2019 Farm Bank Performance Report

aba.com

American Bankers Association

2019 Farm Bank Performance Report

Key Findings

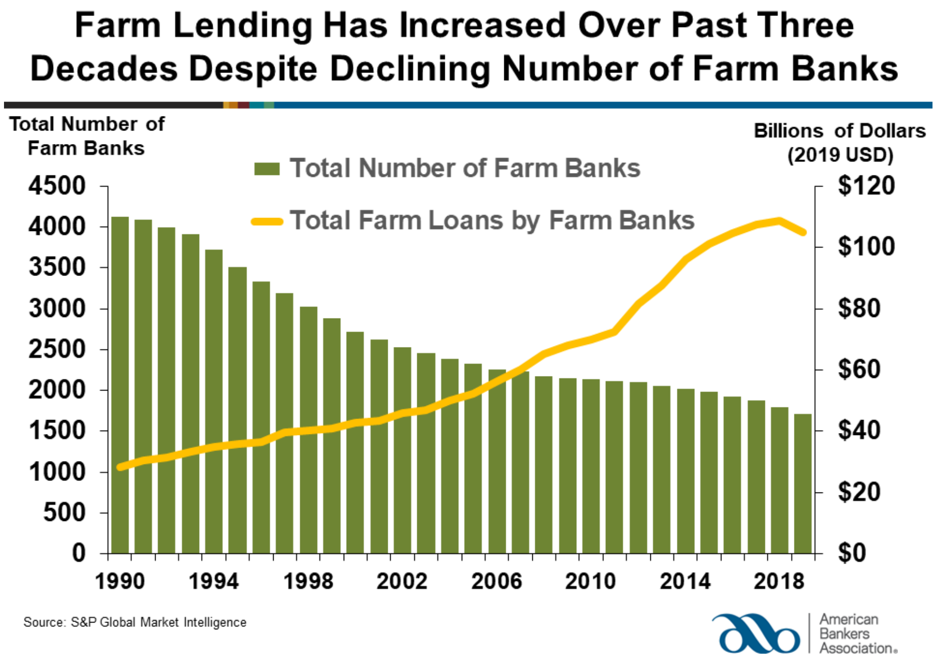
- The banking industry is the nation's most important supplier of credit to agriculture providing approximately 50% of all farm loans in the U.S.—$183 billion as of December 2019.
- Small loans continue to make up almost half of bank farm and ranch lending with $76 billion in small and micro farm and ranch loans on the books at the end of 2019.
- The nation's 1,715 farm banks recorded strong asset quality and capital levels in 2019 through serving their communities and sticking to traditional banking practices: a focus on the fundamentals of credit, solid underwriting standards and knowledge of the customer's business.
- Farm Banks have served their communities consistently for several generations. The median age of a farm bank will reach 110 years in 2020.
- Farm banks' asset quality declined in 2019 under pressure from a struggling ag economy. Noncurrent ag loans (loans 90 days or more past due or in nonaccrual status) rose to 0.84%.
- As a group, farm banks, remained well-capitalized through 2019, as these banks continued to raise equity capital levels—a more conservative form of capital.
- Farm banks in 2019 increased their farm lending by 3.6% to $105 billion.
- In 2019, these farm banks increased employment by 3.0%, adding almost 2,500 jobs, and employed 85,000 rural Americans. Since 2008, employment at farm banks has risen 28.1%.
- Over 98% of farm banks were profitable in 2019, with 63% reporting an increase in earnings.
- Farm banks are healthy, profitable, and well prepared to continue serving their customers, helping to support the ag economy as it weathers turbulence due to COVID-19 and the resulting global economic recession.

The ABA definition of "farm bank" has changed over the production of this report. In 2012, ABA made the decision to include institutions, previously excluded, with more than $1 billion in assets as these institutions grew in number and importance to our country's farmers and ranchers. In addition, due to changing reporting requirements, ABA began to include savings and loan associations in the production of this report as data became available.

Table of Contents

Performance Review

2019 Farm Bank Performance Report



The U.S. banking industry is a major provider of credit to agriculture with $183 billion in farm loans extended—approximately 50% of the total farm credit outstanding in the U.S.—as of year-end 2019.

Moreover, the U.S. banking industry is a major source of credit to small farmers. Banks reported holding over $76 billion in small farm loans with nearly $19 billion in micro farm loans at the end of 2019.[1] The number of outstanding small farm loans totaled 1.18 million with the clear majority—over 785,000 loans—under $100,000.

In 2019, the agricultural sector experienced some turbulence amid uncertainty in trade, natural disasters, and weakening farm balance sheets and land values. However, through consistently building high quality capital and careful management, farm banks remain healthy and are ready to provide support to America's farmers.

