BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Financial Condition Of American Agriculture

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and
The Speaker of the House of Representatives

Concern about the financial condition of American agriculture has heightened in recent weeks as a result of public reports that the Farm Credit System may need federal aid. Several months ago, GAO began to review the condition of farmers and their lenders. To provide the Congress with our analysis of the financial situation, we have already briefed numerous Members and staff of the Congress and, during the week of September 30, aired a videotape over the congressional closed-circuit broadcasting system. This report supplements the briefings and videotape with more detailed information on the financial condition of American agriculture.

This report contains our analysis of the nature and causes of agriculture's problems. We provide information on trends in the economic environment surrounding the farm sector, the farmers' financial condition, and the performance of financial institutions serving agriculture. In the future, we will continue to monitor the financial condition of American agriculture, evaluate existing federal farm credit programs, and analyze alternative government policies in the farm finance area.

Our analysis to date indicates that the financial condition of farmers and their lenders has deteriorated rapidly since 1980 and that financial stress continues to grow. While farm financial problems are nation-wide, they have been most severe in the grain and red meat producing areas of the Midwest that have been hurt by declining grain exports and a drop in meat consumption.

U.S agriculture is critically affected by world and U.S. economic conditions. American agriculture has traditionally produced a surplus and since the early 1970's it has relied heavily on foreign customers for sales. Important factors that affect the volume of agricultural trade are (1) world income growth, which determines the amount of money available to buy U.S products; (2) the relative value of the U.S. dollar versus other currencies, which affects the competitiveness of U.S. farm products; and (3) foreign supply and trade policies. Federal monetary and fiscal policies ultimately affect export volume, because they influence inflation, interest rates, and economic growth that directly affects the dollar's value in international

markets. Agriculture is also greatly affected by farm policy--including crop price supports, dairy subsidies, research efforts, and many others--and credit policy--including regulation of commercial banks and the Farm Credit System, and the programs of the Farmers Home Administration (FmHA). We looked into how these policies and conditions influence the farm sector both individually and in concert.

THE ECONOMIC ENVIRONMENT

Changes in the financial condition of agriculture during the 1970's and 1980's can be linked to changes in the world and domestic economies. During the 1970's, agriculture experienced increasing sales and rising asset values. The boom was fueled by the opening of the Russian grain market, rapid economic growth in other countries, which generated more income to buy American products, and a weak dollar, which made U.S. products relatively inexpensive. These factors resulted in exports rising from about $7 billion in 1970 to a peak of $43.8 billion in 1981. When low real (inflation-adjusted) interest rates made credit cheap, inflation boosted the value of farm assets, and commodity prices remained relatively high, farmers became optimistic and borrowed to expand and produce for an apparently insatiable market.

The 1980's brought a reversal in those economic forces that had led agriculture to rapid expansion. On the international level, the U.S. embargoed grain sales to Russia, foreign economic growth waned, and debt problems restricted other nations' abilities to buy U.S. food products. At the same time, the dollar strengthened, making U.S. agricultural products relatively more costly and encouraging foreign countries to expand production. As a result, U.S. exports declined from the 1981 peak of $43.8 billion to an estimated $32 billion in 1985. Domestically, real interest rates rose to unprecedented highs, inflation slowed, and real commodity prices moved lower. The harsh realities of the 1980's have made it difficult for many farmers who incurred debts based on the high expectations of the 1970's to repay those debts.

THE FARM SECTOR

As discussed above, the farm sector has suffered a high degree of financial stress during the 1980's. Gross income increased by over $100 billion from 1970 to 1984, but net farm income remained fairly level. Much of the gross income has been absorbed by expenses related to land and equipment financed at high interest rates. Farm wealth increased in the 1970's only to fall dramatically in the 1980's. Between 1970 and 1981, farm real estate values rose from $216 billion to $844 billion. Farmers bought land at real interest rates that were near and sometimes below zero in anticipation of rapid appreciation. When interest rates rose and crop prices fell, the balloon burst, and in 1981 farm assets--primarily real estate--began to decline in value.

Farm real estate values declined 19 percent nationally from their 1981 peak of $844 billion to $690 billion in April 1985. In some midwestern areas, land values declined almost 50 percent.

Farmers' debt expansion during the boom years has taken its toll on the farm sector in the face of reduced exports and declining asset values. Total farm debt increased from $53 billion in 1970 to $202 billion in 1981. As gross income leveled off and real interest rates rose in the 1980's, farmers' abilities to meet their debt payments began to deteriorate. Borrowing against declining asset values became more difficult, and farm sector stress intensified. The Department of Agriculture has estimated that of the 636,000 commercial-size farms, 31,000 are insolvent; that is, their debts exceed assets. A total of 197,000 farms are financially stressed; that is, their debt/asset ratios exceed a level (40 percent) where most farms can be profitable. There is some geographical concentration, with 60 percent of financially-stressed farms located in just 12 midwestern states.

The financial problems of farmers have wide-ranging effects. A study by the Food and Agricultural Policy Research Institute and Wharton Economic Forecasting Associates found that farm loan losses of $20 billion to $25 billion in the 9 years from 1985 through 1993 could cause[1]

--between 175,000 and 275,000 lost jobs,

--total (real) Gross National Product (GNP) reductions of $30 billion to $50 billion in 1985 dollars,

--a $14 billion to $22 billion higher federal deficit because of lower tax receipts and higher income maintenance expenditures,

--an increase of 75 to 125 basis points[2] in interest rates for all short-term debt because of perceptions of higher risk,

--an additional risk premium of 40 to 50 basis points for agricultural loans,

--lower business investment of $24 billion to $38 billion, and

--a 115,000 to 189,000 unit decline in housing starts.

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[1]USDA analysts believe these projections are high by a factor of 2.

[2]1/100th of a percent.

The depressed condition of farm construction and machinery firms is estimated by Iowa State University to have caused losses of $26.2 billion in output, 327,000 jobs, and $6.4 billion in personal income from 1977 to 1984.

Agricultural experts told us that the agricultural situation can be expected to continue deteriorating until farm production costs have fallen low enough so that they are commensurate with sustainable levels of farm income. Also, they believe that the favorable economic forces of the 1970's will not recur to provide significant relief to the farm sector in the near future.

THE FINANCE SECTOR

Lenders that have a high concentration of their loan portfolios in agriculture are vulnerable when farm financial conditions deteriorate. They began exhibiting financial problems in 1982, shortly after the onset of stress in the farm sector.

We focused our study on the three largest institutional lenders to ascertain trends in their financial condition. These institutions--the Farm Credit System, commercial banks, and the Farmers Home Administration--hold about two-thirds of the $212 billion of farm debt. All three credit sources have experienced varying degrees of financial stress, depending on their concentration in farm loans, the financial condition of borrowers, and location. The federal government ultimately covers losses through federal deposit insurance for commercial banks and appropriations for FmHA and has been called on for a financial rescue of the Farm Credit System.

Farm Credit System

Thirty-two percent of farm debt is held by the Farm Credit System, a federally chartered and regulated private network of institutions serving only agriculture. Financial stress is evident throughout the system of 36 regional banks and about 800 local institutions. The net income of the system declined to $441.6 million in 1984 from a peak of $993.9 million in 1982, and the system is projecting a substantial overall loss in 1985. While the federal government does not fund the system, there is some public perception that the government backs the system's debt. This perception is referred to as "agency status." Although the government is not legally bound to back the debt, if the system's financial condition worsens the government may decide to provide financial help.

One key indicator of the future health of a financial institution is the percent of nonperforming loans it holds. (Nonperforming loans are generally those that are at least 90 days past due.) As of June 30, 1985, nonperforming loans at the Farm Credit System's institutions that make loans to individual farmers

were 11 percent of their portfolios. Under current financial trends, it is likely that these nonperforming loans will become loan losses and decrease future net income. The Farm Credit System has already allocated about $600 million to rescue member institutions in Spokane and Omaha.

Many Farm Credit System local institutions have been liquidated or are projected by the system's regulator to fail in the near future because of growing financial stress. While none were liquidated between 1978 and 1982, 11 were liquidated from August 1983 through January 1985. The system's regulator, the Farm Credit Administration, projects that 35 additional local institutions may fail between June 1985 and 1987.

The Farm Credit System faces continuing stress for at least the next few years. Its regulator has stated that "multibillions" of federal financial aid will be needed in the near future, and proposals for bailing out the system have been raised in the Congress.

Commercial banks

Twenty-four percent of farm debt is held by federally regulated and insured commercial banks. Financial stress is most evident in those banks that are heavily involved in agriculture. Bank portfolios are typically diversified to hedge against losses in any one sector. Some banks, however, have large concentrations of farm loans--some with 70 percent or more of their portfolios. Banks with an above-average ratio of farm loans to total loans, according to the Federal Reserve, are called agricultural banks. There are about 5,000 such banks; they are heavily concentrated in the midwestern states and are usually small--averaging only one-seventh the size of other banks.

Agricultural banks have usually been relatively profitable, but many of those banks are now under severe financial stress with nonperforming loans and loan losses increasing and profits declining. Although they represent only 35 percent of all banks, agricultural banks made up 62 percent of all bank failures in the first 7 months of 1985. Many of the failed farm banks were particularly small and were concentrated in agricultural lending. Small banks with undiversified loan portfolios are particularly vulnerable to failure when the industry they serve goes through a sustained period of decline. In addition, federal bank examiners have found that marginal or poor management is an important factor in bank failures.

Banking and agricultural finance experts have argued that state banking regulations have contributed to keeping these banks small and undiversified. Several heavily agricultural states restrict banks from branching beyond a very limited geographical area. In states where at least 50 percent of the banks are

agricultural, nearly all have banking laws that essentially prevent banks from serving customers and obtaining deposits from outside a certain geographical area. This effectively caps the size and diversity of banks' assets, preventing them from becoming large enough to borrow funds from national money markets or serve a broad enough geographic area to diversify their loan portfolios.

While many agricultural banks are in difficulty, the Federal Reserve System believes that this does not threaten the banking system nationally. Bank failures can have important effects on localities, but federal deposit insurance and the small size of farm banks mean that the risk of significant strain on the national banking system is slight.

Farmers Home Administration

Twelve percent of farm debt is held by the Farmers Home Administration. As the lender of last resort, the federal agency services the weakest customers of any farm lender. FmHA loan losses are borne by the government and ultimately the taxpayer.

Loan performance indicators show a marked deterioration in the agency's loan portfolio. The rapid growth of its portfolio indicates that growing numbers of farmers are no longer seen as creditworthy by other lenders. From 1978 to June 1985, FmHA's farm debt holdings increased from $9.9 billion to $27.8 billion. In 1981 the loan portfolio began to show increased stress, with loan delinquencies soaring 266 percent by June 1985 and totaling $6.7 billion. Some 70 percent of the total amount of FmHA's loan delinquencies are 3 years or more past due.

FmHA loan performance data reveal some regional differences. Unlike the Farm Credit System and commercial banks, where nonperforming loans are most evident in midwestern grain- and livestock-producing areas, severe FmHA loan delinquencies are largely concentrated in southern states.

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How we did the study

Our study of agricultural finance began in February 1985 and was conducted by gathering and analyzing a large amount of data from both public and private sources. We also conducted extensive interviews with government officials and others concerned with agricultural issues.

Our data sources included the Economic Research Service and the Farmers Home Administration within the Department of Agriculture, the Farm Credit Administration, the Federal Reserve Board, universities, and others. Specifically, we used Department of Agriculture data bases on farmland values, farm sector balance

sheets and income statements, and world agricultural trade. We also used Department-generated data on production and prices of all major farm commodities. On the financial side, we used data compiled by the Federal Reserve Board from bank "call reports" that contain financial statements of all insured commercial banks. The Farm Credit Administration supplied us with extensive financial information on the Farm Credit System, as did several of the system's regional banks. FmHA provided us financial information on its loan programs. Other organizations, including the Federal Deposit Insurance Corporation, the Department of Commerce, Iowa State University, and various trade associations, provided less extensive but still valuable data on selected aspects of the farm finance problem.

We interviewed officials at the Department of Agriculture, Iowa State University, the Federal Reserve System, the Federal Reserve Board, the Farm Credit System, the Farm Credit Administration, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. We reviewed literature, legislation, and publications concerning the financial condition of agriculture; economic conditions; and the financial services industry that serves agriculture. Because of its informational nature, we did not obtain formal agency comments on a draft of this report. The report has been discussed with officials of the Department of Agriculture, Farm Credit Administration, and Federal Deposit Insurance Corporation, and their suggestions were incorporated, as appropriate.

Copies of this report are being sent to the Director of the Office of Management and Budget, the Secretary of Agriculture, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Governor of the Farm Credit Administration, and other interested parties.

Charles A. Bowsher
Comptroller General
of the United States

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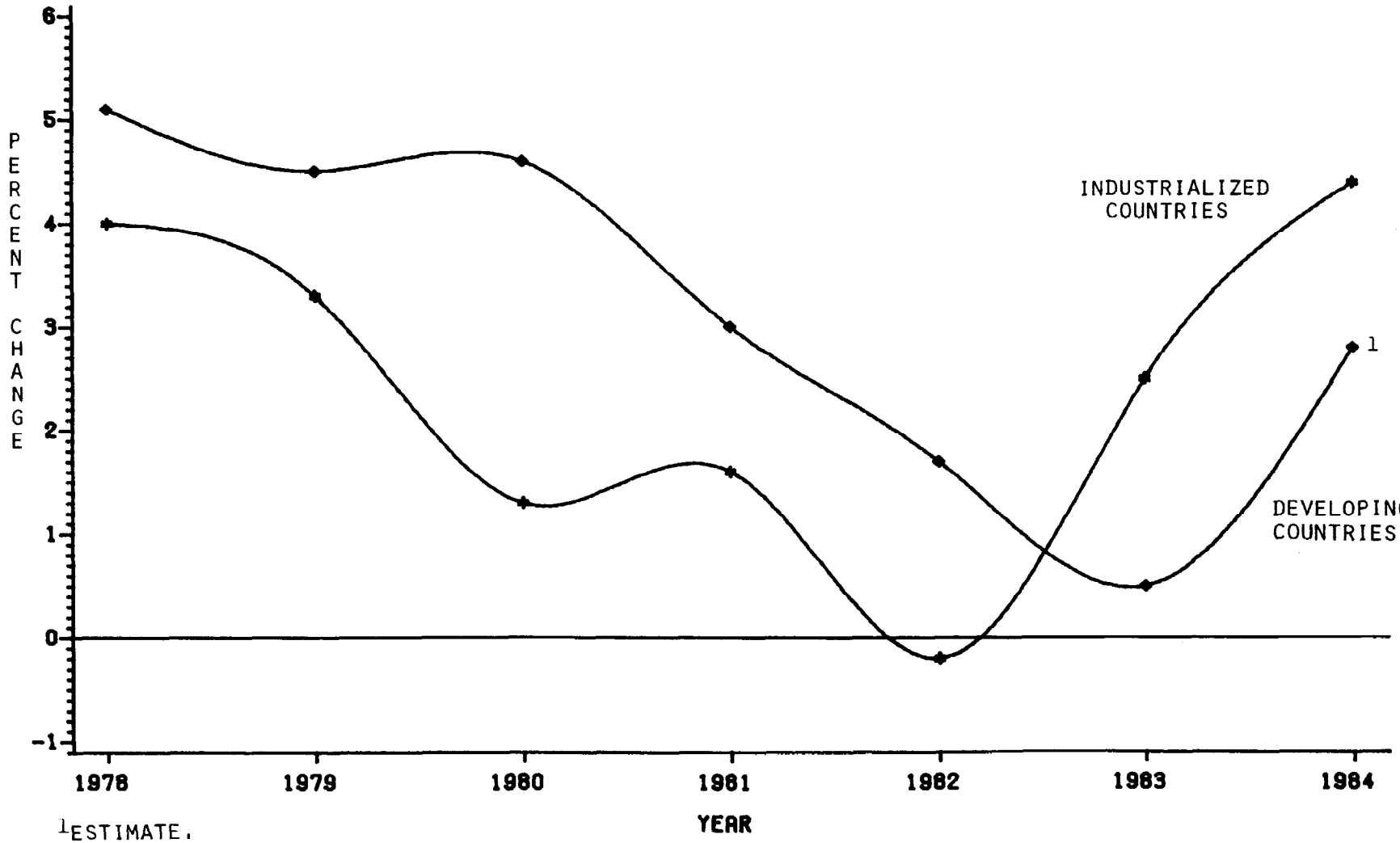
ADVERSE ECONOMIC CONDITIONS CAUSED A STEEP

DECLINE IN U.S. AGRICULTURAL TRADE

FIGURE I.1

ECONOMIC GROWTH

(PERCENT CHANGE IN REAL OUTPUT)



[1]ESTIMATE.

SOURCE: INTERNATIONAL MONETARY FUND AND WHARTON ECONOMETRICS.

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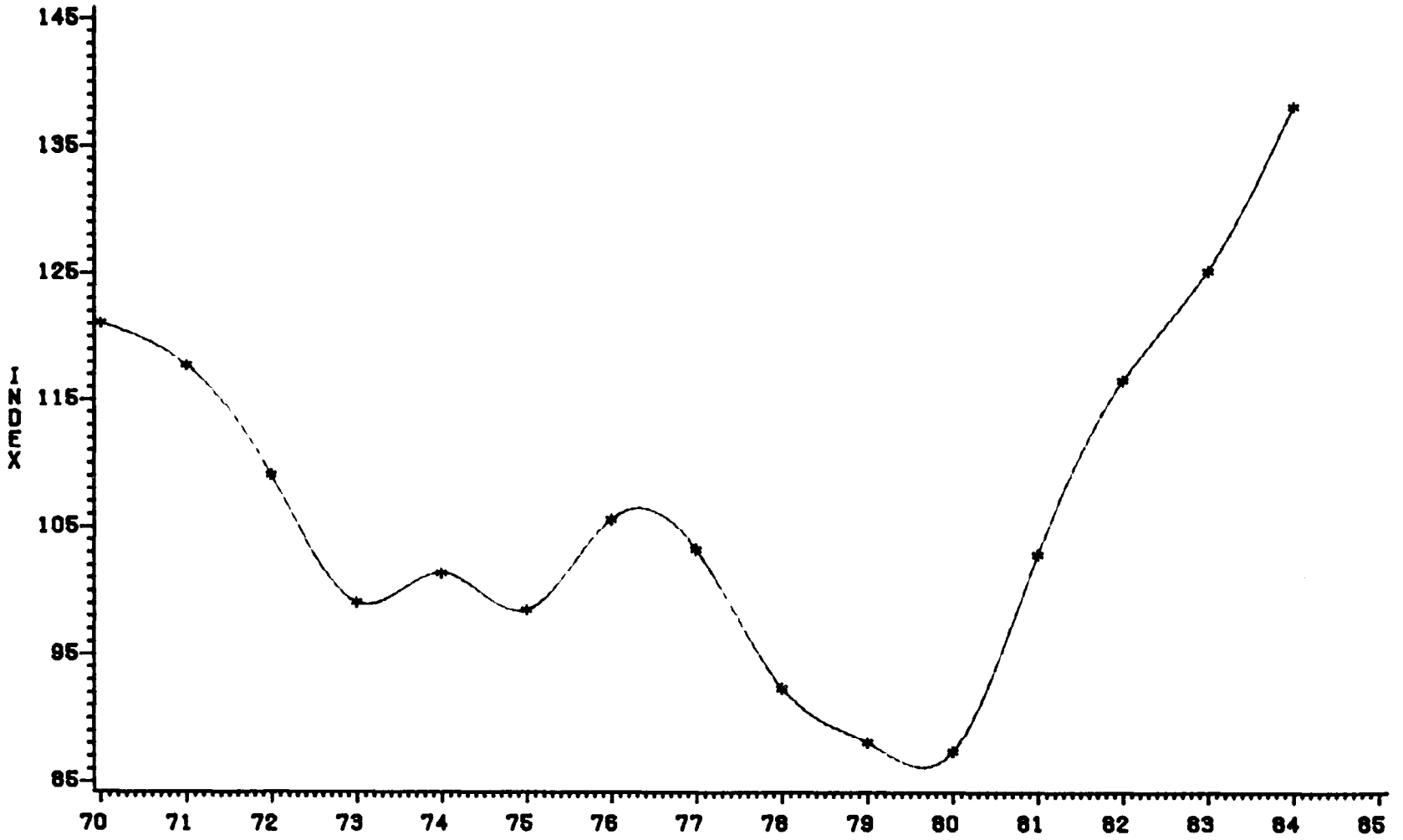
WORLD ECONOMIC GROWTH

One factor that largely determines the volume of agricultural trade is the rate of economic growth of our trading partners. The 1980's saw a sharp falloff in world-wide economic growth, which reached its lowest points in 1982 and 1983. Since then, the industrialized countries have largely recovered, but the rest of the world has not. Unfortunately, the most rapidly growing market for U.S. agricultural exports had been the less-developed countries. The lack of growth in these nations--often accompanied by foreign debt problems--has been a significant factor in the decline of U.S. farm product exports.

FIGURE I.2

INDEX OF THE U.S. DOLLAR'S VALUE

(MARCH 1973=100)



SOURCE: ECONOMIC REPORT OF THE PRESIDENT.

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INDEX OF THE U.S. DOLLAR'S VALUE

Since 1970 the multilateral trade-weighted value of the U.S. dollar has fluctuated widely. The multilateral trade-weighted value of the dollar is a composite index showing the appreciation or depreciation of the dollar as measured against a number of major currencies, weighted by the respective countries' trade volumes with the United States. During the late 1970's, the index had fallen to 88 relative to the 1973 base of 100. However, the index began to rise sharply during the 1980's, reaching 138 by 1984. This steep and rapid increase in the dollar's value produced both winners and losers. Those who purchased goods from abroad gained because those goods were relatively less expensive. On the other hand, those who sold U.S. goods to foreign consumers lost because the price of the U.S. goods was relatively more expensive. Agricultural exports fall into the latter category, and the rise in the dollar's value has been a major reason for the drop off in agricultural trade.

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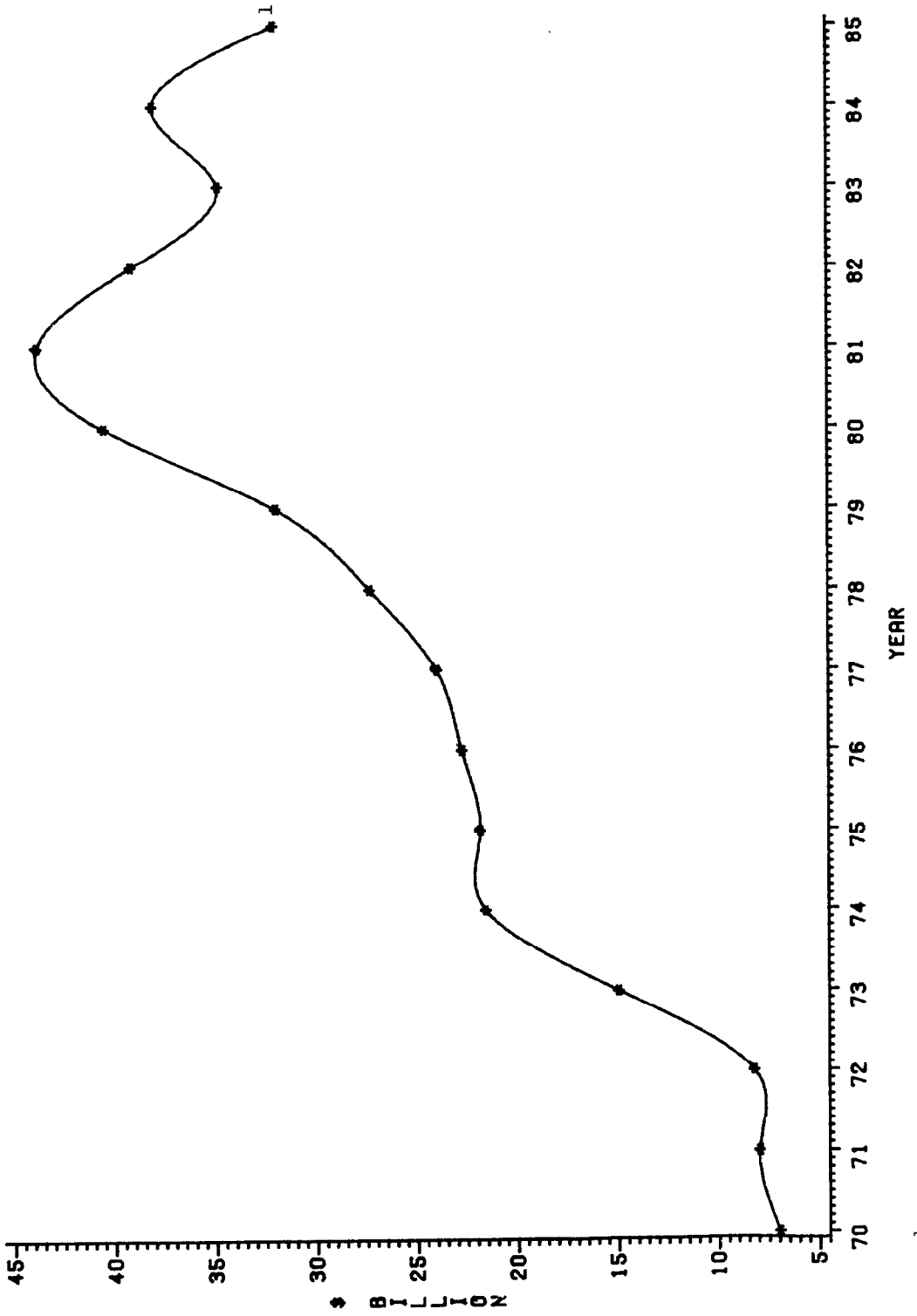
FIGURE I.3



[1]ESTIMATE
SOURCE: USDA.

APPENDIX I

U.S. AGRICULTURAL EXPORTS

The immense increase in U.S. agricultural exports from 1970 to 1981 occurred within a context of favorable macroeconomic factors. The U.S. dollar declined in value and remained well below its 1970 level. The world economy grew at a healthy pace, and low real interest rates made it easy for foreign countries to borrow to buy food. Since 1981, however, a stronger dollar, weaker world economy, and much higher real interest rates have been making U.S. farm products less affordable in world markets.

The positive U.S. trade balance in agricultural trade peaked in 1981. The sharpest drop has occurred this past year as imports have continued their rise and exports have fallen off badly.

Table I.1

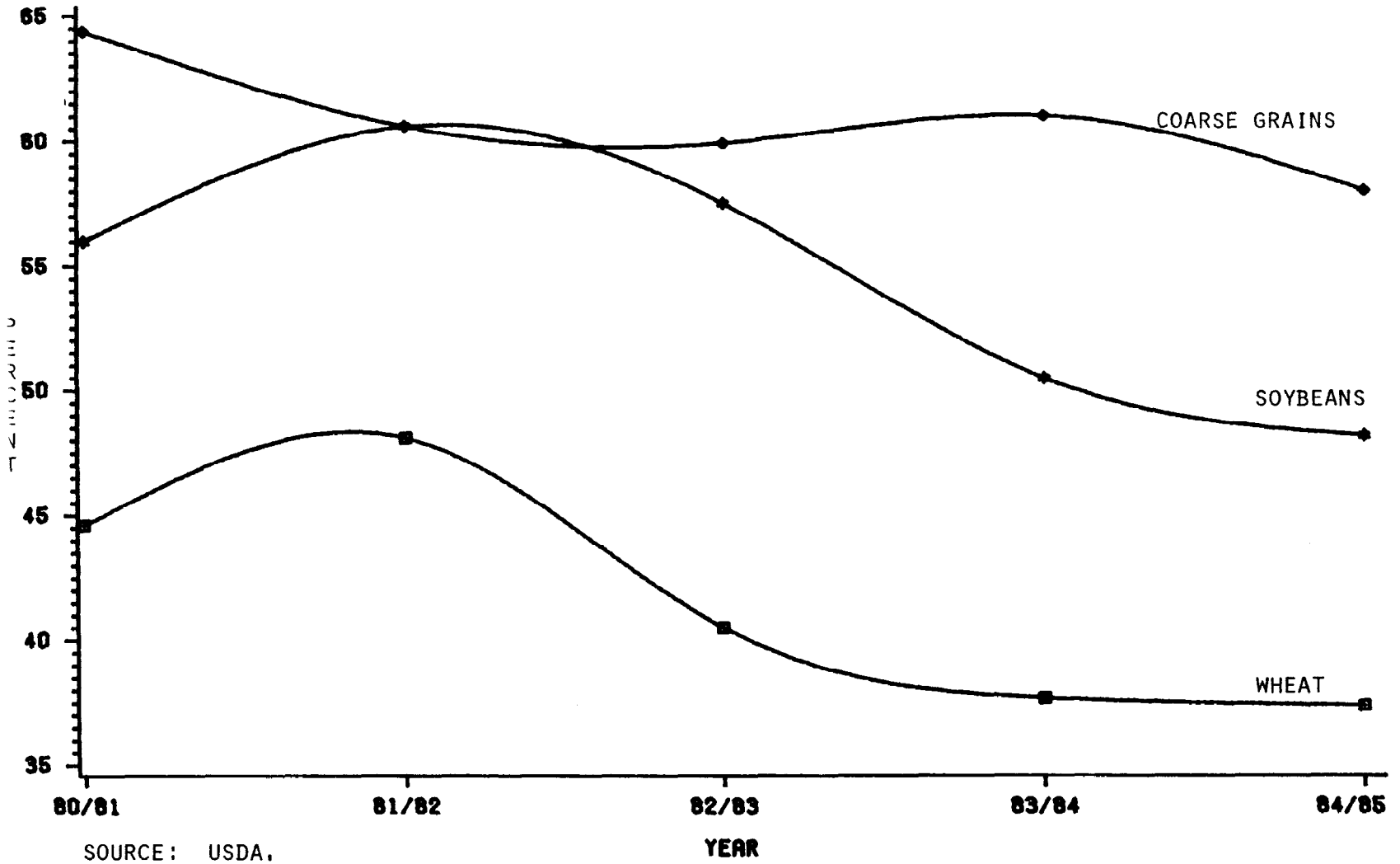
U.S. Agricultural Trade Statistics

Marketing Year	Exports Value	Imports Value	Trade Balance
	($ million)		
1970	6,958	5,686	+ 1,272
1971	7,955	6,128	+ 1,827
1972	8,242	5,936	+ 2,306
1973	14,984	7,737	+ 7,247
1974	21,559	10,031	+11,528
1975	21,817	9,435	+12,382
1976	22,742	10,497	+12,250
1977	23,974	13,357	+10,617
1978	27,289	13,886	+13,403
1979	31,979	16,186	+15,793
1980	40,481	17,276	+23,205
1981	43,780	17,218	+26,562
1982	39,095	15,489	+23,606
1983	34,776	16,375	+18,401
1984	38,013	18,910	+19,103
1985 (est.)	32,000	19,500	+12,500

Source: USDA.

