarter of 2010, about one in 25 farmers was delinquent (3.8 and 3.7 percent, respectively).⁴ Operating loans finance crop or livestock input expenses and farmland loans finance farm real estate. The Federal Reserve Bank of Kansas City reported that real farm debt increased by 5 percent per year between 2004 and 2008 and that a surge in financial stress among livestock producers could imperil their debt repayment capacity.⁵

Agricultural banks have also been stressed by the financial meltdown. The severe contraction in credit markets and the mortgage and consumer credit crisis, combined with the growing number of distressed farm borrowers, has eroded the financial stability of rural lenders. With more borrowers of all types behind on their loans or in default, these banks are less able to make farm loans, which can create additional hurdles for farmers applying for credit. By the third quarter of 2010, one in fifty (1.9 percent) loans of all types at agricultural banks was delinquent — higher than any level in two decades.⁶ Between 2008 and 2010, there were 15 agricultural bank failures, more than in the previous 15 years combined.⁷

Key Survey Findings

Financial woes in the agriculture sector may not match the farm crisis of the 1980s, but the condition is nonetheless serious and warrants immediate attention. The percentage of farmers who are behind on their loans has been steadily increasing for three years, as has the number of non-performing farm loans that banks have written off as not collectable. A rapidly increasing number of farmers is unable to maintain the economic viability of their operations or keep their farms solvent. Some farmers, such as dairy and hog producers, have faced an economic downturn so steep that significant portions of these farm sectors may be at risk.

Importantly, national debt and financial metrics cannot describe the difficulty farmers face at the loan window or the impact of unsustainable debt burdens on farm families. This survey aimed to measure the perceived barriers to accessing credit for farmers, the difficulty some farmers are having maintaining positive operating incomes, the impact of the financial crisis on farmers' access to credit and the need for new resources to help farmers manage in a more treacherous and complex financial landscape.

Farmers Face Increased Difficulty Accessing Credit

Four-Fifths of Respondents Reported Farmers Faced Increasing Difficulty Accessing Credit: More than four out of five (85 percent) of those surveyed reported that farmers had more difficulty accessing credit since the beginning of 2009. More than half (52 percent) reported that farmers had significantly more difficulty accessing credit; one-third (33 percent) reported that farmers found it somewhat more difficult to access credit. About one in seven (15 percent) reported that farmers had about the same difficulty accessing credit as in prior years. (See Figure 2.)

Three-Quarters Reported Barriers to Credit for 2010 Planting Season: Nearly three-quarters (74 percent) of those surveyed reported that the number of farmers that could not access credit in 2010 was higher than in recent years. One-third (33 percent) reported that the number that could not access credit was significantly higher and

FIGURE 2 Experience Accessing Farm Loans Since the Beginning of 2009

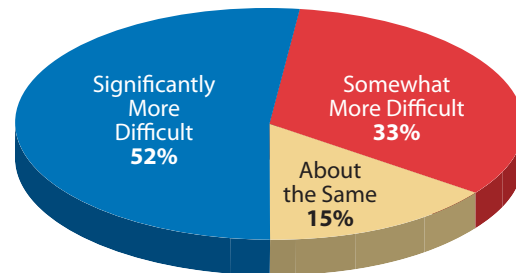
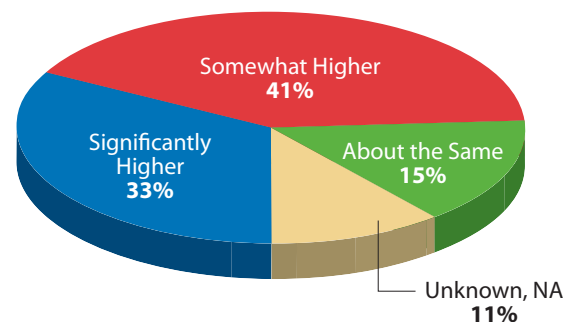


FIGURE 3 Number of Farmers Who Could Not Access Credit for 2010 Season



two-fifths (41 percent) reported that the number was somewhat higher. About one-seventh (15 percent) of those surveyed reported that the number of farmers unable to access credit in 2010 was similar to prior years. One respondent reported that many farmers were caught off-guard by the difficulty in securing operating loans in 2010, noting, "Lots of [calls] right before planting season with farmers needing money for that year. They were just told by their lending institution that they are not going to receive credit." (See Figure 3.)

Commercial Loan Rejections on the Rise

Two-Thirds Reported Increased Commercial Loan Rejections: In 2010, more farmers were being rejected for farm loans from commercial banks than in previous years. More than two-thirds (70 percent) of those surveyed reported that the number of commercial farm loan rejections was higher since the beginning of 2009. One-fifth (19 percent) of those surveyed reported that the level of loan rejections was the same as in prior years. (See Figure 4.)