In the February 2020 Farm Income Forecast, the U.S. Department of Agriculture (USDA) forecast net farm income to increase $3.1 billion (3.3%) to $96.7 billion in 2020.

This paper examines the 2019 performance of the 1,715 banks that specialize in lending to agriculture. These farm banks[2] have 8,062 offices and employ 85,000 workers. Employment at farm banks increased by 3.0% in 2019. Since the end of 2009, employment at farm banks is up 28.1%.

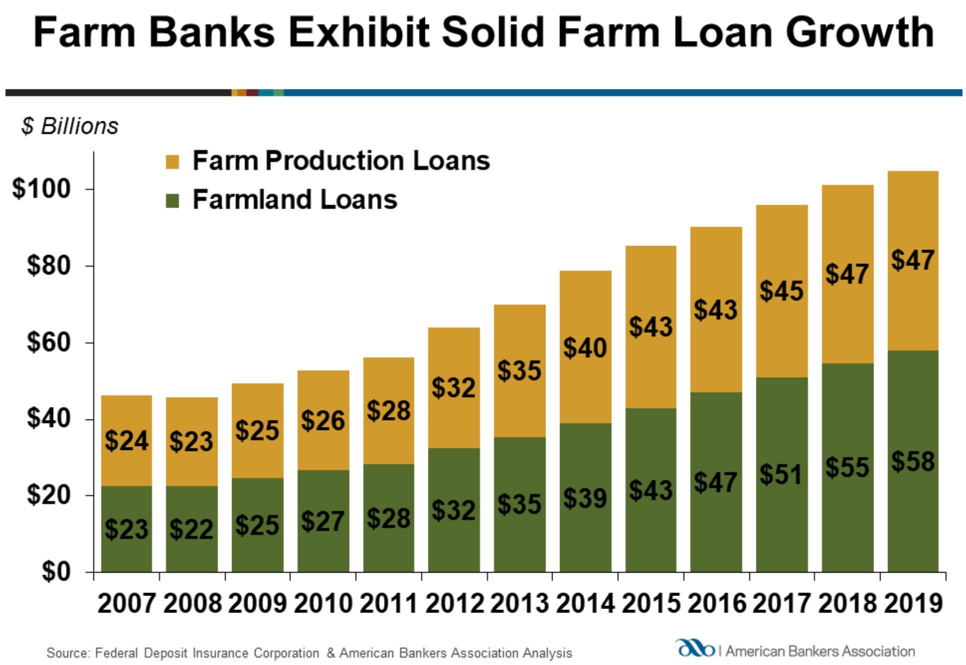
[1] A small farm loan is defined as a loan with an original value of $500,000 or less. A micro farm loan is a loan with an original value of $100,000 or less.

[2] Farm banks are defined by the American Bankers Association as banks whose ratio of domestic farm loans to total domestic loans greater than or equal to the industry average, in 2019 this was 15.54%. Studies before 2012 did not include banks with more than $1 billion in assets, nor savings and loan associations.

Most farm banks are small institutions. The median-sized farm bank had $135 million in assets. However, there were 61 farm banks with more than $1 billion in assets.

Farm Banks Grow Agricultural Loan Portfolios

The 1,715 farm banks expanded their portfolios in 2019 despite overall farm lending declining slightly due to a decline in ag production loans. Total farm loans at farm banks increased by 3.6% to $105 billion in 2019, up from $101 billion in 2018. Over one in every three dollars lent by a farm bank is an agricultural loan.



Farm real estate loans grew at a much faster rate than farm production loans. Outstanding farmland loans rose by 6.1%, or $3.3 billion, to $58.0 billion. Farm production loans grew at a modest 0.83%, or $388 million, to a total of $46.7 billion.