FIGURE I.4

U.S. MARKET SHARE OF WORLD TRADE FOR THREE MAJOR COMMODITIES



SOURCE: USDA.

APPENDIX I

U.S. MARKET SHARE FOR COARSE GRAINS, SOYBEANS, AND WHEAT

The U.S. share of the world market for the three most heavily traded commodities--coarse grains, soybeans and products, and wheat--has declined since 1980. The declining market share has occurred within the context of a strong U.S. dollar and an expansion of foreign production. Also, aggressive foreign competitors have used bilateral agreements and subsidies to obtain markets. Their actions are discussed in detail in GAO's recent report entitled, Current Issues In U.S. Participation in the Multilateral Trading System (GAO/NSIAD-85-118, Sept. 23, 1985).

APPENDIX I

Table I.2

EXPORT DEPENDENCY
1983

State	Dependency Index	State	Dependency Index
INDIANA	34.3	MISSOURI	20.3
ILLINOIS	34.1	S. DAKOTA	17.8
N. DAKOTA	30.1	MISSISSIPPI	17.2
KANSAS	29.9	LOUISIANA	17.0
MONTANA	29.3	IDAHO	16.5
IOWA	26.9	WASHINGTON	16.3
OHIO	26.2	ARKANSAS	16.0
NEBRASKA	23.8	MICHIGAN	15.5
MINNESOTA	23.6	TEXAS	6.9
OKLAHOMA	20.7	WISCONSIN	5.7

EXPORT DEPENDENCY = 100 x (RECEIPTS FROM EXPORTS OF FEEDGRAINS, WHEAT, SOYBEANS)/(RECEIPTS FROM FARMING)

SOURCE: USDA.

EXPORT DEPENDENCY 1983

We ranked the states according to an indicator of export dependency using 1983 Department of Agriculture (USDA) data. Estimated receipts from the exports of feedgrains, soybeans, and wheat were divided by total receipts from farming and multiplied by 100. Corn Belt and Northern Plains states, because of their reliance on these three types of crops, are the most dependent. Financial data on farmers and lenders, presented later in this report, show that these regions are generally the most stressed. This underscores the importance of export markets to the U.S. farm economy.

APPENDIX I

REAL PRICES OF WHEAT, CORN, AND SOYBEANS

The dramatic rise in crop prices in the early 1970's coincided with the beginning of the export boom. The farm sector responded to the price signals through expanded production and higher asset (particularly land) values. Since 1975, however, real prices (adjusted for inflation) for these three crops have moved generally downward, and USDA projects this trend to continue.

APPENDIX I

HIGH REAL INTEREST RATES CAUSE ADDITIONAL STRESS FOR BORROWERS

While nominal interest rates have been high over the last 10 years, during the 1970's the real interest rate, which is the nominal rate adjusted for inflation, hovered around zero and even turned negative from 1972 through 1974 and again from 1977 through 1979. Since interest expense is tax deductible, the actual burden of interest payments is less than the nominal amount. It was an auspicious time for risk-taking farmers to acquire assets, like land, whose value traditionally kept pace with or exceeded inflation. In the 1980's, however, real interest rates rose substantially as inflation dropped. This rapid change in a key macroeconomic variable has left farmers with a much larger burden of debt at the same time that their assets are declining.

APPENDIX II

THE FARM SECTOR: GROWING FARM DEBT AND OTHER FACTORS PUT MANY FARMERS AT RISK OF FINANCIAL FAILURE

DECLINE IN ASSET-TO-DEBT RATIO

One way to illustrate the current distress in the agricultural sector is to consider how the farm balance sheet has changed. The value of farm assets relative to liabilities is a broad indicator of business soundness. During the 1970's the farm sector averaged $6.15 in assets for every $1 of debt. The range for this period, which was marked by a significant rise in both assets and debt, was between $5.90 and $6.53 to $1. However, 1979 marked the beginning of a sharp decline in this relationship, as the ratio fell 27.2 percent to a low of $4.52 to $1 by 1985. Assets declined faster than debt as land values began to drop.

THE VALUE OF FARMLAND HAS FALLEN RAPIDLY

One of the most important assets in the farmer's balance sheet is the value of farmland. Relatively high commodity prices along with expectations of continuously expanding markets fueled sharp increases in the nominal value of farmland during the 1970's. This overly optimistic outlook was partly illusory because real (inflation-adjusted) land values did not rise as fast as nominal values. However, using nominal land values as collateral and ignoring the possibility that they would be placed in an extremely vulnerable position if land prices fell, farmers borrowed heavily. During the 1970's, total farm debt rose by 213 percent from $53 billion to $166 billion.

APPENDIX II

ON A STATE-BY-STATE BASIS, FARMLAND VALUES HAVE CHANGED AT DIFFERENT RATES

The fall in the nationwide average price per acre of farmland from the peak in 1981 masks the fact that many states absorbed far greater declines. Specific state declines may be partially due to a heavy reliance on export commodities that have slumped in price. States in the Corn Belt and Northern Plains experienced the greatest increases during the upswing of the 1970's and the most rapid declines in farmland values during the 1980's. In many of these states, the price of farmland fell by more than 30 percent. Iowa, for example, was the hardest hit state with a drop of almost 50 percent from $1,999 per acre in 1981 to $1,064 in 1985.

APPENDIX II

SUBSTATE DIFFERENCES IN IOWA FARMLAND VALUES

The state of Iowa experienced the largest drop in farmland values during the 1981 to April 1985 period, almost 50 percent. Using 1981-84 data for various substate districts in Iowa, we find that every district in the state registered large declines in farmland values. The greatest declines occurred in the South Central and Northwest districts.

APPENDIX II

FARMERS' LIQUIDITY REDUCED

While the asset-to-debt ratio remained fairly stable during the 1970's, the composition of farm assets shifted toward less liquid capital. Between 1974 and 1978, the amount of liquid assets per dollar of fixed assets fell from $21 to $11 as liquid assets such as livestock were sold and fixed assets such as land began a rapid increase in value. This shift in liquidity may reflect aggressive farm asset management in the 1970's when optimistic expections were based on rising commodity prices and land values. However, low liquidity during the 1980's places an extra burden on the farmer who must liquidate fixed assets in order to make debt payments.

APPENDIX II

DECLINES IN ASSET-TO-DEBT RATIOS DIFFER BY REGION

Just as changes in farmland values differ by region, changes in the asset-to-debt ratio depict increasing stress in heavily agricultural regions. A major component of this decline is the drop in farmland values, which is in large measure a function of current and expected future commodity prices and incomes.

USDA FARM PRODUCTION REGIONS

CB - Corn Belt (IL, MO, IN, OH, IA)
NP - Northern Plains (ND, SD, NE, KS)
LS - Lake States (MN, WI, MI)
US - United States
NE - Northeast (ME, NH, VT, MA, RI, CT)
DS - Delta States (AR, MS, LA)
SE - Southeast (VA, NC, SC, GA, FL)
MO - Mountain (MT, ID, WY, CO, UT, NV, NM, AZ)
AP - Appalachian (WV, KY, TN, AL)
PA - Pacific (WA, OR, CA)
SP - Southern Plains (OK, TX)

APPENDIX II

DEBT-TO-ASSET RATIOS BY REGION AND AGE OF FARMER

Younger farmers in the central region are carrying the highest debt relative to assets. One would expect young farmers to carry more debt than those farmers who have been in business for a relatively long period of time. The chart supports this expectation, illustrating that young farmers in every region have relatively high debt-to-asset ratios. What is surprising, however, is that middle-aged farmers in the central region have debt-to-asset ratios higher than both their counterparts in other regions and younger farmers in other regions.

APPENDIX II

GROSS AND NET FARM INCOME

While gross farm income rose substantially during the latter part of the 1970's and early 1980's, net farm income remained fairly stable. Farmers were incurring additional production expenses but were not realizing additional net income. More money was flowing through the sector, but not staying within the sector. And increased equity turned out to be a temporary phenomenon as equity in farm assets decreased during the 1980's.

INTEREST PAYMENTS ARE INCREASING AS A SHARE OF PRODUCTION COSTS

In the early 1970's, interest payments represented slightly less than 8 percent of total production expenses. By the early 1980's, this share had risen to almost 16 percent. Interest payments represented a rising proportion of total production expenses, which were also rising. While it may have been sound management strategy to take on additional debt in the 1970's when the real interest rate was hovering around zero, in today's economic environment farmers are in an extremely risky position with less liquidity and higher real interest rates.

APPENDIX II

EVEN WITH GOVERNMENT ASSISTANCE, INCOME WAS LOW IN SOME REGIONS

In 1983 three regions posted negative net farm income (not including government payments)--the Northern Plains, the Southern Plains, and the Corn Belt. The relatively large amount of government payments[1] helped two regions to end up with positive net income if government payments are included. Even with $2.1 billion in government payments, however, the Corn Belt still suffered a $870 million loss in farm income. Another interesting observation from this chart is that the three regions receiving the highest amount in government payments recorded the lowest amount in net income.

[1]This includes direct payments such as deficiency payments.

APPENDIX II

THE RATE OF RETURN ON EQUITY HAS DROPPED BELOW ZERO

A major indicator of a sector's profitability is the rate of return on equity--in other words, the income and capital gains return to owned assets. While the farm sector's rate of return on equity has a history of wide fluctations, 1981 marked the first time in the recent past that it became negative. The major reason for the dip below zero is that real capital gains on physical farm assets have been negative in every year since 1979.

APPENDIX II

RATES OF RETURN ON EQUITY VARY WITH DEGREE OF FINANCIAL LEVERAGE

Debt financing, or the use of financial leverage, has a tendency to magnify both positive and negative returns on equity. If the rate of return on assets is less than the interest rate paid on loans, then the rate of return on equity declines rapidly as the debts rise. Starting with rates of return on assets of 3 and 6 percent with no debt, the two charts illustrate how quickly the rate of return on equity can become negative for farmers with high debt-to-asset ratios. For example, assuming a rate of return on assets of 6 percent and an average interest rate to finance debt of 8 percent, a farmer could achieve a positive return on equity with a debt-to-asset ratio of 70 percent or less. However, if the cost of financing debt rises to 14 percent, a lower debt-to-asset ratio (40 percent) is necessary to reap positive returns to equity. The charts suggest that farmers who borrow heavily at relatively high rates of interest will tend to experience large negative returns to their equity, depending on the interest rate, the amount borrowed relative to their asset base, and their rate of return on assets.

APPENDIX II

GROWTH IN FARM REAL ESTATE DEBT

Since 1970 the total growth in real estate farm debt has been 280 percent. However, this growth has not been equally distributed among the various lending institutions. Outstanding debt at Federal Land Banks (FLBs) increased 626 percent during the 1970-84 period, so that FLBs had acquired 43.7 percent of all outstanding real estate debt by 1984. Debt at the Farmers Home Administration (FmHA) grew 337 percent, while debt at the other institutions grew at lower rates. In the next appendix, we show lending activity at these various institutions in more detail, pointing to areas where financial stress is relatively high.

GROWTH IN FARM NON-REAL ESTATE DEBT

While commercial banks hold the largest proportion of non-real estate debt, 40 percent, their growth rate has been less than the total growth in this type of debt--293 versus 325 percent. FmHA has expanded more rapidly in this area than any other financial institution, growing 1,837 percent since 1970. FmHA is the lender of last resort, holding the most risky debt, and its growth is indicative of a general increase in financial risk in the agricultural sector. Appendix III explores the effect that increased agricultural risk is having on the profit and loss statements of three key lending institutions: the Farm Credit System, commercial banks, and the Farmers Home Administration.

APPENDIX II

AGRIBUSINESS

The financial stress on farmers has other significant effects. Farm construction and machinery firms have suffered losses in the past several years. The figures on the opposite page are Iowa State University estimates that include direct losses in the construction and machinery industries and indirect losses to affected parts of the economy.

AGRIBUSINESS: SALES OF FARM EQUIPMENT

The sharp decline in the sales of new farm equipment during the 1980's is a product of farm financial stress. Depressed farm income, high debt loads, and the wide availability of low-priced used equipment on the market have contributed to the major decline in sales. Unless there is a dramatic turnaround, 1985 will be the sixth consecutive year of decline from the 1979 peak.

APPENDIX III

THE FINANCE SECTOR:

LENDERS EXPERIENCED SIGNIFICANT INCREASES

IN BANK FAILURES, DEFAULTS, AND DELINQUENCIES

PART 1: FINANCIAL CONDITION OF THE FARM CREDIT SYSTEM

The Farm Credit System is a private, member-owned cooperative that provides financing to farmers, ranchers, aquatic producers, and agricultural cooperatives. It is the largest single supplier of agriculture credit to the nation's farmers.

The FCS is composed of 12 farm credit districts. Each district has a Federal Land Bank (FLB) that makes farm mortgage loans through Federal Land Bank Associations (FLBA); a Federal Intermediate Credit Bank (FICB) that provides loan funds to Production Credit Associations (PCA) and to other financial institutions which serve agriculture; and a Bank for Cooperatives (BC) that makes loans to agricultural cooperatives. The following table lists the FCS districts and the abbreviations used in this report for each district.

Table III.1

Farm Credit System Districts

Name of district	Abbreviation	Name of district	Abbreviation
Springfield	SPR	St. Paul	STP
Baltimore	BAL	Omaha	OMA
Columbia	COL	Wichita	WIC
Louisville	LOU	Texas	TEX
Jackson	JAC	Sacramento	SAC
St. Louis	STL	Spokane	SPO

FCS loans to farmers are made by the FLBs and the PCAs in each district. As of June 30, 1985, total outstanding loans from FLBs were $51.1 billion and from PCAs were $17.1 billion. In calculations of total farm debt, loans from BCs are not included because they are made to businesses rather than producers of farm commodities.

NET INCOME OF THE FARM CREDIT SYSTEM

Financial indicators show that the FCS is experiencing growing economic stress because of the financial problems of its farm borrowers. For example, net income for the system's banks--FLB's, FICB's, and BC's--declined from the 1982 peak of $993.9 million to $441.6 million in 1984, a 55.6 percent decline. Also, net income for the 6-month period ending June 30, 1985, decreased by $95.4 million, or 36.5 percent, compared to the same period in 1984. The Farm Credit Administration and FCS are projecting an overall system loss for 1985.

Earnings for FLBs and PCAs have declined drastically in recent years. FLB earnings have been declining since 1982 from $597.6 million to $185.2 million, a 69 percent decrease. PCA earnings have been declining since 1981 from $308.6 million to a $10.3 million loss in 1984, a 103 percent decrease.

FICBs make financial distributions to PCAs each year. In 1984 and 1983, these distributions totaled $105.9 million and $136.3 million, respectively. Without those distributions, PCAs had a 1984 net loss that exceeded $116 million. Additionally, before the FICB 1983 distribution, PCAs had a net loss exceeding $59 million.

Earnings for FLBs and PCAs have continued to decline in 1985. For example, FLB final net earnings for the 6-month period ending June 30, 1985, decreased by $44.6 million, or 38 percent, compared to the same period in 1984. Also, PCA final net earnings declined by $55.8 million, or 260 percent, compared to the same period in 1984. PCA financial records show that a $41 million loss had been incurred as of June 30, 1985.

FEDERAL LAND BANK AND PRODUCTION CREDIT ASSOCIATION NONPERFORMING LOANS

The percent of nonperforming loans is another significant stress indicator for the FCS. Nonperforming loans include loans that are delinquent 90 days or more, in the process of foreclosure or bankruptcy, or in a nonaccrual status where the accrual of interest has been suspended because full collection of principal and interest is in doubt.

FLB and PCA nonperforming loans totaled over $6 billion, or 8.6 percent of total outstanding loans on December 31, 1984. During 1985, FLB and PCA nonperforming loans have increased drastically and totaled over $7.5 billion, or 11 percent of the total outstanding loans by June 30, 1985.

The extent of nonperforming loans varies considerably between FCS districts. For example, the following table shows that seven FLBs had nonperforming loans that exceeded 10 percent of their outstanding loans.

Table III.2

FLB and PCA Nonperforming Loans as a Percentage of Total Outstanding Loans, by FCS District, June 30, 1985

FCS district	FLBs			PCAs		
	Nonperforming	Outstanding	Percent	Nonperforming	Outstanding	Percent
	(millions)			(millions)		
WIC	$780.1	$5,150.0	15.2	$121.2	$1,020.7	11.9
OMA	877.9	5,928.8	14.8	303.1	1,587.5	19.1
STP	904.2	7,451.9	12.1	400.1	3,105.8	12.9
JAC	352.3	2,922.1	12.1	91.6	632.6	14.5
SAC	547.4	4,728.9	11.6	375.5	2,810.3	13.4
SPO	426.1	3,696.5	11.5	84.9	912.4	9.3
STL	552.6	5,066.8	10.9	138.8	1,161.2	12.0
LOU	405.4	4,671.9	8.7	206.5	1,601.7	12.9
COL	372.7	5,444.9	6.8	208.3	1,757.2	11.9
BAL	106.9	2,221.6	4.8	66.6	746.5	8.9
SPR	43.2	1,014.7	4.3	8.0	668.8	1.2
TEX	72.7	2,758.2	2.6	75.3	1,088.5	6.9
Total	$5,441.5	$51,056.4	10.7	$2,079.9	$17,093.2	12.2

BANKS FOR COOPERATIVES NONPERFORMING LOANS

The amount and percent of BC nonperforming loans have also increased during the first 6 months of 1985. However, the BC increases have been much less than the FLB and PCA increases. BC nonperforming loans totaled $549.9 million on June 30, 1985, and $537.6 million on December 31, 1984.

Similar to those of FLBs and PCAs, BC nonperforming loans vary considerably by FCS district. The following table shows that 5 districts had nonperforming loans exceeding 10 percent of their outstanding loans; 7 districts had less than 5 percent of their outstanding loans as nonperforming.

Table III.3

Banks for Cooperatives Nonperforming Loans as a Percentage of Total Outstanding Loans, by FCS District, June 30, 1985
(millions of dollars)

FCS district	Nonperforming	Outstanding	Percent
Columbia	$ 68.3	$ 307.3	22.2
Omaha	87.9	514.6	17.1
Texas	25.4	169.4	15.0
Sacramento	84.9	628.7	13.5
Spokane	38.8	320.0	12.1
St. Louis	37.3	410.4	9.1
Central bank	146.3	3,380.2	4.3
St. Paul	42.5	1,125.1	3.8
Wichita	10.6	426.3	2.5
Baltimore	1.8	74.9	2.4
Jackson	3.1	352.2	0.9
Louisville	2.3	479.6	0.5
Springfield	0.7	154.3	0.5
Total	$549.9	$8,343.2	6.6

APPENDIX III

PROPERTY ACQUIRED BY FEDERAL LAND BANKS AND PRODUCTION CREDIT ASSOCIATIONS

Property acquired by FLBs and PCAs through foreclosure or deed in lieu of foreclosure has increased considerably in recent years. For example, before adjustments for depreciation and allowance for losses, the value of FLB and PCA acquired property was about $36 million in 1980 and $532 million in 1984--a $496 million increase in 4 years.

Additionally, the value of acquired property has increased considerably during 1985. As of June 30, 1985, FLB and PCA acquired property values have increased to $850.9 million ($598.7 million for FLBs and $252.2 million for PCAs). This $318.9 million increase in the value of property acquired by FLBs and PCAs represents a 59.9 percent increase from the December 31, 1984, balance.

FEDERAL LAND BANK LOAN DELINQUENCIES

Growth in loan delinquencies is an additional indicator of financial stress. The following table shows that FLB delinquent loans have grown by about 1,120 percent from 1978 to 1984.

Table III.4

FLB Delinquent Principal and Advances 1978 - 1984 (millions of dollars)*

Year	Amount delinquent	Yearly change
1978	$ 40.5	
1979	45.4	$ 4.8
1980	59.4	14.1
1981	90.9	31.5
1982	186.7	95.7
1983	266.5	79.9
1984	493.9	227.4

*Figures are rounded.

Additionally, delinquent loans held by FLBs increased to $631.7 million by June 30, 1985. This $137.8 million increase represents a 27.9 percent rise in delinquencies from the balance 6 months earlier.

PRODUCTION CREDIT ASSOCIATION LOANS IN LIQUIDATION AND NONACCRUAL LOANS

PCA loans in the process of liquidation grew considerably from $80 million in 1980 to over $479 million in 1983--or 499 percent. Loans in the process of liquidation were not reported by PCAs after 1983 because the Farm Credit Administration (FCA), the Federal regulator of the FCS, changed its reporting requirements to coincide with the requirements of other regulators.

PCAs reported nonaccrual loans totaling $636.6 million as of December 31, 1984. Nonaccrual loans increased to $678.6 million as of June 30, 1985.

APPENDIX III

FARM CREDIT SYSTEM MERGERS

Extensive merger activity involving FCS associations has occurred in recent years and additional mergers are underway. In a merger, one or more associations are absorbed by another association--the latter retains its corporate existence while the former ceases to exist as a legal entity. A total of 156 PCAs and FLBAs have gone out of existence because of mergers between 1978 and June 10, 1985. PCA mergers are generally stress-related while FLBA mergers occur mainly for economy and efficiency.

As of June 1985, merger activity was underway in 4 FCS districts that, if finalized, will result in 80 additional associations (33 PCAs and 47 FLBAs) ceasing to exist.

PROBLEM PCAs

In February 1985 there were 359 PCAs in the Farm Credit System. The Farm Credit Administration estimated in April 1985 that 35 PCAs, or 9.7 percent, are projected most likely to fail during the 1985-87 period because of increasing economic stress. FCA has also rated an additional 90 PCAs, or 25.1 percent, as being in serious financial trouble but not projected to fail. As shown below, most of the PCAs that are projected to fail are located in the west central part of the country, which is generally the major crop and livestock production area. Of the Omaha district's 37 PCA's, 13 are predicted most likely to fail and 7 others are in serious financial trouble.

Table III.5

Problem PCAs[a]

	Number of PCAs			
Area	Most likely to fail	In serious financial trouble	Total problem PCAs	In the area
East[b]	7	13	20	77
East central[c]	9	43	52	132
West central[d]	19	21	40	99
West[d]	0	13	13	51
Total	35	90	125	359

[a]Excludes PCAs that are in liquidation.
[b]East covers the Springfield, Baltimore, and Columbia FCS districts.
[c]East central covers the St. Paul, St. Louis, Louisville, and Jackson FCS districts.
[d]West central covers the Omaha, Wichita, and Texas FCS districts.
[e]West covers the Spokane and Sacramento FCS districts.

Subsequent to the April 1985 FCA estimate, various actions have been taken such as PCA mergers in 2 districts and proposed mergers in another 5 districts in an effort to continue operations by the problem PCAs.

DATE OF LOAN ON ACQUIRED LAND AND QUALITY OF LAND ACQUIRED

Most of the land that has been repossessed by the St. Paul FLB was financed during the peak of the agricultural boom and is of lesser quality. The St. Paul bank's inventory on December 31, 1984, had 198 properties that were financed during the 1976 to 1982 period. Of these, 156 properties, or 79 percent, had loans made during the 1979 to 1981 period. Only 1 percent of the 198 properties acquired was top quality farm land based on a four-tiered rating system. Over 64 percent carried the two lesser quality ratings because of location, inferior soil, or topography and other undesirable features.

Acquired land data was obtained only from the St. Paul FLB. This represents one district's experience and it is not known whether St. Paul's experience is typical.

PCAs IN LIQUIDATION

FCA places PCAs in liquidation when they become insolvent, or financially unsound PCAs may voluntarily enter liquidation with FCA approval. While there were no liquidations between 1978 and 1982, 11 PCAs in three FCS districts were placed in liquidation from August 1983 through January 1985. FCA has estimated that an additional 35 PCAs may fail within the 1985-87 period.

When a liquidation occurs, neighboring PCAs' charters are amended by FCA to provide continuing service to the geographic territory served by the PCA in liquidation. The loans held by the PCA in liquidation may be refinanced with the neighboring association, commercial banks, or others. When borrowers are unable to arrange other financing, collection actions including foreclosure may occur for loans in default of the loan terms.[1]

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[1]See GAO's recent report on liquidations entitled Farm Credit Administration's Liquidation of Production Credit Associations (GAO/GGD-86-5).

PART 2: FINANCIAL CONDITION OF COMMERCIAL BANKS SERVING AGRICULTURE

As of December 31, 1984, there were more than 14,000 commercial banks insured by the Federal Deposit Insurance Corporation (FDIC). These banks serve agriculture to varying degrees and those with the largest percentage of loans to agriculture are located in heavily agricultural areas. FDIC insures individual deposit accounts up to $100,000 for banks. The insured banks are supervised by one of three federal agencies: the Office of the Comptroller of the Currency (OCC) for national banks, the Federal Reserve System (FRS) for state banks that are members of the System, and FDIC for insured state banks that are not members of the FRS.

Through examinations, banks are rated according to safety and soundness. A list of banks that are considered to have problems is forwarded to the FDIC.

This section discusses the financial stress being experienced by those insured commercial banks most heavily involved in farm lending. As the data show, many of those banks are becoming increasingly financially distressed and are appearing on FDIC's potential and actual failed bank lists in increasing numbers.

APPENDIX III

AGRICULTURAL BANKS

Agricultural banks are domestically chartered, insured commercial banks with a farm loan ratio that is above the average of the farm loan ratios at all such banks.[1] As of December 31, 1984, the farm loan ratio was about 17 percent. This criterion qualified about 35 percent or 4,987 of the 14,410 banks as agricultural banks. Although these banks comprise 35 percent of all banks, they account for only about 7 percent of bank assets.

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[1]Prior to March 1985, the agricultural finance analyst at the Federal Reserve System defined agricultural banks as those banks with farm loan ratios of 25 percent or more. Some organizations such as FDIC still disseminate data based on that definition and we have used such data in parts of our report.

AGRICULTURAL BANKS ARE SMALL

Agricultural banks are small relative to other banks. Their average asset size is $31 million compared to $212 million for nonagricultural banks. Agricultural banks typically have a limited number of offices and serve very restricted geographical areas such as one town or one county. Many of these banks are relatively undiversified in their lending practices, with a large percentage of their loans for agricultural purposes.

Leading banking and agricultural finance experts have argued that state banking regulations have contributed to keeping these banks small and undiversified. Of those seven states in which 50 percent of their banks are agricultural, six have banking laws more restrictive than state-wide branching.[2]

The American Banking Association (ABA) has categorized state banking laws based on the banks' abilities to offer services or establish facilities. The four categories are state-wide branching; branching within limited geographical areas; prohibited branching with a limited number of offices, agencies or stations; and no branching. An ABA official told us that a typical example of "limited branching" is when branches can be established only in counties contiguous to the county in which the main office is located. "Prohibited branching" laws usually stipulate exactly how many offices a bank can have and where the offices must be--usually in very close proximity to the main office. "No branching" essentially restricts banks to operating out of one building. Loan portfolio concentration in the commerce of limited areas makes it likely that economic and financial shocks experienced by those areas will be also felt by the banks serving them.

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[2]For this statement, agricultural banks are those with more than 25 percent of their portfolio in farm loans.

APPENDIX III

SUMMARY DATA ON BANKS WITH LARGE AMOUNTS OF AGRICULTURAL LOANS

Only those banks with a greater than average farm loan ratio are considered agricultural banks, but many banks that do not meet that criterion lend large amounts to farmers. There are 149 banks with $25 million or more in loans to agriculture, but only 66 of those banks are considered agricultural banks. Additionally, of the 46 banks with more than $50 million in agricultural loans, only 9 are agricultural banks.

While agricultural banks generally are concentrated in areas growing export crops and livestock, some of the large nonagricultural banks that lend large amounts to farmers are located outside of those areas. California is the obvious example, having only 1 percent of the agricultural banks but five of ten largest bank lenders to agriculture in the country. These banks have on average over $817 million in agricultural loans. In contrast, agricultural banks average about $6 million in agricultural loans. The Bank of America in California, the largest agricultural lender in the nation, has over $2 billion in agricultural loans, but those loans comprise only 4.5 percent of the bank's portfolio. As is the case with nonagricultural banks, the diversity in their loan portfolios limits exposure to agriculture and apparently buffers the effects of farm sector stress on those banks.

Table III.9
THE TEN LARGEST NONAGRICULTURAL BANKS
BY LOANS TO AGRICULTURE

	Loans to agriculture (thousand)	Percent of agricultural loans in portfolio
Bank of America, CA	$2,097,000	4.5
Wells Fargo Bank, CA	687,751	4.3
Security Pacific National Bank, CA	646,154	3.0
Crocker National Bank, CA	467,451	3.9
The Valley National Bank of Arizona	376,374	6.9
Rainier National Bank, WA	249,477	6.1
The Idaho First National Bank, ID	216,613	13.3
First Interstate Bank of California	186,650	1.8
Seattle-First National Bank, WA	178,750	2.9
U.S. National Bank of Oregon	142,909	3.5
Total loans	$5,249,129	

Table III.10
THE TEN LARGEST AGRICULTURAL BANKS
BY LOANS TO AGRICULTURE

	Loans to agriculture (thousand)	Percent of loan portfolio in agriculture
First Bank of South Dakota	$ 256,068	28.2
Norwest Bank of South Dakota	247,935	25.8
First National Bank of Amarillo, TX	184,410	26.0
First Security National B&T, KY	112,168	21.7
Valley Bank, ID	70,058	42.8
Bank of Stockton, CA	64,184	19.9
Dominion Bank of Shenandoah Valley, VA	58,387	17.4
First National Bank of Holdrege, NE	58,047	74.8
First Victoria National Bank, TX	52,435	22.7
New Century Bank, MI	49,506	21.1
Total loans	$1,153,198	

APPENDIX III

AGRICULTURAL BANKS ARE CONCENTRATED IN RELATIVELY FEW STATES

Agricultural banks comprise more than 50 percent of all commercial banks in seven states. Of the seven, four--Iowa, Nebraska, North Dakota, and South Dakota--have concentrations of agricultural banks of greater than 75 percent. All seven states are large agricultural producers and are currently subject to farm sector stress due to the lull in export and domestic red meat markets.

APPENDIX III

AGRICULTURAL BANK FAILURES AS A PERCENT OF TOTAL BANK FAILURES

Agricultural bank failures have increased with farm sector stress. As agriculture began experiencing difficulties due to reduced foreign demand for crops and lower domestic red meat consumption, failures increased. From 14 percent in 1981, agricultural bank failures increased to a disproportionately high rate of 41 percent of all bank failures in 1984.