FIGURE 4 **Number of Commercial Loan Rejections Since 2009**

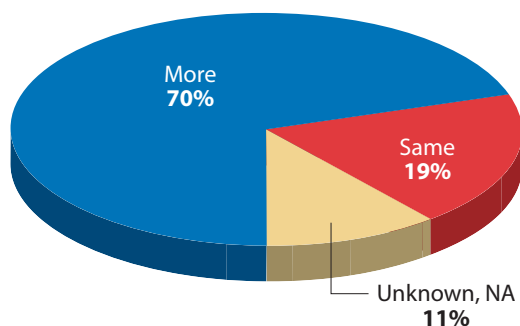
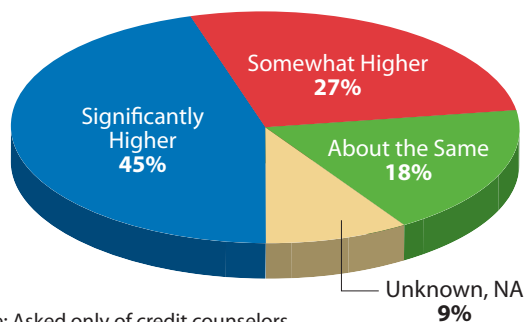
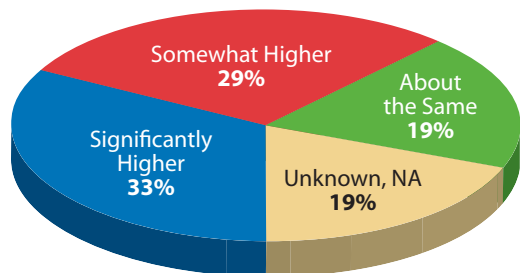


FIGURE 5 **Commercial Farm Loan Rejections Due to Cash Flow Problems Since 2009**



Note: Asked only of credit counselors

FIGURE 6 **Commercial Farm Loan Rejections Due to Household Financial Issues Since 2009**



Note: Asked only of credit counselors

Three-Quarters of Credit Counselors Reported More Rejections Due to Cash Flow Problems: Farm operations need to receive more cash earnings from sales than they pay in expenses in order to have a positive cash flow, which is generally necessary to qualify for an operating farm loan. In 2009, farm-gate prices declined steeply — especially for dairy and other livestock products — and many farm operations subsequently showed a short-term negative cash flow.

Nearly three-quarters (73 percent) of surveyed credit counselors reported that negative cash flow caused a higher number of rejected commercial loan applications since 2009. Nearly half (46 percent) reported that commercial loan rejections were significantly higher because of cash flow problems; more than a quarter (27 percent) reported that rejections were somewhat higher. About one-fifth (18 percent) reported that rejections were about the same. (See Figure 5.)

Two-Thirds of Credit Counselors Reported Rejections Due to Household Financial Problems: Farm household finances have faced the same economic stresses as other U.S. households in recent years, including unemployment, the loss of health care coverage from off-farm employment and household consumer debt. Nearly two-thirds (62 percent) of credit counselors surveyed reported that household financial difficulties increased the number of farm loan rejections. One-third (33 percent) reported that farm loan rejections due to household finances were significantly higher and more than a quarter (29 percent) reported that rejections were somewhat higher. Nearly one-fifth (19 percent) reported that rejections related to household finances remained about the same. Nearly one-fifth (19 percent) were unable to isolate the impact of household finances on loan rejections. One credit counselor reported, “Bankers I work with say their concern is not that farms are losing money, but the farm is not generating enough income for household needs and that is going to lead to financial issues.” About one-fifth of respondents volunteered that layoffs from off-farm jobs caused the financial distress that contributed to the loan denial; about two in five offered that the loss of health insurance or medical debt contributed to loan denials. (See Figure 6.)

Lenders’ Use of Credit Scores on the Rise

More than Half of Credit Counselors Reported that Credit Scores were Increasingly Used to Evaluate Farm Loans: While credit scores have been used to evaluate creditworthiness in consumer finance for a decade, the use of credit scores to evaluate farm loans is relatively new. More than half (54 percent) of loan counselors surveyed reported that credit scores were used more frequently to evaluate farm

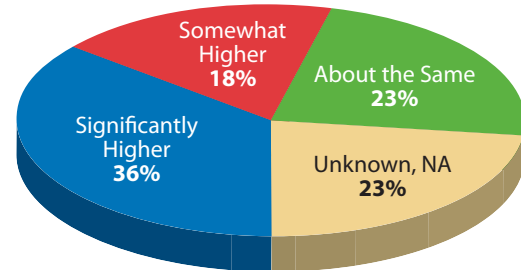
loans. More than a third (36 percent) reported that lenders were significantly more likely to use credit scores and nearly one-fifth (18 percent) reported that scores were used somewhat more frequently. One-quarter (23 percent) reported that credit score use by lenders remained the same and one-quarter (23 percent) was unable to report on the role of credit scores. One credit counselor noted, "This year is when credit scores have come into prominence, but the use of credit scores has been slowly increasing." (See Figure 7.)