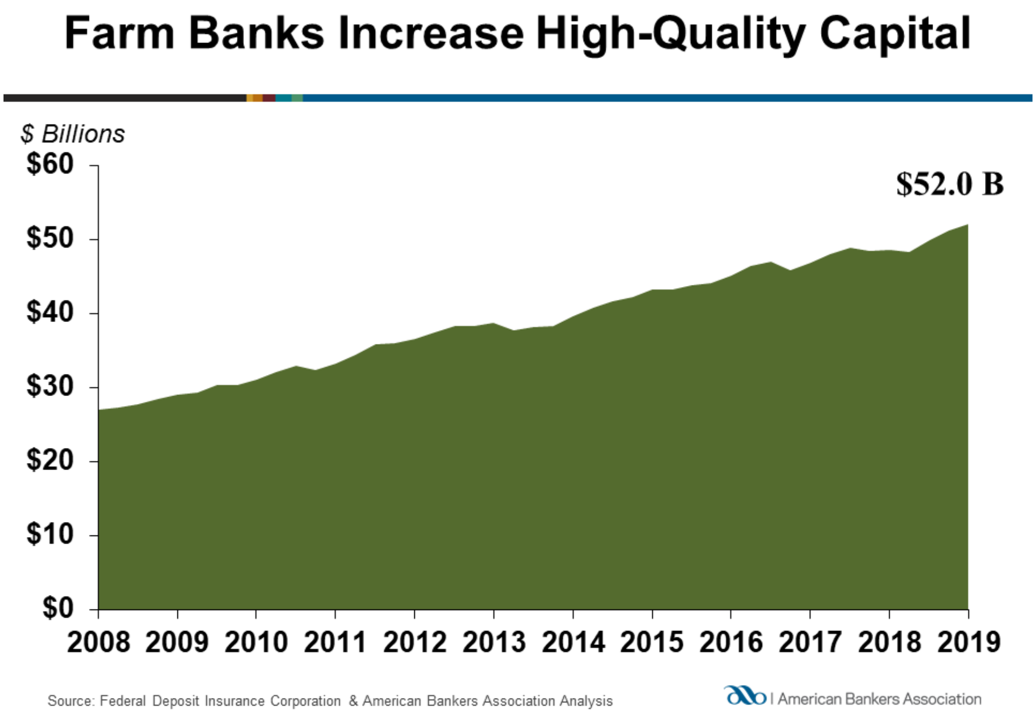
Farm banks are a major source of credit to small farmers—holding more than $49.2 billion in small farm loans with $11.8 billion in micro farm loans at the end of 2019. This represents 62.3% of all micro small farm loans in the United States. The number of outstanding small farm loans at farm banks totaled 756,344 with the clear majority—more than 483,541 loans—with origination values less than $100,000.

In addition, the overall loan portfolio for farm banks experienced solid growth in 2019 rising 5.0% to $296.1 billion—compared to overall banking industry growth of 3.6% over the year.

Deposits Grow at Farm Banks

The loan-to-deposit ratio for farm banks decreased slightly from 82.1% at the end of 2017 to 80.8% at the end of 2019. Farm banks continue to have ample ability to meet the future demand for credit for qualified farm and ranch customers. Farm banks have posted solid deposit growth over the last several years. Reflecting continued trust by their customers, farm banks held $366.6 billion in deposits in 2019. This represents year-over-year deposit growth of 6.5% or $22.5 billion.

Farm Banks Continue to Build Capital



Equity capital at farm banks increased 11.5% to $52.0 billion in 2019 while Tier 1 capital increased by $3.3 billion to $47.9 billion.[3] Since the end of 2009, farm banks have added $25.5 billion in equity capital and $24.0 billion in core capital. Farm banks have built strong high-quality capital reserves and are well-insulated from risks associated with the agricultural sector.

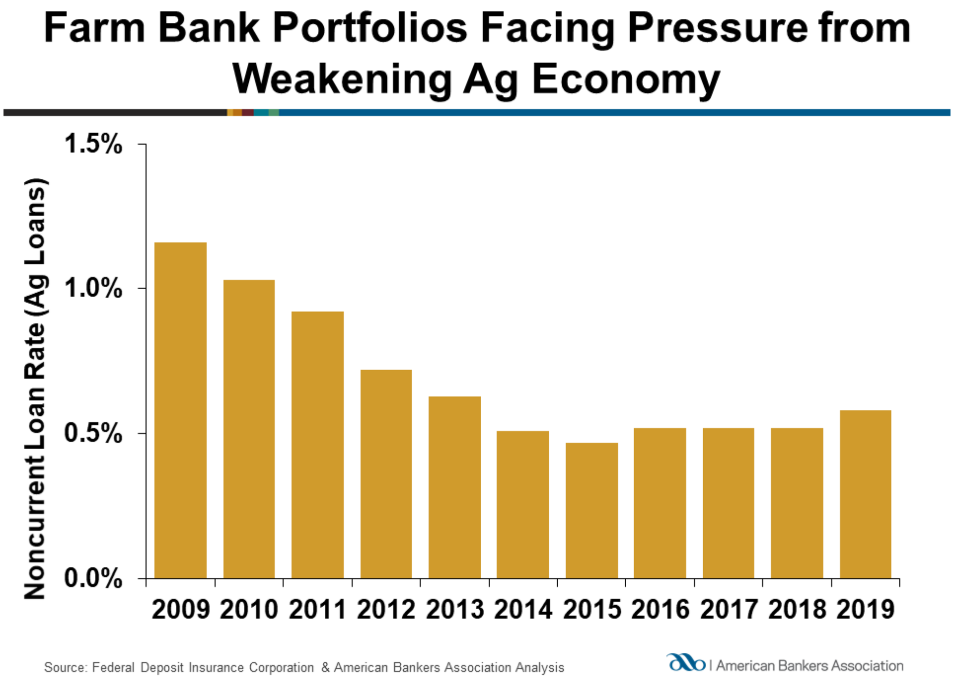
The median Tier-1 leverage ratio for farm banks rose by 6 basis points during 2019 to 11.09%; and is now 115 basis points above the leverage ratio before the recession began at the end of 2007.[4]

