United States General Accounting Office 130884

GAO

Briefing Report to the Chairmen, Senate Committee on Agriculture, Nutrition, and Forestry, and the House Committee on Agriculture

September 1986

FARM FINANCE

Financial Condition of American Agriculture as of December 31, 1985

130884

036573

GAO/RCED-86-191BR

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-220507

September 3, 1986

The Honorable Jesse A. Helms
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

In October 1985, we issued a report entitled Financial Condition of American Agriculture (GAO/RCED-86-09; Oct. 10, 1985), which presented our analysis of the nature and causes of agriculture's financial problems. The report was based, for the most part, on data that were current through the end of calendar year 1984. It recognized that agriculture's problems would not be short-lived and indicated that we would continue to monitor the situation.

This briefing report results from our monitoring efforts and presents information on the financial condition of American agriculture as of December 31, 1985. Our analysis of numerous key economic and financial indicators shows that the nation's farmers and their lenders continue to experience financial stress. Also, while this stress exists nationwide, the Midwest continues to be the area where conditions have deteriorated the most.

We have divided this briefing report into five sections. The first section provides an overall summary on the financial condition of American agriculture. The second section contains information on the economic environment facing agriculture. The third and fourth sections contain information on the farm sector and the farm finance sector, respectively.

The last section describes our objectives, scope, and methodology in conducting this review and preparing this briefing report. Our study began in February 1986 and was conducted by gathering and analyzing a large amount of data from public and private sources, including the U.S. Department of Agriculture and its Economic Research Service, the Federal Deposit Insurance Corporation, the Federal Reserve System, the Farm Credit Administration, and the Farm Credit System. Because of the briefing report's informational nature, we did not obtain agency comments. Portions of the briefing report, however, have been discussed with officials of the Economic Research Service, the

Federal Deposit Insurance Corporation, and the Farm Credit Administration, and their suggestions were incorporated where appropriate.

Copies of this briefing report are being sent to the Secretary of Agriculture, the Director of the Office of Management and Budget, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Chairman of the Farm Credit Administration Board, and other interested parties. If we can be of further assistance, please contact me on (202) 275-5138.

Brian P. Crowley

Brian P. Crowley
Senior Associate Director

Contents

SECTION

SECTION

ILLUSTRATIONS

Tables

Tables

Figures

Figures

ABBREVIATIONS

CCC	Commodity Credit Corporation
ERS	Economic Research Service
FCA	Farm Credit Administration
FCS	Farm Credit System
FDIC	Federal Deposit Insurance Corporation
FLBs	Federal Land Banks
FRB	Board of Governors of the Federal Reserve System
FmHA	Farmers Home Administration
GAO	General Accounting Office
PCAs	Production Credit Associations
RCED	Resources, Community, and Economic Development Division
USDA	U.S. Department of Agriculture

SECTION 1

REPORT SUMMARY

BACKGROUND

During the 1970's, American agriculture experienced a boom, with rapid expansion and growth caused by a variety of factors including rising export volume and value, a weak dollar, low real (inflation-adjusted) interest rates, high inflation, and relatively high commodity prices. These factors made U.S. products relatively inexpensive for foreign consumers and credit cheap for U.S. farmers, and boosted the value of farm assets. However, the economic forces that led to that growth reversed in the 1980's, and, as a result, American farmers and their lenders began to experience adverse economic and financial conditions.

As a result of the continuing concern about the financial condition of American agriculture, we issued a report on the overall situation entitled Financial Condition of American Agriculture (GAO/RCED-86-09; Oct. 10, 1985). In that report, based primarily on calendar year 1984 and earlier data, we stated that ". . . the financial condition of farmers and their lenders has deteriorated rapidly since 1980 and that financial stress continues to grow." In this followup briefing report on the financial condition of American agriculture, we report that the adverse economic and financial conditions facing agriculture continued in 1985.[1]

This section of the briefing report provides summary information covering (1) the economic environment, (2) farmers' financial position, and (3) the performance of the financial institutions serving agriculture in 1985.

THE ECONOMIC ENVIRONMENT: ADVERSE CONDITIONS CONTINUED IN 1985

The economic environment surrounding the farm sector continued to be adverse during 1985. American agriculture has traditionally produced a surplus, and since the early 1970's, it has relied heavily on foreign consumers for sales. In 1985, U.S. production of many key farm commodities, such as corn, soybeans, and wheat, increased. Although U.S. consumption also increased, the rate was less than the production increase. (See pp. 20-21.)

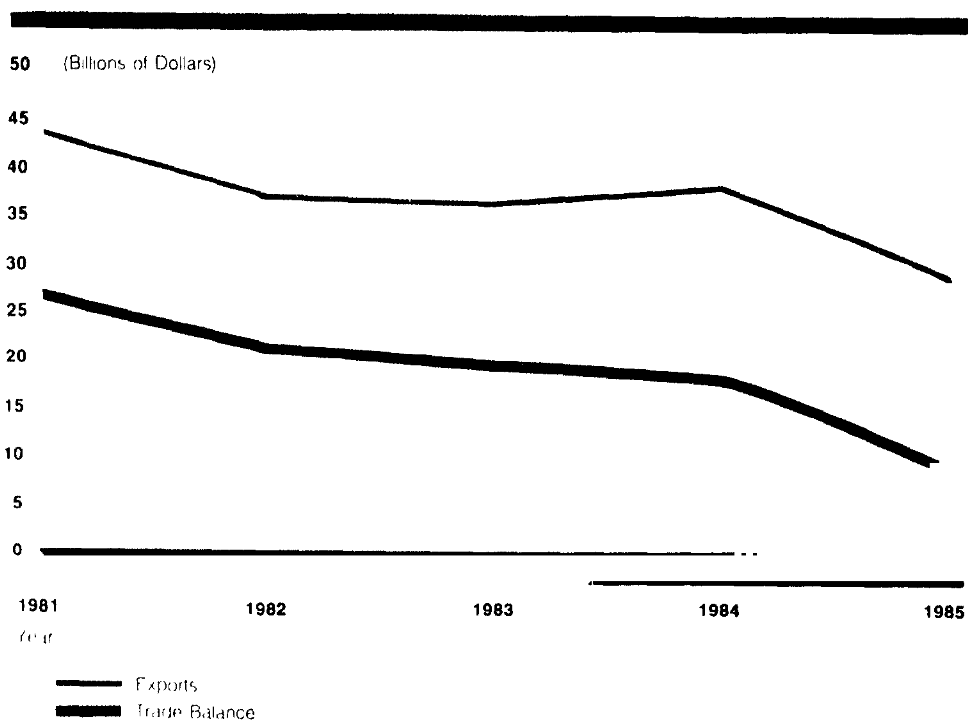
---

[1]Unless otherwise noted, yearly information presented in this report is as of December 31. Also, the sources listed for the figures in sections 2, 3, and 4 apply to the tables on the pages opposite those figures.

While production increased in 1985, U.S. exports of agricultural products declined in both volume and value. For example, U.S. agricultural exports declined in value from 1984 by 23.3 percent from $37.8 billion to $29 billion--the lowest level since 1977. Also, the U.S. agricultural trade surplus declined to about $9.1 billion--a 51 percent drop from the 1984 agricultural trade surplus, and the lowest annual level since 1972. Figure 1.1 shows the declining value of agricultural exports and trade balance since 1981. (See pp. 22-23.)

U.S. agricultural exports continued to decline in 1985 for a variety of reasons, including strong competition from other exporting countries, large production gains by traditional importing countries, a weak world economy, and high real interest rates. Also, while a strong dollar contributed to export declines, the dollar weakened throughout 1985 and during the first quarter of 1986. Declines in the dollar's value could in certain countries improve the price competitiveness of U.S. agricultural commodities and may result in increased future foreign demand for U.S. farm products. (See pp. 24-25.)

Figure 1.1
U.S. Agricultural Exports and Trade Balance, 1981-85



Source: USDA.

THE FARM SECTOR: ADVERSE FINANCIAL POSITION CONTINUED IN 1985

According to data we obtained from the U.S. Department of Agriculture's (USDA) Economic Research Service (ERS), the adverse financial position of the nation's farmers continued in 1985. The value of farm assets declined by 9.9 percent in 1985 from 1984. Nationally, farmland values declined by more than 12 percent from April 1985 to February 1986 and are at their lowest level since 1980. Eighteen states had declines greater than the national average, with 3 of the 18 states--Minnesota, Iowa, and Louisiana--having declines of 20 percent or more. Further, ERS' preliminary data showed that farmers' rates of return on assets and on equity remained negative in 1985 but improved slightly over those experienced in 1984. (See pp. 32-33 and 44-45.)

Farmers' farm income also declined during 1985. Net farm income declined by 6.7 percent from the 1984 level. According to ERS, the 1985 declines are mainly attributable to low prices that resulted from an increase in farm output and a decrease in inventory values. (See pp. 34-35.)

The decline in net farm income, however, was partially offset by an increase in farmers' 1985 off-farm income. Table 1.1 shows that farmers' off-farm income has become increasingly important over the years and in 1985 was $40.8 billion, or 57 percent of the $71.3 billion in total income available to farmers. (See pp. 38-39.)

Table 1.1
Farmers' Off-farm, Net Farm, and Total Income, 1981-85

Year	Off-farm income	Net farm income	Total income
	(billions)		
1981	$35.8	$26.9	$62.7
1982	36.4	22.7	59.1
1983	37.0	13.0	50.0
1984	37.9	32.7	70.6
1985	40.8	30.5	71.3

Source: USDA.

Additionally, according to information compiled by ERS, while most 1985 farm debt was held by farmers who were financially sound (debt-to-asset ratio of 40 percent or less), a growing portion of farm debt was held by farmers with serious financial problems (debt-to-asset ratio of 71 percent or more). Table 1.2 compares selected 1984 and 1985 debt information. (See pp. 46-47.)

Table 1.2
Number of Farms and Amount of Total 1984 and 1985 Farm Debt by Debt-to-Asset Ratio

	Debt-to-asset ratio				
	0-40%	41-70%	71-100%	Over 100%	Total[a]
Number of farms (thousands)					
1984	1,353	194	72	50	1,669
1985	1,221	197	72	61	1,551
Percent of farms					
1984	81.1	11.6	4.3	3.0	100.0
1985	78.7	12.7	4.6	4.0	100.0
Amount of debt[b] (billions)					
1984	$45.3	$39.3	$18.9	$15.6	$119.1
1985	$38.2	$37.2	$19.7	$18.2	$113.4
Percent of debt					
1984	38.0	33.0	15.9	13.1	100.0
1985	33.7	32.9	17.4	16.1	100.0
Overall average debt-to-asset ratio (percent)					
1984	10.4	52.7	81.4	144.8	21.8
1985	10.6	53.3	82.4	138.0	22.5

[a]Totals may not add due to rounding.

[b]ERS gathers farm debt information by debt-to-asset ratio category and by farm sales class through its annual Farm Costs and Returns Survey. The 1984 survey showed 1984 farm debt of $119.1 billion, while the 1985 survey showed 1985 farm debt of $113.4 billion. These figures differ from the $217 billion and $210 billion we report on page 15 for 1984 and 1985, respectively, because they are based on survey responses, only include farm operators' debt related to farming operations, and exclude farm operators' debt held for nonfarm purposes, farm debt held by individuals other than farm operators, some CCC loans, and some small noncommercial farmers. Our higher figures are based on information reported by major institutional lenders to the farm sector and ERS' estimate of the farm debt held by other lenders.

Source: USDA.

While national nonfarm employment grew in 1985, farm employment declined by over 4 percent, continuing a general declining trend that has been underway for many years. According to information reported by the Dun & Bradstreet Corporation, 35.6 percent more agricultural businesses failed in 1985 than failed in 1984. (See pp. 50-53.)

THE FINANCE SECTOR: FARM LENDERS CONTINUED TO EXPERIENCE FINANCIAL STRESS IN 1985

Table 1.3 shows that in 1985 there was an estimated $210 billion in farm debt outstanding. Most of that debt--$167.6 billion--was held by five major institutional lenders: Federal Land Banks (FLBs) and Production Credit Associations (PCAs) in the Farm Credit System (FCS), commercial banks, the Farmers Home Administration (FmHA), the Commodity Credit Corporation (CCC), and life insurance companies. The balance of the outstanding debt was held by individuals, input suppliers, and others according to ERS estimates. The principal changes in 1985 reflect a declining share of the total debt for all major nonfederal lenders and an increase in the debt owed to FmHA and CCC. (See pp. 56-57.)

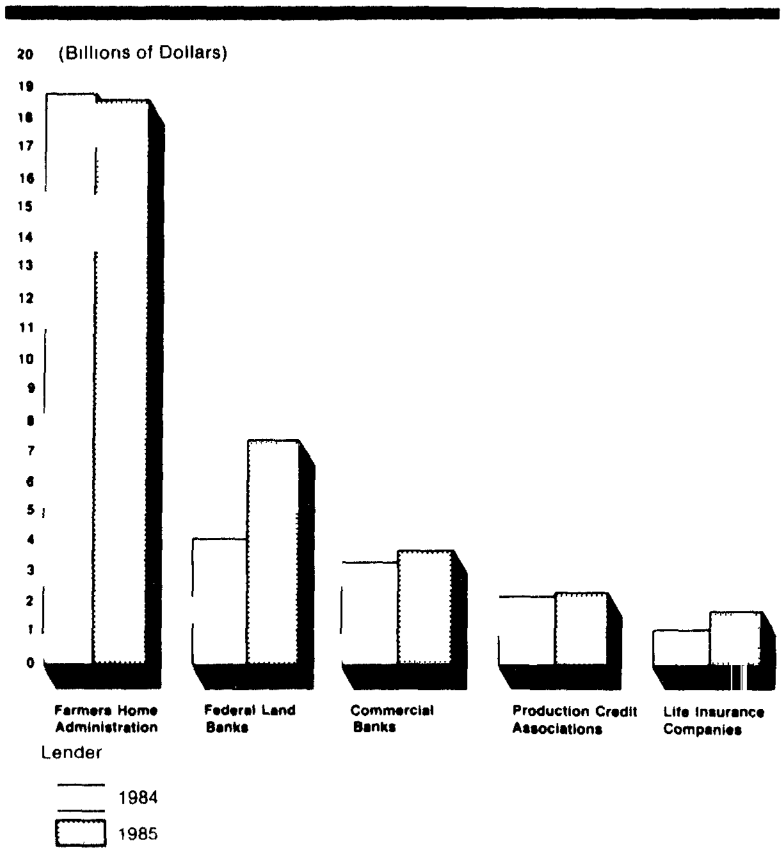
Table 1.3
Total Farm Debt Outstanding, by Lender, 1984 and 1985

Lender	Total farm debt outstanding 1984	1985	Percent change
	--(billions)--		
FCS:			
FLBs	$ 52.3	$ 47.5	(9.2)
PCAs	18.4	14.4	(21.7)
Commercial banks	49.9	47.1	(5.6)
FmHA	25.1	26.6	6.0
CCC	11.0	20.6	87.3
Life insurance companies	12.2	11.4	(6.6)
Subtotal	$168.9	$167.6	(0.8)
Individuals and others	48.1	42.8	(11.0)
Total	$217.0	$210.4	(3.0)

Source: Farm Credit Administration (FCA) for FLBs and PCAs; Board of Governors of the Federal Reserve System (FRB) for commercial banks; FmHA; CCC; American Council of Life Insurance for life insurance companies; and ERS for individuals and others.