Increased Farmer Demand for Credit and Loan Counseling Services

Almost All Respondents Reported Increased Demand for FSA Direct Loans: FSA direct loans are generally the last resort for farmers looking to secure credit when they have been turned down by other lenders. The great majority of those surveyed (86 percent) reported that demand for FSA direct loans was higher since the start of 2009. More than half of those surveyed (56 percent) reported that demand for FSA direct loans was significantly higher and nearly a third (30 percent) reported that demand was somewhat higher. One in fourteen respondents (7 percent) reported that demand for FSA direct loans was the same as before 2009. One respondent observed, "Everyone is going to FSA now." Desperate dairy farmers, one respondent reported, are "looking for credit and going to FSA as a last stand." (See Figure 8.)

Three-Quarters Reported Increased Demand for Farm Credit Counseling Services: In 2010, more farmers were seeking credit counseling than in 2009. Three-quarters (78 percent) of those surveyed reported that farmer demand for credit counseling services had risen since the beginning of 2009. More than half (52 percent) reported that demand for credit services was significantly higher; more than a quarter (26 percent) reported that demand was somewhat higher. Only one-twelfth (8 percent) reported that demand had been constant since before 2009; one in fourteen (7 percent) reported that demand had fallen. One respondent described the increased demand: "It took a little while to ratchet up, for people to reach out. The beginning of 2009 was really bad, but then it kept ratcheting up and up."

FIGURE 7 **Farmers Reporting Credit Scores Used to Evaluate Loan Applications**



Note: Asked only of credit counselors

FIGURE 8 **Farmer Demand for Direct FSA Loans Since 2009**

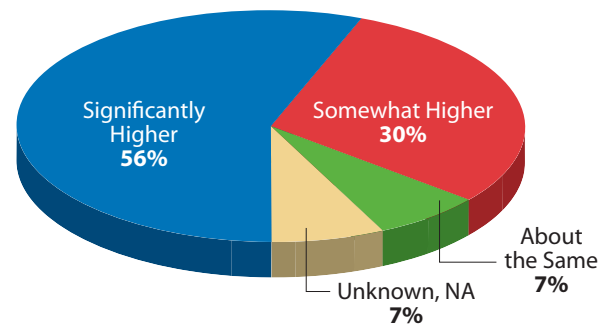
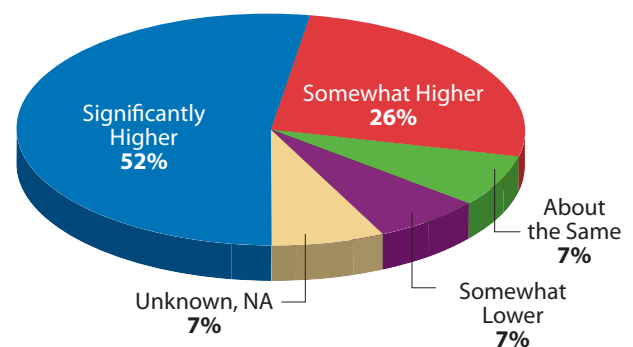


FIGURE 9 **Farmer Demand for Credit Counseling Services Since 2009**



Additionally, credit counseling has become more difficult and complex as a result of deteriorating economic conditions. One respondent noted: "The reasons people contact us are different now. In the past, people were coming in for loan applications for direct or guaranteed loans. Now, lots of farmers are coming in for debt restructuring, some have been denied by FSA and commercial loans." (See Figure 9.)

Conclusion

The country's economic downturn has undermined the security of all Americans, but the impact on farmers in particular has been widespread and largely ignored. This survey provides an assessment of the impact the economic downturn has had on farmers' credit needs and credit availability. The results highlight how the national economic and credit crises have affected agricultural lending and individual farmers. The survey found that, since 2009, farmers were having difficulty accessing farm loans, were being rejected for commercial farm loans more frequently and that demand for Farm Service Agency direct loans was higher. Household financial issues shaped by the economic landscape, such as credit card debt and unemployment, were also eroding the financial stability of family farms. These findings cast new light on the credit needs of family farmers, warrant the immediate attention of policymakers and illustrate the need for strong credit reforms.

ENDNOTES

- 1 Fernandez-Cornejo, Jorge et al. USDA Economic Research Service. "Off-Farm Income, Technology Adoption, and Farm Economic Performance." ERR-36. January 2007 at 5.
- 2 USDA Economic Research Service. Farm Income and Costs: Farm Sector Income Forecast. November 30, 2010.
- 3 USDA ERS. Farm Income and Costs: Farm Business Income. November 30, 2010.
- 4 Federal Reserve Board Release E.15(125). Table B.4. at 24 and Table B.2. at 22.
- 5 Briggeman, Brian C. Federal Reserve Bank of Kansas City. "Debt, Income and Farm Financial Stress." *The Main Street Economist*. Iss. VI. 2010.
- 6 FDIC Quarterly Banking Profile. First Quarter 2010. Charts at 59.
- 7 Federal Reserve Board. Federal Reserve Statistical Release E.15(125). Table B(9) at 29.