Healthy Asset Quality at Farm Banks

Consistent with industry trends, farm banks saw an increase in noncurrent loans during the recession. However, since the recession, farm banks have experienced improved asset quality as farmers and ranchers benefited from the strong farm economy.

[3] Equity capital is invested capital; it consists of the funds invested in a bank on a long-term basis. Such capital is obtained by issuing preferred or common stock or retaining a portion of earnings.
[4] Tier-1 leverage ratio is Tier-1 capital divided by total average assets for leverage capital purposes.

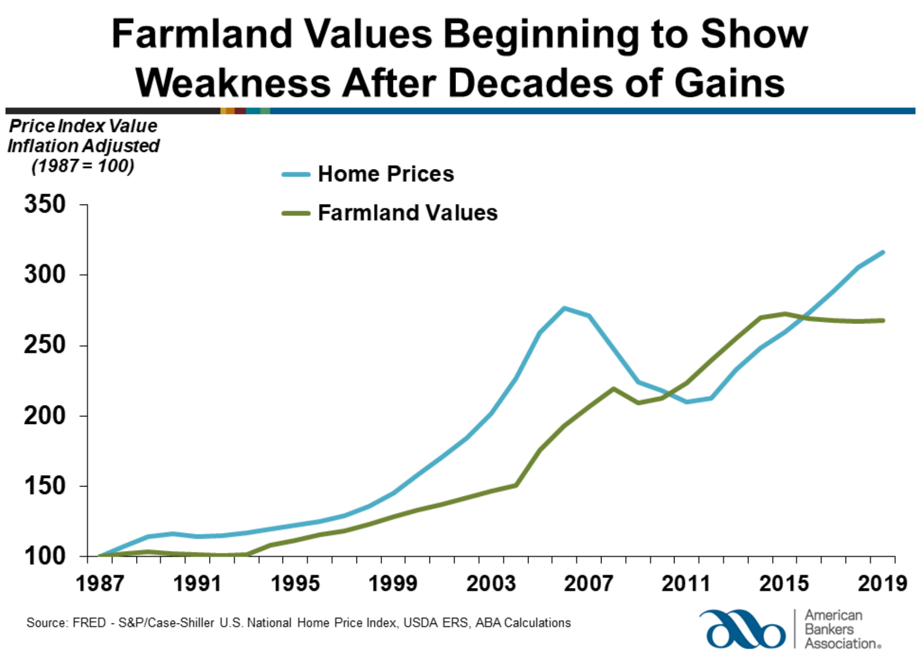
Noncurrent loans (loans 90 days or more past due and in nonaccrual status) stood at $3.1 billion at year-end 2019. The median noncurrent loan ratio held steady at 0.58%. This compares favorably to an industry noncurrent loan ratio of 0.91%.



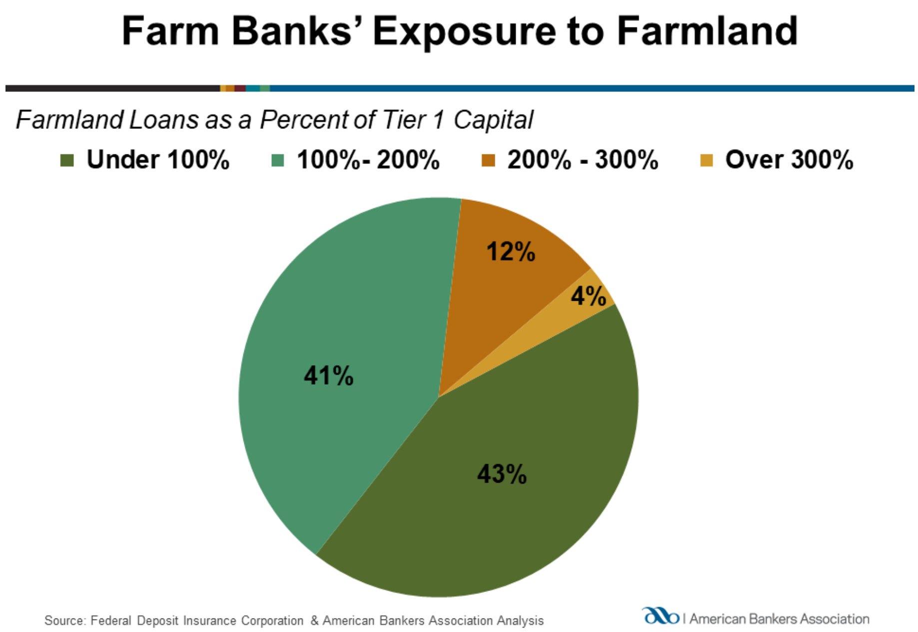
While farm and ranch customers continue to repay their loans, long-term delinquencies (90 days past due or more) rose in 2019, possibly reflecting weaker farm balance sheets and a decline in cash flow for the agricultural sector.