The better performance in 1983 may be a result of the federal government's Payment-In-Kind (PIK) program in that year; PIK increased net cash farm income by about $9.2 billion.[3] In addition to the PIK program, a severe drought in prime growing areas raised commodity prices, resulting in an estimated $2.8 billion increase in net cash farm income in 1983. This increased income may have temporarily relieved farmers' cash-flow problems.

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[3]Under PIK, farmers received commodities rather than cash in return for idling cropland and reducing production of surplus commodities. This allowed farmers to sell those commodities without incurring additional production costs.

APPENDIX III

AGRICULTURAL BANK FAILURES BY
FARM CREDIT SYSTEM DISTRICT IN 1984

To provide a common geographical base for viewing the degree of stress on financial institutions serving agriculture, we present certain financial stress indicators for all institutions by Farm Credit System districts. The data on the previous page show that the most agricultural bank failures occurred in the traditionally export-oriented and livestock-raising areas of the country.

APPENDIX III

PROBLEM AGRICULTURAL BANKS AS A PERCENT OF TOTAL PROBLEM BANKS

As is the case with agricultural bank failures, problem agricultural banks increase as farm sector stress increases. "Problem bank" is a term used by the Federal Deposit Insurance Corporation to classify banks warranting more than normal supervision based on reviews by bank regulatory authorities. Problem banks are generally those banks that have been identified as having a potential or probability for failure. The number of problem agricultural banks increased dramatically from 1982 through 1985.

One graph shows the percentage of problem agricultural banks to total problem banks by FCS district as of March 31, 1985. Similar to agricultural bank failure data, problem agricultural banks are concentrated primarily in traditionally export sensitive areas of the country.

GROWTH IN BANKS WITH NONPERFORMING LOANS EXCEEDING CAPITAL

Agricultural banks are increasingly becoming candidates for failure. During recent years, failed banks have come predominantly from the group of banks that had delinquent loans exceeding capital. A more vulnerable subgroup of those banks consists of banks at which nonperforming loans exceeded total capital. Nonperforming loans include loans past due 90 days or more and still accruing interest, nonaccrual loans, and renegotiated debt. Delinquent loans are nonperforming loans and those 30 to 89 days past due. Agricultural banks with nonperforming loans exceeding capital far out-paced all other banks with an increase of 308 percent compared to 42 percent for other banks. Agricultural banks with nonperforming loans exceeding capital in December 1984 were most concentrated in high export and red meat production areas.

APPENDIX III

GROWTH IN FARM LOAN DELINQUENCIES AT SMALL BANKS (1982-84)

Recent trends in loan performance at small banks, which comprise 97 percent of all banks, indicate that the more concentrated a bank's loan portfolio in one industry, the more financially vulnerable the bank is to changes in that industry. The graph shows that for calendar years 1982 through 1984, farm loan delinquencies grew more at banks with larger percentages of farm loans in their portfolios. During this period of severe farm sector stress, those banks having 80 percent or more of their loan portfolio in agricultural loans had 1984 delinquency rates grow by about 125 percent of their 1982 rates. Given that banks with loan delinquency rates exceeding capital have spawned most bank failures in recent years, it would appear that banks with large concentrations of farm loans are particularly vulnerable to failure.

APPENDIX III

NET LOAN LOSSES AS A
PERCENT OF TOTAL LOANS

The continued deterioration of agricultural banks' loan portfolios has resulted in significantly increased net loan losses. Before the recent stressful years in agriculture, agricultural banks performed better than other banks. As farm sector stress grew, net loan losses of agricultural banks outpaced the loan loss experience of nonagricultural banks. The opposite graph for 16 midwestern and plains states illustrates this condition.

RETURN ON ASSETS FOR AGRICULTURAL
AND NONAGRICULTURAL BANKS

Return on assets at agricultural banks follows trends in delinquent loans and losses at those banks. Banks with larger concentrations of their loans in agriculture have experienced a much larger decline in their return on assets than nonagricultural banks. The opposite graph is an illustration for 16 midwestern and plains states.

PART 3: FINANCIAL CONDITION OF THE FARMERS HOME ADMINISTRATION

The U.S. Department of Agriculture's Farmers Home Administration is one of the main sources of financial assistance to the nation's farmers. As of June 30, 1985, FmHA had outstanding loans to farmers that exceeded $27.7 billion. The agency is referred to as the "lender of last resort" for farmers because it makes loans to those who are unable to get financing from other lenders at reasonable rates and terms. In addition to direct loans, FmHA guarantees loans made by commercial lenders to farmers.

FmHA's farmer loan programs include

a) ownership loans that enable farmers to buy, improve, or refinance farm real estate;

b) operations loans that finance the costs of production; and

c) disaster emergency loans that assist farmers with losses caused by natural disasters such as droughts or floods.

In addition, the agency makes loans for rural housing and community development projects.

FmHA's loan portfolio is characterized by high delinquencies in some of its programs. The opposite table shows that the agency has almost $6.7 billion in loan delinquencies and that its emergency programs account for much of the delinquent amount.

FmHA LOAN DELINQUENCIES

A longstanding guiding objective of the FmHA has been to provide credit to farmers unable to obtain funds elsewhere at reasonable rates. As a result, FmHA has a loan portfolio dominated by highly-leveraged farmers. The following schedule shows that delinquencies in FmHA's loan programs have increased considerably in recent years and as of June 30, 1985, were $6.7 billion ($7.6 billion seasonally adjusted).

Table III.12

FmHA Loan Delinquencies, Actual and Seasonally Adjusted (billions of dollars)

Period	Actual amount delinquent	Seasonally adjusted amount delinquent
Dec. 1980	$2.6	$2.0
Mar. 1981	2.1	2.0
June 1981	1.8	2.1
Sept. 1981	1.6	2.1
Dec. 1981	4.6	3.5
Mar. 1982	3.6	3.4
June 1982	3.2	3.6
Sept. 1982	2.9	3.8
Dec. 1982	5.5	4.2
Mar. 1983	4.8	4.6
June 1983	4.4	5.0
Sept. 1983	4.0	5.2
Dec. 1983	6.9	5.3
Mar. 1984	6.1	5.8
June 1984	5.6	6.4
Sept. 1984	5.3	6.9
Dec. 1984	8.4	6.5
Mar. 1985	7.3	7.0
June 1985	6.7	7.6

FmHA DELINQUENT LOANS

FmHA farmer programs provide loans for farm ownership, operations, natural disaster and economic emergencies, soil and water, recreation, and economic opportunity. These farmer programs represent 47 percent of FmHA's total outstanding loans, but account for almost 96 percent of the agency's delinquencies.

FmHA's loan delinquencies vary widely by Farm Credit System district. For example, the following table shows that while the Columbia and Jackson districts had delinquencies that exceeded $1 billion, other districts such as St. Paul and Omaha with more loans outstanding had less than $500 million delinquent. Also, the Springfield and Baltimore districts had less than $200 million delinquent.

Table III.13

FmHA Farmer Program Delinquent Loans by Farm Credit System District, June 30, 1985

Farm Credit System district	Amount outstanding	Amount delinquent	Percent delinquent
	(millions)	(millions)	
Texas	$1,665	$ 718	43.1
Columbia	2,848	1,199	42.1
Sacramento	1,373	505	36.8
Jackson	2,848	1,034	36.3
Spokane	1,613	325	20.1
St. Louis	3,136	578	18.4
Wichita	2,056	336	16.3
Louisville	2,843	452	15.9
Springfield	989	157	15.9
Baltimore	1,105	161	14.6
St. Paul	3,677	480	13.1
Omaha	3,630	438	12.1
Totals	$27,786	$6,385	23.0

FmHA LOAN DELINQUENCIES BY PROGRAM

As of June 30, 1985, individual farmer program delinquencies accounted for almost $6.4 billion, or about 96 percent, of FmHA's $6.7 billion total delinquencies. Compared to other states, Georgia borrowers have the highest percentage of FmHA delinquencies--56 percent. Also, comparing FmHA's portfolio by Farm Credit System district shows that the one-state Texas district has the highest percentage of FmHA delinquencies--43 percent.

FmHA's natural disaster emergency loan program accounted for $3.9 billion of the agency's delinquencies. The following schedule shows that the disaster program accounts for most delinquencies in Georgia and Texas.

Table III.14

FmHA Loan Delinquencies by Program in Georgia and Texas, June 30, 1985

FmHA program	Georgia delinquencies		Texas delinquencies	
	Amount	Percent	Amount	Percent
	(millions)		(millions)	
Natural disaster	$589.5	81.5	$487.2	67.0
Economic emergency	51.1	7.0	64.7	8.9
Operations	49.7	6.9	132.7	18.2
Ownership	15.3	2.1	28.8	4.0
Other farmer programs	5.5	0.8	4.3	0.6
Other FMHA programs	12.2	1.7	9.5	1.3
Total	$723.4	100.0	$727.2	100.0

FmHA EMERGENCY PROGRAM LOANS

FmHA's natural disaster emergency loan program has more money outstanding and more of it delinquent than any of the agency's other farmer programs. As of June 30, 1985, the emergency program accounted for over $9.9 billion in outstanding loans. The following table shows that over $3.9 billion, or 39.5 percent, of the outstanding loans in the emergency program were delinquent. Also, the table shows that over two-thirds of the value of emergency disaster loans in Georgia and Texas are delinquent.

Table III.15

FmHA Natural Disaster Emergency Program Loans, June 30, 1985

	Delinquent		Not delinquent		Amount
	Amount	Percent	Amount	Percent	Outstanding
	(millions)		(millions)		(millions)
National total	$3,914.9	39.5	$5,999.5	60.5	$9,914.4
Georgia	589.5	71.1	240.2	28.9	829.7
Texas	487.2	67.7	232.5	32.3	719.7

SEVENTY PERCENT OF FMHA's DELINQUENT AMOUNT IS 3 OR MORE YEARS DELINQUENT

The amount of time that FmHA farmer program delinquencies have been delinquent is a significant, growing problem for the agency. As of June 30, 1985, almost $4.5 billion, or 70 percent, of FmHA's delinquent amount was at least 3 years past due. Also, as the following table shows, 91.1 percent of the agency's delinquencies have been delinquent more than 1 year.

Table III.16

Aging of FmHA Farmer Program Delinquencies
June 30, 1985

Time delinquent	Amount delinquent (millions)	Percent delinquent
1 year or less	$ 568.2	8.9
1 - 2 years	606.6	9.5
2 - 3 years	759.8	11.9
3 years or more	4,450.2	69.7
Total	$6,384.8	100.0

FmHA's DEBT SET-ASIDE PROGRAM

FmHA's debt set-aside program is one of four farm credit initiatives announced by the administration in September 1984. The program provides for that portion of existing FmHA loans necessary to produce a positive cash flow to be postponed for 5 years at no interest. Up to 25 percent of the borrower's total unpaid principal and interest, or $200,000, can be set aside, whichever is lower.

Through July 31, 1985:

--107,497 borrowers requested set-asides.

--9,603 applicants were rejected because a positive cash flow was projected without servicing actions.

--26,320 applicants were rejected because a positive cash flow could be achieved by rescheduling the debt.

--16,687 applicants were rejected because a positive cash flow using all available servicing actions, including a set-aside, could not be projected.

--13,291 borrowers were granted set-asides; $552 million of the $2,332 million total principal and interest was set aside.

APPENDIX III

FmHA's DEBT ADJUSTMENT PROGRAM

FmHA's debt adjustment program is another farm credit initiative announced by the administration in September 1984. The program was established to enable lenders to continue to provide credit to eligible farmers operating farms not larger than "family size" farms. Under the program, which is designed for non-FmHA borrowers, FmHA may provide lenders with a guarantee not to exceed 90 percent of loss of principal and interest on loans.

To be eligible for the program, lenders must be willing to adjust outstanding loans to the affected farmer by permanently writing off a minimum of 10 percent of the total principal and/or interest outstanding. In addition to the required 10 percent minimum writeoff, the lender must also write off more principal or further reduce the rate of interest so that the borrower's operation projects a positive cash flow for at least 5 years.

Through July 31, 1985

--651 applications for the programs were received.

--558 applicants, or 86 percent, were from the Midwest.

--364 applications, or 56 percent, were approved.

--267 applications, or 41 percent, were from Iowa.

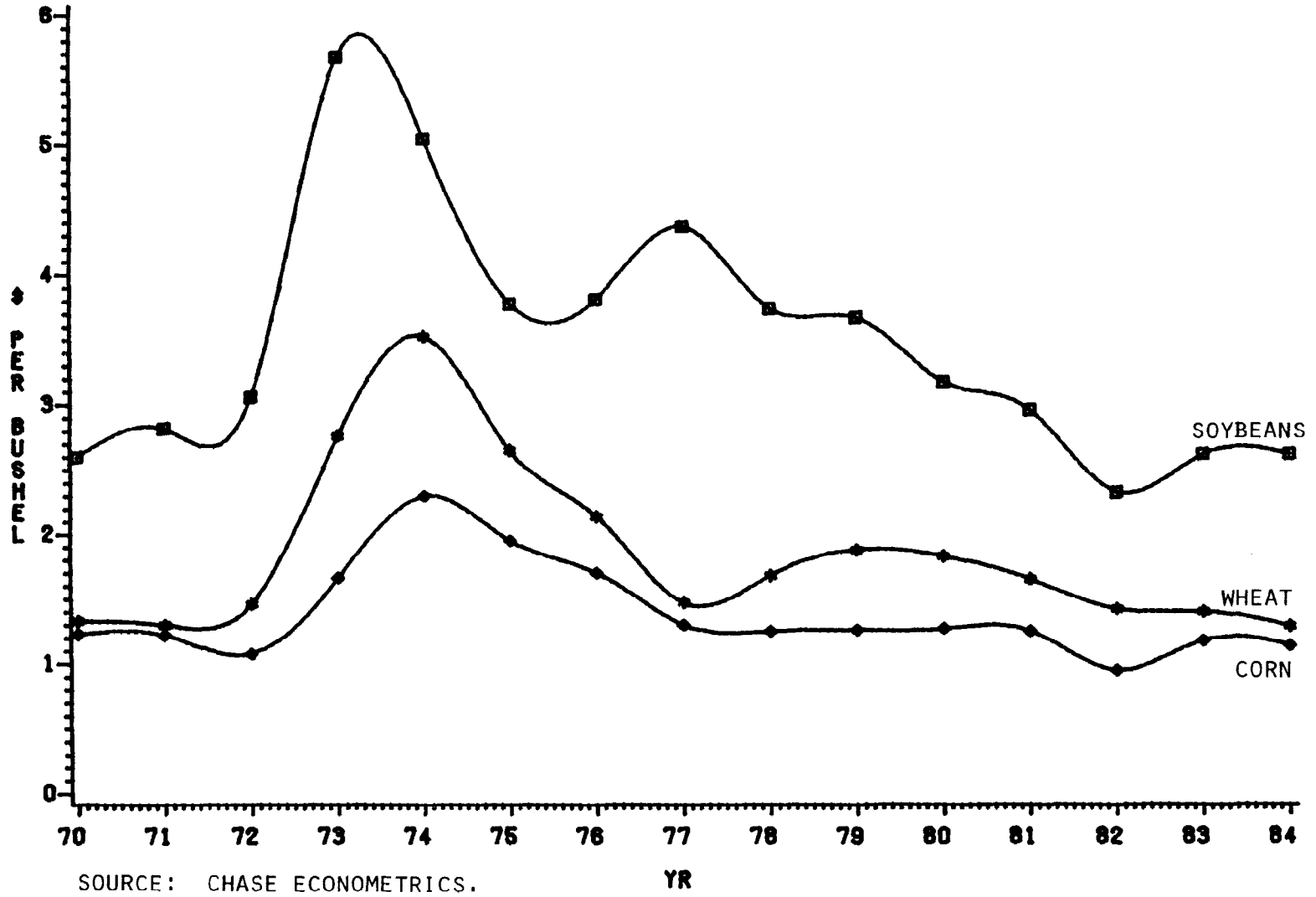
--About $52.5 million in loans was guaranteed under the program.

(029151)

FIGURE I.5

REAL PRICES OF WHEAT, CORN & SOYBEANS

1970-1984

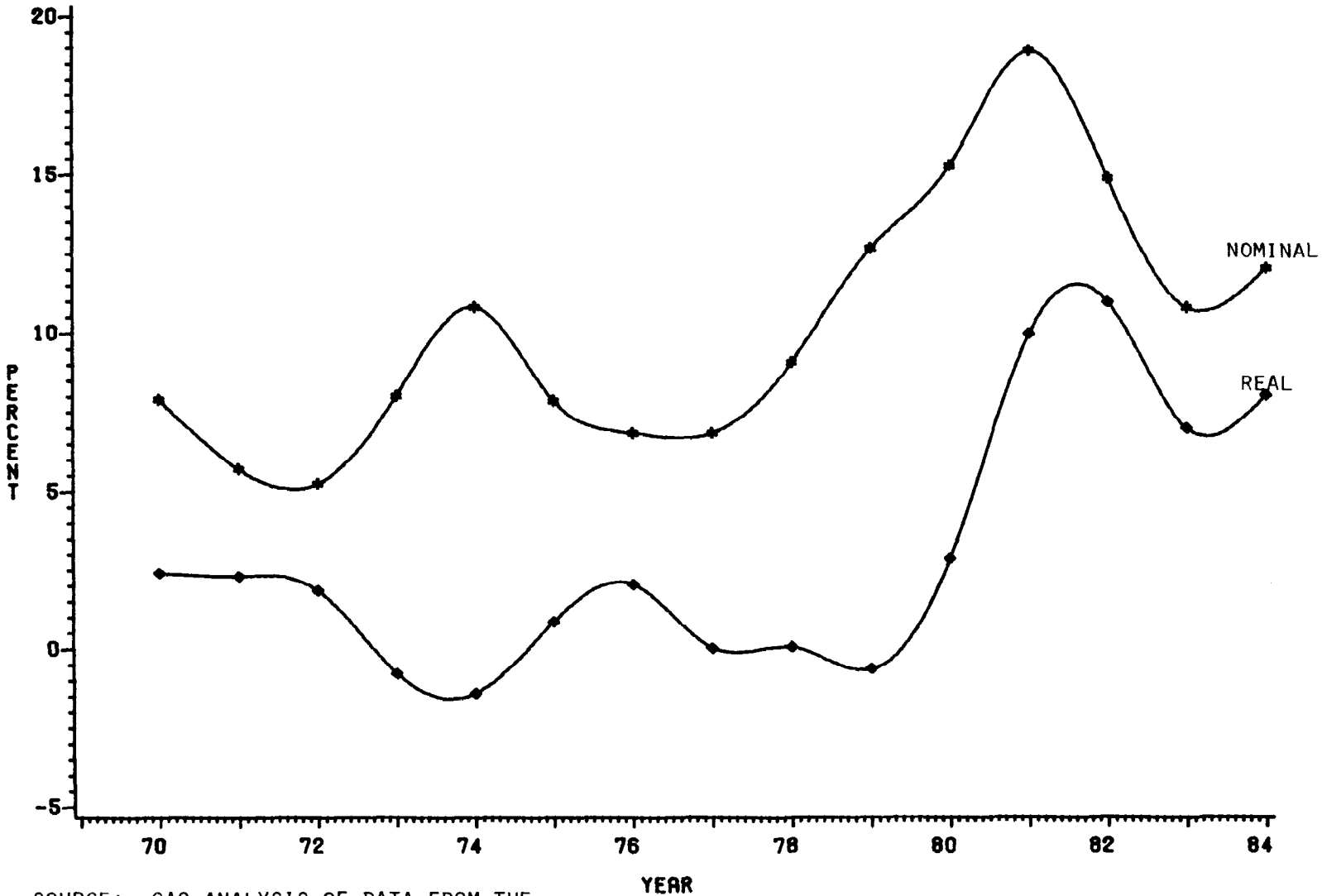


SOURCE: CHASE ECONOMETRICS.

APPENDIX I

FIGURE I.6

NOMINAL VERSUS REAL INTEREST



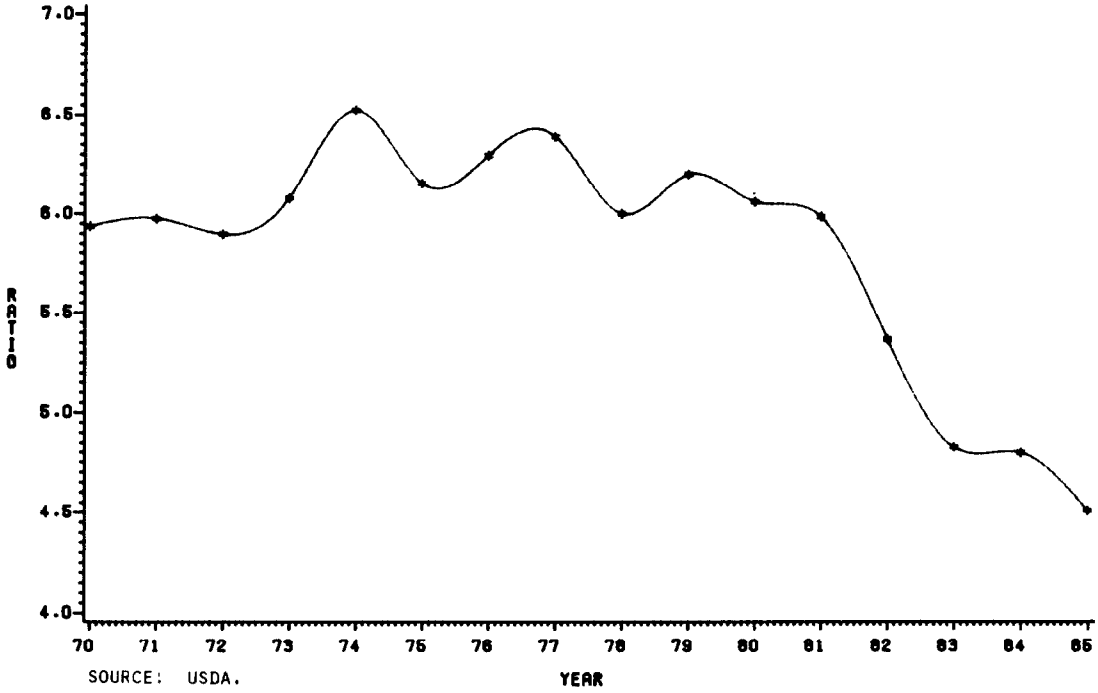
SOURCE: GAO ANALYSIS OF DATA FROM THE ECONOMIC REPORT OF THE PRESIDENT.

APPENDIX I

APPENDIX II

FIGURE II.1

ASSET-TO-DEBT RATIO

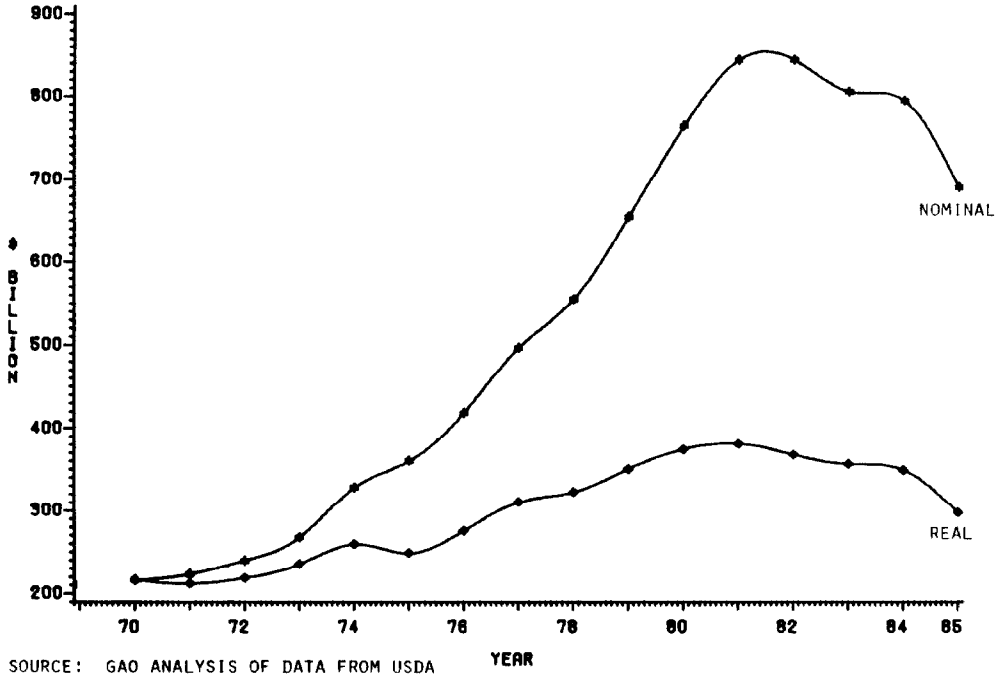


SOURCE: USDA.

FIGURE II.2

FARM REAL ESTATE VALUES

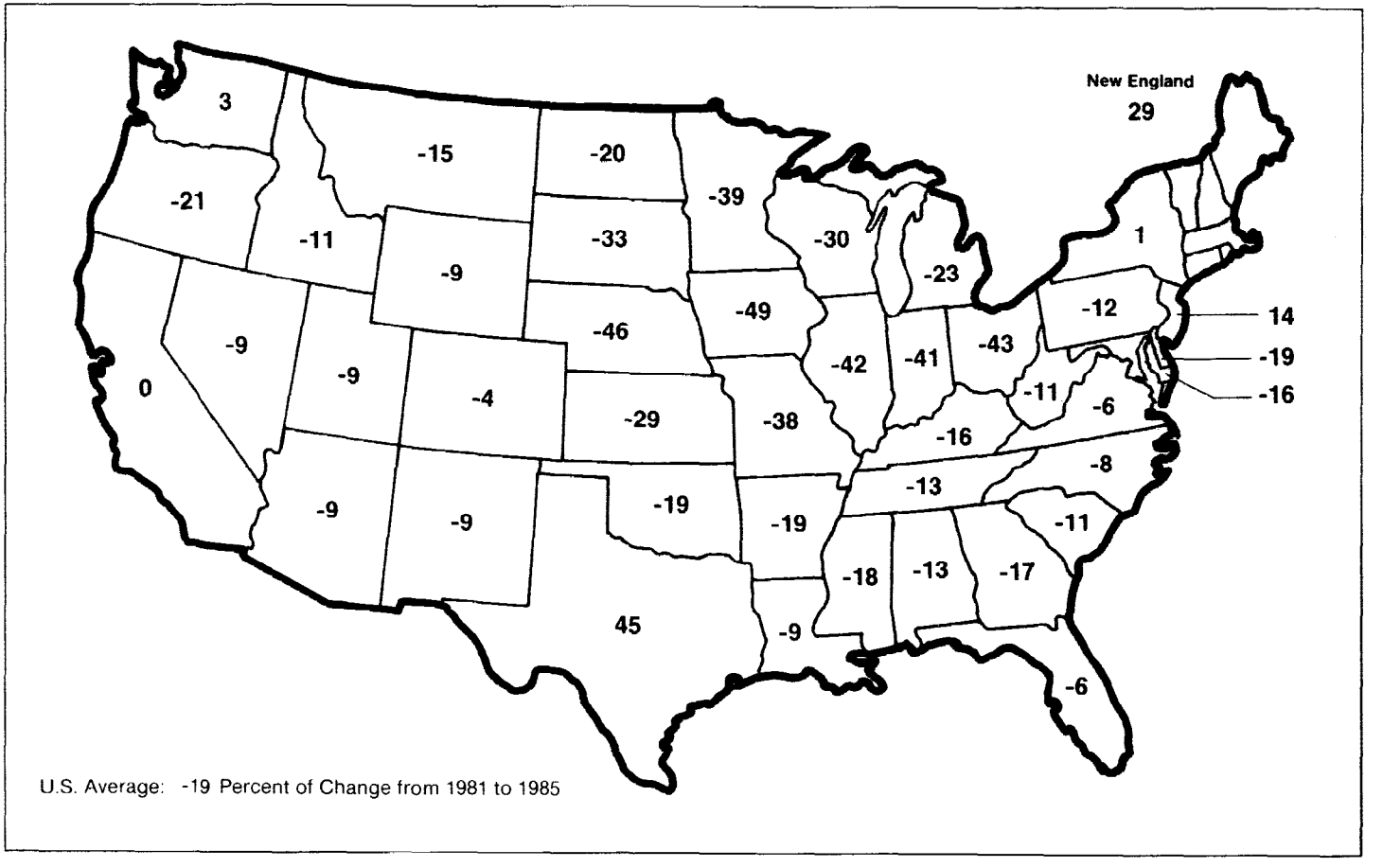
NOMINAL VS REAL (1970 DOLLARS)



SOURCE: GAO ANALYSIS OF DATA FROM USDA AND THE ECONOMIC REPORT OF THE PRESIDENT.

FIGURE II.3

Percent of Change in Average Value of Farm Real Estate per Acre 1981-1985



Source: USDA.