Lenders with a high concentration of their loan portfolio in agriculture continued to exhibit financial stress in 1985. As Figure 1.2 shows, four of the major institutional lenders, excluding CCC, had about $33.7 billion in farm loans that were nonperforming and/or delinquent in 1985. These loans represent 24.9 percent of the total outstanding principal ($135.6 billion). This was a $4.3 billion, or 14.6 percent, increase from 1984.

Figure 1.2
Major Institutional Lenders' Nonperforming and/or Delinquent Loans, 1984 and 1985



Source: FmHA; FCA for FLBs and PCAs; FRB for commercial banks; and American Council of Life Insurance for life insurance companies.

The total quality of these lenders' portfolios is skewed by the poor condition of FmHA's portfolio. Excluding FmHA, the total nonperforming and/or delinquent loans held by the three nonfederal lenders was $15.1 billion, or 13.9 percent of their outstanding debt, a considerable increase from the $10.5 billion, or 8.6 percent of their outstanding debt that was nonperforming and/or delinquent in 1984. Lenders' delinquency rates change during the year. Seasonal repayment patterns make FmHA's delinquency rate higher at year-end than at other times. Also, for the FLBs, PCAs, and commercial banks, the high amount of nonperforming and/or delinquent loans existed even though these institutions wrote off as uncollectible over $2.2 billion in farm loans during 1985. (See pp. 58-61.)

FCS, which is the largest institutional lender to the nation's farmers, had a $2.7 billion net loss in 1985. This was a significant change from 1984 when the FCS had a $373 million profit. Furthermore, FCS continued to experience a rapidly rising trend in farm loan charge-offs--that portion of loans written off as uncollectible--and in property acquired through foreclosure or deed in lieu of foreclosure. In 1985, FLBs and PCAs had charge-offs of $940 million--a $564 million, or 150 percent, increase from the $376 million in charge-offs in 1984. In addition, property acquired by FLBs and PCAs during 1985 increased about 125 percent from $532 million in 1984 to $1,196 million in 1985. (See pp. 62-67.)

Reacting to the increasing financial stress, the Congress enacted the Farm Credit Amendments Act of 1985 (P.L. 99-205, Dec. 23, 1985), which provided for a means to restructure FCA (the federal regulator of FCS), established a mechanism for FCS to use its available resources to provide financial assistance to its member institutions, and gave the Secretary of the Treasury discretionary authority to invest congressionally appropriated funds in FCS under certain conditions.

Financial stress is also evident in commercial banks that are heavily involved in agriculture. According to the Federal Deposit Insurance Corporation (FDIC), agricultural banks--those having 25 percent or more of their portfolio in farm loans--comprised 25.9 percent of all commercial banks in 1985, but they accounted for 52.5 percent of all bank failures. In 1985 there were 437 agricultural banks, from a total of 1,098 banks, on the FDIC problem bank list, which classifies banks warranting more than normal supervision. Additionally, FRB has reported that 170 banks with above-average farm loan ratios are highly vulnerable to failure because their nonperforming loans exceed their capital. Many of the banks that failed in 1985, and many of those that were vulnerable to failure at the end of 1985, were located in the Midwest. (See pp. 68-73.)

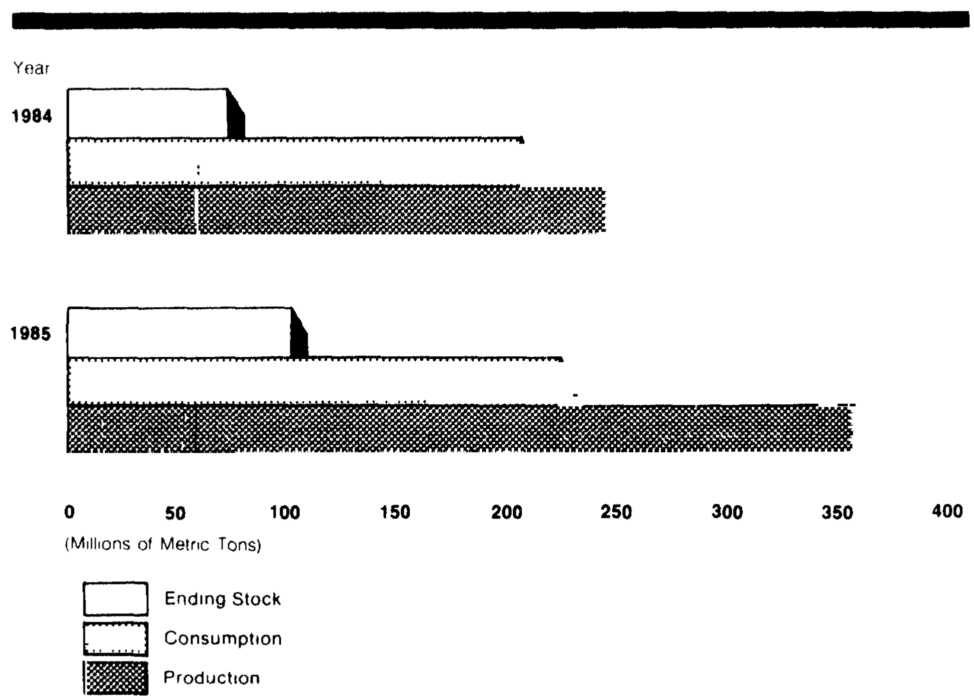
FmHA services the weakest farm customers of any lender, and its portfolio reflects its position as the lender of last resort. As of December 31, 1985, FmHA borrowers were past due on almost $8.5 billion in payments, and the outstanding balance on loans where payments were late totaled about $18.6 billion. Almost 70 percent of the outstanding balance on its farmer program loans were delinquent. Also, over 67 percent of FmHA's past due amount was 3 years or more late. (See pp. 76-79.)

SECTION 2

THE ECONOMIC ENVIRONMENT: ADVERSE CONDITIONS CONTINUED

Figure 2.1

U.S. Production, Consumption, and Year-end Stocks for Key Commodities, 1984 and 1985



Source: USDA.

WHILE PRODUCTION, CONSUMPTION, AND YEAR-END STOCKS INCREASED, FARM COMMODITY PRICES CONTINUED TO DECLINE

U.S. production, consumption, and year-end stocks of many key farm commodities, such as coarse grains (including corn--the major coarse grain--which accounted for 82 percent of total 1985 coarse grain production), soybeans, and wheat, continued to increase in 1985. However, prices for these key commodities continued to decline.

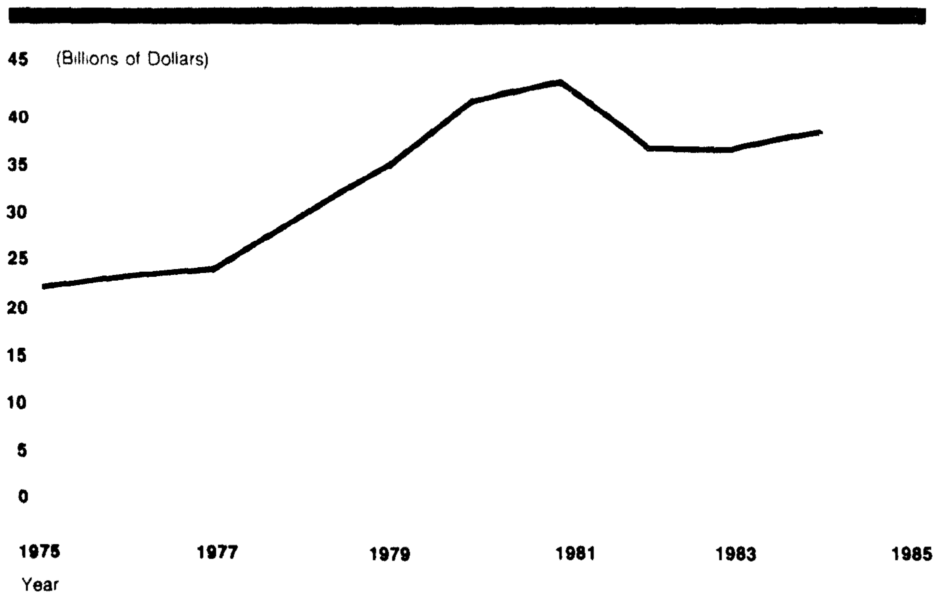
Table 2.1
U.S. Production, Consumption, and Year-end Stocks for Key Commodities, 1984 and 1985

	Market year[a] 1984	Market year[a] 1985	Percent increase (decrease)
	(millions of metric tons)		
Production			
Coarse grains	137.1	237.7	73.4
Corn	106.0	194.9	83.9
Soybeans	44.5	50.6	13.7
Wheat	65.9	70.6	7.1
Consumption			
Coarse grains	147.8	164.2	11.1
Corn	119.6	131.3	9.8
Soybeans	28.9	30.6	5.9
Wheat	30.2	31.4	4.0
Year-end stocks			
Coarse grains	31.8	55.6	74.8
Corn	18.4	41.9	127.7
Soybeans	4.8	8.6	79.2
Wheat	38.1	38.8	1.8
Average farm price	(dollars per bushel)		
Corn	$3.25	$2.62	(19.4)
Soybeans	7.81	5.78	(26.0)
Wheat	3.53	3.38	(4.2)

[a]The market year varies by crop. For example, the market year for corn begins October 1 and ends September 30.

ERS projected in June 1986 that U.S. production, consumption, and ending stocks for many key commodities would continue to increase in 1986, with wheat being a notable exception, and that prices would continue to decline. Corn production is projected to be 225 million metric tons and priced at $2.35 per bushel. Wheat production is projected to be 66 million metric tons and priced at $3.16 per bushel.

Figure 2.2
U.S. Agricultural Exports, 1975-85



Source: USDA.

U.S. AGRICULTURAL EXPORTS CONTINUED TO DECLINE

U.S. agricultural exports, according to USDA, declined in value and in volume in 1985, continuing an overall decline that has been underway since 1981. Contributing to the decline in exports has been a strong dollar, weak world economy, and high real interest rates that have made U.S. agricultural exports less affordable in world markets. Also, U.S. agricultural exports have faced strong competition from other exporting countries and large production gains by traditional importing countries.

Table 2.2
U.S. Agricultural Export Statistics, 1984 and 1985

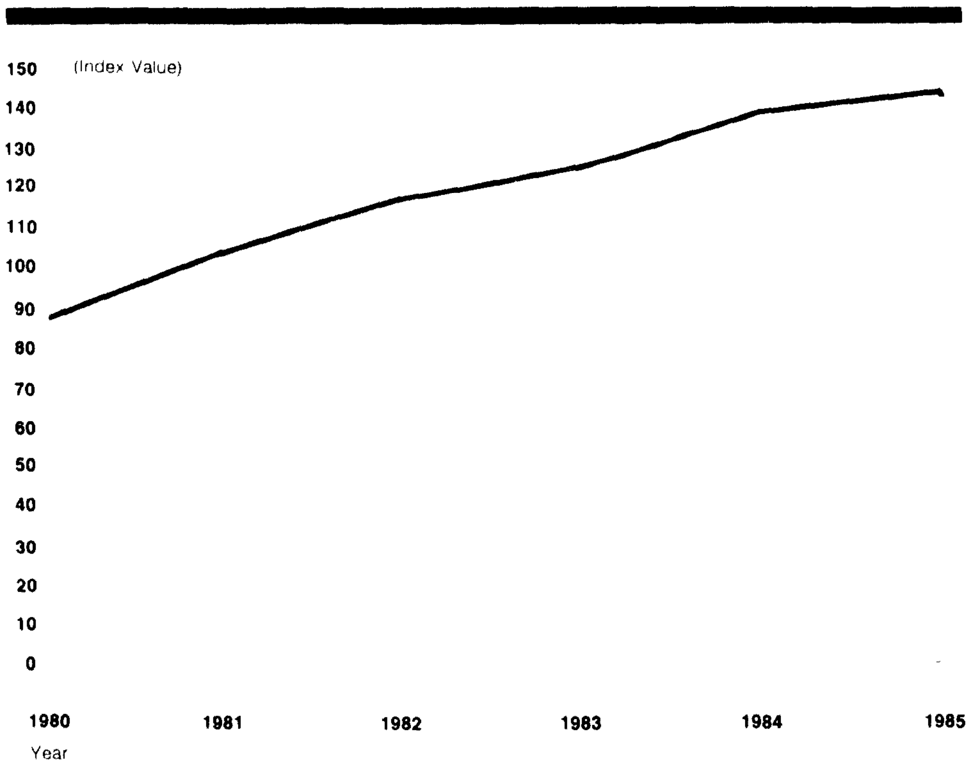
U.S. exports	Value of exports 1984	Value of exports 1985	Value of exports Percent decrease	Volume of exports 1984	Volume of exports 1985	Volume of exports Percent decrease
	--(billions)--			(millions of metric tons)		
Total	$37.8	$29.0	23.3	147.0	118.7	19.3
Key export crops						
Coarse grains[a]	8.1	6.0	25.9	57.7	51.3	11.1
Soybeans and soybean products	7.2	5.0	30.6	24.9	22.2	10.8
Wheat	6.7	3.8	43.3	43.1	25.7	40.4

[a]Includes corn, barley, oats, rye, and sorghum.

While U.S. agricultural exports declined in 1985, agricultural imports increased to almost $20 billion. As a result, the U.S. agricultural trade surplus declined to about $9.1 billion--a 51 percent decrease from the 1984 agricultural trade surplus, and the lowest level since 1972. Also, according to USDA's Foreign Agricultural Service, in May 1986 the U.S. had an agricultural trade deficit of $152 million. This was the first monthly agricultural trade deficit since August 1971.

ERS has estimated the expected level of U.S. agricultural exports and imports for fiscal year 1986; however, it has not estimated the levels for calendar year 1986. ERS projected in May 1986 that U.S. agricultural exports during fiscal year 1986 would total $27.5 billion, or 11.9 percent less than fiscal year 1985 exports. Also, ERS projected that U.S. agricultural imports during fiscal year 1986 would total $20 billion, or 1 percent more than fiscal year 1985 imports. As a result, ERS projected that the U.S. agricultural trade surplus would decline to $7.5 billion, or 34.2 percent less than the fiscal year 1985 agricultural trade surplus.

Figure 2.3
Yearly Average Index Value of the U.S. Dollar, 1980-85[a]



[a]March 1973 = 100

Source: Economic Report of the President transmitted to the Congress in February 1986.

TRADE VALUE OF THE U.S. DOLLAR CONTINUED STRONG BUT HAS STARTED TO WEAKEN

The yearly average multilateral trade-weighted value of the U.S. dollar rose in 1985, continuing a trend that has been underway since 1980.[1] Relative to a 1973 base index of 100, the yearly average index of the dollar's value measured 143.2 for 1985. As the dollar's value increased, the price of U.S. goods sold to foreign consumers was relatively more expensive compared to the price of foreign produced goods. The rise in the dollar's value has been one of the major reasons for the drop-off in U.S. agricultural trade during the 1980's.