Farmland Values Show Weakness

An area of concern for farm bankers is farmland values. Farm real estate generally forms the significant majority – approximately 80% - of U.S. farm assets. Despite several decades of strong appreciation, farmland values across the country are experiencing some weakness. Farm banks are actively managing risks associated with agricultural lending, and underwriting standards on farm real estate loans are very conservative.



Farmland values were impacted unevenly across the country. According to the USDA ERS, Farmland values in the Cornbelt, Lake States, and Southeast all experienced farmland value declines between 2018 and 2019. However, the Southern Plains and Delta states experienced modest gains and Pacific states have continued an extremely robust trend of appreciation, on average gaining 14.5% in value for the past year. However, for the ABA and Farmer Mac Agricultural Lender Survey report, 2019 was the first year that all the forward looking-land value indices dropped below 100, indicating growing expectations of declines in farmland values. Thirty-five percent of lenders expected land values to decline with all regions in the double digits. Additionally, lenders indicated expectations of continued pressure on farm profitability, with many lenders noting growing expenses and 74% of lenders indicating that credit quality and ag loan deterioration are among the top concerns they are facing headed into 2020.



Over the last several years, farmland loans at farm banks have represented around half of total farm loans. In 2019, very few farm banks were overly concentrated in farm real estate loans relative to Tier 1 capital. Most farm banks had a farmland concentration ratio of under 200%—a level that has not raised supervisory concerns.

Farm Banks Post Solid Earnings

Farm banks posted solid earnings in 2019, reporting total net income of $5.7 billion, rising 7.1% from one year prior. Ninety-eight percent of all farm banks were profitable in 2019, with 63% reporting an increase in earnings compared to a year earlier.

Net interest income at farm banks rose during 2019 by 5.6% to $15.2 billion. Noninterest income at farm banks also rose over the year, by 7.4% to $3.0 billion. In comparison, net interest income for the entire banking industry rose by only 1.1% and noninterest income fell by 0.6% over the same timeframe.

Interest expenses rose during 2019 by 42% to $3.6 billion, while noninterest expenses rose 6.1% to $11.1 billion. In comparison, interest expenses for the entire banking industry rose 33% and noninterest expenses rose 1.4% over the same timeframe. Salary and employee benefits at farm banks grew by 6.5% to $6.6 billion. Salaries and employee benefits represented 59% of all noninterest expenses in 2019.

The median return on average assets (ROA) for farm banks held steady at 1.10% in 2019. However, more than two-fifths of all farm banks had a ROA in 2019 of more than 1.57%—above pre-recession levels.

Coronavirus Aid, Relief & Economic Security (CARES) Act

On March 27, the Coronavirus Aid, Relief & Economic Security (CARES) Act was signed into law by President Trump. Included in the CARES Act is the establishment of the Paycheck Protection Program (PPP) and a significant expansion of SBA lending, authorizing $350 billion in 100% guaranteed 7(a) loans to cover payroll costs, interest on mortgage payments, rent obligations, and utilities for small businesses. Additionally, the act includes significant government backed Treasury and Federal Reserve lending packages totaling $500 billion. Among the bank specific provisions are a provision allowing Treasury to designate depository institutions as “Financial Agents of the Secretary” – allowing banks to serve as servicers, for compensation, for these loans. Additionally, the act also includes TDR relief, a debt guarantee program, a CECL delay, reduced the required community bank leverage ratio to 8%, and reporting requirements for credit furnishers who offer forbearance, payment deferrals, or other assistance to consumers affected by COVID-19.

Specific to the agricultural sector is the provision of $14 billion for the Commodity Credit Corporation and $9.5 billion for additional assistance to producers. The funds provided for the Commodity Credit Corporation and additional assistance will be used by agricultural customers to prevent funding shortfalls. This will allow banks to help customers through cash flow issues.