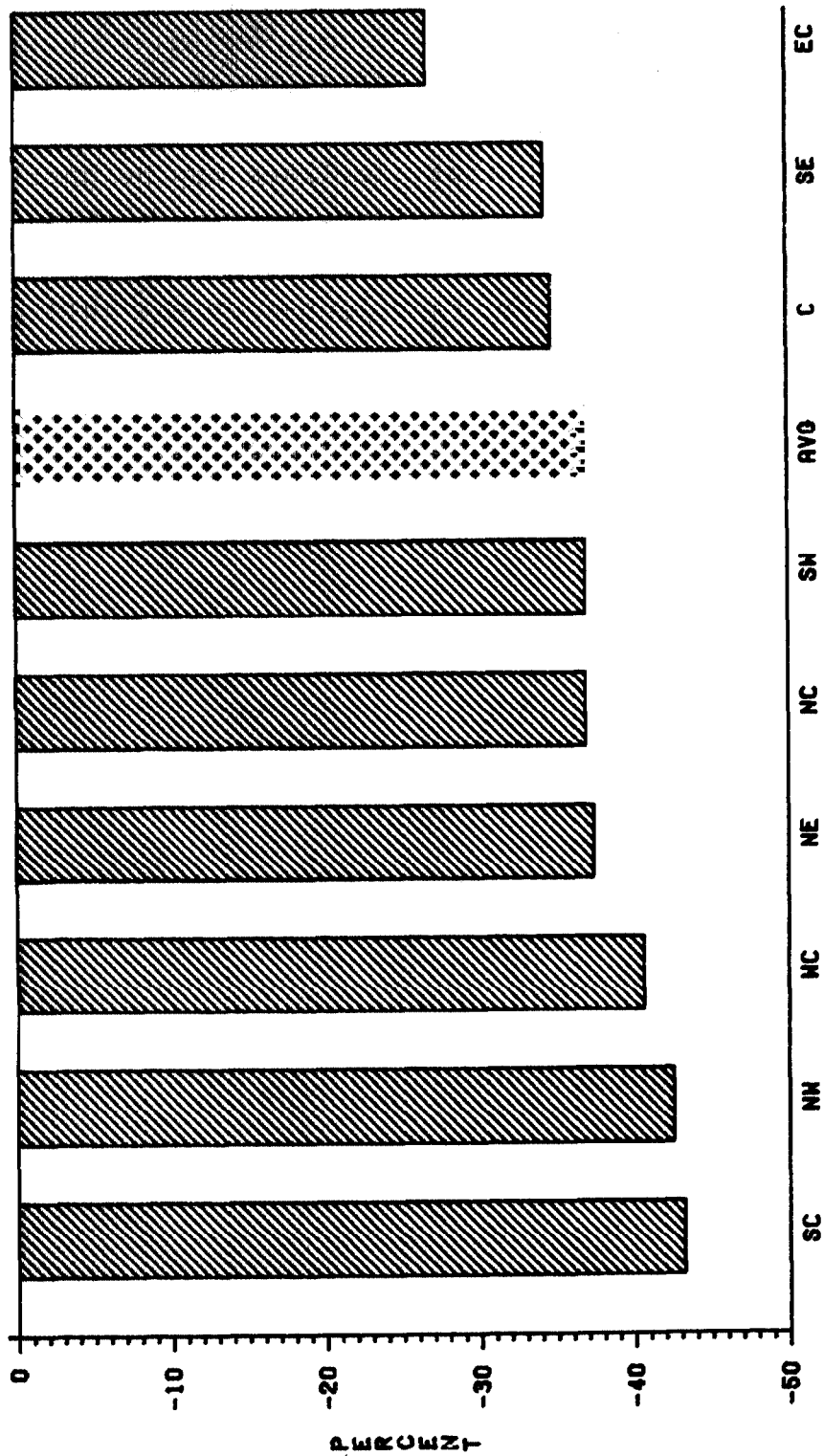
APPENDIX II

APPENDIX II

FIGURE II.4

PERCENT CHANGE IN IOWA FARMLAND VALUES

1981-1984



LEGEND:

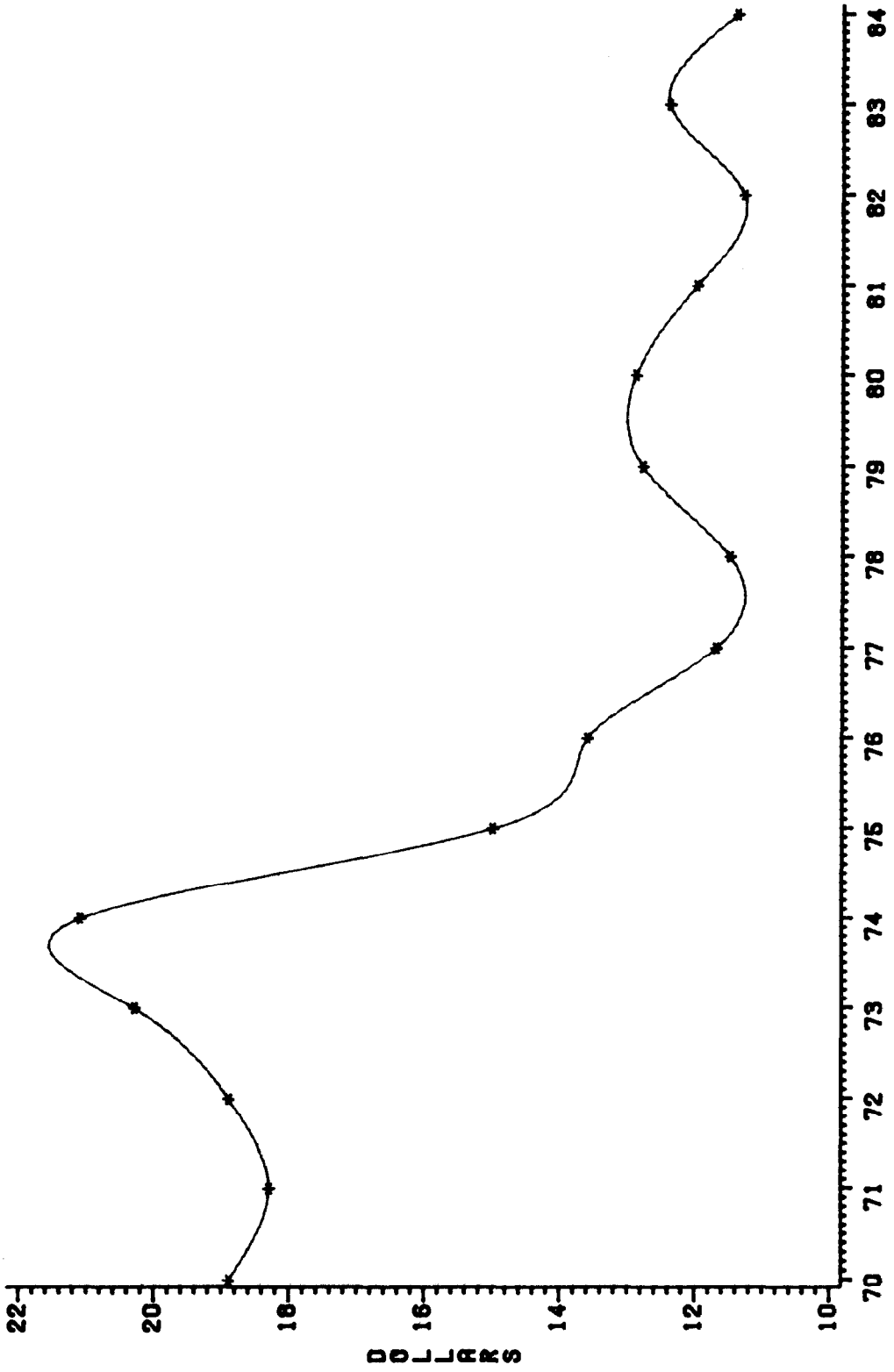
SC - SOUTH CENTRAL NE - NORTHEAST AVG - AVERAGE EC - EAST CENTRAL
NW - NORTHWEST NC - NORTH CENTRAL C - CENTRAL
WC - WEST CENTRAL SW - SOUTHWEST SE - SOUTHEAST

SOURCE: IOWA STATE UNIVERSITY.

APPENDIX II

FIGURE II.5

DOLLARS OF LIQUID ASSETS
PER DOLLAR OF FIXED ASSETS



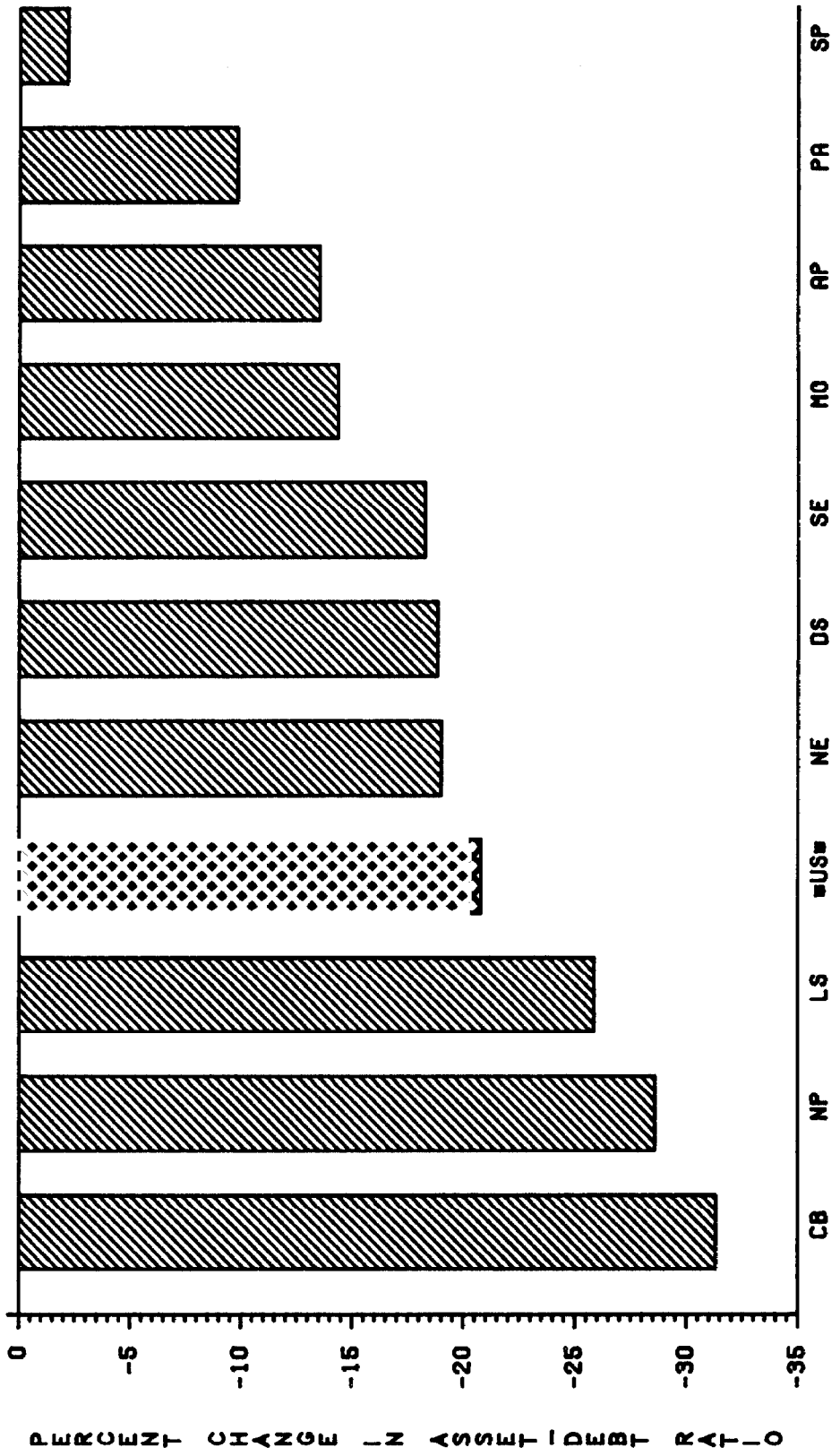
SOURCE: GAO ANALYSIS
OF USDA DATA.

APPENDIX II

FIGURE II.6

THE DECLINE IN FARM ASSET POSITION

FOR US & REGIONS--1980 TO 1984



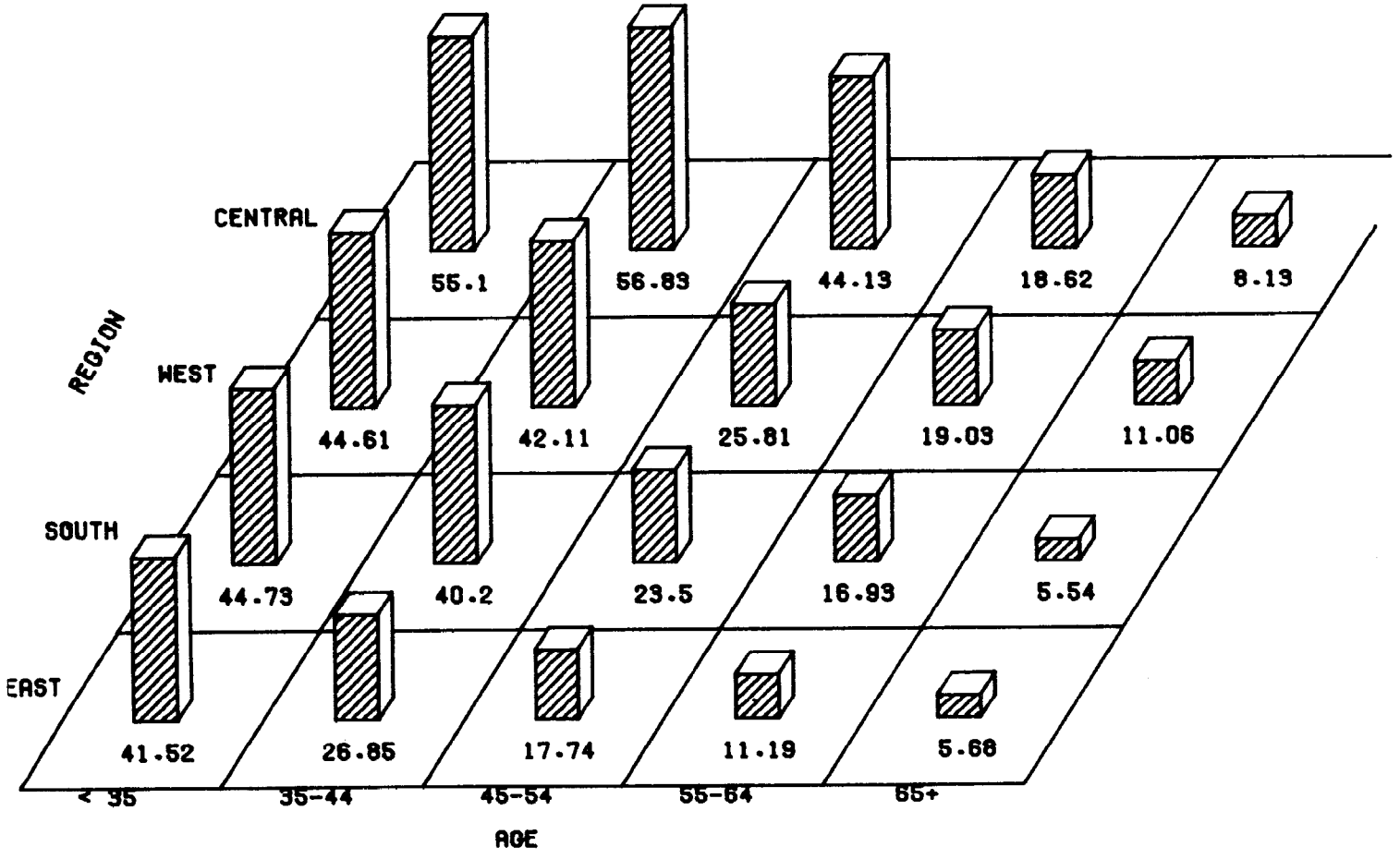
LEGEND: SEE OPPOSITE PAGE.

SOURCE: GAO ANALYSIS OF USDA DATA.

FIGURE II.7

DEBT–TO–ASSET RATIOS BY REGION AND AGE GROUP

(IN PERCENT)



SOURCE: FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE AND FARM JOURNAL.

APPENDIX II

FIGURE II.8

GROSS AND NET FARM INCOME

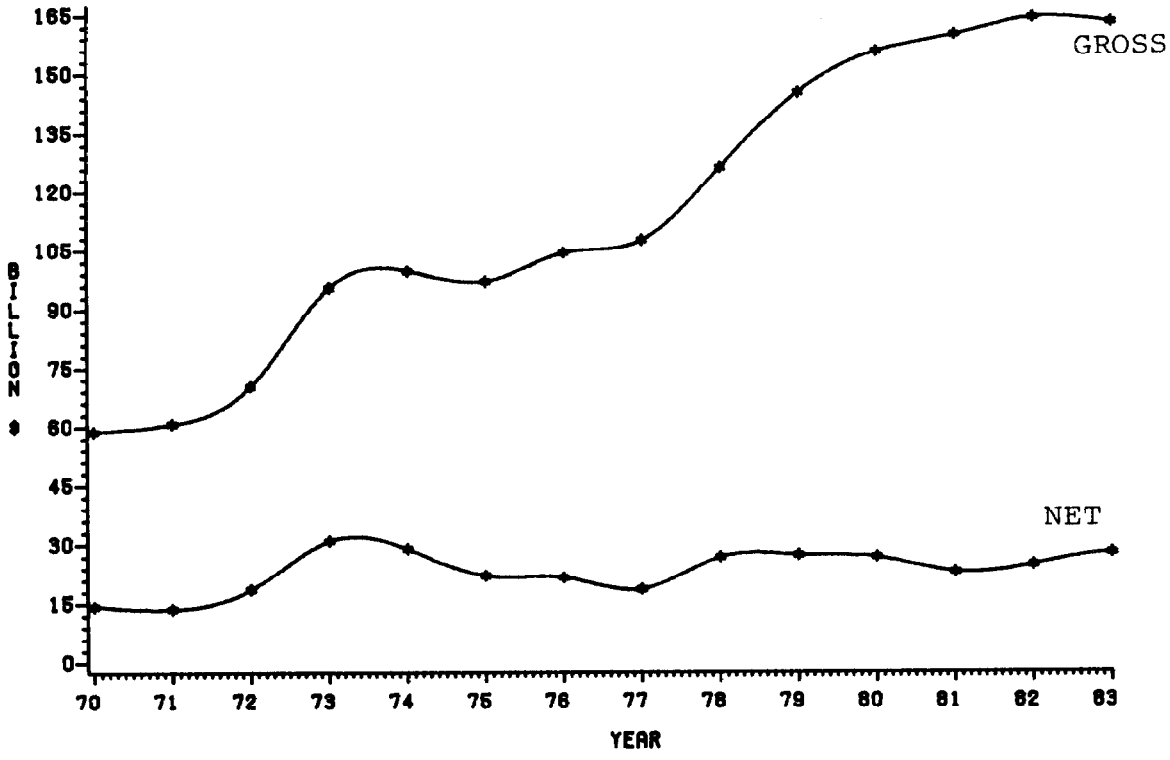


FIGURE II.9

INTEREST EXPENSE AS A PERCENT OF ALL FARM PRODUCTION EXPENSES

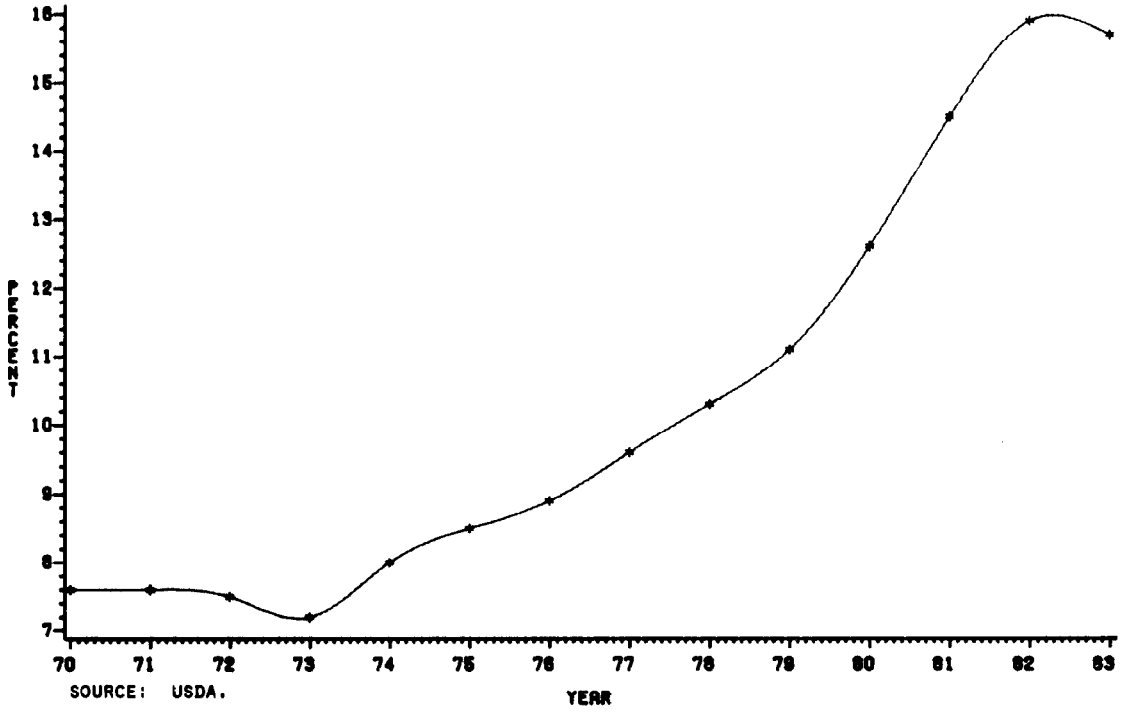
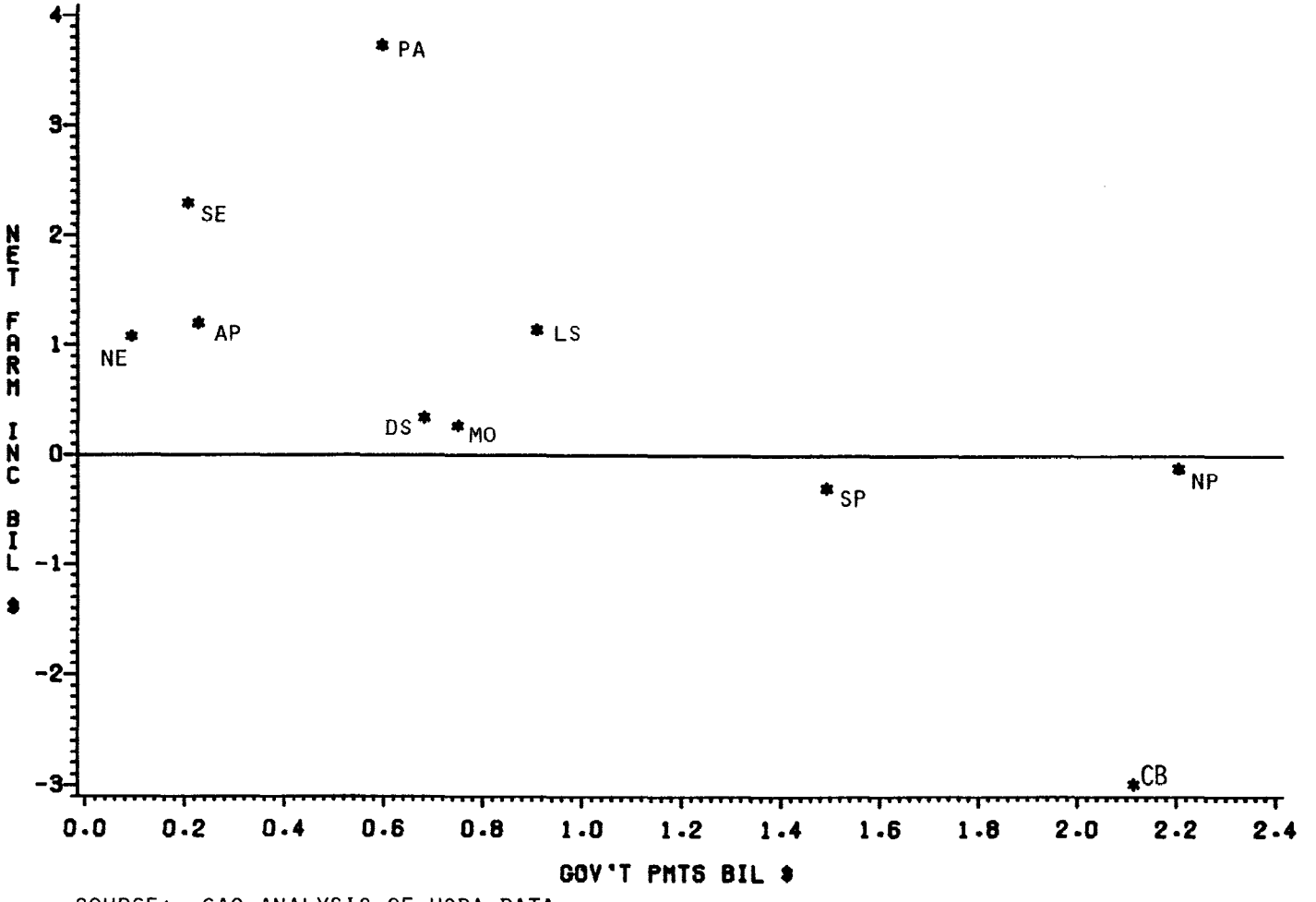


FIGURE II.10

NET FARM INCOME AND GOVERNMENT PAYMENTS BY REGION—1983

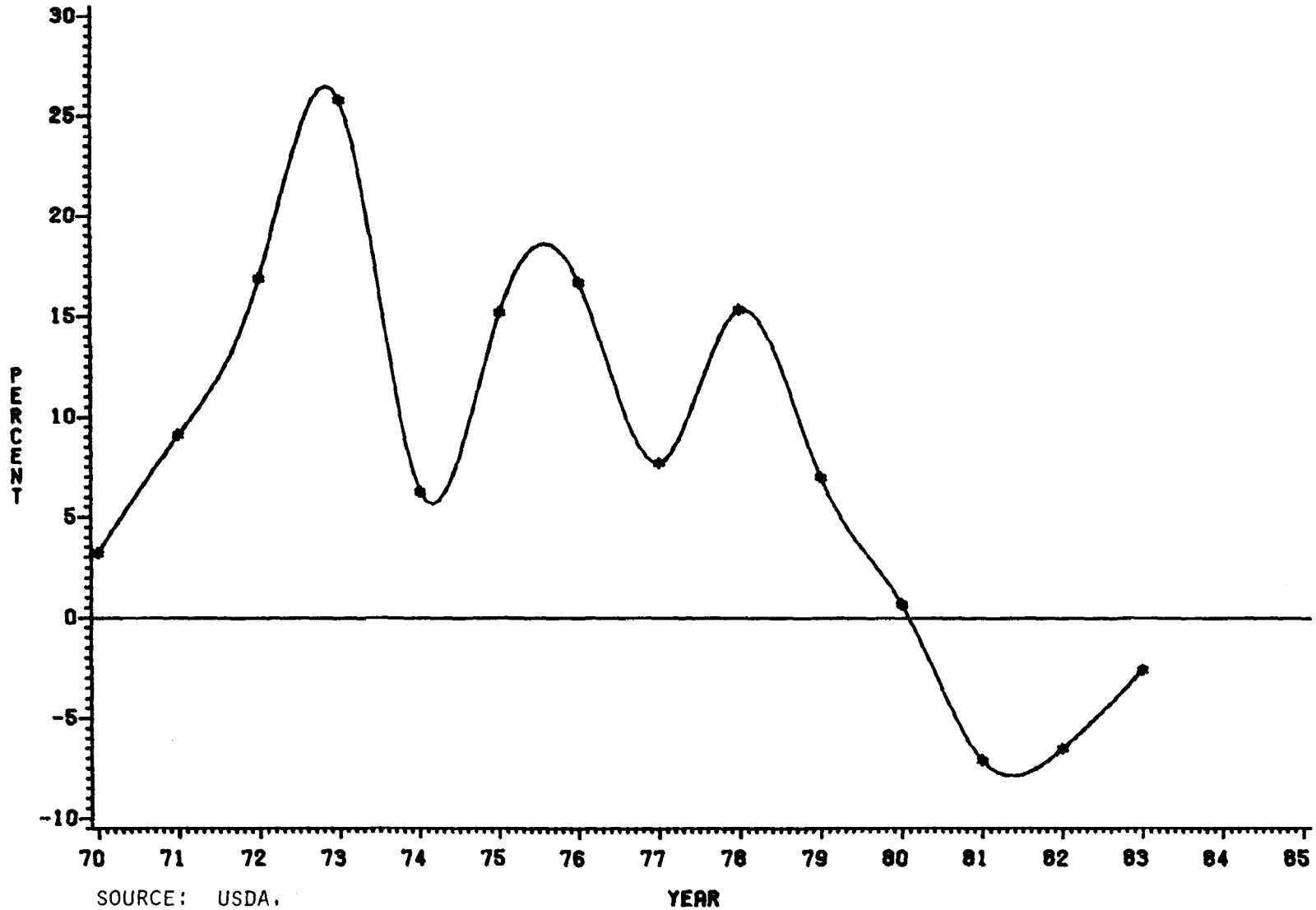


SOURCE: GAO ANALYSIS OF USDA DATA.

APPENDIX II

FIGURE II.11

RATE OF RETURN TO EQUITY



SOURCE: USDA.