Table 2.3
Yearly Average Multilateral Trade-Weighted Value of the U.S. Dollar, 1983-85
(March 1973 = 100)

Year	Nominal value	Real value
1983	125.3	117.3
1984	138.3	128.5
1985	143.2	132.0

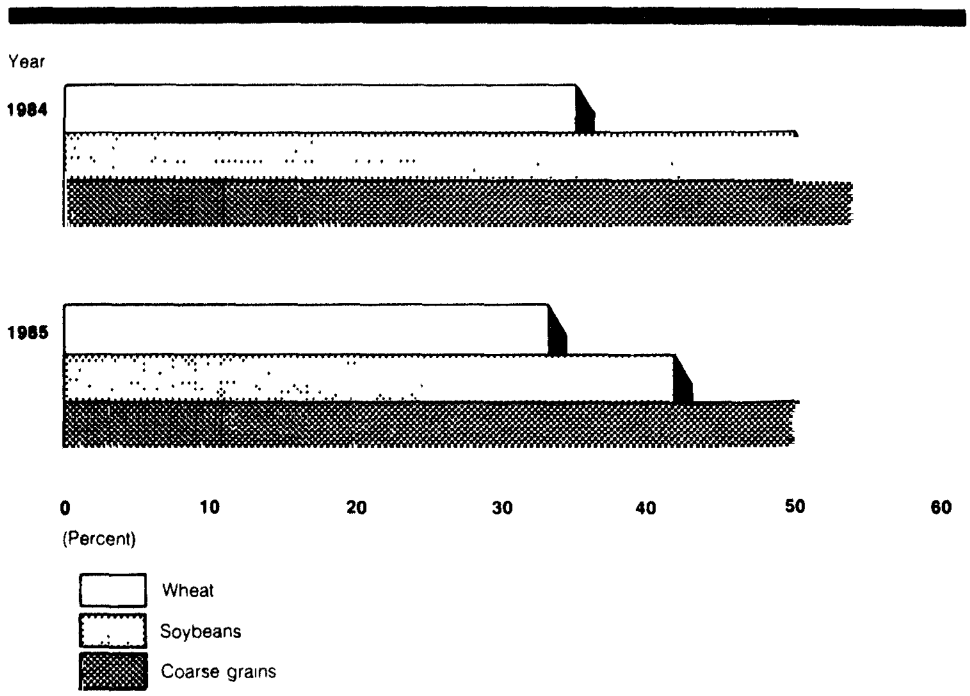
However, the quarterly multilateral trade-weighted nominal value of the dollar declined about 18.1 percent during 1985 from the first quarter peak of 156.5 to the last quarter value of 128.2. Also, the nominal value declined further during the first quarter of 1986 to 119.5. Declines in the dollar's value could in certain countries improve the price competitiveness of U.S. agricultural commodities and may boost foreign demand for U.S. farm products.

Table 2.4
Quarterly Multilateral Trade-Weighted Value of the U.S. Dollar, 1985
(March 1973 = 100)

1985 quarter	Nominal value	Real value
I	156.5	144.2
II	149.1	137.0
III	139.2	128.5
IV	128.2	118.3

[1]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.

Figure 2.4
U.S. Share of World Market for Key Commodities, 1984 and 1985



Source: GAO analysis of USDA data.

U.S. MARKET SHARE FOR KEY FARM COMMODITIES CONTINUED TO DECLINE

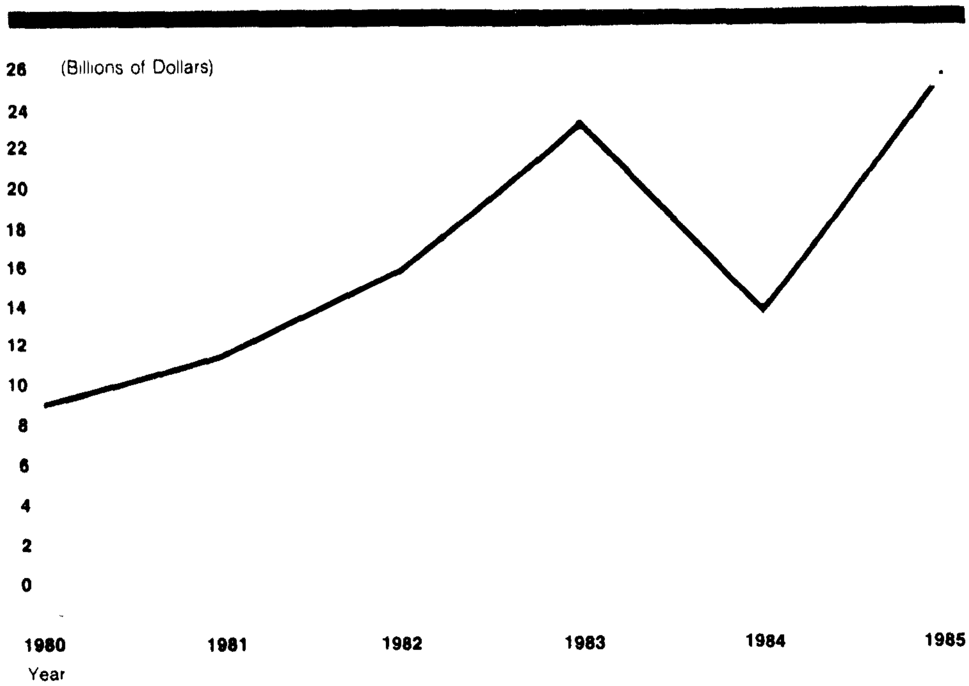
The U.S. share of the world market for the three most heavily traded commodities--coarse grains, soybeans and soybean products, and wheat--continued the declining trend in 1985 that has been underway since 1980. The declining U.S. share has occurred at a time when foreign production of these commodites has been increasing.

Table 2.5
U.S. Market Share of Total World Trade for Three Key Commodities, 1984 and 1985

Commodity	Market year 1984	Market year 1985	Percent decline
	---(percent)---		
Coarse grains	54.4	50.4	7.4
Soybeans and soybean products	50.2	42.0	16.3
Wheat	35.2	33.5	4.8

ERS projected in June 1986 that the U.S. market share for two of these key commodities would continue to decline during 1986. The U.S. market share for coarse grains was projected to decline to 47.6 percent and wheat to 29.2 percent. However, ERS also projected that the U.S. market share for soybeans and soybean products would increase to 51.8 percent.

Figure 2.5
Federal Agricultural Outlays, Fiscal Years 1980-85



Source: Economic Report of the President transmitted to the Congress in February 1986.

FEDERAL OUTLAYS FOR AGRICULTURE CONTINUED TO INCREASE

According to the *Economic Report of the President*, which was transmitted to the Congress in February 1986, federal outlays for agriculture increased to $25.6 billion in fiscal year 1985, an 88.2 percent increase over fiscal year 1984 outlays. Since 1980, federal agricultural outlays have increased every year, except 1984, and totaled almost $100 billion. Additionally, the President's report projects that fiscal year 1986 federal outlays will increase slightly over the 1985 amount to $25.9 billion.

Table 2.6
Federal Agricultural and Total Outlays, Fiscal Years 1984 and 1985

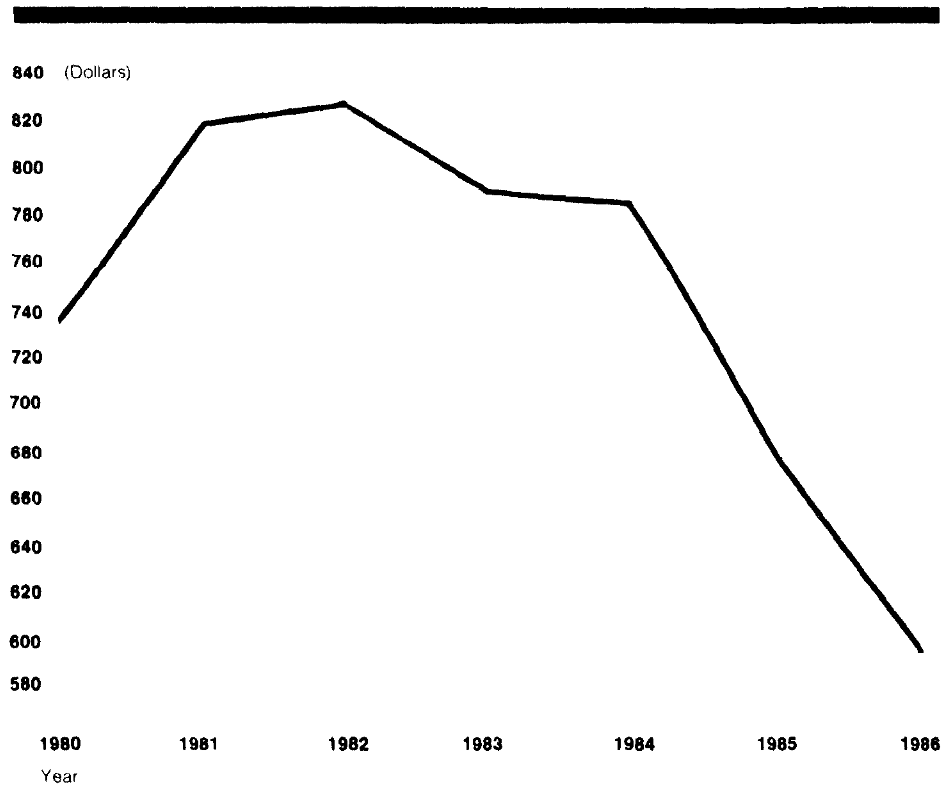
	Fiscal year 1984	Fiscal year 1985	Percent increase
	---(billions)---		
Agricultural outlays	$ 13.6	$ 25.6	88.2
Total federal outlays	$851.8	$946.3	11.1
Agricultural outlays as a percentage of total federal outlays	1.6	2.7	68.8

The substantial difference in 1985 federal outlays compared to 1984 reflects in part the payment-in-kind program, in which farmers in 1984 received commodities rather than cash from the government in return for idling cropland and reducing production of surplus commodities.

SECTION 3

THE FARM SECTOR: ADVERSE FINANCIAL POSITION CONTINUED

Figure 3.1
Average Per Acre Value of Farmland, 1980-86[a]



[a]Values as of February 1 for 1980 and 1981; April 1 for 1982 through 1985; and February 1, 1986.

Source: USDA.

FARMLAND VALUES CONTINUED TO DECLINE

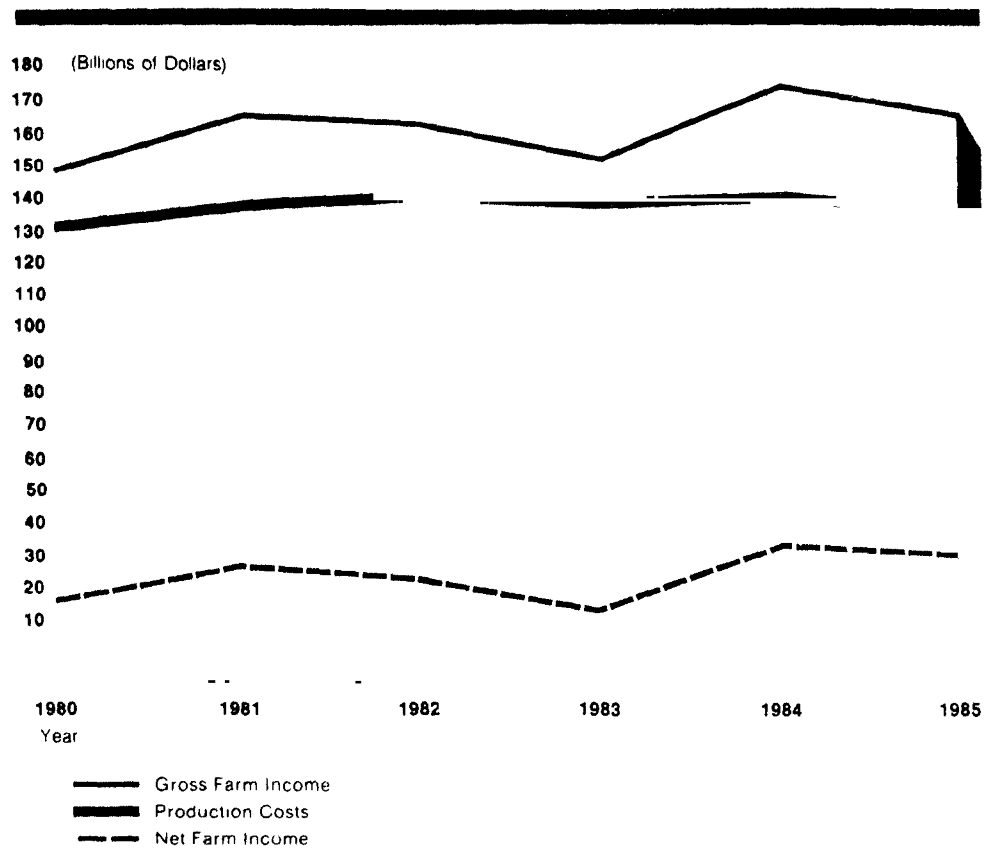
ERS reported that the national average value of farmland had fallen from $823 per acre on April 1, 1982, to $679 on April 1, 1985, and to $596 on February 1, 1986. This represents a 27.6 percent overall decline since 1982 and a 12.2 percent decline between 1985 and 1986. A comparison of the average value per acre on April 1, 1985, to February 1, 1986, shows that declines occurred in 37 of the 48 contiguous states. The greatest declines during this period occurred in states that are located in the central, north central, and south central areas of the country. Overall, 18 states had declines from April 1, 1985, to February 1, 1986, that exceeded the 12.2 percent national average decline, and 3 of these 18 states--Minnesota, Iowa, and Louisiana--had declines of 20 percent or more. In addition, the value of all farm assets, according to ERS, declined by 9.9 percent in 1985 from 1984.

Table 3.1

Farmland Average Per Acre Values in States That Experienced the Highest Declines From April 1, 1985, to February 1,1986

State	Per acre value: April 1985	Per acre value: February 1986	Percent decline
Minnesota	$ 823	$ 609	26.0
Iowa	1,064	841	21.0
Louisiana	1,256	1,005	20.0
Nebraska	444	364	18.0
Colorado	435	357	17.9
New Mexico	163	134	17.8
Texas	652	541	17.0
Arkansas	849	705	17.0
Kansas	466	387	17.0
Wisconsin	847	711	16.1
Indiana	1,259	1,058	16.0
Oklahoma	566	481	15.0
Idaho	749	644	14.0
South Dakota	250	215	14.0
Nevada	229	199	13.1
Illinois	1,314	1,143	13.0
Wyoming	177	154	13.0
Arizona	265	231	12.8
National average for the 48 contiguous states	$ 679	$ 596	12.2

Figure 3.2
Gross and Net Farm Income and Production Costs, 1980-85



Source: USDA.

FARMERS' GROSS AND NET FARM INCOME DECREASED

Farmers' gross and net farm income, excluding off-farm income and after adjusting for changes in the value of inventory, declined in 1985 from the levels of 1984. According to ERS, farmers' net farm income declined 6.7 percent in 1985. ERS attributed the 1985 declines to decreases in livestock inventory values and nonmoney income, such as the value of home consumption of farm products, and low prices that resulted from an increase in farm output.