Outlook for 2020—Continued Headwinds in the Farm Economy

According to the 2020 USDA Farm Sector Income Forecast last updated February 5, 2020, farm sector profitability was forecasted to increase in 2020. The USDA forecasted net farm income in 2020 of $96.7 billion.[5] This would indicate a rise of 3.3% from the previous year but represents a decline of 22% from the peak of net farm income in 2013 at $123.7 billion. Net cash farm income in 2020 is forecasted to be $109.6 billion.[6] This is a decline of 13.1% from 2019. In inflation adjusted dollars, net farm income is forecasted to rise 1.4% and net cash farm income to fall by 10.7%.

Overall, the USDA forecasted all cash receipts to rise $10.1 billion (2.7%) to $384.4 billion in 2020. Animal and animal product receipts were projected to rise by 4.6% with growth receipts expected for hogs, milk, cattle/calves, and poultry/eggs. The USDA forecasted crop cash receipts to rise 1.0% or $1.9 billion to $198.6 billion in 2020. However, when adjusted for inflation, crop receipts were forecasted to decline $1.7 billion or (0.9%). Hay, corn, fruits and nuts were forecast to see growth in cash receipts in 2020 but this growth is offset by declines in receipts for soybeans, vegetables, and melons.

However, due to the global pandemic, agricultural producers have noted a significant decline in demand driven by a higher savings rate and closed restaurants and schools. As a result,

---

[5] Net farm income reflects a broader measure of profitability as it includes noncash values such as inventory flows, economic depreciation and gross imputed rental income.
[6] Net cash farm income reflects all cash receipts from farming and farm-related income, minus cash expenses.

agricultural commodity prices are coming under pressure, causing futures prices to experience declines. Supply chain disruptions have caused further production cuts in many ag sectors, with weekly-federally-inspected-beef-production falling 32% from its peak in March through April 25. It is likely that government assistance will help supplement much of the resulting hits to farm balance sheets. To prevent food insecurity and further support farmers, the USDA is authorized to spend $3 billion on hunger relief during the pandemic. As lockdown and the virus persists, pressure will continue to weigh on the agricultural sector in 2020.

Northeast:

CT, DC, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VT

Northeast	Median	Top 25%	Bottom 25%
Number of Full-Time Employees	59	125	49
Total Assets ($ in Mil)	$449.2	$1,013.7	$297.0
Total Loans & Leases ($ in Mil)	$334.0	$664.9	$195.8
Total Deposits ($ in Mil)	$376.1	$844.3	$250.3
Tier 1 Common Equity Risk-Based Capital Ratio	13.51%	19.59%	12.32%
Tier 1 Leverage Ratio	10.15%	11.83%	9.36%
Return on Average Assets	0.96%	1.22%	0.86%
Return on Average Equity	9.45%	10.98%	6.64%
Net Interest Margin	3.43%	3.62%	3.11%
Total Interest Expense/Average Assets	0.91%	0.64%	1.14%
Total Interest Income/Average Assets	4.10%	4.31%	3.83%
Total Noninterest Income/Average Assets	0.38%	0.57%	0.25%
Efficiency Ratio	61.23%	52.78%	68.14%
Noncurrent Loans*/Total Loans	0.82%	0.37%	2.00%
Net Charge-Offs/Average Loans	0.01%	-0.02%	0.11%
Loan Loss Reserves/Gross Loans	1.19%	1.26%	0.93%
Farmland Loans/Total Loans & Leases	21.51%	28.29%	16.67%
Agricultural Production Loans/Total Loans & Leases	3.90%	6.03%	2.14%

* Noncurrent loans are defined as past 90 days due and loans in nonaccrual status.

The 12 farm banks in the Northeast region reported a 6.81% increase in farm loans from a year ago, rising to $1.4 billion. Agricultural production loans rose 4.12% from a year ago to $262 million, while farmland loans increased 7.45% to $1.14 billion.

Farm bank profitability declined slightly in 2019. The median return on assets fell to 0.96% from 1.11%, while the median return on equity fell slightly to 9.45%. The median Tier 1 risk-based capital ratio for farm banks in the Northeast region was 13.51%. Northeast farm banks employed 1,150 full-time employees in 2019.