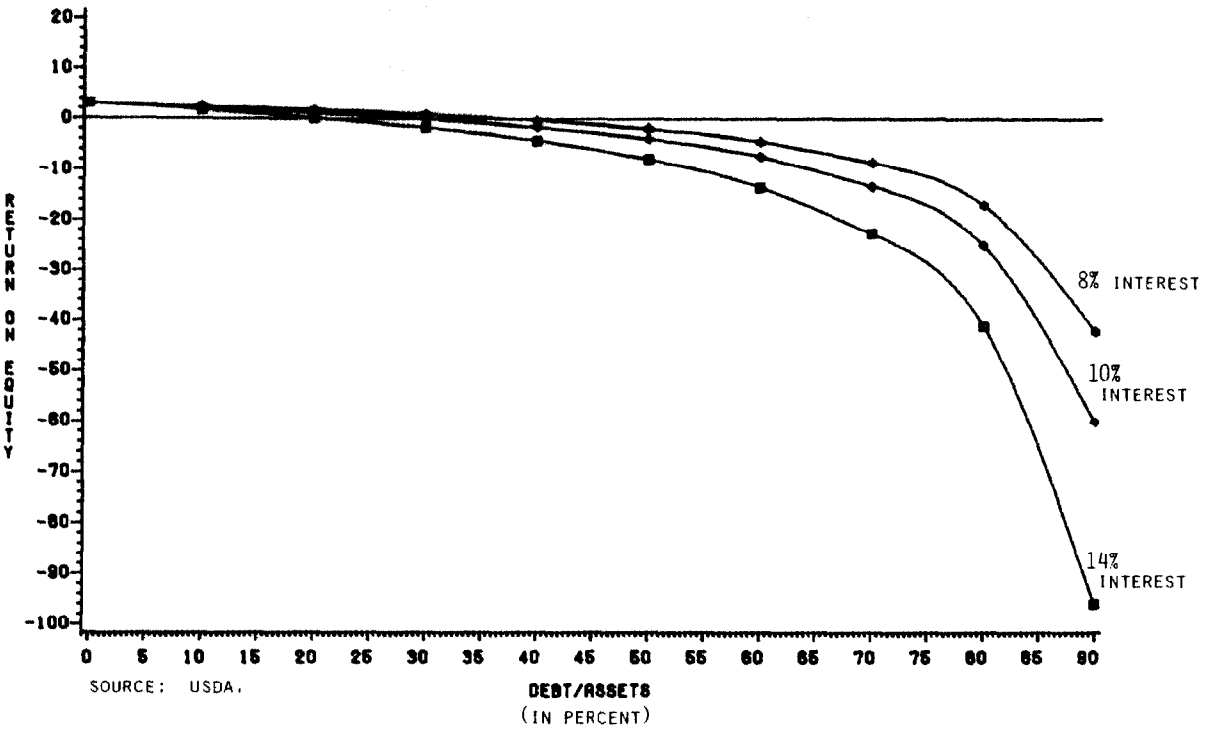
APPENDIX II

APPENDIX II

FIGURE II.12

RATE OF RETURN ON EQUITY

(ASSUMES 3.0 % ROR ON ASSETS AT NO DEBT)

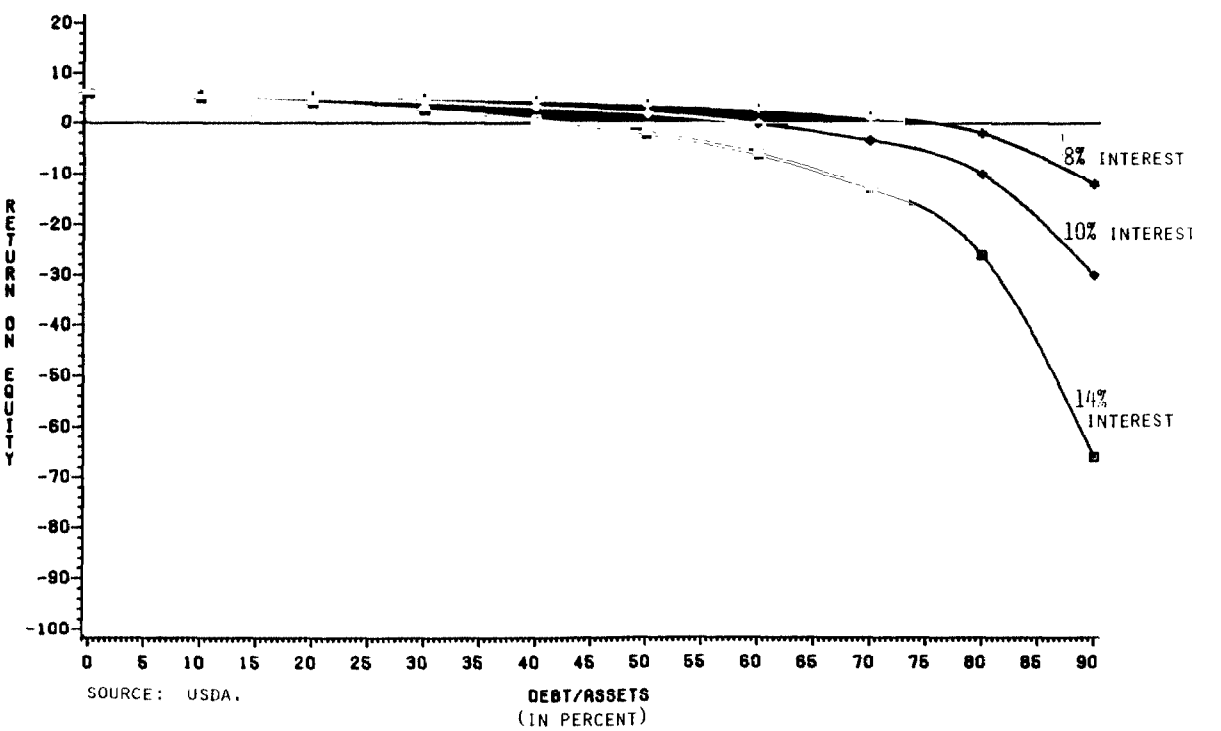


SOURCE: USDA.

FIGURE II.13

RATE OF RETURN ON EQUITY

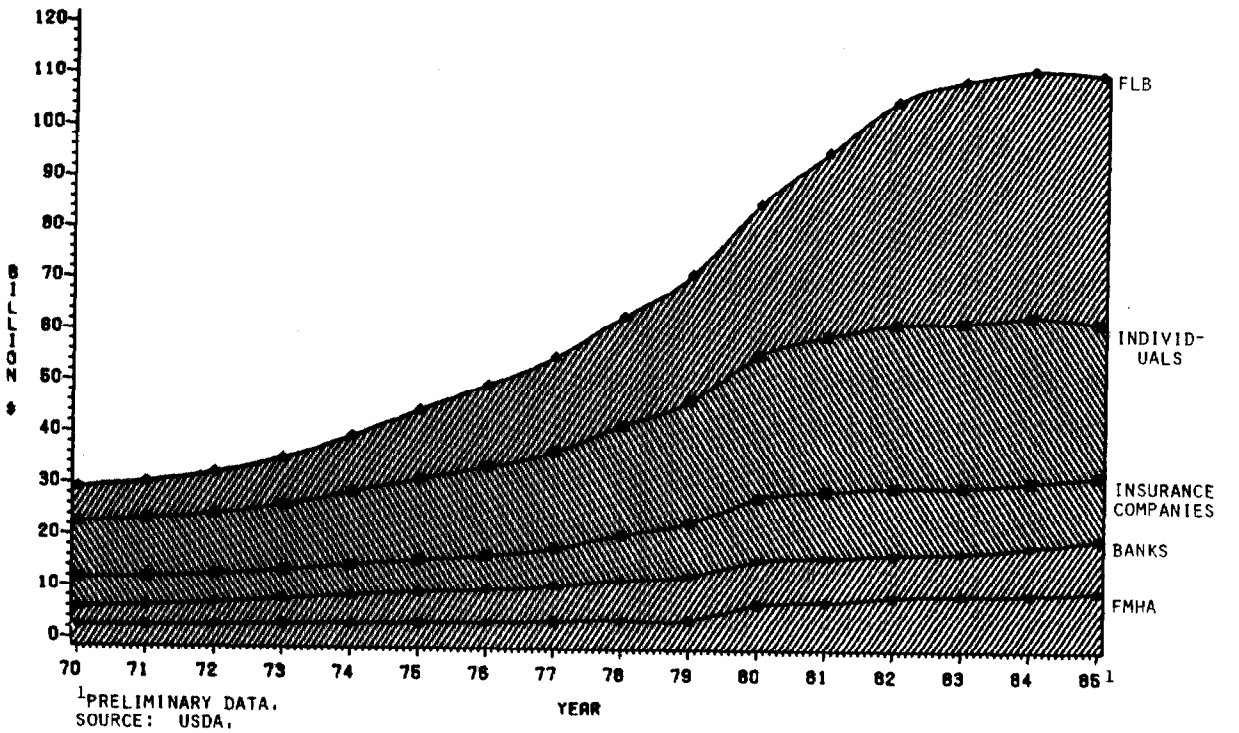
(ASSUMES 6.0 % ROR ON ASSETS AT NO DEBT)



SOURCE: USDA.

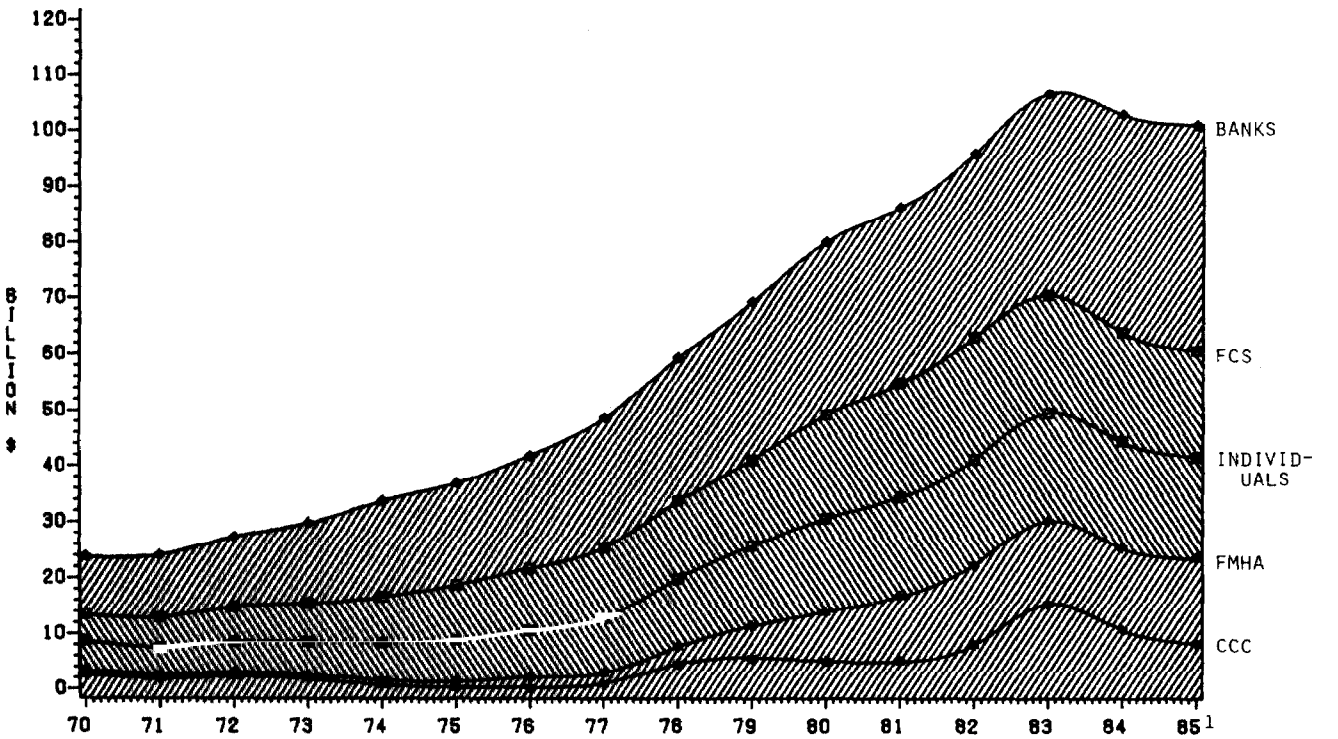
APPENDIX II

FIGURE II.14
REAL ESTATE FARM DEBT



[1]PRELIMINARY DATA.
SOURCE: USDA.

FIGURE II.15
NON-REAL ESTATE FARM DEBT



[1]PRELIMINARY DATA.
SOURCE: USDA.

APPENDIX II

FIGURE II.16

AGRIBUSINESS

DEPRESSED CONDITION OF FARM CONSTRUCTION AND MACHINERY FIRMS FROM 1977–1984 CAUSED ESTIMATED LOSSES OF:

--$26.2 BILLION IN TOTAL OUTPUT

--327,000 JOBS

--$6.4 BILLION IN PERSONAL INCOME

SOURCE: IOWA STATE UNIVERSITY.

TABLE II.1

AGRIBUSINESS
SALES OF FARM EQUIPMENT *

	NUMBER OF UNIT SALES	
	1979	1985
TRACTORS, 40+HP	54,728	20,193
SELF-PROPELLED COMBINES	5,100	1,436
BALERS	3,208	1,404
FORAGE HARVESTERS	1,154	423
MOWER CONDITIONERS	4,266	2,576
WINDROWERS	1,234	395
GRINDER-MIXERS	5,901	923
CORN HEADS	2,462	788

* January through April sales

SOURCE: FARM AND INDUSTRIAL EQUIPMENT INSTITUTE.

ECONOMY-WIDE EFFECTS OF FARM FINANCIAL STRESS

The financial stress on the farm sector has effects on the economy as a whole. Farm loan losses of $20 billion to $25 billion in the 1985-1993 period are projected to cause[2]

--job losses between 175,000 and 275,000.

--total (real) Gross National Product to be reduced by $31 billion to $51 billion in 1985 dollars.

--a higher federal deficit by $14 billion to $22 billion.

--private short-term interest rates to rise, at peak, by 75 to 125 basis points.[3]

--an additional risk premium of 40 to 50 basis points for agricultural loans.

--lower business investment of $24 billion to $38 billion in 1985 dollars.

--housing starts to decline by 115,000 to 189,000 units.

Sources: Wharton Econometric Forecasting Associates
Food and Agricultural Policy Research Institute.

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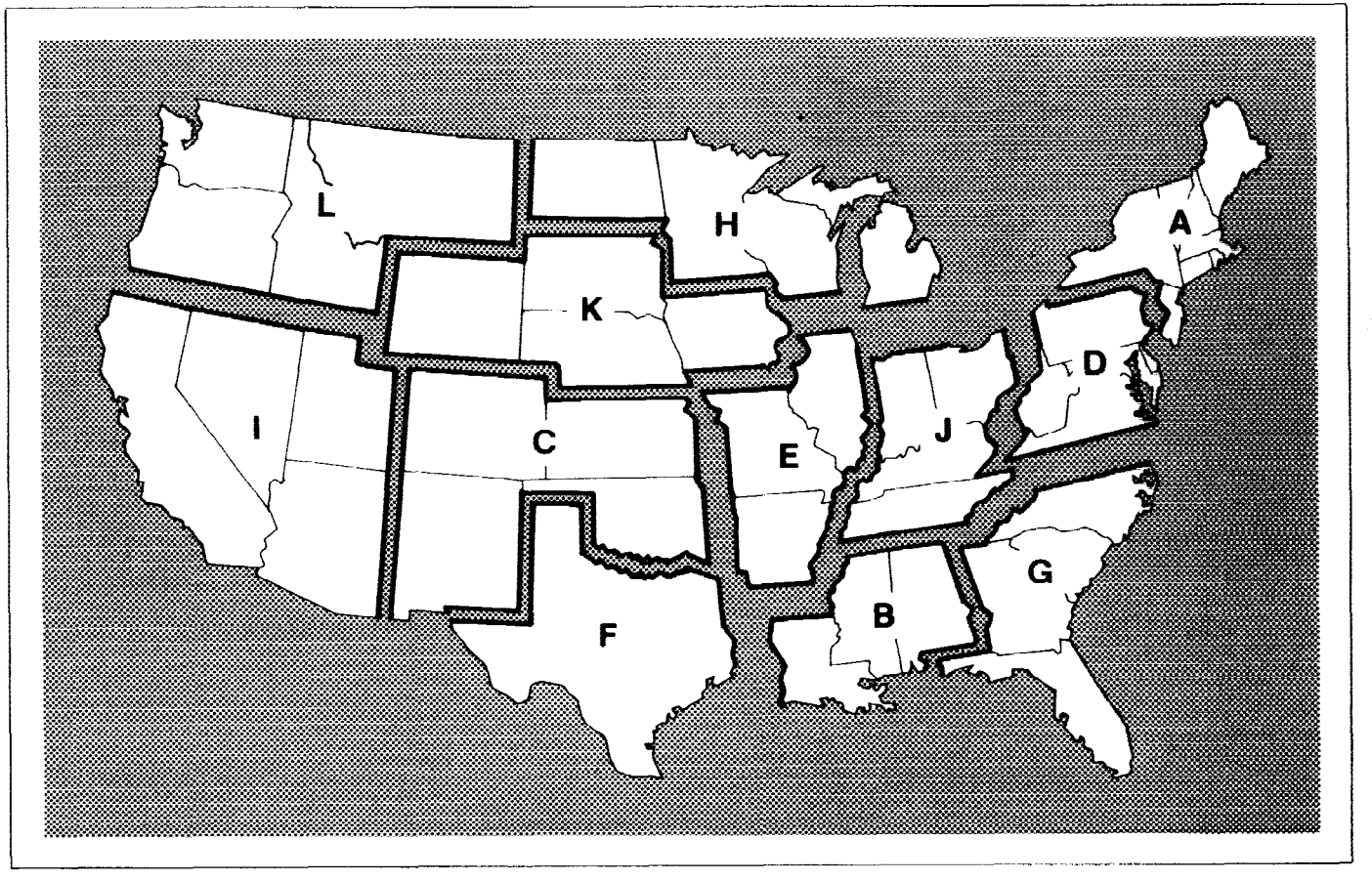
[2]USDA analysts believe these projections are high by a factor of 2.

[3]A basis point is 1/100th of a percent.

FIGURE III.1

Farm Credit System District Map



Districts

A - Springfield	**D** - Baltimore	**G** - Columbia	**J** - Louisville
B - Jackson	**E** - St. Louis	**H** - St. Paul	**K** - Omaha
C - Wichita	**F** - Texas	**I** - Sacramento	**L** - Spokane

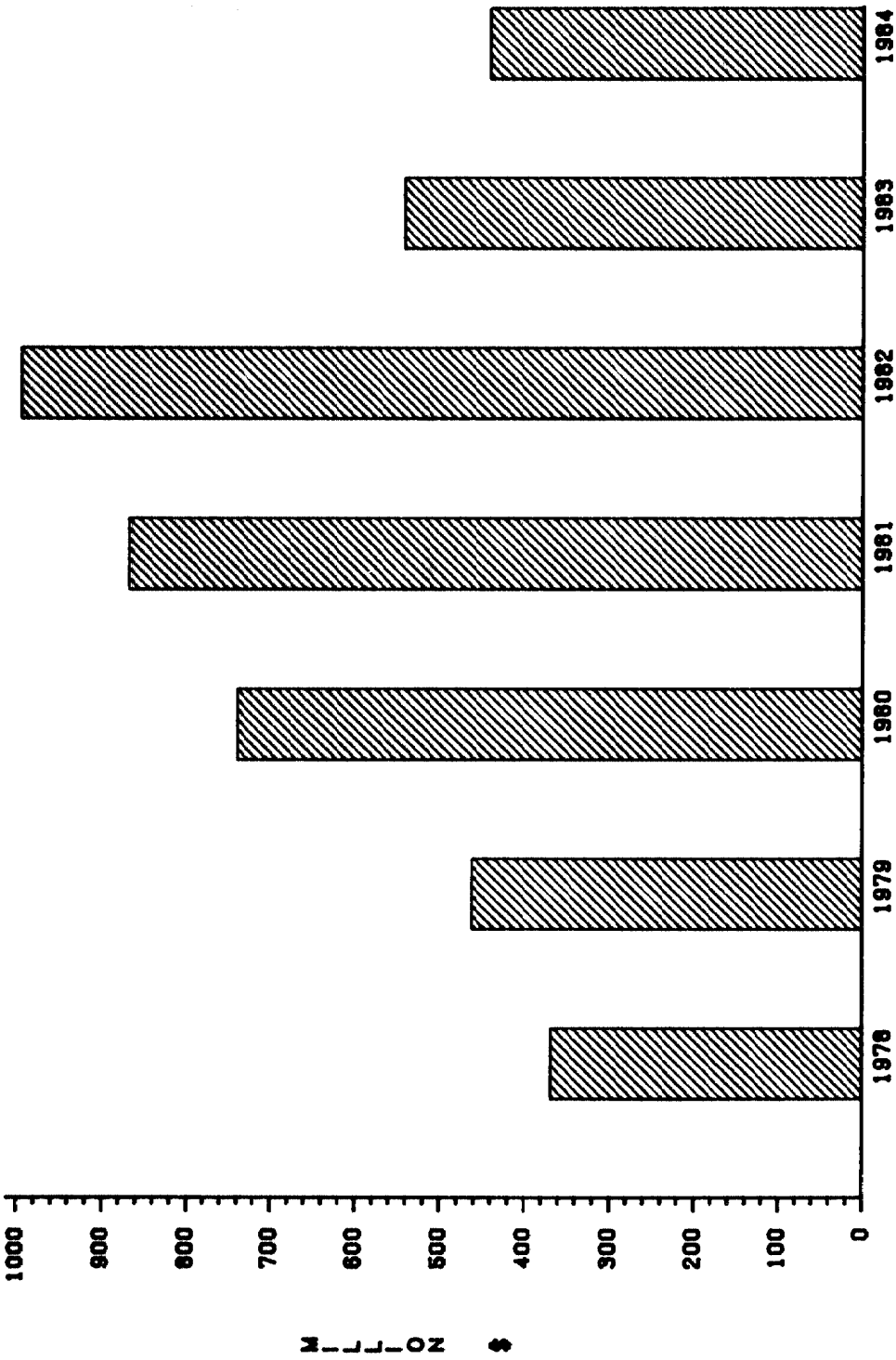
Source: Federal Farm Credit Banks Funding Corporation.

APPENDIX III

APPENDIX III

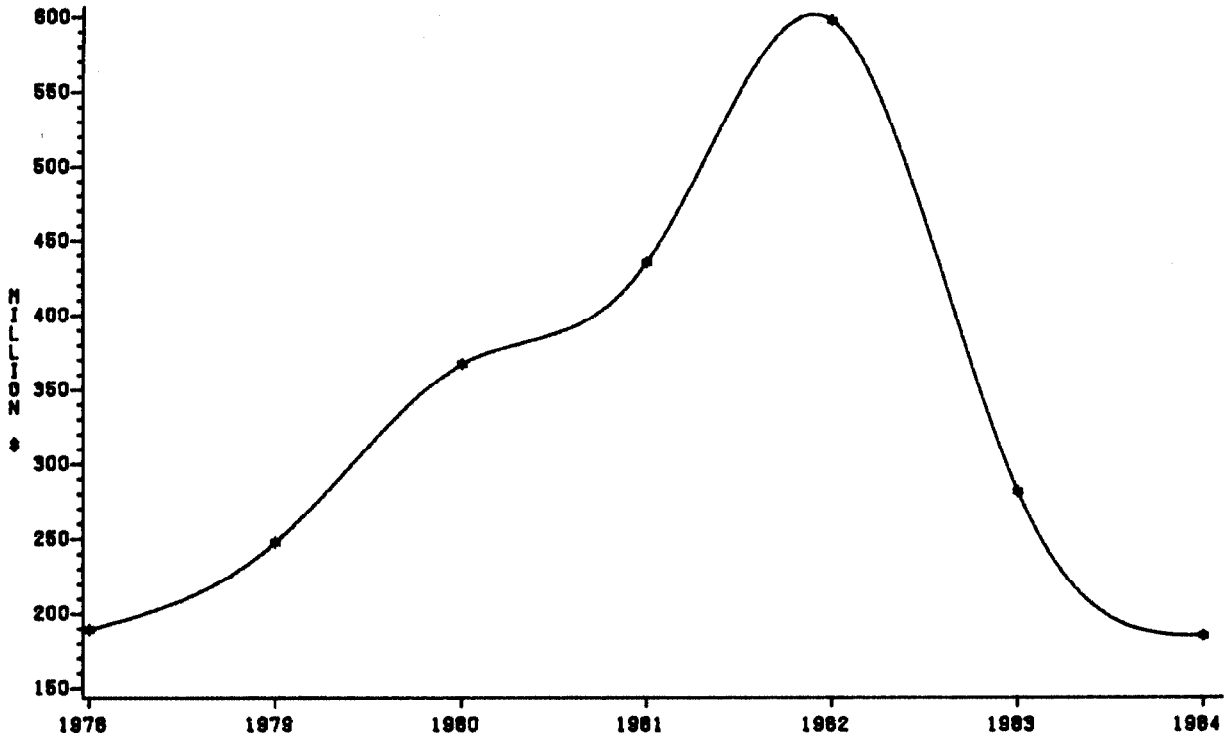
FIGURE III.2

NET INCOME FOR FARM CREDIT SYSTEM BANKS



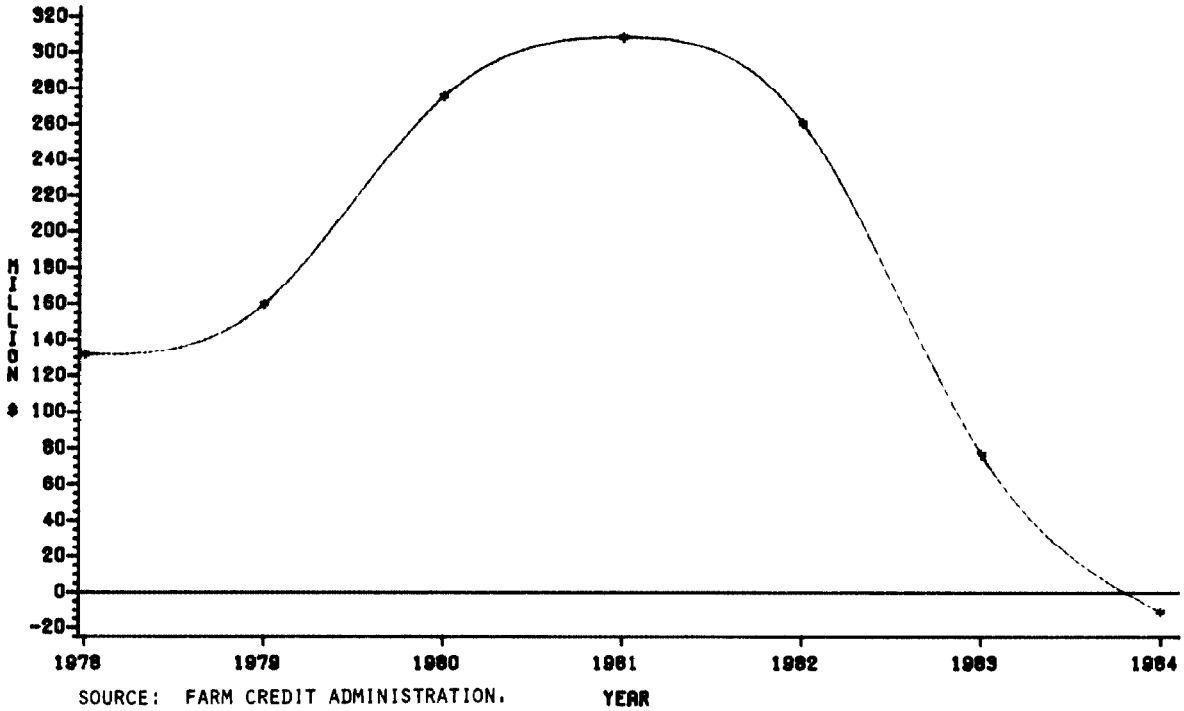
SOURCE: FARM CREDIT SYSTEM FUNDING CORPORATION.

FIGURE III.3
NET EARNINGS OF FEDERAL LAND BANKS



SOURCE: FARM CREDIT ADMINISTRATION.

FIGURE III.4
NET EARNINGS OF
PRODUCTION CREDIT ASSOCIATIONS

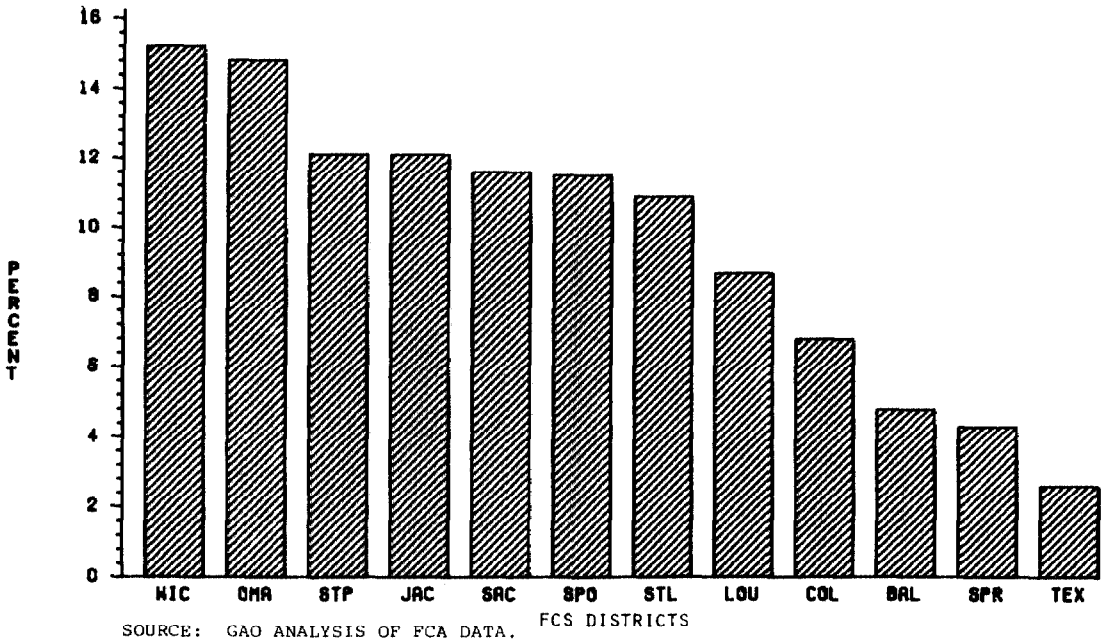


SOURCE: FARM CREDIT ADMINISTRATION.

FIGURE III.5

NONPERFORMING LOANS OF FEDERAL LAND BANKS

BY DISTRICT AS OF JUNE 30, 1985

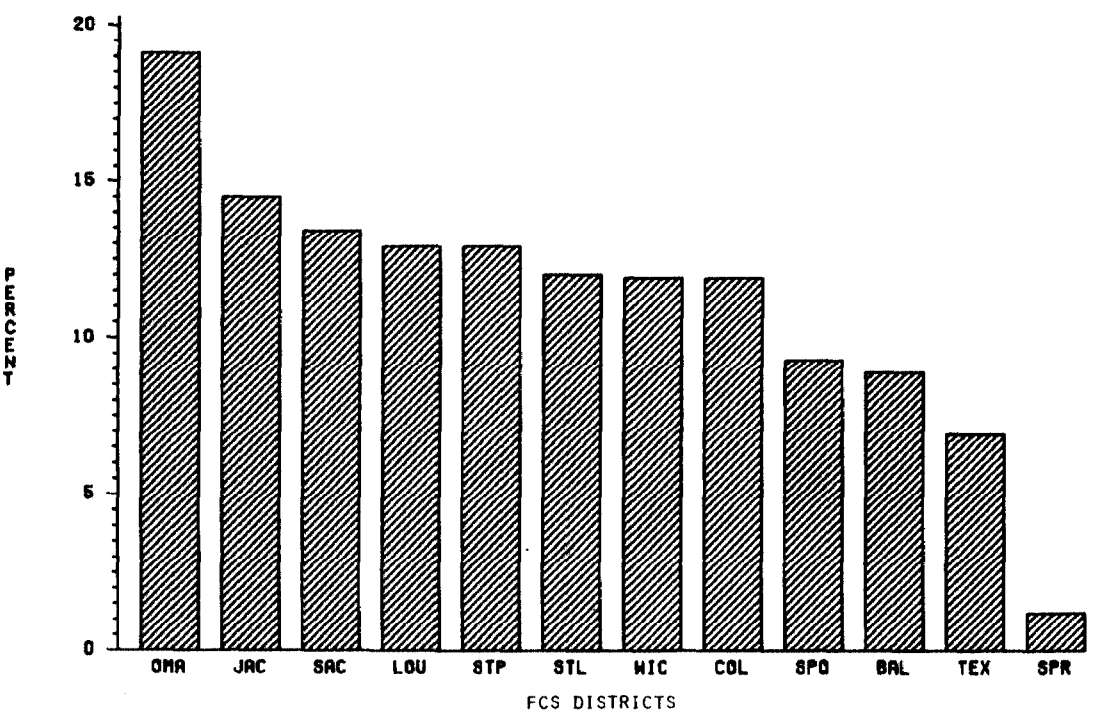


SOURCE: GAO ANALYSIS OF FCA DATA.