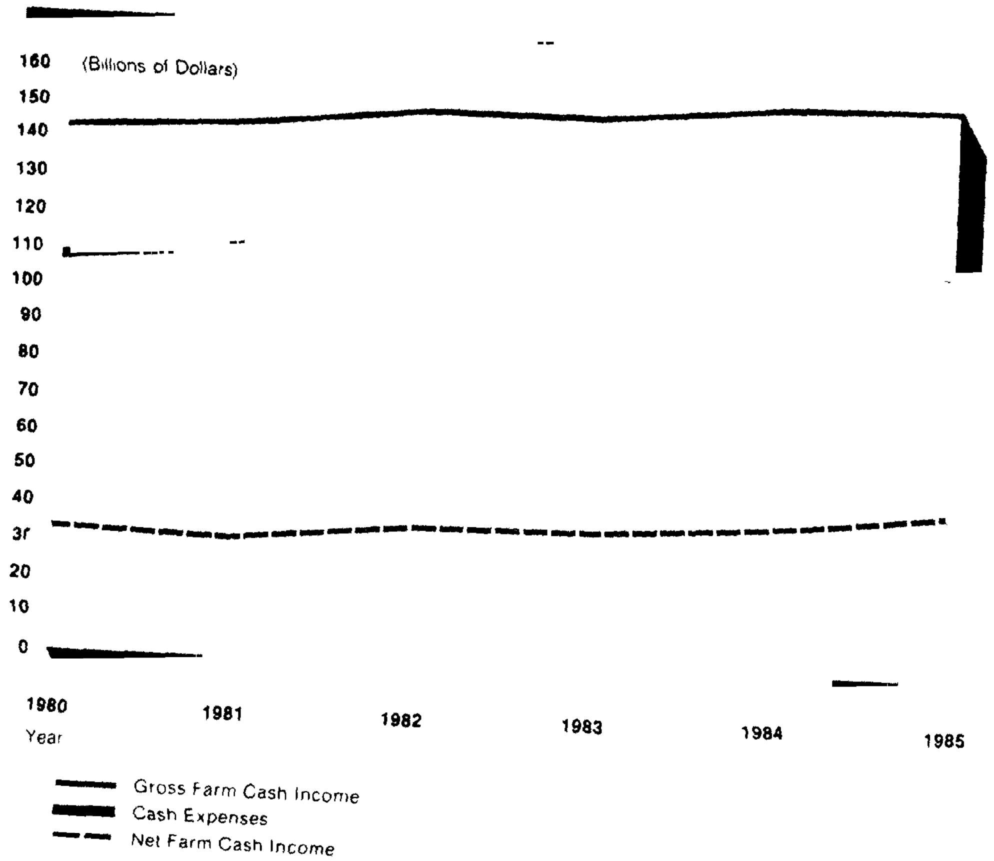
Table 3.2
Farmers' Gross and Net Farm Income, 1984 and 1985

	1984	1985	Percent change
	---(billions)---		
Gross farm cash income	$154.9	$156.2	0.8
Nonmoney income	13.3	11.5	(13.5)
Value of inventory change	6.3	(1.1)	(117.5)
Gross farm income	174.4[a]	166.6	(4.5)
Total production expenses	141.7	136.1	(4.0)
Net farm income	$ 32.7	$ 30.5	(6.7)

[a]Total does not add due to rounding.

Figure 3.3

Gross and Net Farm Cash Income and Cash Expenses, 1980-85



Source: USDA.

FARMERS' GROSS AND NET FARM CASH INCOME INCREASED

According to ERS, while farmers' gross farm cash income increased slightly in 1985 compared to 1984,[1] their net farm cash income increased by 12.2 percent to $44 billion. Net farm cash income shows cash earnings from farm operations and is based on cash receipts from the sale of agricultural products, government payments to farmers, and other earned income related to farming operations, less cash expenses. The considerable increase in 1985 net farm cash income is primarily attributable to continued high government payments, inventory reductions, increases in farm-related income, and decreases in farm cash expenses. Also, farmers' net farm cash income margin--based on net and gross farm cash income, excluding off-farm income--shows how much of each dollar of gross farm cash income remained in the farm sector after cash production expenses. This margin increased by 11.5 percent in 1985 compared to 1984.

Table 3.3
Farmers' Gross and Net Farm Cash Income and Cash Expenses, 1984 and 1985

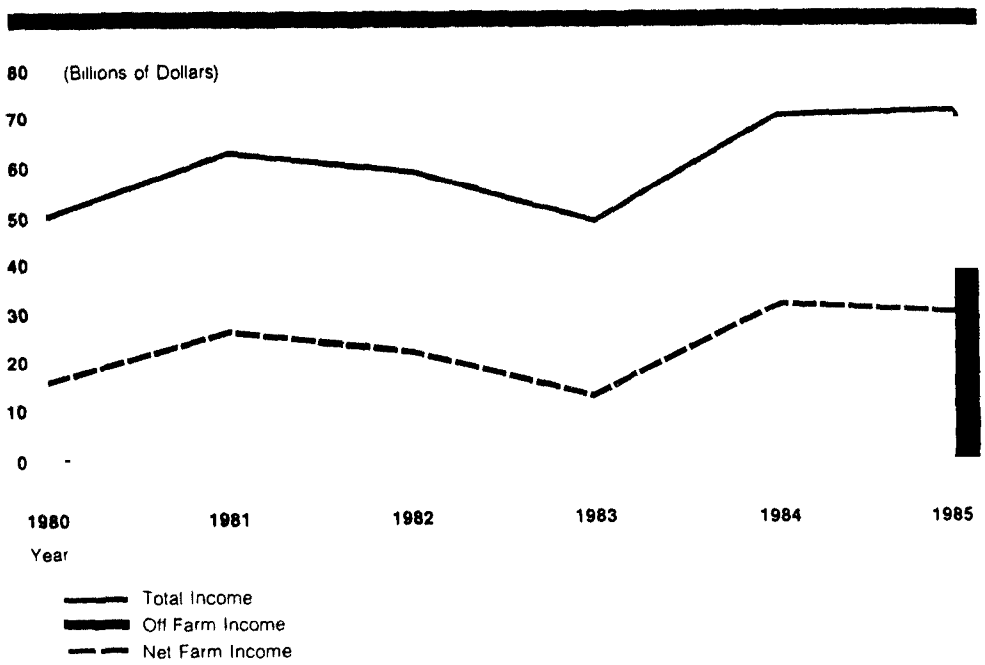
	1984	1985	Percent change
	---(billions)---		
Cash receipts	$142.2	$142.1	(0.1)
Government payments	8.4	7.7	(8.3)
Farm-related income	4.3	6.4	48.8
Gross farm cash income	$154.9	$156.2	0.8
Farm cash expenses	115.6	112.2	(2.9)
Net farm cash income	$ 39.2[a]	$ 44.0	12.2
Net farm cash income margin (percent)	25.3	28.2	11.5

[a]Total does not add due to rounding.

---

[1]According to ERS, gross farm cash income includes cash receipts from crop and livestock sales, government payments, and farm-related income, such as income from custom work and machine hire. Net farm cash income includes the above, less farm cash expenses, such as fuel, fertilizer, and property taxes. Both measures exclude the income and expenses associated with farm operators' households.

Figure 3.4
Farmers' Off-farm, Net Farm, and Total Income, 1980-85



Source: USDA.

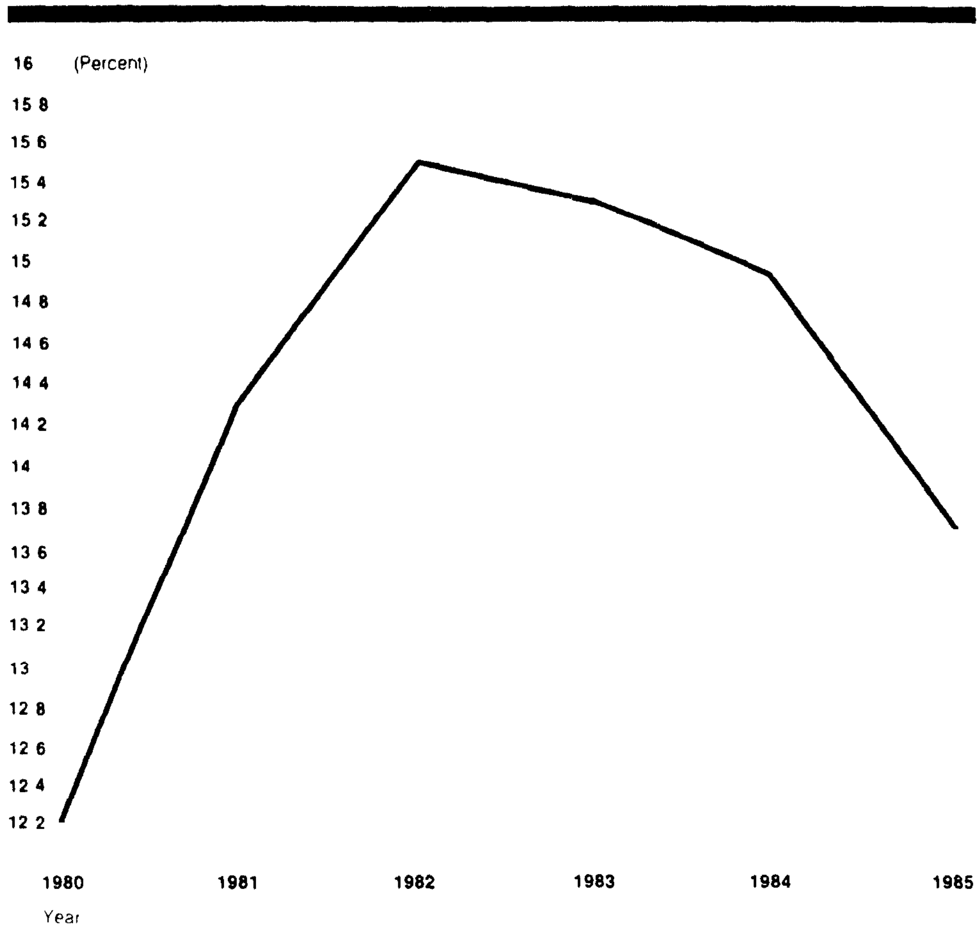
WHILE FARMERS' OFF-FARM INCOME CONTINUED TO INCREASE, NET FARM INCOME DECREASED

An increasing amount of farmers' total income is being derived from off-farm sources. According to ERS, in 1985, off-farm income, such as wages and salaries received by farm operators and members of their households from nonfarm employment, increased to $40.8 billion, a 7.7 percent increase over 1984 off-farm income. Most off-farm income has been received by noncommercial farms with annual sales of less than $40,000. Off-farm income provides farmers with a buffer against the financial risks of farming.

Table 3.4
Farmers' Off-farm, Net Farm, and Total Income, 1984 and 1985

	1984	1985	Percent change
	---(billions)---		
Off-farm income	$37.9	$40.8	7.7
Net farm income after inventory adjustment	32.7	30.5	(6.7)
Total income of farm operators	$70.6	$71.3	1.0

Figure 3.5
Interest Payments as a Percent of Farm Production Expenses, 1980-85



Source: GAO analysis of USDA data.

FARMERS' INTEREST PAYMENTS DECREASED

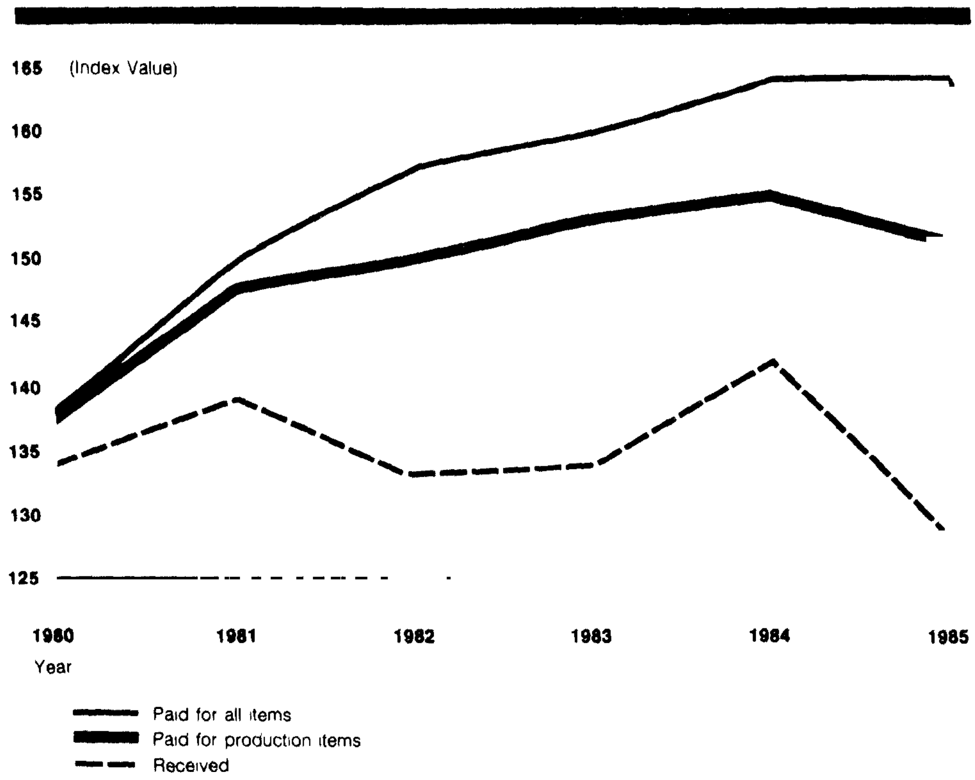
Farmers' interest payments as a percent of total production expenses declined in 1985, continuing a trend that has been underway since 1983. Also, farmers' total production expenses declined in 1985 from the 1984 level. With declines in interest rates and the amount of debt outstanding, ERS reported 1985 total interest payments at $18.7 billion, or 13.7 percent of total production expenses. In addition, with declines in the prices paid for farm inputs, such as feed grains, fertilizer, and fuels, and in their overall use, total production costs declined to $136.1 billion, or 4 percent less than in 1984.

Table 3.5
Interest Payments and Total Production Expenses, 1984 and 1985

	1984	1985	Percent decline
	---(billions)---		
Interest payments	$ 21.1	$ 18.7	11.4
Total production expenses	141.7	136.1	4.0

In addition, ERS has estimated that interest payments in 1986 will continue to decline as farmers reduce their debt. Also, ERS estimated that total production expenses will decline in 1986 as input use continues to fall.

Figure 3.6
Indexes of Prices Received and Paid by Farmers, 1980-85[a]



[a]1977=100

Source: Economic Report of the President transmitted to the Congress in February 1986.

INDEX OF PRICES RECEIVED BY FARMERS DECLINED

The index of prices received by farmers in 1985 for their products was less than the index of prices they paid, continuing a negative trend that has existed since 1980. Using 1977 as a base year index of 100, the index of prices received by farmers in 1985 for farm products measured 128--a 9.9 percent decline from a year earlier. However, the index of prices paid by farmers for commodities, services, interest, taxes, and wages measured 164, which was unchanged from a year earlier.

Table 3.6
Indexes of Prices Received and Paid by Farmers, 1983-85
(1977=100)

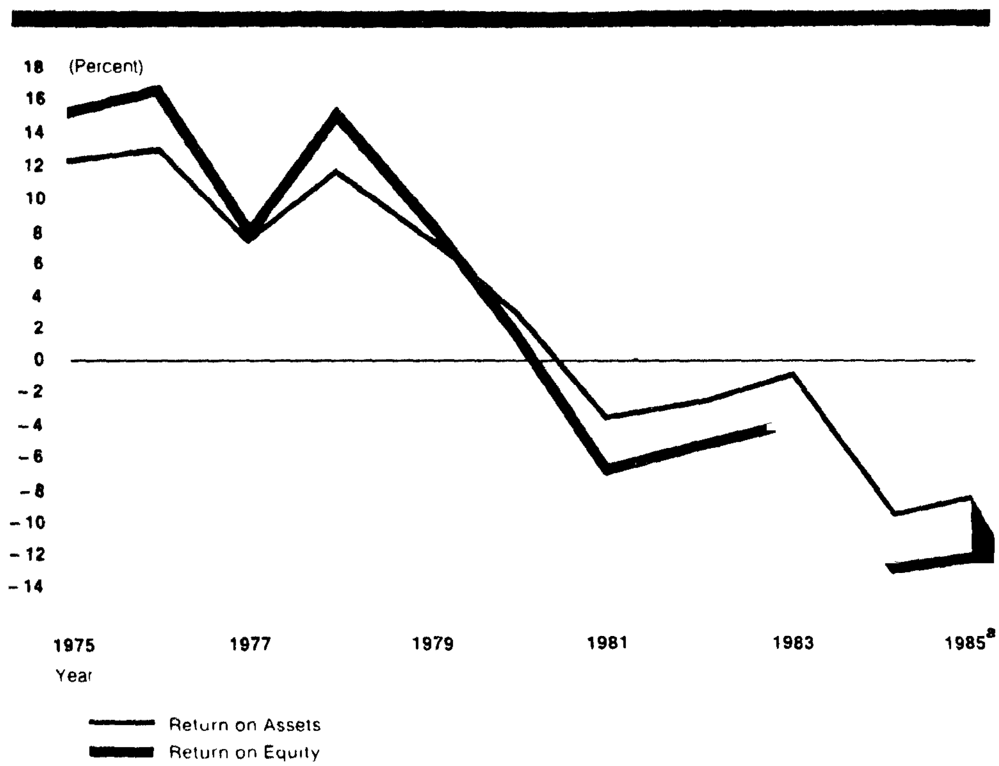
Year	Index of prices received	Index of prices paid: Production items[a]	Index of prices paid: All items[b]
1983	134	153	160
1984	142	155	164
1985	128	151	164

[a]Includes equipment, fertilizer, and fuel.