South:

AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV

South	Median	Top 25%	Bottom 25%
Number of Full-Time Employees	40	73	23
Total Assets ($ in Mil)	$163.5	$309.4	$95.0
Total Loans & Leases ($ in Mil)	$107.3	$204.4	$55.5
Total Deposits ($ in Mil)	$136.8	$272.3	$81.1
Tier 1 Common Equity Risk-Based Capital Ratio	16.52%	19.91%	14.00%
Tier 1 Leverage Ratio	11.36%	12.90%	9.86%
Return on Average Assets	1.10%	1.43%	0.71%
Return on Average Equity	9.51%	12.62%	5.66%
Net Interest Margin	4.05%	4.41%	3.64%
Total Interest Expense/Average Assets	0.80%	0.57%	1.09%
Total Interest Income/Average Assets	4.57%	5.13%	4.18%
Total Noninterest Income/Average Assets	0.61%	0.90%	0.40%
Efficiency Ratio	67.47%	59.98%	77.67%
Noncurrent Loans*/Total Loans	0.98%	0.42%	1.77%
Net Charge-Offs/Average Loans	0.12%	0.02%	0.39%
Loan Loss Reserves/Gross Loans	1.33%	1.60%	1.05%
Farmland Loans/Total Loans & Leases	16.96%	24.24%	13.14%
Agricultural Production Loans/Total Loans & Leases	6.29%	11.71%	2.98%

* Noncurrent loans are defined as past 90 days due and loans in nonaccrual status.

The 174 farm banks in the South region increased farm loans by 5.01%, or $404 million, from a year ago rising to $8.5 billion in 2019. Agricultural production loans rose by 2.35% from a year ago, to $2.3 billion, while farmland loans rose by 6.1% to $6.1 billion.

Farm banks in the South remained very profitable in 2019. The median return on assets rose to 1.1%, with the top quartile of farm banks boasting a return on average assets (ROAA) of 1.43%. The median return on equity fell slightly to 9.51%. The region's farm banks' median Tier 1 risk-based capital ratio was 16.52%, representing healthy banks in the region. Farm banks in the South region employ 11,262 men and women, an increase of 4.38% from the previous year.

Cornbelt:

IA, IL, IN, MI, MN, MO, OH, WI

Cornbelt	Median	Top 25%	Bottom 25%
Number of Full-Time Employees	26	50	14
Total Assets ($ in Mil)	$136.7	$260.6	$71.6
Total Loans & Leases ($ in Mil)	$88.6	$175.1	$44.0
Total Deposits ($ in Mil)	$114.1	$219.3	$60.7
Tier 1 Common Equity Risk-Based Capital Ratio	15.65%	19.90%	12.92%
Tier 1 Leverage Ratio	11.08%	12.83%	9.73%
Return on Average Assets	1.10%	1.45%	0.70%
Return on Average Equity	9.10%	12.80%	5.61%
Net Interest Margin	3.63%	4.01%	3.27%
Total Interest Expense/Average Assets	0.75%	0.56%	0.98%
Total Interest Income/Average Assets	4.22%	4.57%	3.83%
Total Noninterest Income/Average Assets	0.43%	0.66%	0.27%
Efficiency Ratio	65.41%	57.31%	74.08%
Noncurrent Loans*/Total Loans	0.59%	0.17%	1.35%
Net Charge-Offs/Average Loans	0.02%	0.00%	0.16%
Loan Loss Reserves/Gross Loans	1.24%	1.53%	1.02%
Farmland Loans/Total Loans & Leases	21.41%	29.59%	15.63%
Agricultural Production Loans/Total Loans & Leases	14.48%	23.55%	8.39%

* Noncurrent loans are defined as past 90 days due and loans in nonaccrual status.

The 821 farm banks in the Cornbelt region increased farm loans by 3.49%, or $1.6 billion, from a year ago to $48.4 billion in 2019. Agricultural production loans fell slightly by 0.13% from a year ago to $21.2 billion, while farmland loans increased 6.49% to $27.3 billion.

Farm banks in the Cornbelt region maintained profitability in 2019. The median return on equity was 9.09%, while the median return on assets held at 1.1% with the top quartile reporting an return on average assets of 1.45%. The region’s median Tier 1 risk-based capital ratio rose to 15.6%. Farm banks in the Cornbelt region employ 35,673 men and women, a 3.01% increase compared to 2018 employment levels.