FIGURE III.6

NONPERFORMING LOANS OF PRODUCTION CREDIT ASSOCIATIONS

BY DISTRICT AS OF JUNE 30, 1985

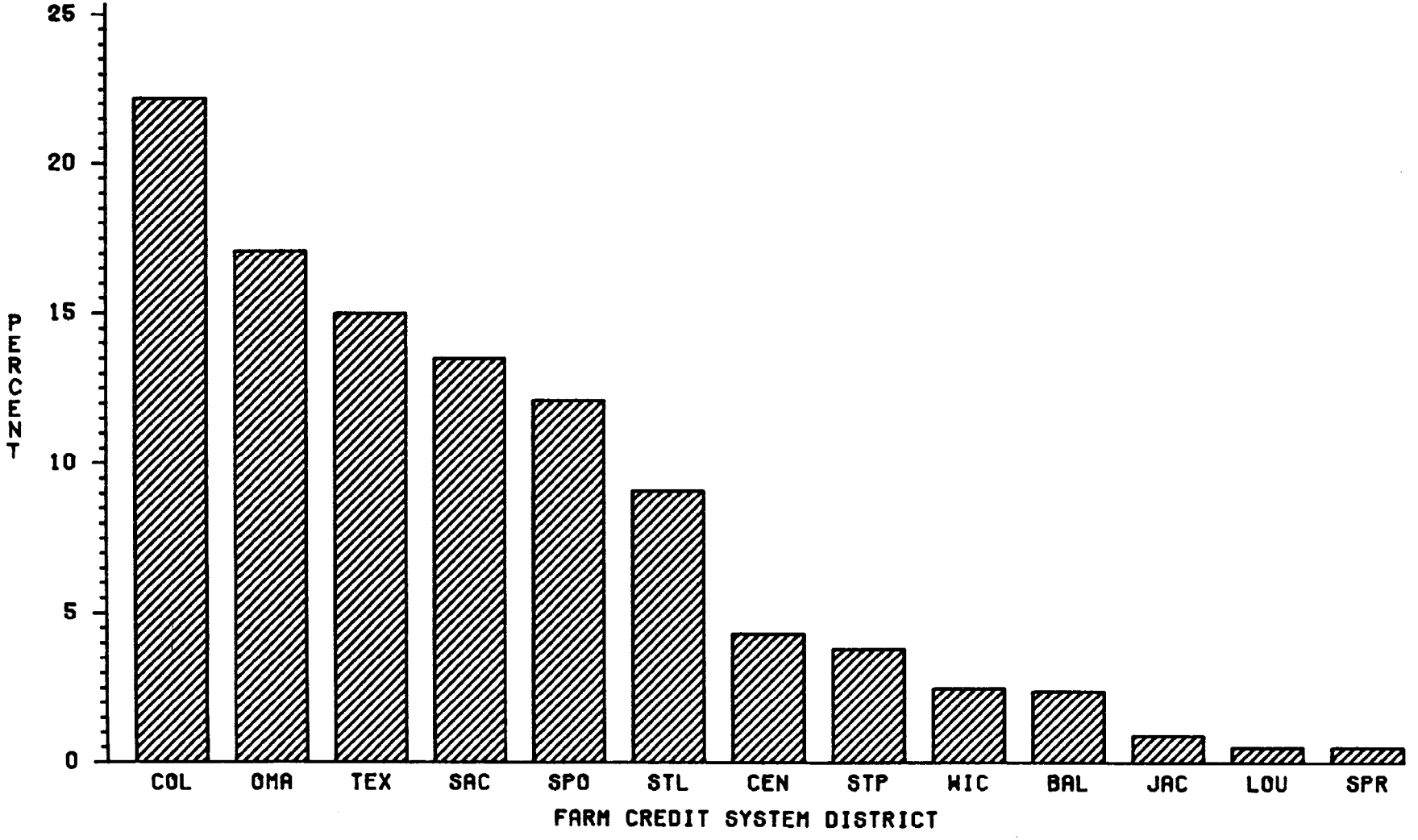


SOURCE: GAO ANALYSIS OF FCA DATA.

FIGURE III.7

NONPERFORMING LOANS OF BANKS FOR COOPERATIVES

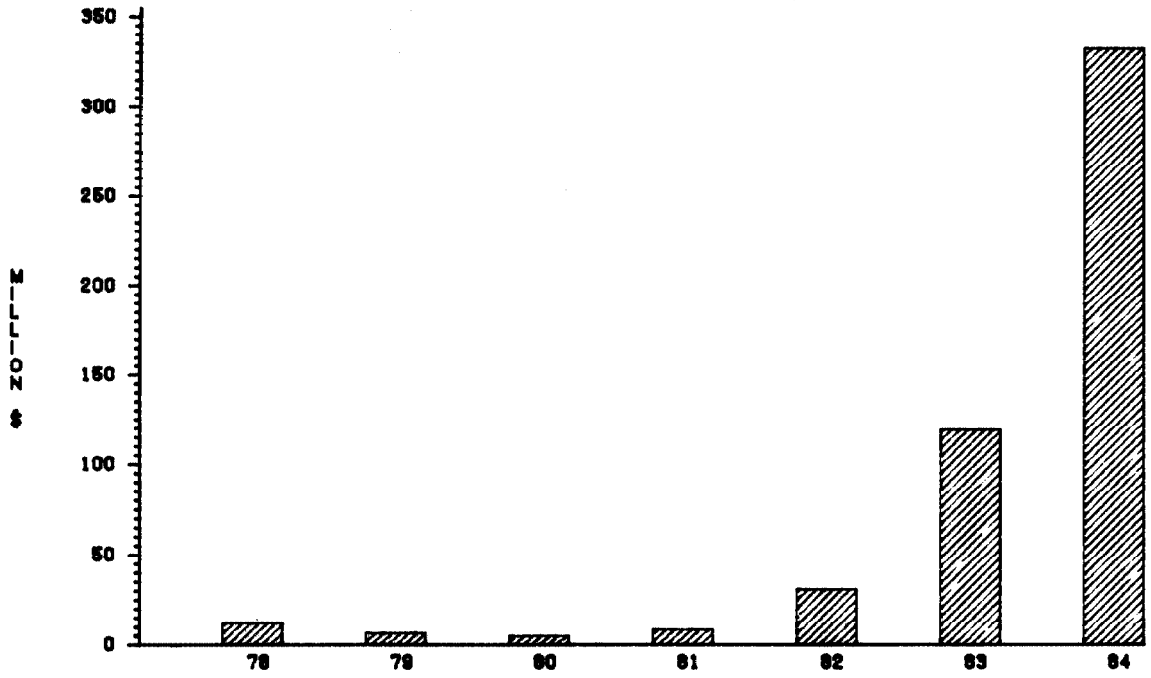
JUNE 30, 1985



APPENDIX III

FIGURE III.8

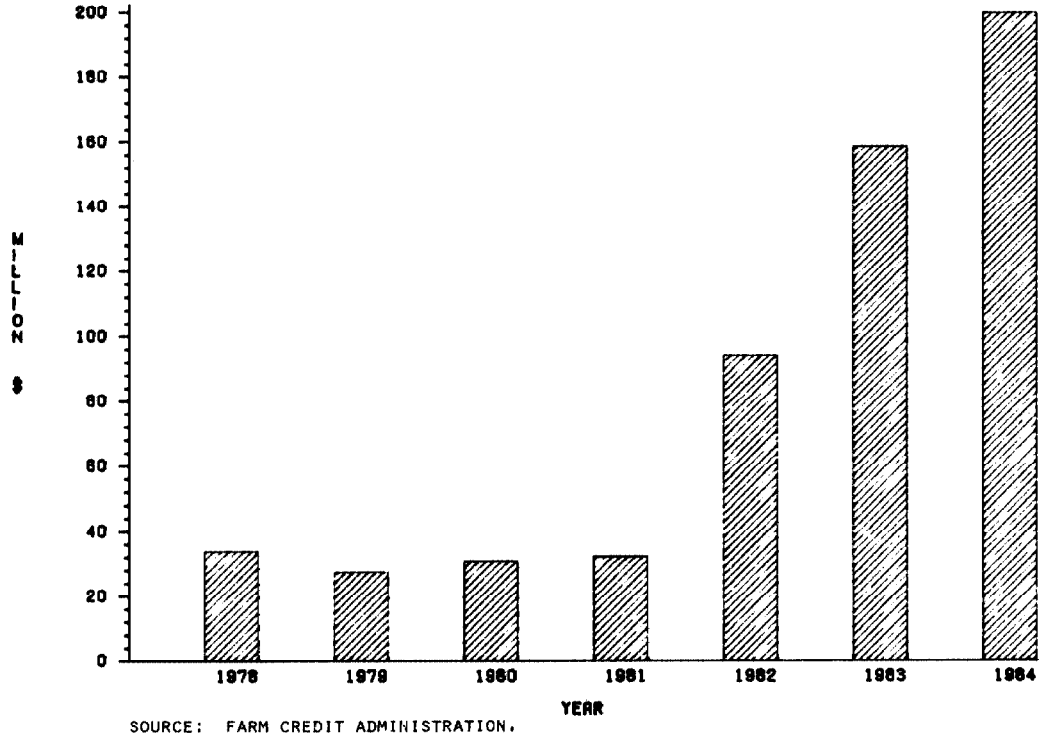
PROPERTY ACQUIRED BY FEDERAL LAND BANKS



SOURCE: FARM CREDIT ADMINISTRATION.

FIGURE III.9

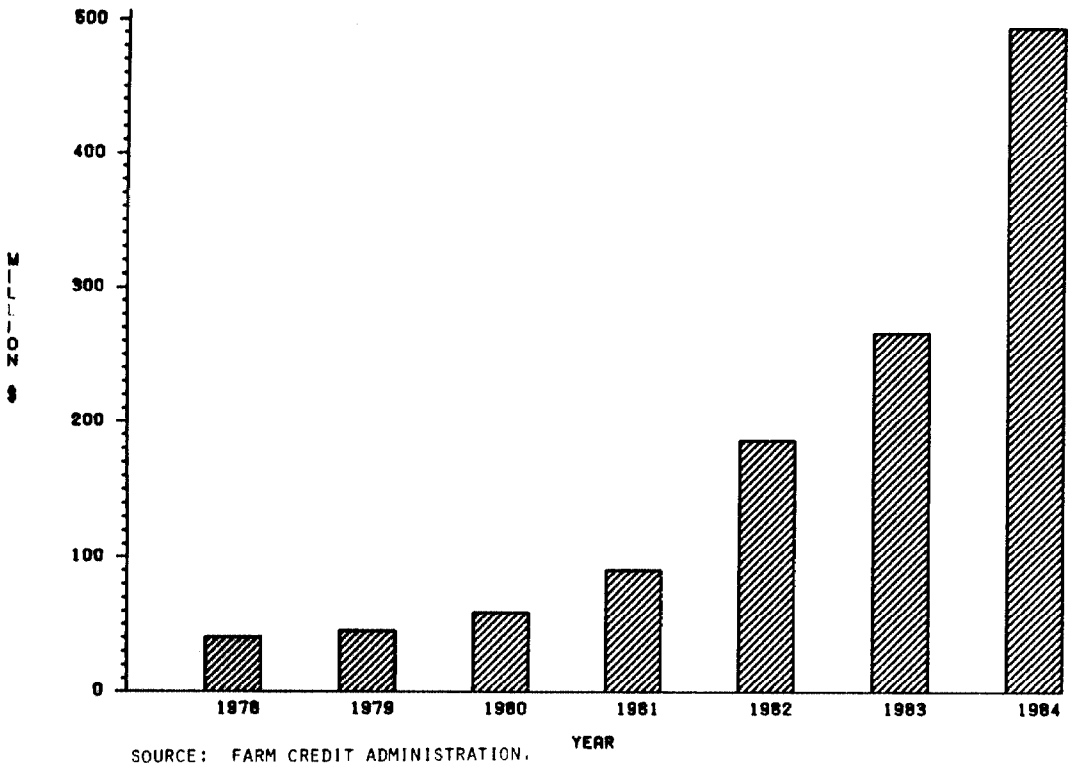
PROPERTY ACQUIRED BY PRODUCTION CREDIT ASSOCIATIONS



SOURCE: FARM CREDIT ADMINISTRATION.

FIGURE III.10

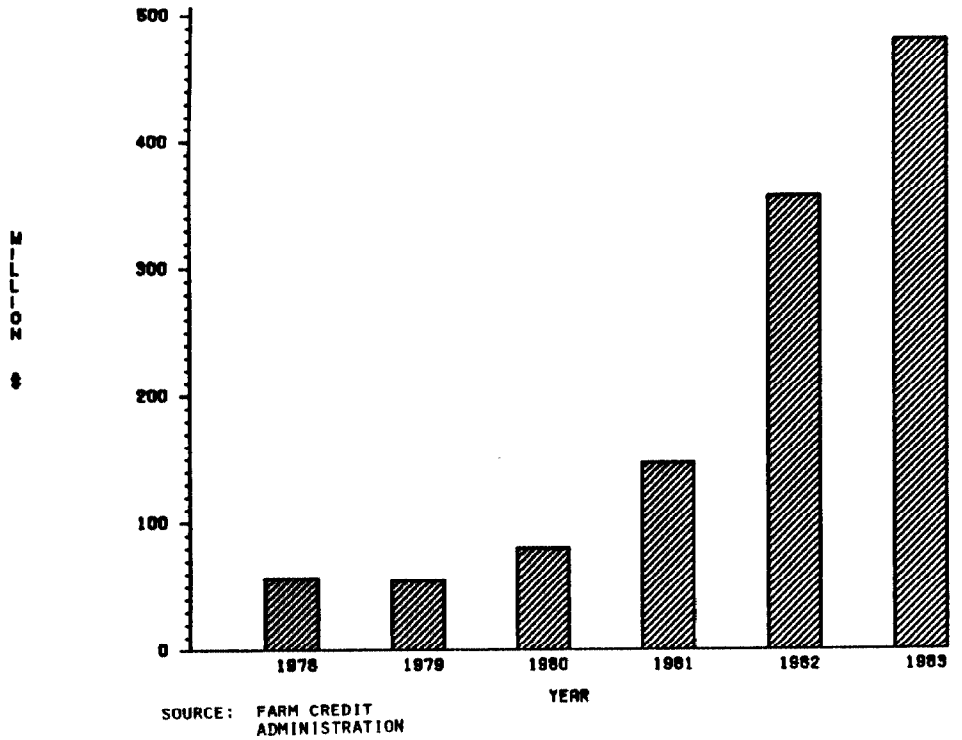
DELINQUENT PRINCIPAL AND ADVANCES FOR FEDERAL LAND BANKS



SOURCE: FARM CREDIT ADMINISTRATION.

FIGURE III.11

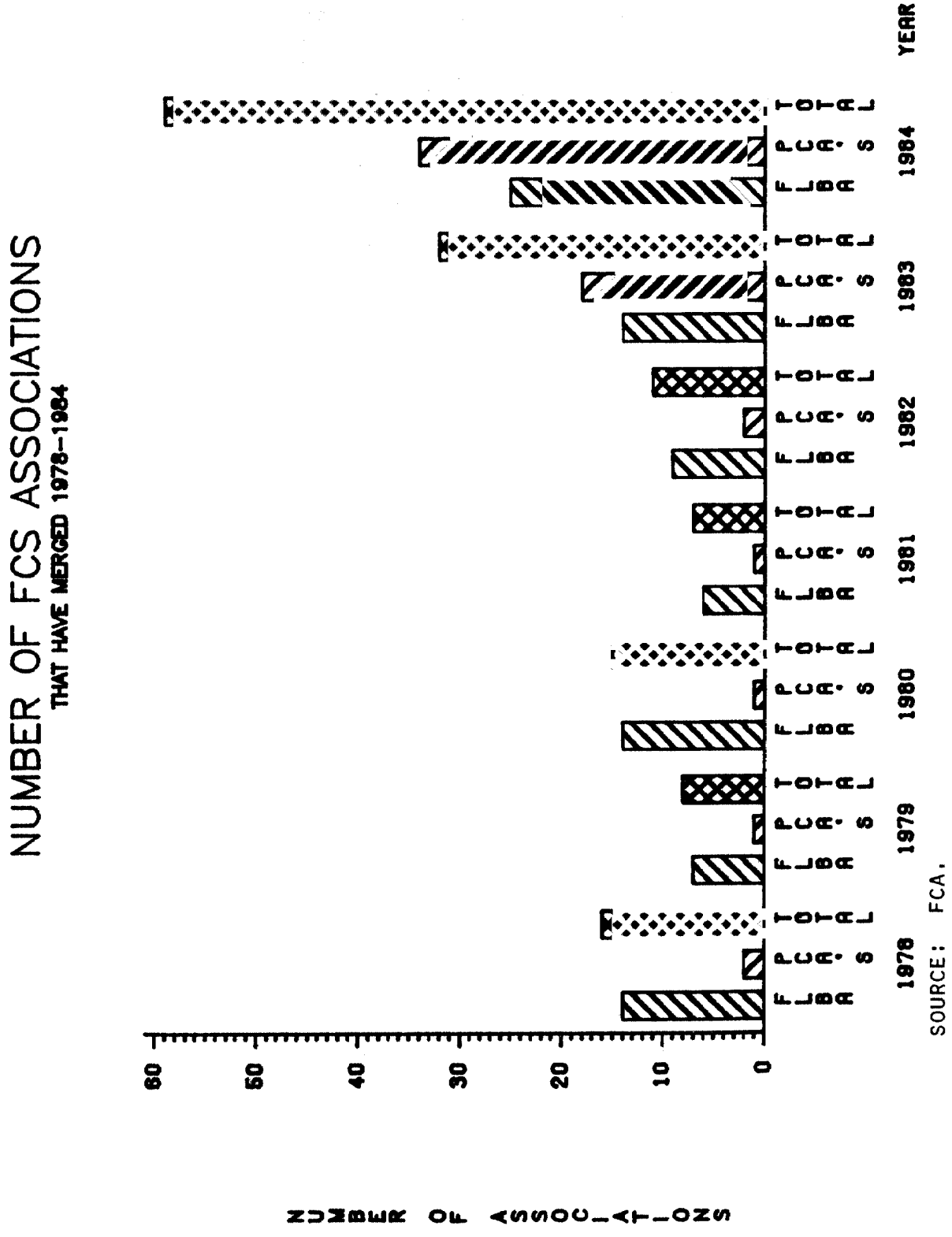
PCA LOANS IN LIQUIDATION



SOURCE: FARM CREDIT ADMINISTRATION

APPENDIX III

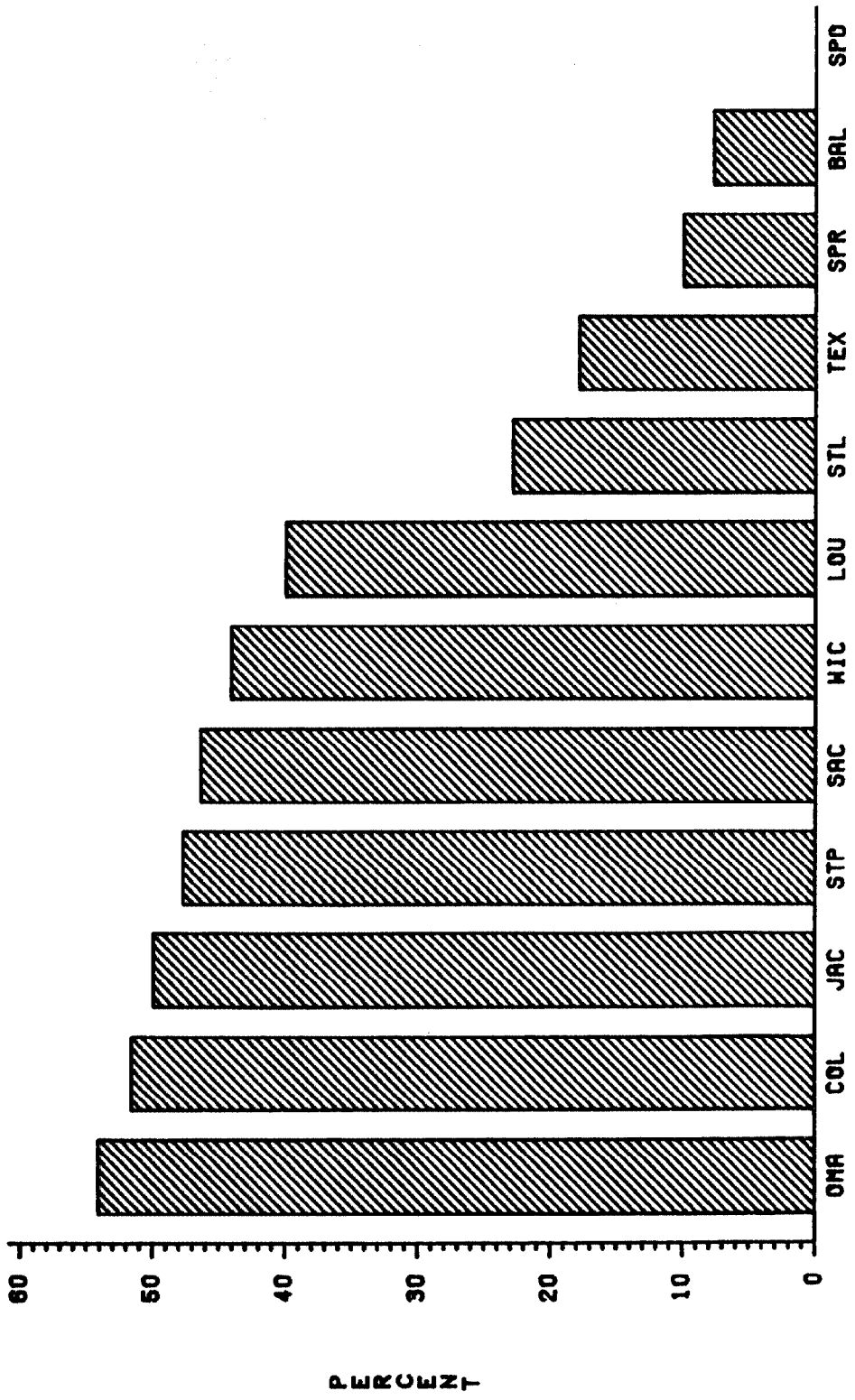
FIGURE III.12



SOURCE: FCA.

APPENDIX III

FIGURE III.13



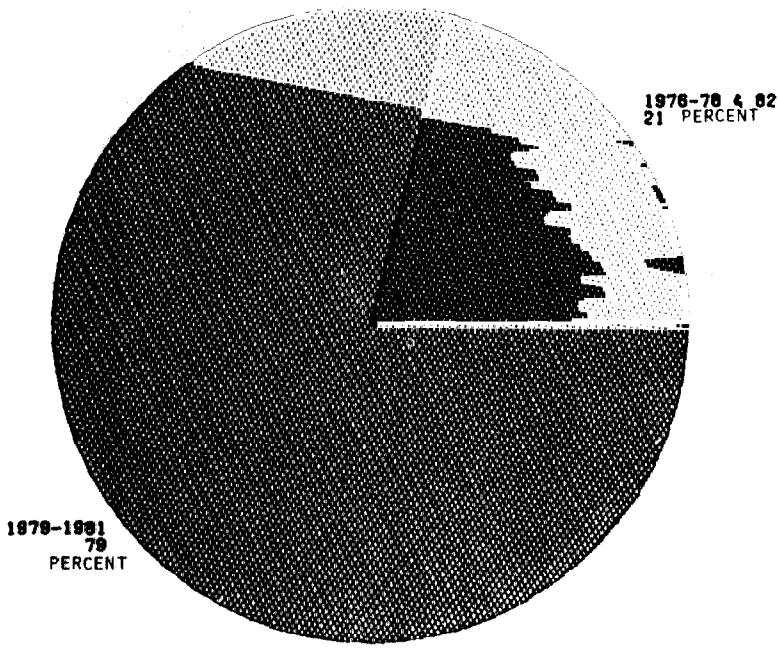
SOURCE: GAO ANALYSIS OF FCA DATA.

APPENDIX III

FIGURE III.14

DATE OF LOAN ON ACQUIRED LAND

BY THE ST. PAUL FLB

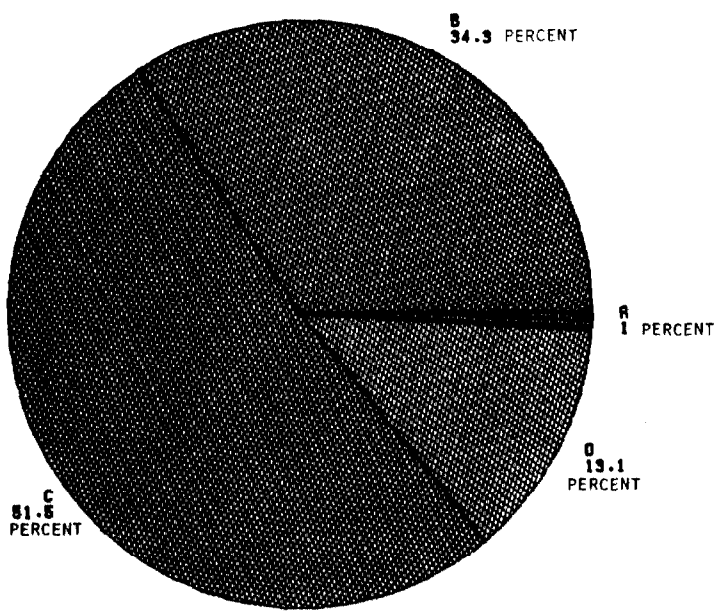


SOURCE: ST. PAUL FARM CREDIT SERVICES.

FIGURE III.15

QUALITY OF LAND ACQUIRED

BY THE ST. PAUL FLB



LAND ACQUIRED FROM DEFAULTED LOANS. "A" LAND IS BEST

SOURCE: ST. PAUL FARM CREDIT SERVICES.

Table III.6

PRODUCTION CREDIT ASSOCIATIONS IN LIQUIDATION--1983-85[a]

FCS DISTRICT	STATE	1983	1984	1985	TOTAL
LOUISVILLE	KENTUCKY	1	0	0	1
SPOKANE	WASHINGTON	1	0	1	2
	OREGON	1	1	0	2
	IDAHO	1	0	0	1
	MONTANA	0	0	3	3
OMAHA	NEBRASKA	0	2	0	2
TOTAL		4	3	4	11

[a]As of June 10, 1985

FIGURE III.16

AGRICULTURAL BANKS ARE 35 PERCENT OF ALL BANKS

SOURCE: GAO ANALYSIS OF FRB DATA AS OF DECEMBER 31, 1984.

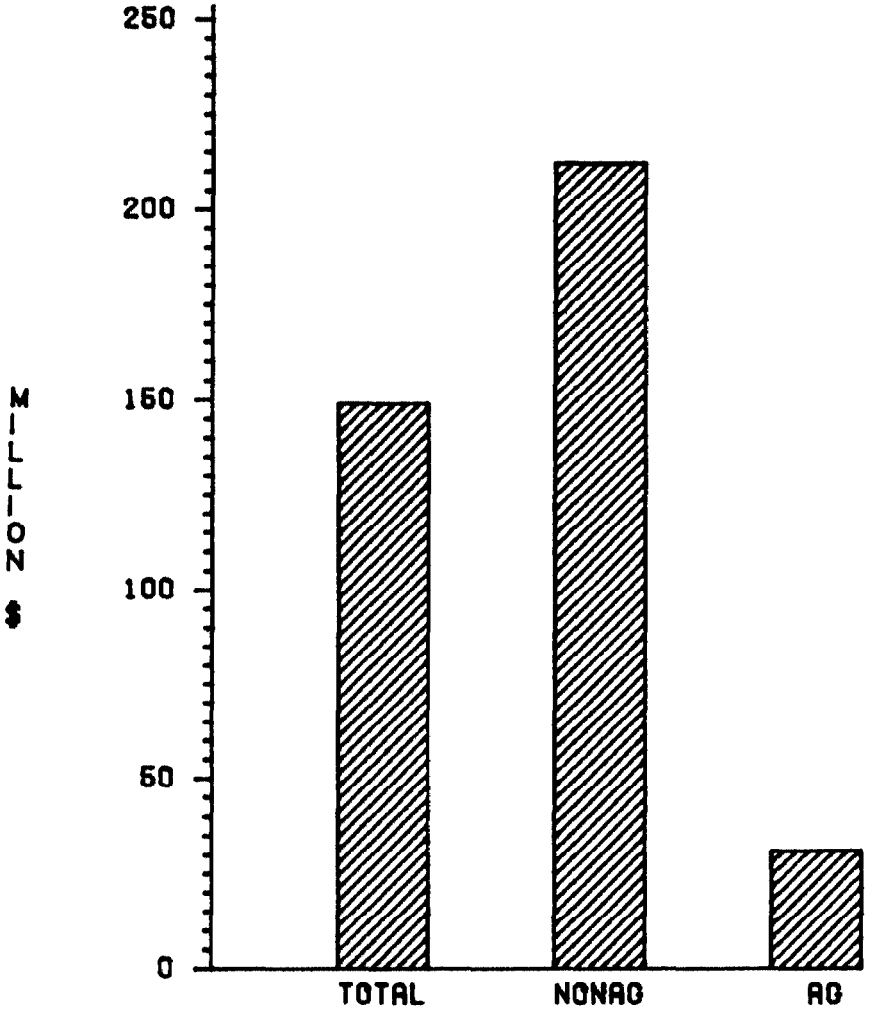
APPENDIX III

APPENDIX III

FIGURE III.17

AVERAGE ASSET SIZE

TOTAL BANKS, NONAG BANKS AND AG BANKS



SOURCE: FRB, AS OF DECEMBER 31, 1984.