[b]Includes commodities, services, interest, taxes, and wages, including items used for family living.

Additionally, the index value of prices farmers received and paid continued to decline in 1986. According to ERS, the index of prices received in May 1986 had declined to 123 (compared to an index of 130 in May 1985). Also, the indexes of prices paid in May 1986 for production items had declined to 146 and for all items to 161 (compared with May 1985 index values of 152 and 164, respectively).

Figure 3.7
Rates of Return on Assets and on Equity, 1975-85



[a]Percent based on ERS' preliminary 1985 data.

Source: GAO analysis of USDA data.

RATES OF RETURN ON ASSETS AND ON EQUITY IMPROVED BUT REMAINED NEGATIVE

According to ERS preliminary data, farmers' total rates of return on assets and on equity improved slightly in 1985 compared to their rates of return in 1984. However, both rates continued to be negative. Farmers have experienced negative rates of return primarily because the market value of farm assets declined at the end of the year from their value at the start of the year. That is, farmers experienced capital losses on assets used for production.

Table 3.7
Rates of Return on Assets and on Equity, 1984 and 1985

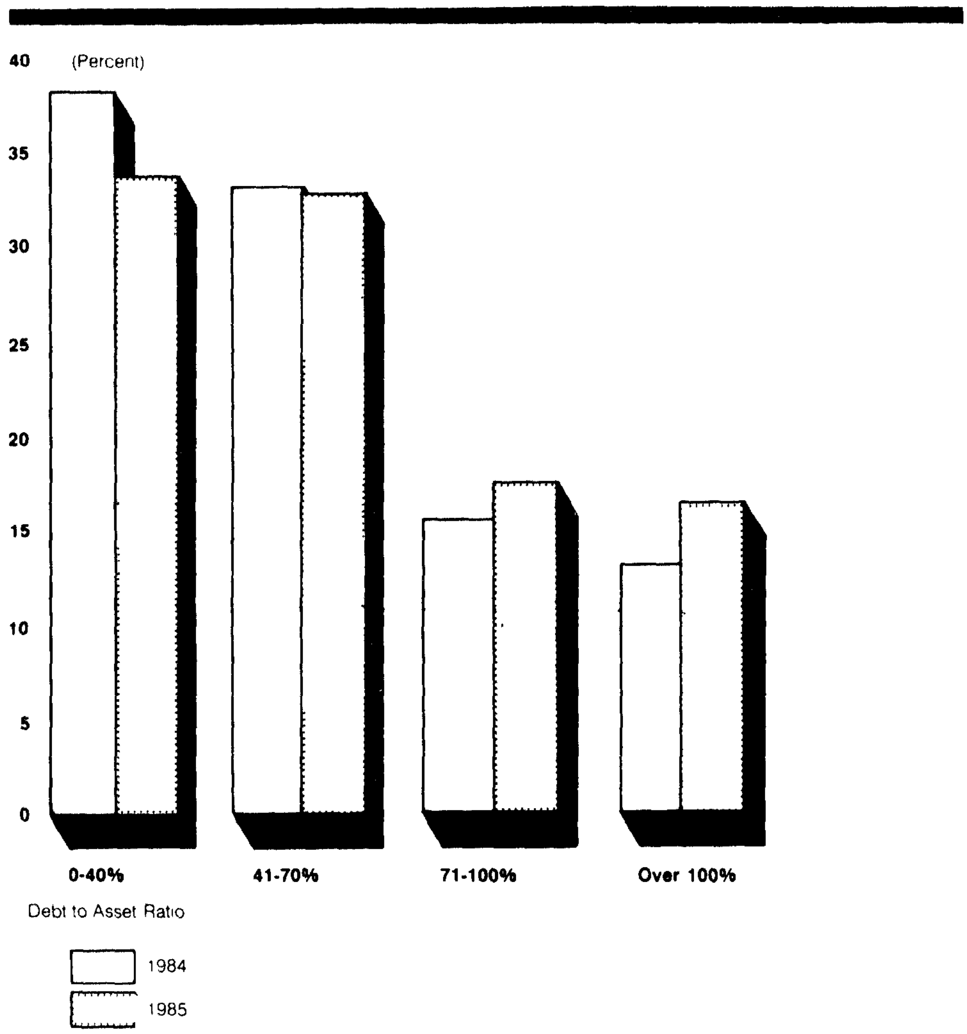
	1984	1985[a]
	----(percent)---	
Return on assets		
Income[b]	4.8	5.0
Capital gains	(14.1)	(13.4)
Total	(9.3)	(8.4)
Return on equity		
Income[c]	2.7	3.1
Capital gains	(16.0)	(15.7)
Total	(13.3)	(12.6)

[a]The 1985 rates are based on August 1986 ERS' preliminary information, and exclude farm operator households.

[b]Excludes returns imputed to operator's labor and management.

[c]Excludes returns imputed to operator's labor and management and interest on debt.

Figure 3.8
Percent of Total Farm Debt By Debt-to-Asset Ratio,[a]
1984 and 1985



[a]The debt-to-asset ratio compares the value of assets to the amount of debt and is one indicator of financial soundness. According to ERS, farmers with a ratio of 0 to 40 percent generally have few financial problems and very strong net worth; farmers with a ratio of 41 to 70 percent have problems meeting principal repayment but have adequate net worth; farmers with a ratio of 71 to 100 percent have problems meeting principal repayment and current interest due and have a declining net worth; and, farmers with a ratio over 100 percent have severe problems meeting principal and interest commitments and have a negative net worth. Farmers in the latter category are technically insolvent and the sale of farm assets would be insufficient to retire their debts.

Source: USDA.

WHILE MOST FARMERS ARE FINANCIALLY SOUND, MANY ARE TECHNICALLY INSOLVENT

Most farm debt is held by farmers having few financial problems and a strong net worth or having some debt repayment problems but an adequate net worth. However, a growing portion of total farm debt is held by technically insolvent farmers. According to information compiled by ERS, the greatest share of 1985 farm debt, 33.7 percent, was held by farmers with a debt-to-asset ratio of 40 percent or less. Also, farmers with a debt-to-asset ratio from 41 through 70 percent held 32.9 percent of the total farm debt. However, farmers who are technically insolvent, with a debt-to-asset ratio over 100 percent, held 16.1 percent of the total farm debt. In 1984, these percentages were 38 percent, 33 percent, and 13.1 percent, respectively.

Table 3.8

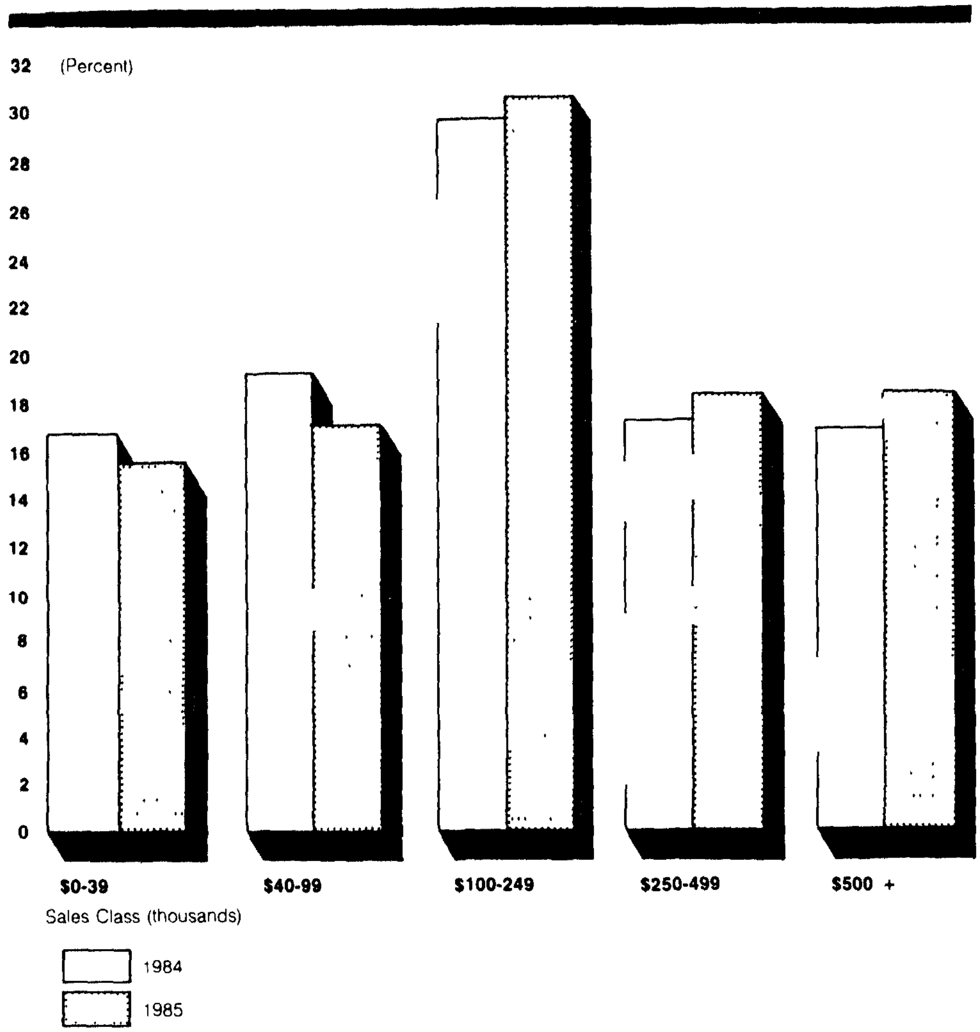
Number of Farms and Amount of Total 1984 and 1985 Farm Debt by Debt-to-Asset Ratio

	Debt-to-asset ratio				
	0-40%	41-70%	71-100%	Over 100%	Total[a]
Number of farms	(thousands of farms)				
1984	1,353	194	72	50	1,669
1985	1,221	197	72	61	1,551
Percent of farms					
1984	81.1	11.6	4.3	3.0	100.0
1985	78.7	12.7	4.6	4.0	100.0
Amount of debt[b]	(billions of dollars)				
1984	$45.3	$39.3	$18.9	$15.6	$119.1
1985	$38.2	$37.2	$19.7	$18.2	$113.4
Percent of debt					
1984	38.0	33.0	15.9	13.1	100.0
1985	33.7	32.9	17.4	16.1	100.0
Overall average debt-to-asset ratio (percent)					
1984	10.4	52.7	81.4	144.8	21.8
1985	10.6	53.3	82.4	138.0	22.5

[a]Totals may not add due to rounding.

[b]ERS gathers farm debt information by debt-to-asset ratio category and by farm sales class through its annual Farm Costs and Returns Survey. The 1984 survey showed 1984 farm debt of $119.1 billion, while the 1985 survey showed 1985 farm debt of $113.4 billion. These figures differ from the $217 billion and $210 billion we report on page 57 for 1984 and 1985, respectively, because they are based on survey responses, only include farm operators' debt related to farming operations, and exclude farm operators' debt held for nonfarm purposes, farm debt held by individuals other than farm operators, some CCC loans, and some small noncommercial farmers. Our higher figures are based on information reported by major institutional lenders to the farm sector and ERS' estimate of the farm debt held by other lenders.

Figure 3.9
Percent of Total Farm Debt by Farm Sales Class, 1984 and 1985



Source: USDA.

MOST FARM DEBT IS HELD BY COMMERCIAL FARMS

Most 1985 farm debt was held by commercial farms, those having $40,000 or more in sales. According to information compiled by ERS, commercial farms accounted for 84.5 percent of the total farm debt. The greatest share of farm debt, 30.6 percent, was held by commercial farms with $100,000 to $249,999 in sales. The largest farms--sales of $500,000 or more--accounted for 18.6 percent of the total farm debt while the smallest farms--sales of less than $40,000--accounted for 15.5 percent of the debt. In 1984, these percentages were 16.9 percent and 16.8 percent, respectively.

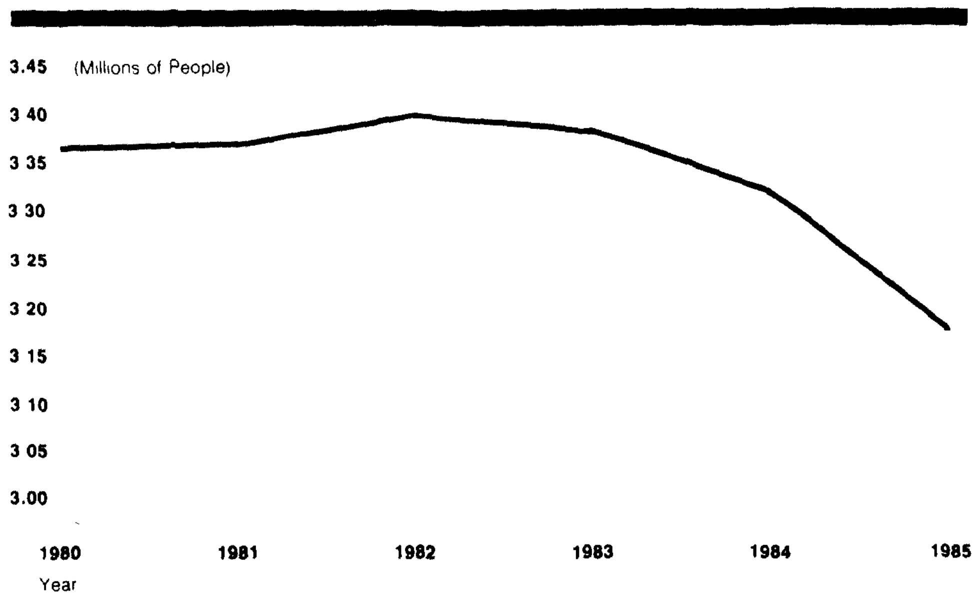
Table 3.9
Number of Farms and Amount of Total 1984 and 1985 Farm Debt by Farm Sales Class

	Sales class (thousands)					
	$0 to 39	$40 to 99	$100 to 249	$250 to 499	$500 and more	Total[a]
Number of farms (thousands)						
1984	1,035	306	229	69	30	1,669
1985	928	286	226	79	32	1,551
Percent of farms						
1984	62.0	18.3	13.8	4.1	1.8	100.0
1985	59.8	18.4	14.6	5.0	2.1	100.0
Amount of debt (billions)[b]						
1984	$20.0	$22.9	$35.5	$20.4	$20.2	$119.1
1985	$17.5	$19.3	$34.7	$20.7	$21.1	$113.4
Percent of debt						
1984	16.8	19.3	29.8	17.2	16.9	100.0
1985	15.5	17.1	30.6	18.2	18.6	100.0
Average debt (thousands)						
1984	$19.3	$74.8	$154.8	$297.5	$665.3	$71.3
1985	$18.9	$67.7	$153.8	$263.3	$650.6	$73.1
Overall average debt-to-asset ratio (percent)						
1984	11.4	21.4	26.9	30.8	31.6	21.8
1985	11.1	21.1	30.5	31.7	27.9	22.5

[a]Totals may not add due to rounding.