Plains:

CO, KS, ND, NE, NM, OK, SD, TX

Plains

	Median	Top 25%	Bottom 25%
Number of Full-Time Employees	24	46	12
Total Assets ($ in Mil)	$120.3	$257.1	$59.5
Total Loans & Leases ($ in Mil)	$71.2	$162.9	$32.2
Total Deposits ($ in Mil)	$104.1	$212.7	$49.7
Tier 1 Common Equity Risk-Based Capital Ratio	16.27%	20.84%	13.28%
Tier 1 Leverage Ratio	11.15%	13.18%	9.83%
Return on Average Assets	1.08%	1.47%	0.66%
Return on Average Equity	9.12%	12.60%	4.98%
Net Interest Margin	3.82%	4.20%	3.40%
Total Interest Expense/Average Assets	0.74%	0.50%	0.98%
Total Interest Income/Average Assets	4.37%	4.79%	3.93%
Total Noninterest Income/Average Assets	0.43%	0.74%	0.27%
Efficiency Ratio	67.37%	58.07%	77.09%
Noncurrent Loans*/Total Loans	0.44%	0.06%	1.18%
Net Charge-Offs/Average Loans	0.01%	-0.01%	0.18%
Loan Loss Reserves/Gross Loans	1.39%	1.79%	1.15%
Farmland Loans/Total Loans & Leases	18.90%	27.70%	12.14%
Agricultural Production Loans/Total Loans & Leases	22.13%	36.77%	12.42%

* Noncurrent loans are defined as past 90 days due and loans in nonaccrual status.

The 654 farm banks in the Plains region increased their farm loans by 3.13%, or $1.2 billion, from a year ago to more than $41.1 billion in 2019. Agricultural production loans rose 1.0% from a year ago to $20.9 billion, while farmland loans increased 5.43% to $20.2 billion.

Farm banks in the Plains experienced a slight decline in profitability in 2019. The median return on assets fell slightly to 1.08%, while the median return on equity fell to 9.12%. The region's farm banks had a median Tier 1 risk-based capital ratio of 16.3% – an increase from the previous year. Farm banks in the Plains region employ almost 32,000 men and women, an increase of 2.6% compared to 2018.

West:

AK, AZ, CA, HI, ID, MT, NV, OR, UT, WA, WY

West	Median	Top 25%	Bottom 25%
Number of Full-Time Employees	52	109	18
Total Assets ($ in Mil)	$200.2	$552.4	$93.2
Total Loans & Leases ($ in Mil)	$114.4	$354.1	$55.5
Total Deposits ($ in Mil)	$176.4	$487.4	$79.9
Tier 1 Common Equity Risk-Based Capital Ratio	15.77%	18.81%	13.09%
Tier 1 Leverage Ratio	10.57%	12.29%	9.60%
Return on Average Assets	1.20%	1.64%	0.76%
Return on Average Equity	11.19%	14.24%	7.34%
Net Interest Margin	4.01%	4.56%	3.68%
Total Interest Expense/Average Assets	0.53%	0.77%	0.28%
Total Interest Income/Average Assets	4.31%	4.87%	3.99%
Total Noninterest Income/Average Assets	0.46%	0.70%	0.27%
Efficiency Ratio	59.17%	52.21%	73.65%
Noncurrent Loans*/Total Loans	0.83%	0.17%	2.12%
Net Charge-Offs/Average Loans	0.00%	0.00%	0.26%
Loan Loss Reserves/Gross Loans	1.66%	1.90%	1.34%
Farmland Loans/Total Loans & Leases	14.63%	24.65%	11.53%
Agricultural Production Loans/Total Loans & Leases	15.56%	26.27%	10.22%

* Noncurrent loans are defined as past 90 days due and loans in nonaccrual status.

The 54 farm banks in the West region increased farm loans by 6.29%, or $333 million, from a year ago to $5.6 billion in 2019[7]. Agricultural production loans rose 6.55% from a year ago to $2.4 billion, while farmland loans increased 6.1% to $3.2 billion.

Farm banks in the West remained very profitable in 2019. The median return on equity fell slightly to 11.19% and return on assets dipped to 1.2%. The median Tier 1 risk-based capital ratio for farm banks in the West region was 15.8%. Farm banks in the West region employ more than 4,700 men and women, up 2.78% from the previous year.

[7] This number may vary significantly from prior years due to M&A activity

ABA's Agricultural & Rural Banking Resources

ABA's Agricultural Banking Experts

Ed Elfmann, Senior Vice President, Agriculture and Rural Banking Policy

Hugo Dante, Economic Research Associate, Economic Policy & Research

Tyler Mondres, Senior Manager, Economic Policy & Research

Sarah Grano, Vice President, Public Relations

Carrie Clark, Senior Publications Manager, Ag Newsbytes

Cynthia Hall Watkins, Senior Director, Member Engagement

Barbara McCoy, Senior Meeting Coordinator, Member Engagement

Resources for Agricultural Banks

ABA Ag Banker Quarterly

Agricultural Banks Performance Scorecard

ABA and Farmer Mac Agricultural Lender Survey Report

Introduction to Agricultural Lending Facilitated Course

Farmer Mac Alliance

American Bankers Association®