APPENDIX III

Table III.7
SUMMARY DATA ON
BANKS WITH LARGE AMOUNTS
OF AGRICULTURAL LOANS

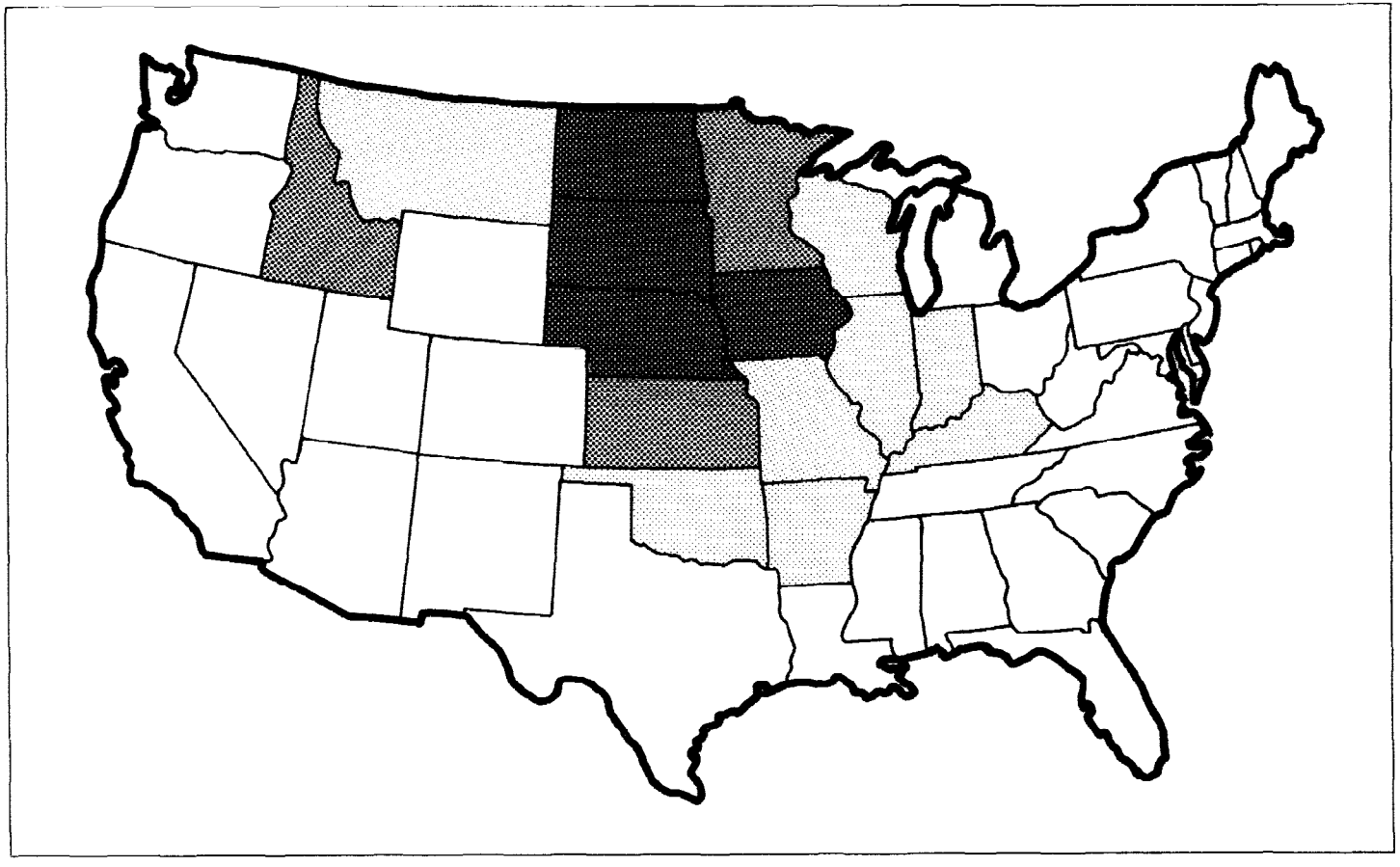
	Total loans to agriculture	Average amount of loans to agriculture
	(000 omitted)	
Banks with $25 million or more in agricultural loans (149 banks)	$11,958,132	$ 80,256
Nonagricultural banks (83 banks)	8,965,849	108,022
Agricultural banks (66 banks)	2,992,283	45,338
Banks with more than $50 million in agricultural loans (46 banks)	8,500,476	184,793
10 largest nonagricultural banks	5,249,129	524,913
10 largest agricultural banks	1,153,198	115,320

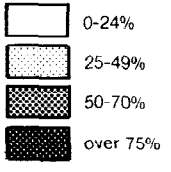
Table III.8
BANKS WITH MORE THAN $50 MILLION IN AGRICULTURAL LOANS

	Loans to agriculture (thousand)	Percent of loan portfolio in agriculture
Bank of America, CA	$ 2,097,000	4.5
Wells Fargo Bank, CA	687,751	4.3
Security Pacific National Bank, CA	646,154	3.0
Crocker National Bank, CA	467,451	3.9
Valley National Bank of Arizona	376,374	6.9
First Bank of South Dakota	256,068	28.2
Rainier National Bank, WA	249,477	6.1
Norwest Bank of South Dakota	247,935	25.8
The Idaho First National Bank, ID	216,613	13.3
First Interstate Bank of California	186,650	1.8
First National Bank of Amarillo, TX	184,410	26.0
Seattle-First National Bank, WA	178,750	2.9
U.S. National Bank of Oregon	142,909	3.5
First National B & T of Oklahoma City, OK	141,508	9.6
First Interstate Bank of Arizona	138,877	3.8
Chemical Bank, NY	131,969	0.6
Omaha National Bank, NE	113,339	16.2
First Security National B&T of Lexington, KY	112,168	21.7
First Security Bank of Idaho	103,762	8.8
Old National Bank of Washington, WA	102,405	10.6
Texas American Bank/Forth Worth, TX	102,121	5.5
Peoples National Bank of Washington, WA	92,725	6.8
Lloyds Bank California	92,545	5.1
Citibank, NY	92,000	0.3
First Interstate Bank of Oregon	86,284	2.7
Branch Banking and Trust, NC	75,877	4.9
American Bank & Trust of Pennsylvania	74,544	3.8
Valley Bank, ID	70,058	42.8
Citizens Fidelity Bank & Trust, KY	68,916	3.6
Hamilton Bank, PA	64,401	4.5
Grenada Bank, MS	64,229	14.5
Bank of Stockton, CA	64,184	19.9
Wachovia Bank & Trust, NC	64,115	1.3
Colorado National Bank of Denver, CO	63,686	6.9
Dominion Bank of Shenandoah Valley, VA	58,387	17.4
The First National Bank of Holdrege, NE	58,047	74.8
Morgan Guaranty Trust of New York	56,704	0.5
NCNB National Bank of Florida	54,489	2.0
First Security Bank of Utah	54,154	3.3
Bancohio National Bank, OH	53,040	2.1
First Interstate Bank of Idaho	52,538	9.1
First Victoria National Bank, TX	52,435	22.7
NCNB National Bank of North Carolina	51,767	1.0
First National B & T of Lincoln, NE	51,641	11.1
First Interstate Bank of Denver, CO	50,018	4.2
The Commonwealth National Bank, PA	50,001	6.7
Total loans	$8,500,476	

FIGURE III.18

Agricultural Banks as a Percent of All Banks in Each State





Source: Office of the Comptroller of the Currency as of June 1984

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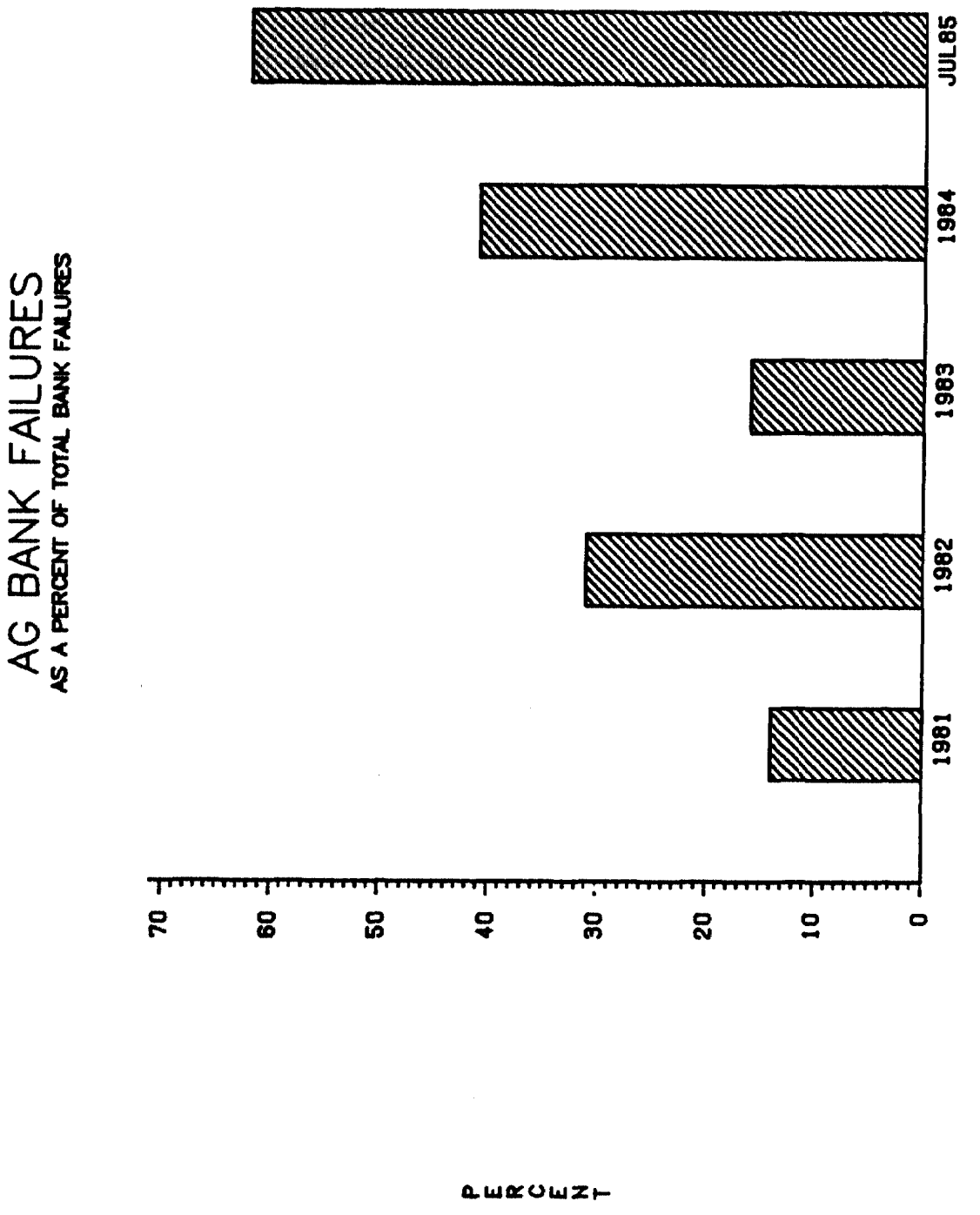
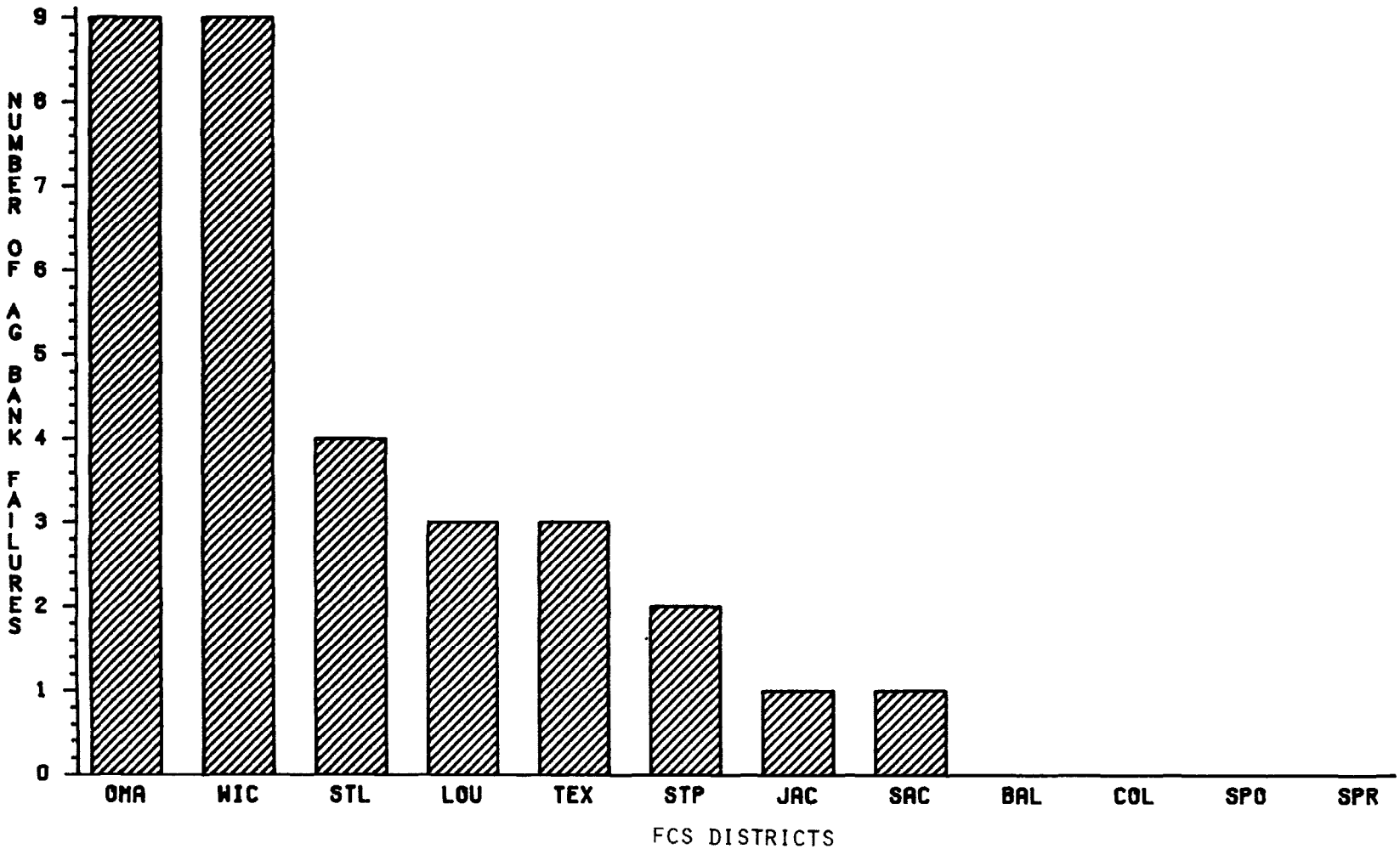
FIGURE III.19



SOURCE: FRB, AS OF JULY 26, 1985.

FIGURE III.20

AG BANK FAILURES BY FCS DISTRICTS 1984



SOURCE: GAO ANALYSIS OF FRB DATA.

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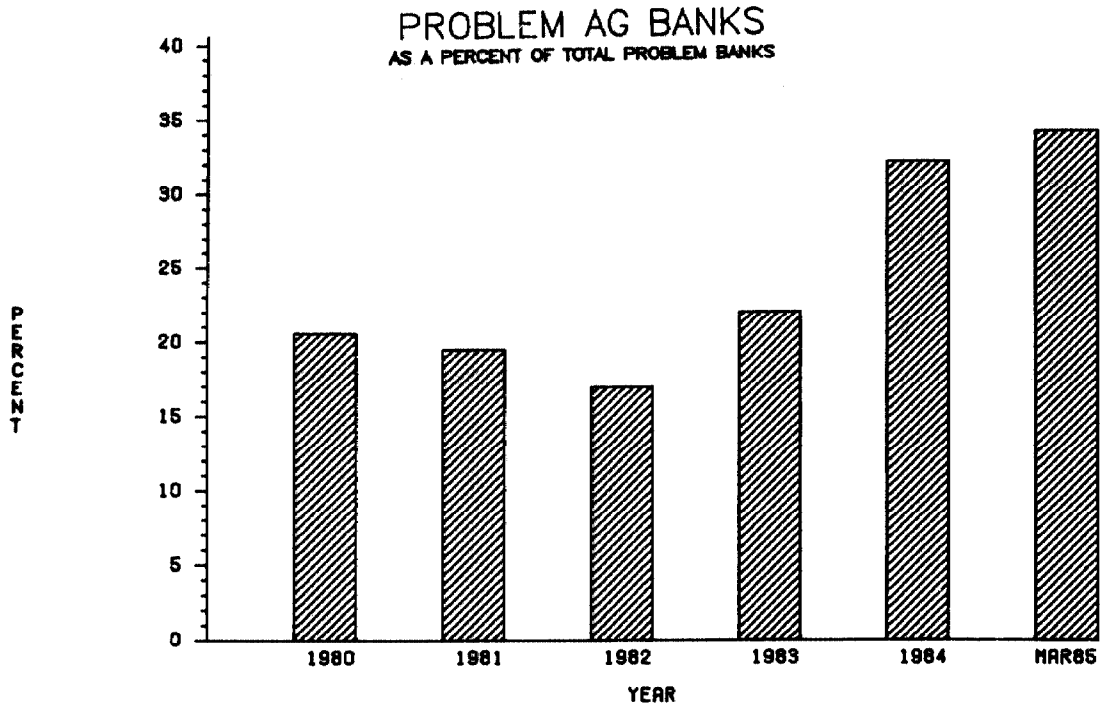
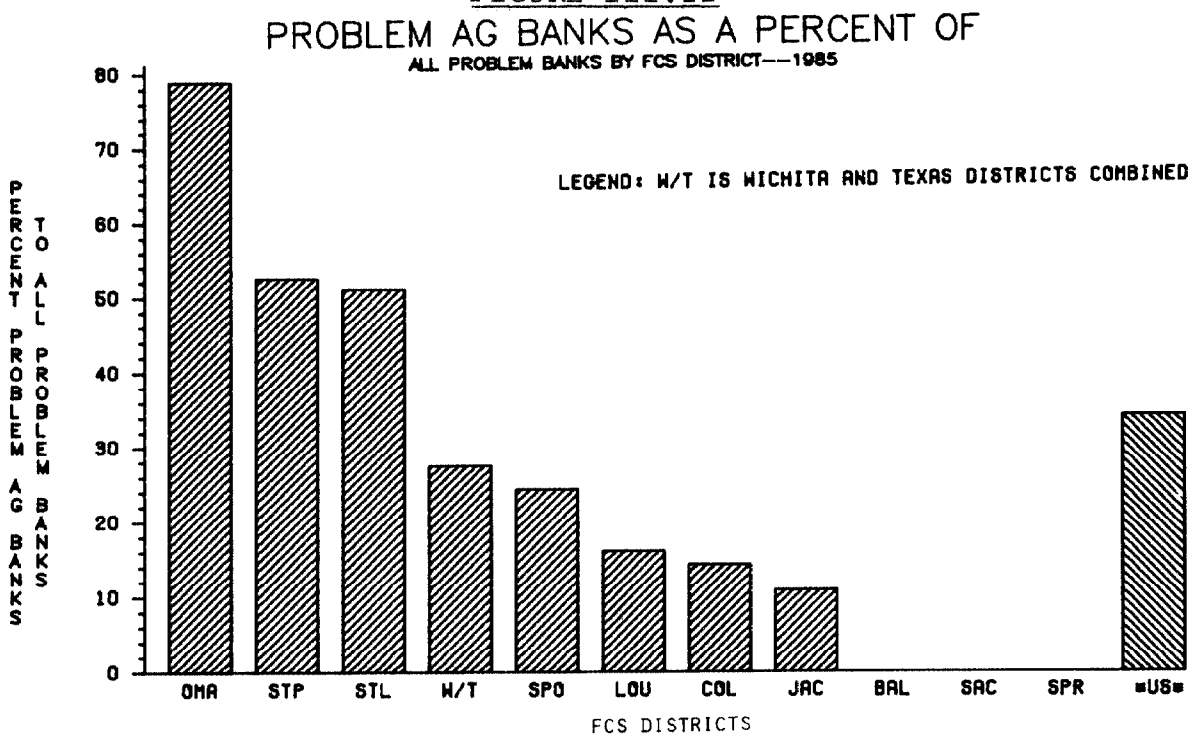
FIGURE III.21



SOURCE: GAO ANALYSIS OF FDIC DATA AS OF MARCH 31, 1985.

FIGURE III.22



SOURCE: GAO ANALYSIS OF FDIC DATA AS OF MARCH 31, 1985.

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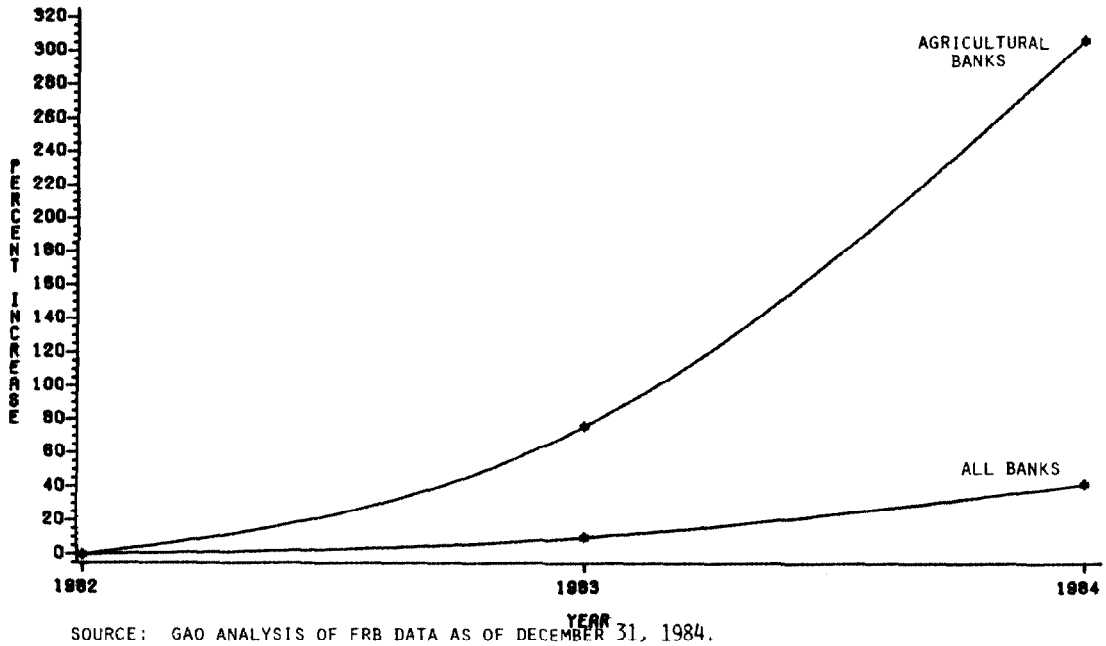
FIGURE III.23

GROWTH IN BANKS WITH NONPERFORMING LOANS EXCEEDING CAPITAL

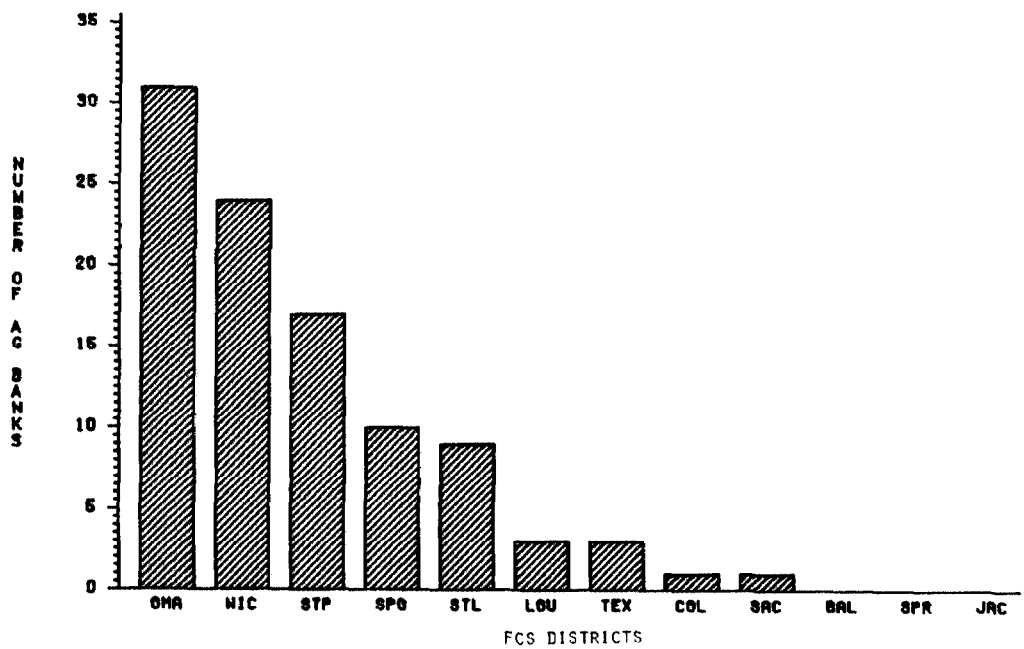


SOURCE: GAO ANALYSIS OF FRB DATA AS OF DECEMBER 31, 1984.

FIGURE III.24

AG BANKS WITH NONPERFORMING LOANS

EXCEEDING CAPITAL BY FCS DISTRICT DECEMBER--1984

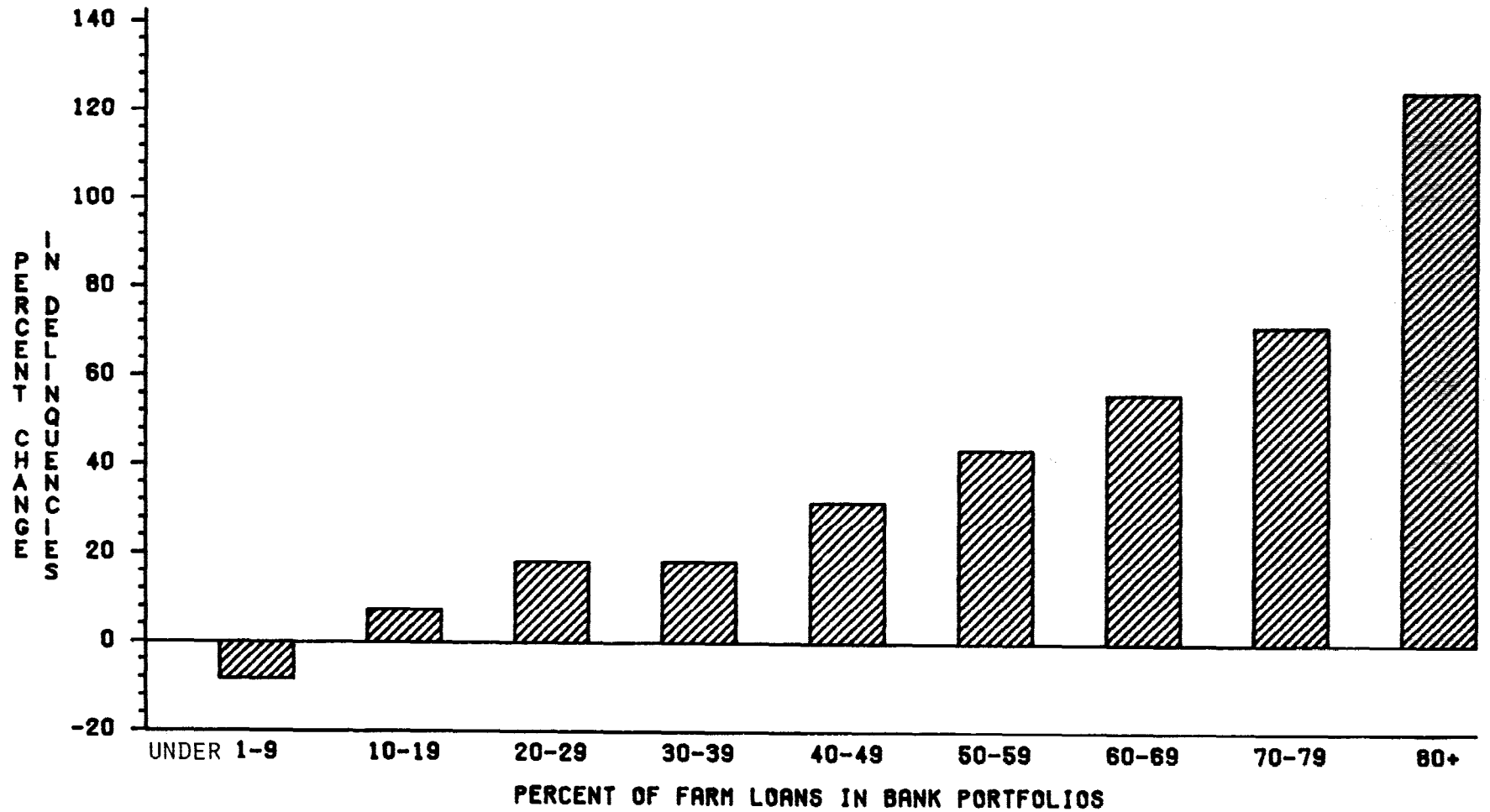


SOURCE: GAO ANALYSIS OF FRB DATA AS OF DECEMBER 31, 1984.

FIGURE III.25

GROWTH IN FARM LOAN DELINQUENCIES

AT SMALL BANKS (1982-84)



SOURCE: GAO ANALYSIS OF FRB DATA.