[b]See footnote [b] on page 47 for an explanation of the difference in total debt listed here and the total debt on page 57.

Figure 3.10
Agricultural Employment, 1980-85



Source: Economic Report of the President transmitted to the Congress in February 1986.

FARM EMPLOYMENT CONTINUED TO DECREASE

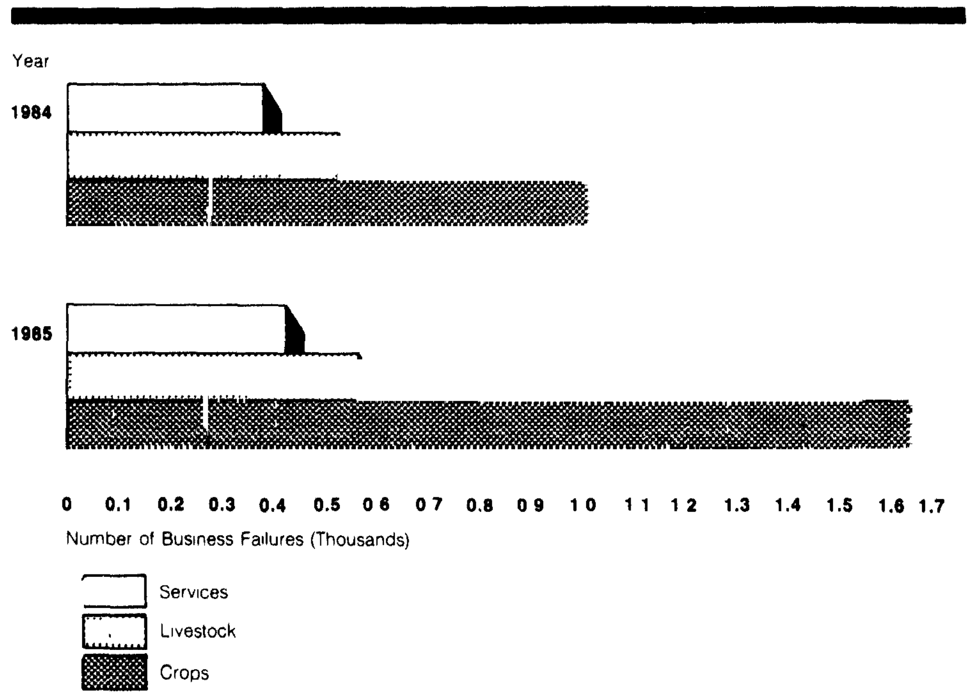
While nonfarm employment grew by over 2 percent in 1985 compared to 1984, farm employment declined by over 4 percent, continuing an overall declining trend that has been underway for many years. According to the Department of Labor's Bureau of Labor Statistics, in 1985 there were about 3.2 million people employed in agriculture, or 3 percent of the civilian labor force.

Table 3.10
Agricultural and Total Employment, 1984 and 1985

	1984	1985	Percent change
	--(thousands)--		
Agricultural employment	3,321	3,179	(4.3)
Nonagricultural employment	101,684	103,971	2.2
Total	105,005	107,150	2.0
Agricultural employment as a percent of total employment	3.2	3.0	(6.3)

USDA also compiles information on farm employment but differs from the Department of Labor in methodology, concept of employment, and timing. According to USDA, the number of family workers on farms decreased to slightly more than 2 million in 1985, continuing a downward trend that has been underway since the late 1940's. Also, the number of hired workers on farms decreased in 1985 to about 1.3 million, reversing the trend of increasing numbers of hired workers that has existed since 1979.

Figure 3.11
Agricultural Business Failures, 1984 and 1985



Source: The Dun & Bradstreet Corporation.

AGRICULTURAL BUSINESS FAILURES INCREASED

The number of agricultural businesses that failed in 1985 increased considerably compared to the number that failed in 1984. According to information reported by the Dun & Bradstreet Corporation,[2] over 2,600 agricultural businesses failed in 1985--a 35.6 percent increase over the number that failed in the previous year. Most of these were engaged in crop production. Additionally, the total value of liabilities held by agricultural businesses that failed in 1985 was over $1 billion--a 21 percent increase over the value of liabilities held by 1984 failed agricultural businesses ($834.3 million). However, the average value of liabilities decreased from $426,000 for 1984 failed agricultural businesses to $380,000 for the 1985 failed agricultural businesses--a 10.8 percent decrease.

Table 3.11
Number of Agricultural Businesses That Failed, 1984 and 1985

Agricultural businesses	1984	1985	Percent increase
Crop production	1,033	1,651	59.8
Livestock production	533	574	7.7
Subtotal	1,566	2,225	42.1
Agricultural services	391	429	9.7
Total	1,957	2,654	35.6

Further, the 1985 increase in agricultural business failures was disproportionately greater than the increase in all business failures. For all businesses, Dun & Bradstreet reported that business failures in 1985 increased 9.6 percent over 1984 failures. Of this total, agricultural business failures accounted for 4.7 percent in 1985; an increase from the 3.8 percent of all business failures in 1984.

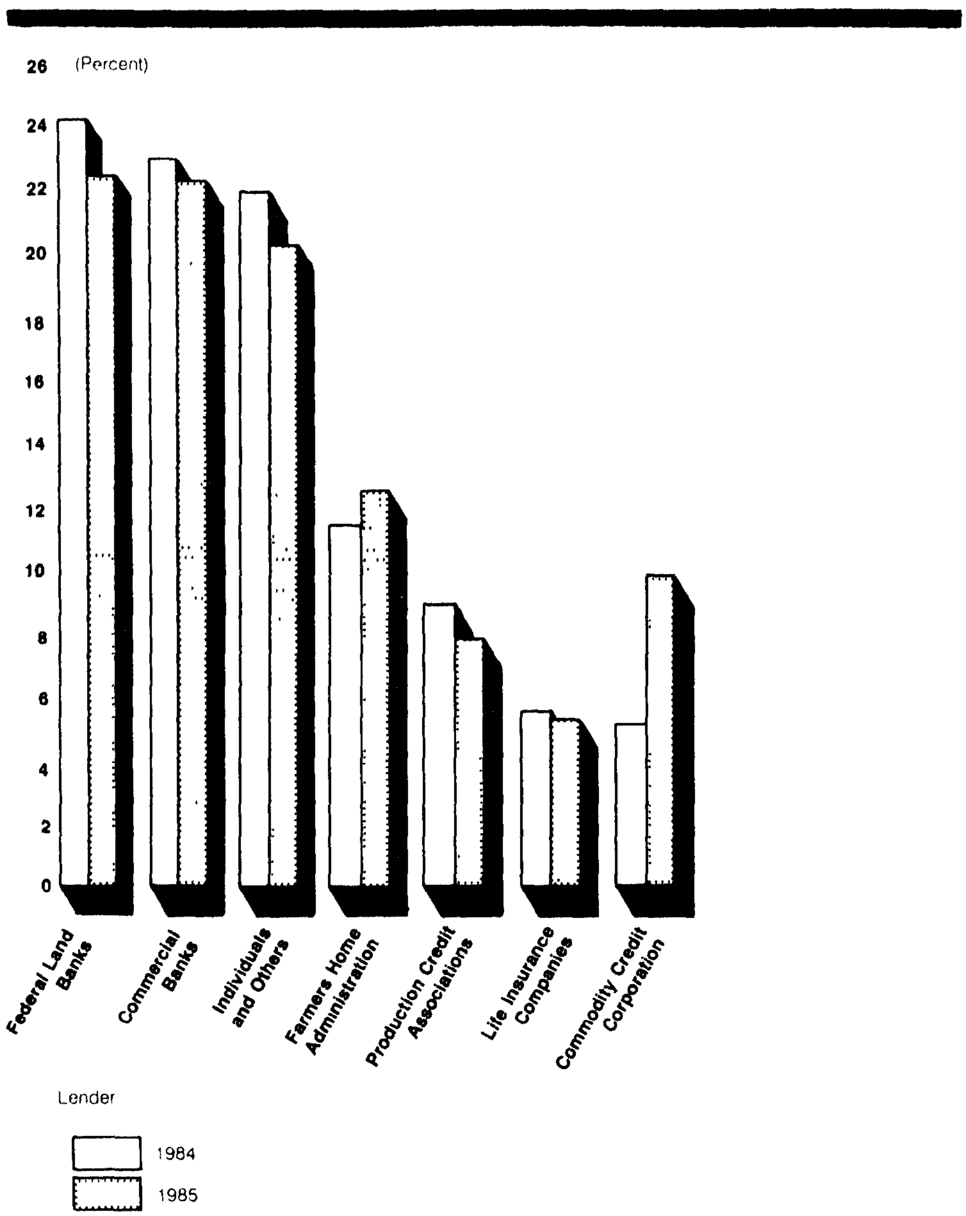
---

[2]The Dun & Bradstreet Corporation produces and markets business information and related services. Its business failure statistics include businesses that ceased operations following assignment or bankruptcy; ceased operations with losses to creditors after such actions as foreclosure or attachment; voluntarily withdrew leaving unpaid obligations; were involved in court actions such as receivership, reorganization, or arrangement; or voluntarily compromised with creditors.

SECTION 4

THE FINANCE SECTOR: FARM LENDERS CONTINUED TO EXPERIENCE FINANCIAL STRESS

Fiqure 4.1
Percent of Total Farm Debt Held By
Lenders, 1984 and 1985



Source: GAO analvsis of FCA data for FLBs and PCAs; FRB data for commercial banks; ERS data for others; FmHA data; American Council of Life Insurance data for life insurance companies; and CCC data.

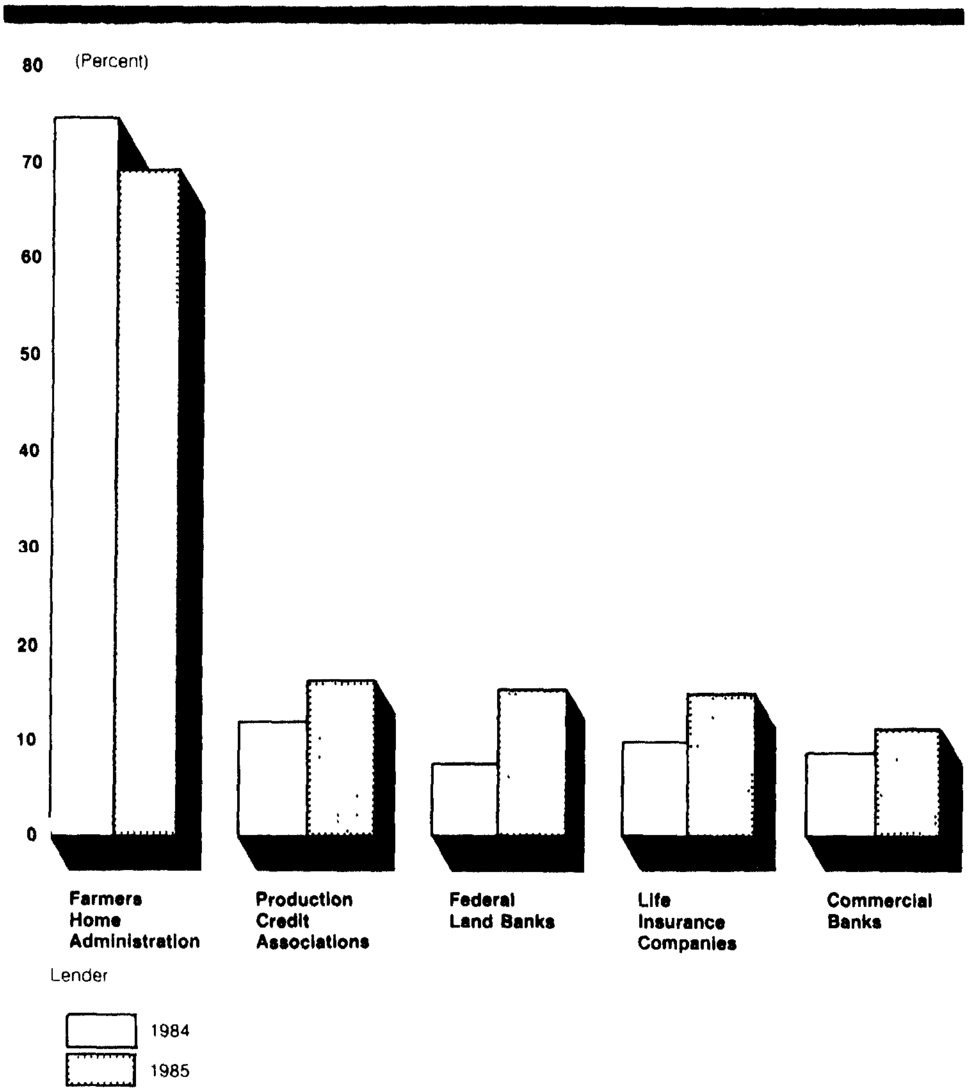
TOTAL FARM DEBT DECLINED

Five major institutional lenders provide most of the loans to the nation's farmers. As of December 31, 1985, the outstanding debt held by these institutional lenders totaled almost $168 billion. In addition, ERS annually reports on the farm debt held by other lenders, such as individuals. ERS has estimated that, as of December 31, 1985, these other lenders had $42.8 billion outstanding in real estate and non-real estate loans to the nation's farmers. The principal changes in 1985 from 1984 reflect a declining share of the total debt for all major nonfederal lenders and an increase in the debt owed to FmHA and CCC.

Table 4.1
Total Farm Debt, 1984 and 1985

Lender	1984 Real estate	1984 Non-real estate	1984 Total	1985 Real estate	1985 Non-real estate	1985 Total
	(billions)					
FCS:						
FLBs	$ 52.3	0	$ 52.3	$ 47.5	0	$ 47.5
PCAs	0	$ 18.4	18.4	0	$ 14.4	14.4
Commercial banks	10.2	39.7	49.9	11.4	35.7	47.1
FmHA	9.4	15.7	25.1	9.8	16.8	26.6
CCC	0	11.0	11.0	0	20.6	20.6
Life insurance companies	12.2	0	2.2	11.4	0	11.4
Subtotal	$ 84.1	$ 84.8	$168.9	$ 80.1	$ 87.5	$167.6
Individuals and others	29.9	18.2	48.1	25.9	16.9	42.8
Total	$114.0	$103.0	$217.0	$106.0	$104.4	$210.4

Figure 4.2
Major Institutional Lenders' Percent of Loan Portfolio
Nonperforming and/or Delinquent, 1984 and 1985



Source: GAO analysis of FmHA data; FCA data for PCAs and FLBs; American Council of Life Insurance data for life insurance companies; and FRB data for commercial banks.

NONPERFORMING AND/OR DELINQUENT FARM DEBT INCREASED

The farm loan portfolio of the major institutional lenders reflects the problems being experienced in the nation's farm sector. As of December 31, 1985, the total nonperforming and/or delinquent loans held by four of the institutional lenders totaled about $33.7 billion, or 24.9 percent of their outstanding principal ($135.6 billion). The total quality of these lenders' portfolio is skewed by the poor condition of FmHA's portfolio. Excluding FmHA, the total nonperforming and/or delinquent loans held by the three non-federal lenders was $15.1 billion, or 13.9 percent of their outstanding debt, a considerable increase from the $10.5 billion, or 8.6 percent of their outstanding debt that was nonperforming and/or delinquent in 1984.