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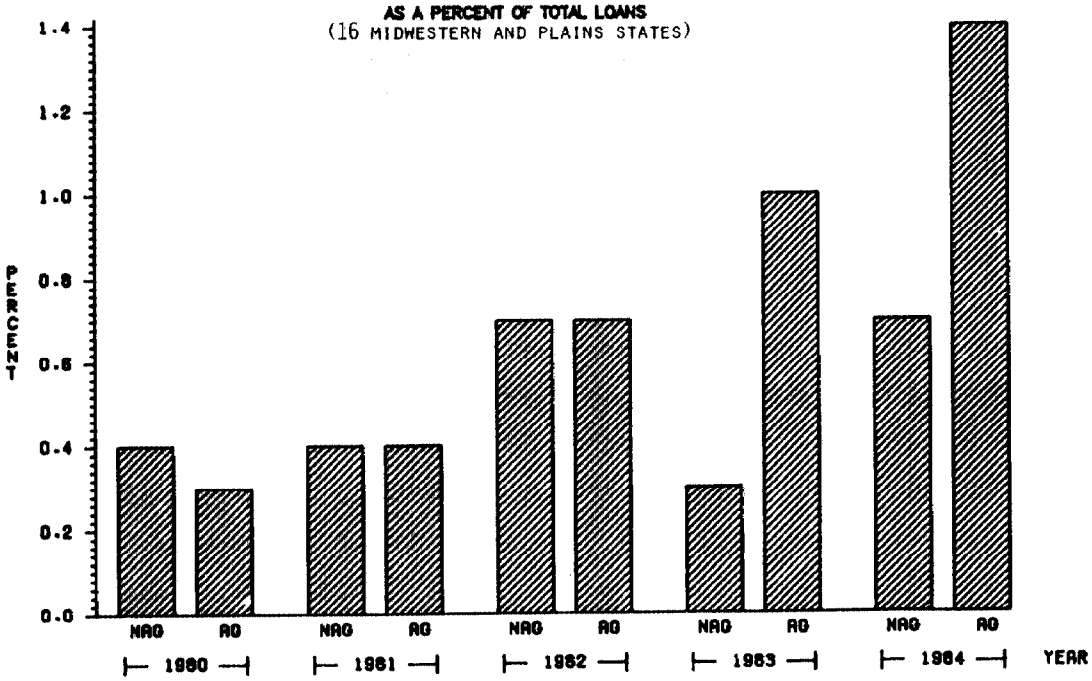
FIGURE III.26

NET LOAN LOSSES

AS A PERCENT OF TOTAL LOANS
(16 MIDWESTERN AND PLAINS STATES)



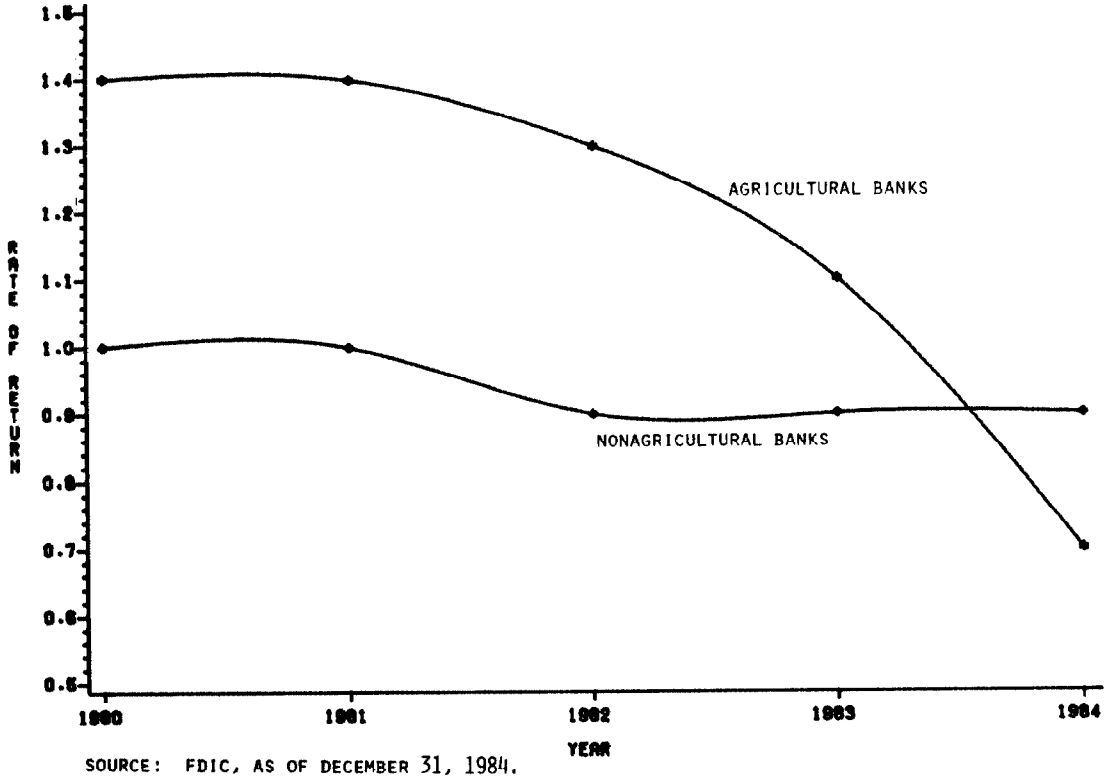
SOURCE: FDIC, AS OF DECEMBER 31, 1984.

AG=AGRICULTURAL BANKS
NAG=NONAGRICULTURAL BANKS

FIGURE III.27

RETURN ON ASSETS FOR AG AND NONAG BANKS

(16 MIDWESTERN AND PLAINS STATES)



SOURCE: FDIC, AS OF DECEMBER 31, 1984.

Table III.11

FmHA Loans Outstanding and Delinquent by Program, June 30, 1985

FmHA loan program	Amount outstanding	Amount delinquent	Percent delinquent
	(millions)	(millions)	
Natural disaster emergency	$9,914	$3,915	39.5
Farm ownership	7,412	395	5.3
Operations	5,973	982	16.4
Economic emergency[a]	4,171	1,053	25.2
Other farmer programs[b]	315	40	12.6
Subtotal --farmer programs	$27,786	$6,385	23.0
Other FmHA programs[c]	30,741	267	0.9
Total	$58,527	$6,652	11.4

[a]Loans under the economic emergency program expired in September 1984.

[b]Other farmer programs cover soil and water, recreation, and economic opportunity.

[c]Other FmHA programs provide loans for rural housing, community programs, and business and industry programs.

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FIGURE III.28

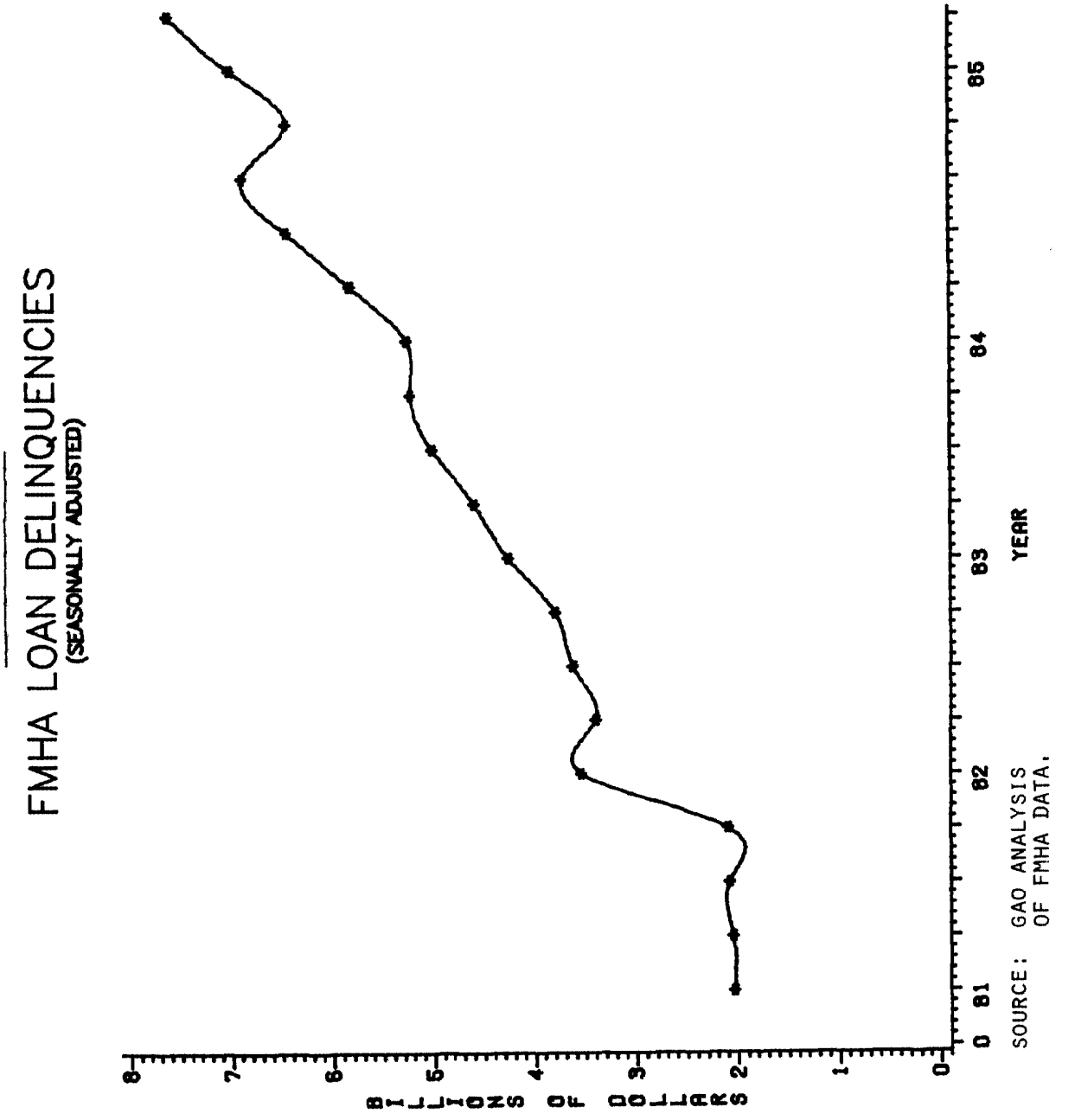

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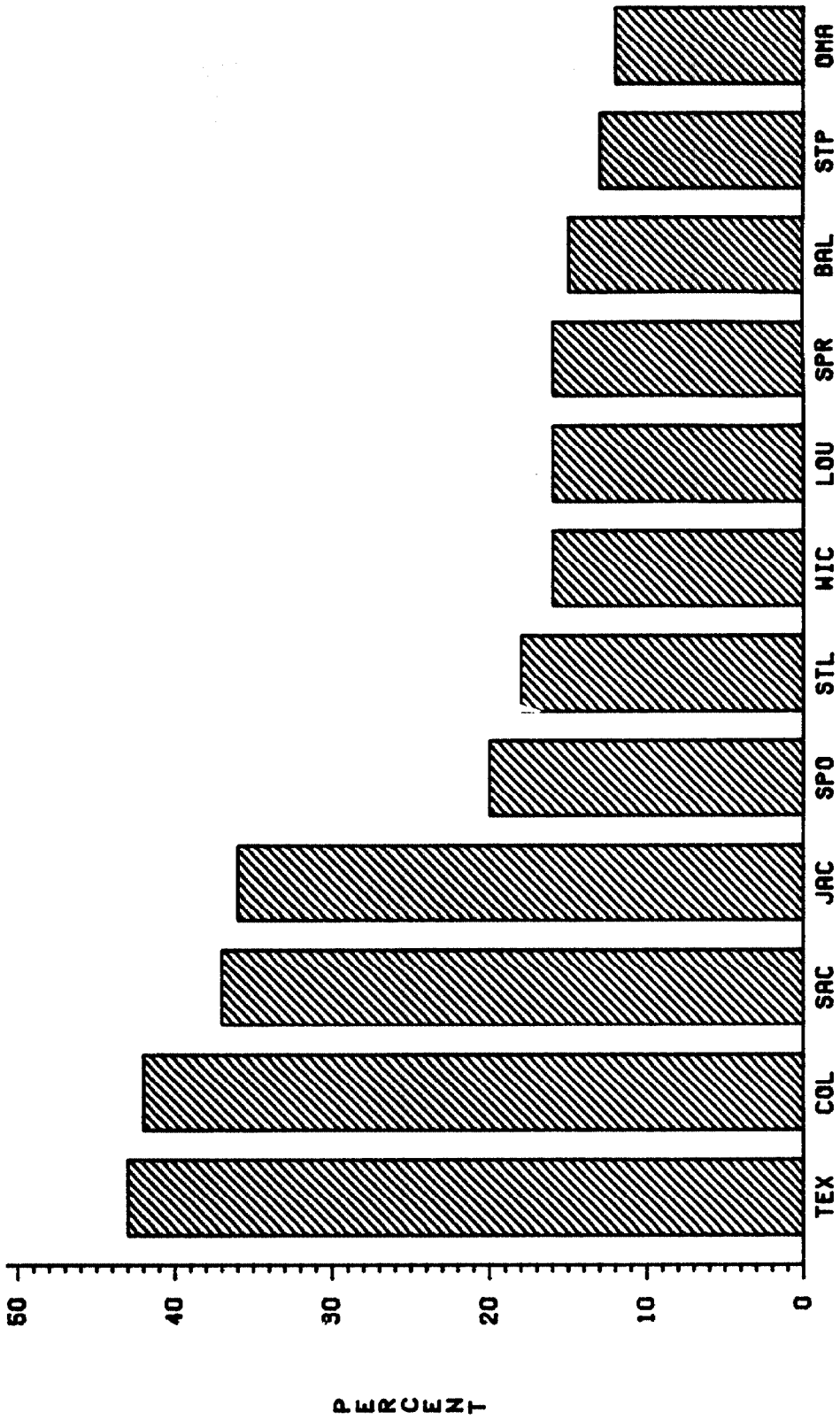
FIGURE III.29

FMHA DELINQUENT LOANS

AS A PERCENT OF TOTAL LOANS OUTSTANDING AS OF JUNE 30, 1985

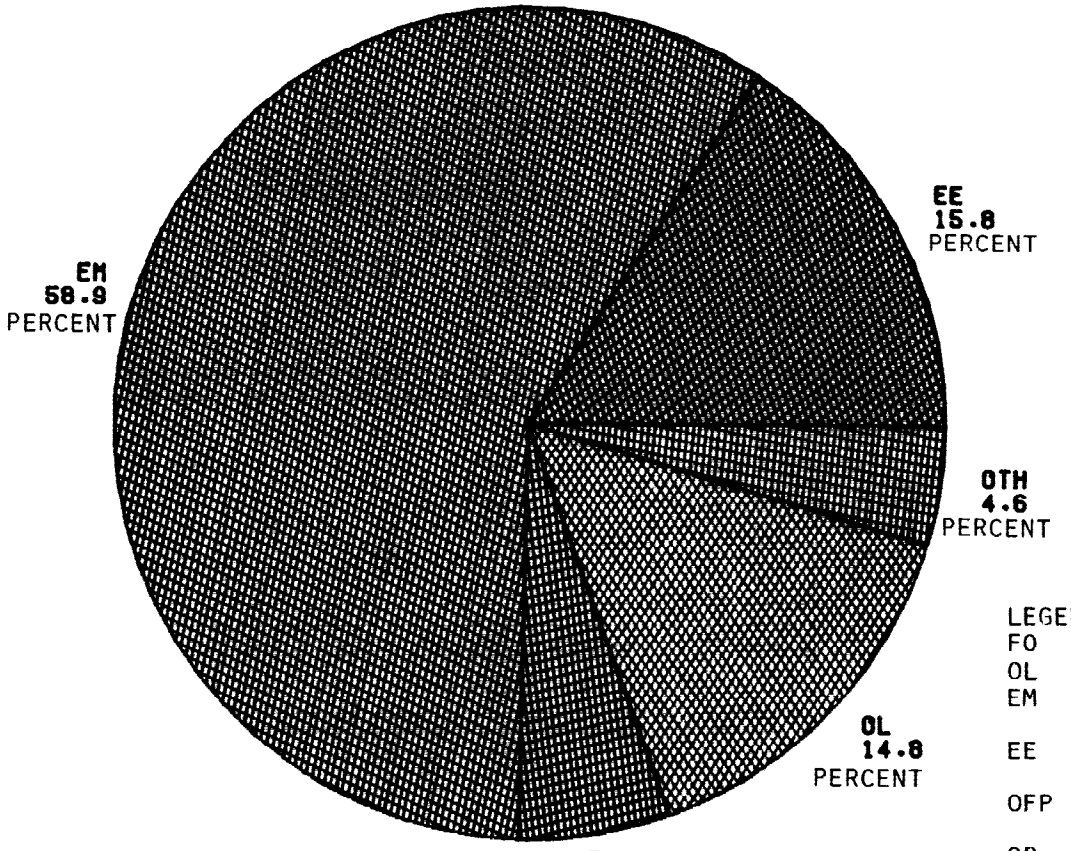


SOURCE: GAO ANALYSIS OF FMHA DATA.

FIGURE III.30

FMHA LOAN DELINQUENCIES BY PROGRAM

PERCENT DELINQUENT AS OF JUNE 30, 1985



NOTE: OTHER COVERS--(OP=4.0) (OFP=.6)

SOURCE: GAO ANALYSIS OF FMHA DATA.

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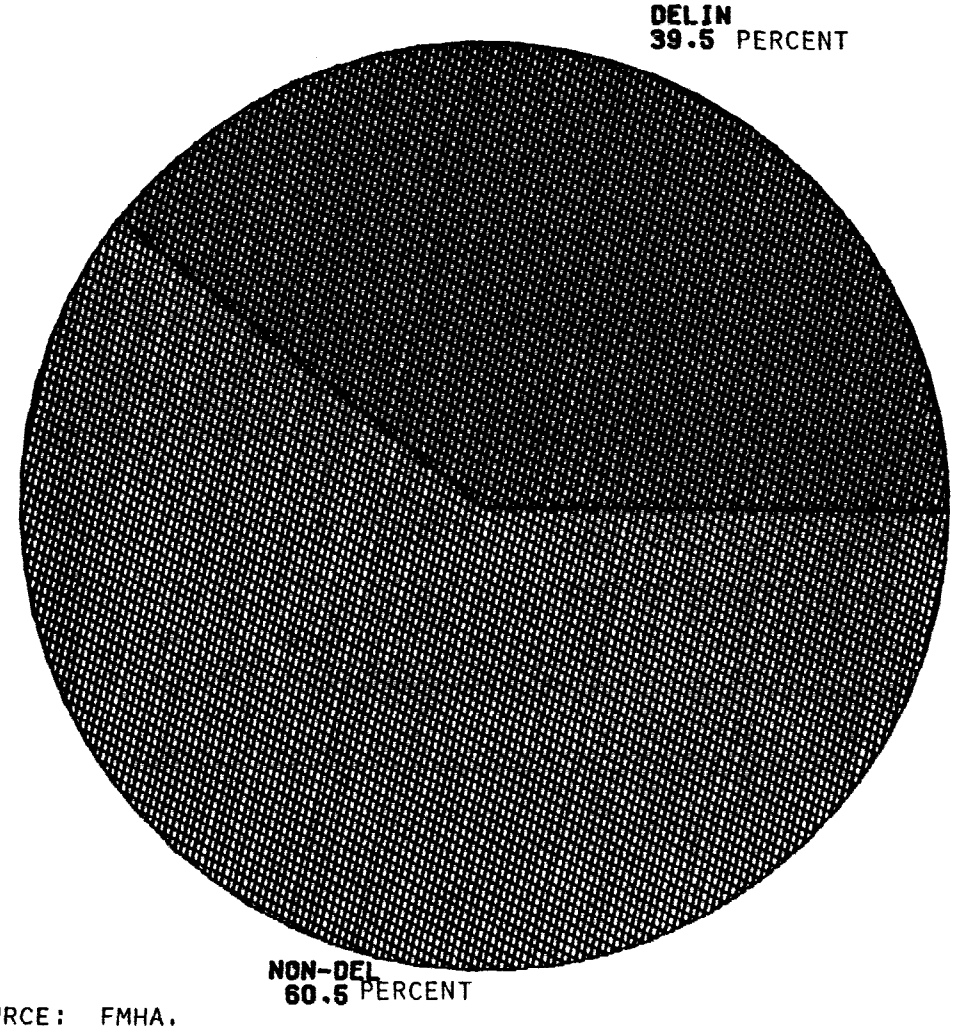
FIGURE III.31

FMHA EMERGENCY PROGRAM LOANS

PERCENT DELINQUENT AND NON-DELINQUENT AS OF JUNE 30, 1985



SOURCE: FMHA.

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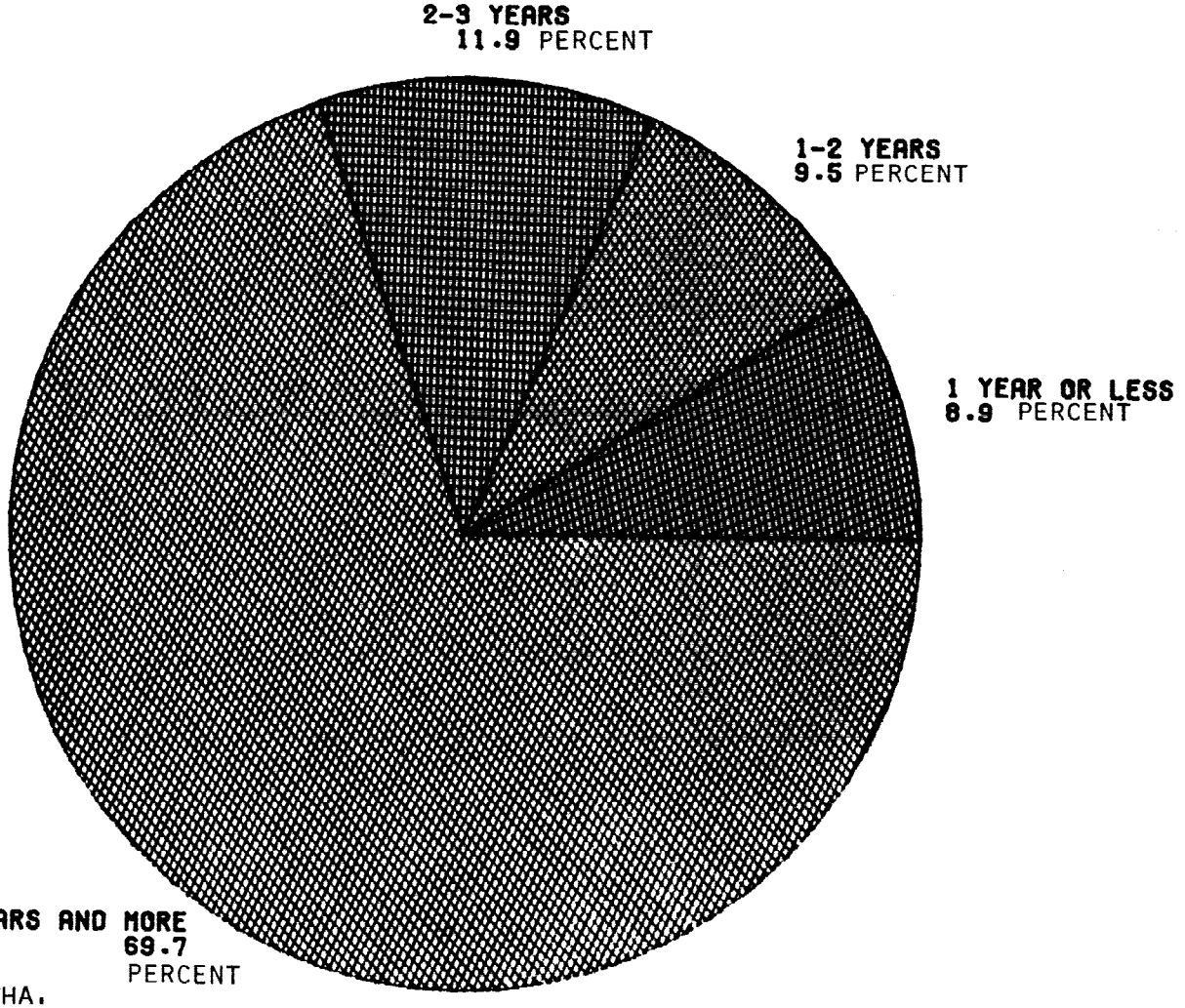
FIGURE III.32

SEVENTY PERCENT OF FMHA'S DELINQUENT AMOUNT 3 OR MORE YEARS DELINQUENT, AS OF JUNE 30, 1985



SOURCE: FMHA.

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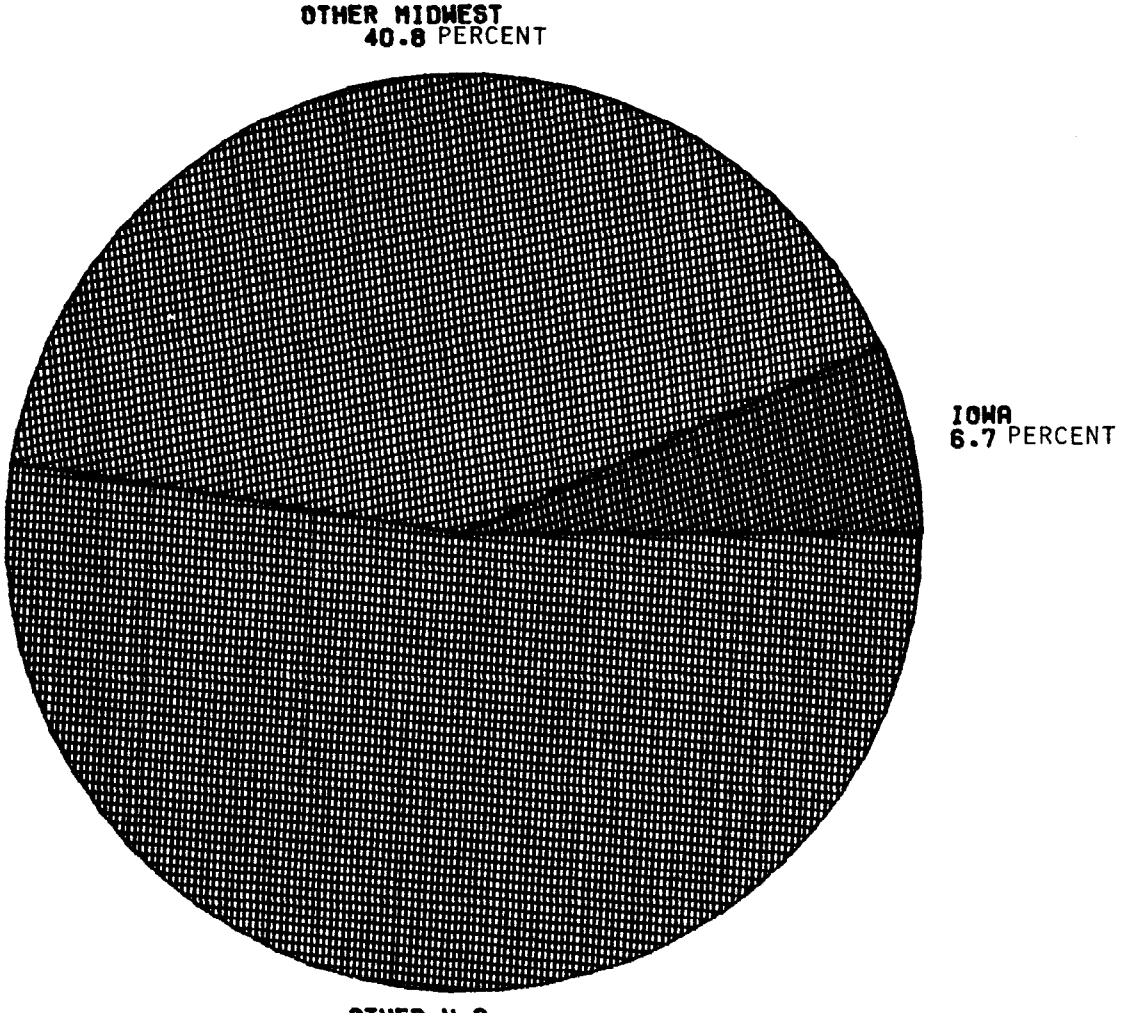
FIGURE III.33

FMHA DEBT SET-ASIDE PROGRAM APPLICATIONS AS OF JULY 31, 1985



SOURCE: GAO ANALYSIS OF FMHA DATA.

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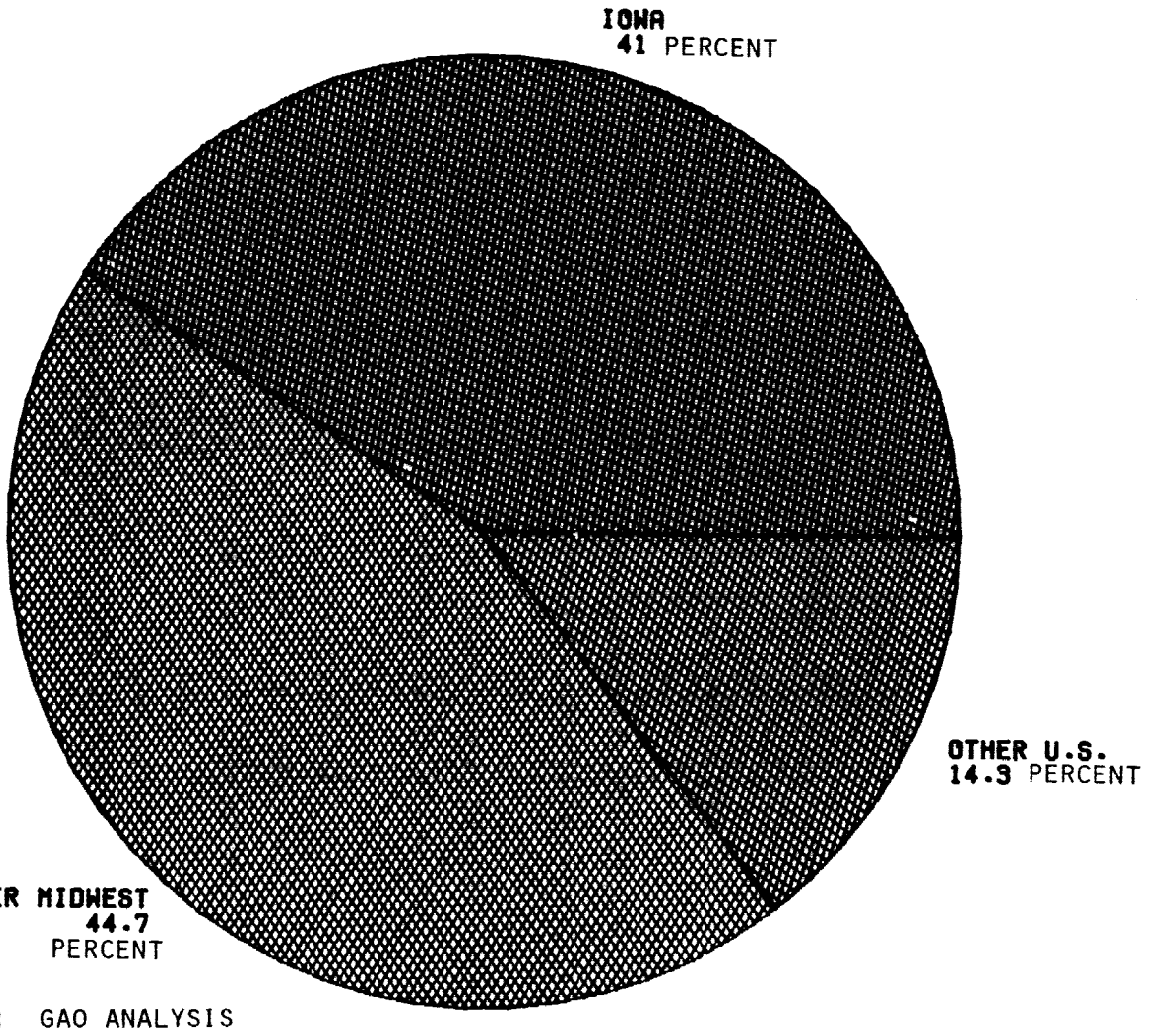
FIGURE III.34

FMHA DEBT ADJUSTMENT PROGRAM APPLICATIONS AS OF JULY 31, 1985



SOURCE: GAO ANALYSIS OF FMHA DATA.

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