Table 4.2
Nonperforming and/or Delinquent Farm Debt Held by Major Institutional Lenders, 1984 and 1985[a]

Lenders	1984 Amount (billions)	1984 Percent of portfolio nonperforming and/or delinquent[b]	1985 Amount (billions)	1985 Percent of portfolio nonperforming and/or delinquent[b]
FCS:				
FLBs	$ 4.0	7.6	$ 7.4	15.6
PCAs	2.1	11.4	2.3	16.0
Commercial banks[c]	3.2	8.0	3.7	10.5
FmHA	18.9	75.3	18.6	69.9
Life insurance companies	1.2	9.8	1.7	14.9
Total	$29.4	19.9	$33.7	24.9

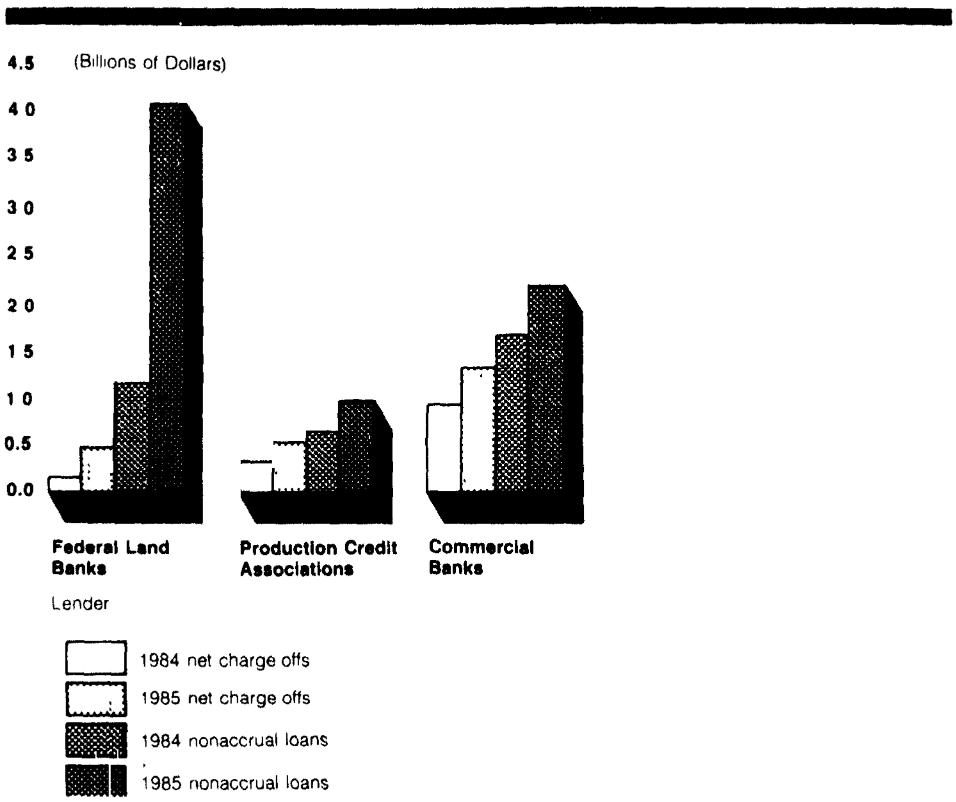
[a]Excludes CCC loans because borrowers have the option of repaying the loan or giving the commodity to the government to satisfy the loan. CCC acquired the collateral crop on loans totaling over $1 billion and over $1.6 billion in fiscal years 1984 and 1985, respectively. Also, excludes "Individuals and others" since the quality of their loan portfolio is unknown.

[b]Definitions of nonperforming and/or delinquent farm loans vary somewhat by lender.

[c]The amount and percent of nonperforming and/or delinquent loans for commercial banks is incomplete because all banks are not required to report farm loan quality data. The amount and percent included here are those reported by FRB.

Lenders' delinquency rates change during the year. For example, as of September 30, 1985, all major lenders, except FmHA, had slightly lower rates than they had at year-end. FmHA had a much lower rate--42.1 percent. Seasonal repayment patterns make FmHA's delinquency rate higher at year-end than at other times.

Figure 4.3
Farm Loan Net Charge-offs and Nonaccrual Loans, 1984 and 1985



Source: FCA for FLBs and PCAs, and FRB for commercial banks.

FARM LOAN NET CHARGE-OFFS AND NONACCRUAL LOANS INCREASED

The portfolios of the FLBs, PCAs, and commercial banks contain $13.4 billion in nonperforming loans despite the rising trend in farm loan net charge-offs--that portion of loans written off as uncollectible--by these institutions. According to FCA and FRB, during 1985, these institutions had net charge-offs of over $2.2 billion in farm loans as uncollectible, an increase of 75.5 percent over 1984.

In addition, as of December 31, 1985, these lenders had nonaccrual loans totaling almost $7.1 billion--a 110.9 percent increase over 1984. Nonaccrual loans are loans where the accrual of interest has been suspended because full collection of principal and interest is in doubt. Nonaccrual loans are highly significant because they are the most severe category of nonperforming loans and may indicate future loan charge-offs, given continued high stress in agriculture.

Table 4.3
Farm Loan Net Charge-offs and Nonaccrual Loans for Various Lenders, 1984 and 1985

Lender	Net Charge-offs[a]			Nonaccrual loans[b]		
	1984	1985	Percent increase	1984	1985	Percent increase
	-----(millions)----			---(millions)---		
FLBs[c]	$ 90	$ 460	411.1	$1,116	$4,029	261.0
PCAs	286	480	67.8	637	943	48.0
Commercial banks[d]	900	1,300	44.4	1,600	2,100	31.3
Total	$1,276	$2,240	75.5	$3,353	$7,072	110.9

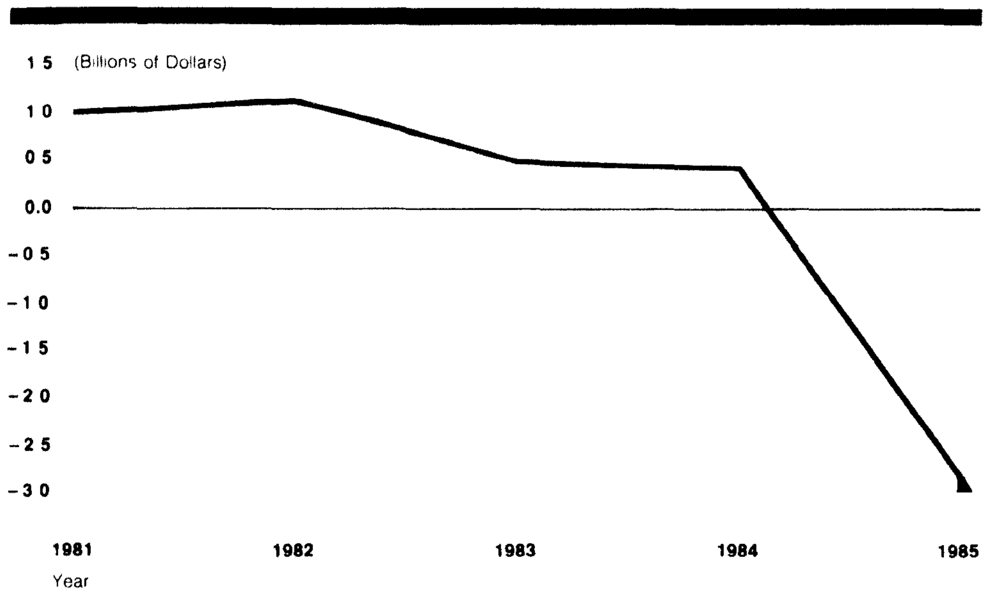
[a]For the 12-months ending December 31, 1984 and 1985

[b]As of December 31, 1984 and 1985.

[c]Excludes $19.8 million and $50.3 million in net charge-offs by Federal Land Bank Associations in 1984 and 1985, respectively.

[d]The amounts included here are those reported by FRB.

Figure 4.4
FCS Net Income, 1981-85



Source: FCS' Federal Farm Credit Banks Funding Corporation.

FCS HAD A $2.7 BILLION NET LOSS

The adverse financial conditions facing the agricultural sector had a major affect on FCS in 1985. Net income for the system's banks and associations declined from a $373 million profit in 1984 to a $2.7 billion loss in 1985. All major components of the system experienced a loss, except the Banks for Cooperatives, which had a $66.3 million profit. The FLBs alone had a $2.1 billion loss.

Operationally, the system had net interest income--interest income less interest expense--that totaled about $1.3 billion in 1985. However, when accounting for other income and expenses, the system had net income of $280 million. The substantial provision for loan losses, which totaled almost $3 billion for the system, resulted in a $2.7 billion net loss.

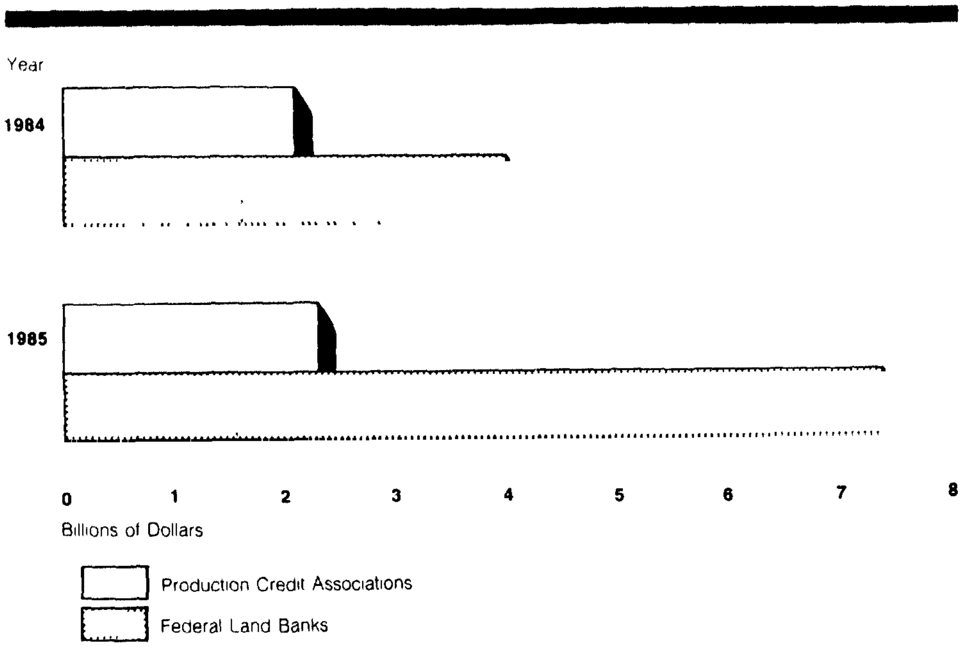
FCS loans to farmers are made by FLBs and PCAs. The other components of the system service loans (Federal Land Bank Associations), make loans to businesses rather than farmers (Banks for Cooperatives), or make loans to the PCAs and other financial institutions that serve agriculture (Federal Intermediate Credit Banks). Earnings of all FLBs and the combined PCAs in each FCS district declined in 1985 compared to 1984.

Table 4.4
Net Income for FLBs and PCAs, 1984 and 1985

FCS district	FLBs 1984	FLBs 1985	FLBs Decline	PCAs[a] 1984	PCAs[a] 1985	PCAs[a] Decline
	(millions)					
St. Paul	$ 59.6	($ 423.0)	$ 482.6	$27.1	($148.6)	$175.7
Wichita	19.9	(383.5)	403.4	12.2	(57.2)	69.4
Omaha	10.0	(356.2)	366.2	(11.5)	(201.6)	190.1
St. Louis	13.8	(260.0)	273.8	2.2	(22.1)	24.3
Louisville	(17.5)	(209.9)	192.4	(0.5)	(78.3)	77.8
Columbia	38.0	(118.7)	156.7	(9.2)	(30.1)	20.9
Jackson	3.3	(116.3)	119.6	(6.8)	(23.3)	16.5
Sacramento	15.8	(100.4)	116.2	6.1	(30.0)	36.1
Texas	7.5	(61.8)	69.3	9.8	(4.6)	14.4
Spokane	14.6	(59.4)	74.0	(48.4)	(86.3)	37.9
Springfield	8.4	6.0	2.4	1.2	0.9	0.3
Baltimore	11.9	6.2	5.7	7.4	2.8	4.6
Total	$185.3	($2,077.0)	$2,262.3	($10.4)	($678.4)	$668.0

[a]Includes distributions of Federal Intermediate Credit Banks' earnings to PCAs.

Figure 4.5
Amount of PCA and FLB Nonperforming Loans, 1984 and 1985



Source: FCA.

NONPERFORMING PCA AND FLB LOANS INCREASED

The percent of nonperforming loans is a significant stress indicator for the FCS. As of December 31, 1985, the PCAs and the FLBs had over $9.7 billion in nonperforming loans, or 15.7 percent of their total outstanding loans. Nonperforming loans for PCAs increased by $220 million, or 10.5 percent over the level a year earlier. Nonperforming loans for FLBs increased by over $3.4 billion, or 85.5 percent over the 1984 level.

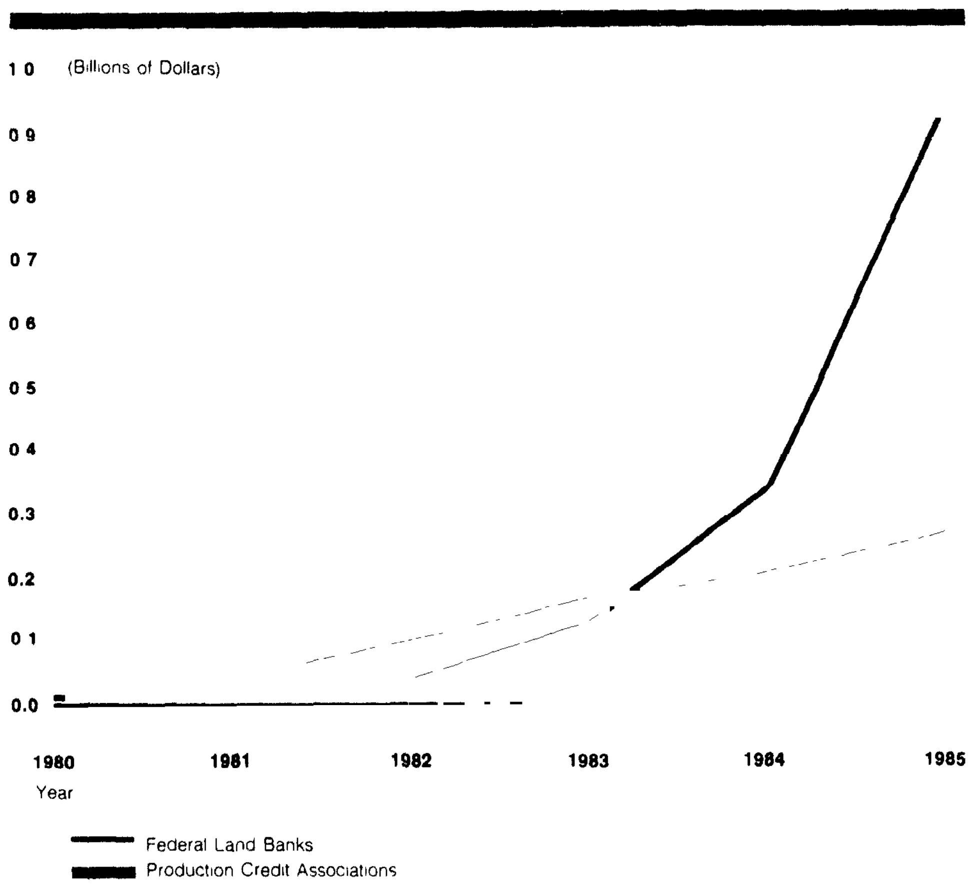
The extent of nonperforming loans varies widely between FCS districts. For example, PCAs in the Omaha district had 37.8 percent of their portfolio as nonperforming loans, while the Omaha FLB had a 20.9 percent nonperforming loan rate. PCAs in the Springfield district and the Springfield FLB, on the other hand, had nonperforming loan rates of 3.3 percent and 3.9 percent, respectively.

Table 4.5

PCA and FLB Nonperforming Loans: Amount and Percent of Total Outstanding Loans, by FCS District, 1984 and 1985

FCS district	PCAs				FLBs			
	1984		1985		1984		1985	
	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent
Omaha	$ 229.9	12.1	$ 427.3	37.8	$ 551.8	8.7	$1,109.7	20.9
Wichita	68.9	6.1	153.6	17.3	643.2	12.2	1,053.7	21.9
St. Paul	295.2	9.0	443.6	17.2	562.2	7.5	1,585.8	22.7
St. Louis	110.1	8.7	147.1	16.9	370.0	7.1	915.4	19.4
Sacramento	284.7	10.0	447.2	16.8	319.2	6.7	492.9	10.9
Spokane	162.1	13.4	123.2	16.2	274.6	7.4	564.8	16.0
Louisville	170.4	9.6	177.3	14.4	218.7	4.5	677.4	16.8
Jackson	105.6	15.6	65.2	12.7	289.4	9.6	371.1	14.3
Columbia	363.8	20.8	167.5	12.6	604.9	10.8	421.7	8.2
Baltimore	56.9	7.7	61.6	8.7	89.8	4.0	95.7	4.5
Texas	228.9	20.1	80.6	7.4	29.4	1.1	65.6	2.4
Springfield	19.4	2.9	21.2	3.3	32.0	3.1	37.4	3.9
Total	$2,095.9	11.4	$2,315.4	16.1	$3,985.2	7.6	$7,391.2	15.6

Figure 4.6
Property Acquired by FLBs and PCAs, 1980-85



Source: FCA.

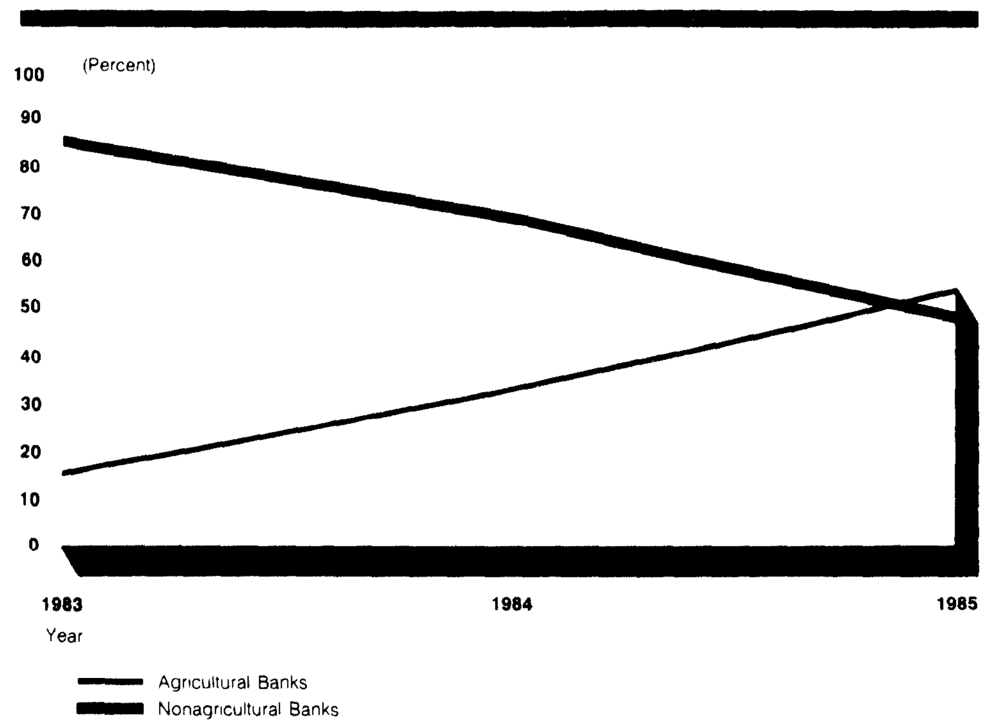
PROPERTY ACQUIRED BY FLBs AND PCAs INCREASED

Property acquired by FLBs and PCAs through foreclosure or deed in lieu of foreclosure increased considerably during 1985. The value of property acquired by these two components of FCS totaled almost $1.2 billion as of December 31, 1985, a $664.2 million increase, or 124.9 percent, over 1984. Property acquired by the FLBs increased $608.6 million, or 183.1 percent, during 1985, while property acquired by the PCAs increased $55.6 million, or 27.9 percent.

Table 4.6
Property Acquired by FLBs and PCAs, 1984 and 1985

FCS district	FLBs 1984	FLBs 1985	FLBs Percent increase	PCAs 1984	PCAs 1985	PCAs Percent increase
	----(millions)----			---(millions)----		
Jackson	$ 65.8	$187.5	185.0	$ 13.3	$ 6.3	(52.6)
St. Paul	37.0	126.5	241.9	27.7	52.2	88.4
Omaha	25.0	102.7	310.8	24.0	50.3	109.6
Wichita	26.2	97.3	271.4	9.6	9.5	(1.0)
St. Louis	30.4	90.9	199.0	6.7	17.6	162.7
Sacramento	19.6	90.7	362.8	22.5	23.2	3.1
Spokane	18.2	90.2	395.6	21.1	13.8	(34.6)
Columbia	45.3	81.6	80.1	28.6	26.9	(5.9)
Louisville	59.8	58.7	(1.8)	36.8	37.1	0.8
Baltimore	2.5	6.9	176.0	1.0	2.8	180.0
Texas	1.2	4.1	241.7	7.4	14.1	90.5
Springfield	1.3	3.8	192.3	0.7	1.2	71.4
Total	$332.3	$940.9	183.1	$199.4	$255.0	27.9

Figure 4.7
Failed Banks: Percent Agricultural and Nonagricultural, 1983-85



Source: GAO analysis of FDIC data.

AGRICULTURAL BANK FAILURES INCREASED

Agricultural bank failures increased in 1985, continuing a trend that has been underway since 1983. According to FDIC, while agricultural banks were 25.9 percent of all banks in 1985, they accounted for 52.5 percent of all bank failures. FDIC reported that 62 agricultural banks failed in 1985--a 148 percent increase over the number that failed in 1984. Fifty-two of the 62 failed agricultural banks were located in 6 states: Nebraska (13), Iowa (11), Kansas (10), Oklahoma (7), Missouri (6), and Minnesota (5).

Table 4.7
Number and Percent of Failed Commercial Banks, 1984 and 1985

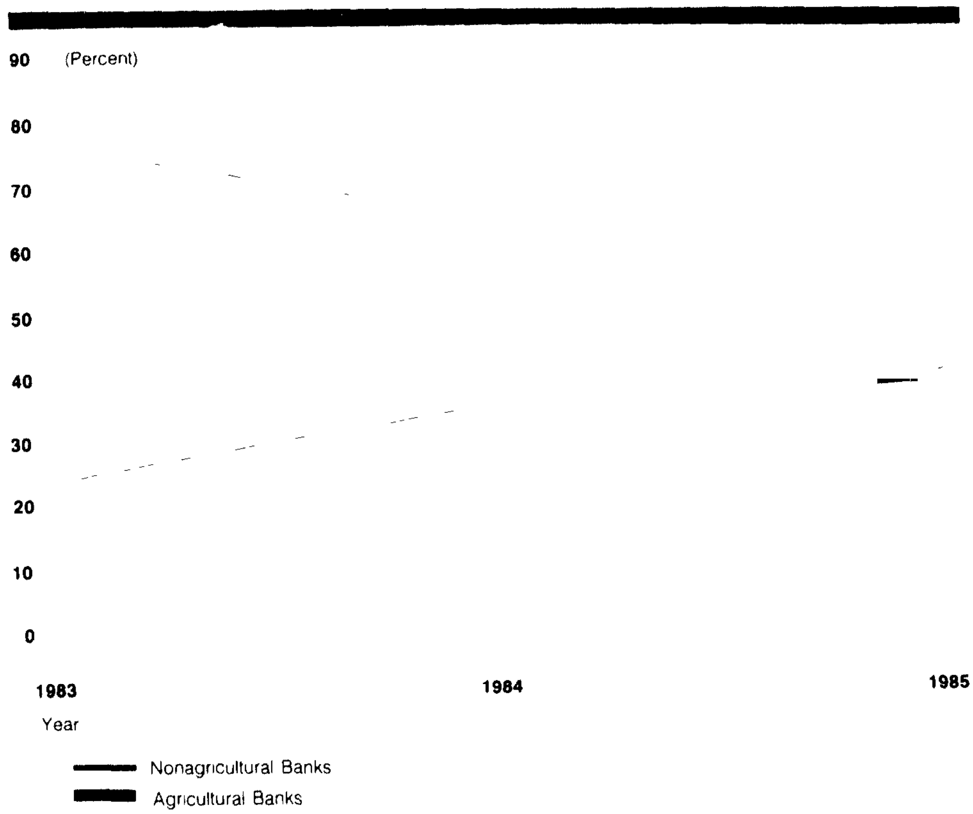
Banks	1984 Number	1984 Percent	1985 Number	1985 Percent	Percent increase since 1984
FDIC definition[a]:					
Agricultural	25	32.1	62	52.5	148.0
Nonagricultural	53	67.9	56	47.5	5.7
Total	78	100.0	118	100.0	51.3

[a]FDIC defines an agricultural bank as a bank having 25 percent or more of its portfolio in farm loans.

The 1985 failed agricultural banks were considerably smaller than the failed nonagricultural banks. The 62 agricultural banks had $16 million in assets on average compared to $38 million for the nonagricultural banks. According to the FDIC, 44 of the 62 failed agricultural banks reopened following their failure and banking operations continued with little interruption.

Additionally, in the first 6 months of 1986, 27 of the 64 banks that have failed have been agricultural banks.

Figure 4.8
Problem Banks: Percent Agricultural and Nonagricultural, 1983-85



Source: GAO analysis of FDIC data.

PROBLEM AGRICULTURAL BANKS INCREASED

While the total number of agricultural banks declined in 1985 compared to 1984, the number of problem agricultural banks grew, continuing an upward trend that has been underway since 1983.[1] On the basis of the FDIC definition of an agricultural bank (25 percent or more of its portfolio in farm loans), as of December 31, 1985, 11.7 percent of all agricultural banks were classified as problem banks. A year earlier, 7.2 percent of all agricultural banks were problem banks.

Table 4.8
Number and Percent of Problem and Total Banks That Are Agricultural and Nonagricultural Banks, 1984 and 1985[a]

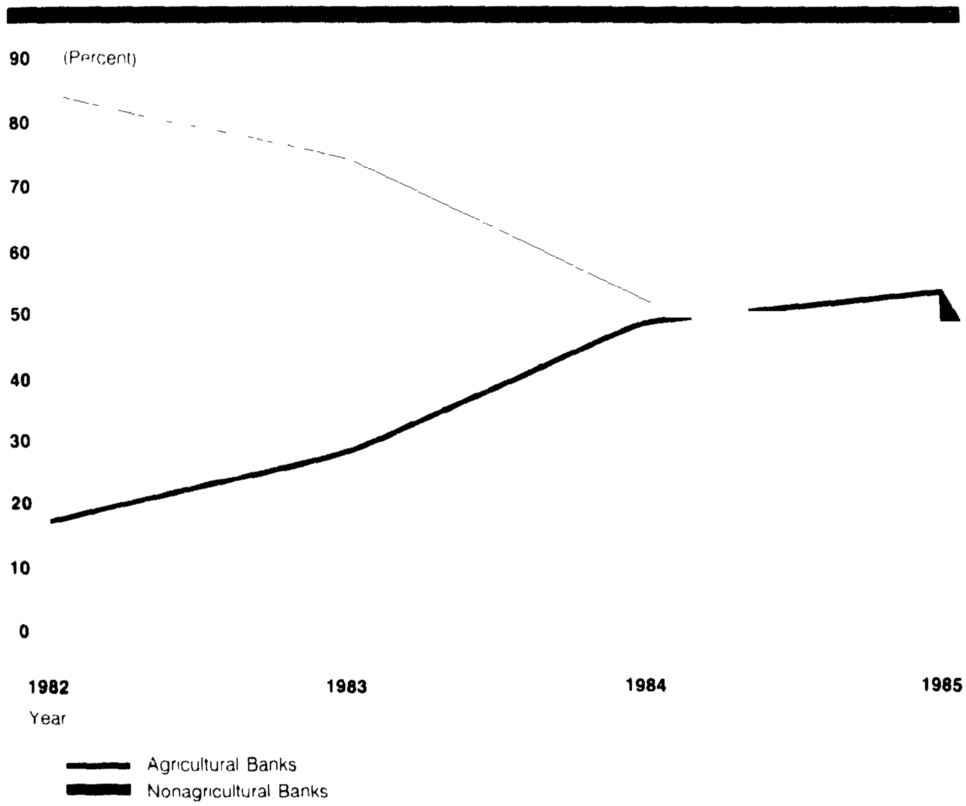
Banks	1984 Number	1984 Percent	1985 Number	1985 Percent	Percent change since 1984
Problem banks:					
Agricultural	288	36.0	437	39.8	51.7
Nonagricultural	512	64.0	661	60.2	29.1
Total	800	100.0	1,098	100.0	37.3
Total banks:					
Agricultural	3,988	27.5	3,733	25.9	(6.4)
Nonagricultural	10,508	72.5	10,704	74.1	1.9
Total	14,496	100.0	14,437	100.0	(0.4)

[a]Information in this table is based on the FDIC definition of an agricultural bank (25 percent or more of its portfolio in farm loans).

---

[1]"Problem bank" is the term used by FDIC to classify any bank that warrants more than normal supervision because of financial and/or other weaknesses, which, if left uncorrected, could eventually impair the bank's future viability. Such a bank, therefore, has a greater than normal potential for failure.

Figure 4.9
Vulnerable Banks: Percent Agricultural and Nonagricultural, 1982-85



Source: GAO analysis of FRB data.

NUMBER OF AGRICULTURAL BANKS THAT ARE VULNERABLE TO FAILURE INCREASED

Another measure used by FRB to identify banks that are particularly vulnerable to failure is when nonperforming loans exceed capital.[2] The number of agricultural banks that are vulnerable to failure using this measure grew to 170 in 1985, continuing an upward trend. As of December 31, 1985, 3.5 percent of all FRB defined agricultural banks had nonperforming loans exceeding capital.[3] A year earlier, 2 percent of all agricultural banks had nonperforming loans exceeding capital. Of the 170 vulnerable agricultural banks, 100 are located in 5 states: Kansas (22), Minnesota (21), Iowa and Missouri (20 each), and Nebraska (17).

Table 4.9
Number and Percent of Vulnerable and Total Banks That Are Agricultural and Nonagricultural Banks, 1984 and 1985

Banks	1984 Number	1984 Percent	1985 Number	1985 Percent	Percent change
Vulnerable banks					
Agricultural	102	48.6	170	53.1	66.7
Nonagricultural	108	51.4	150	46.9	38.9
Total	210	100.0	320	100.0	52.4

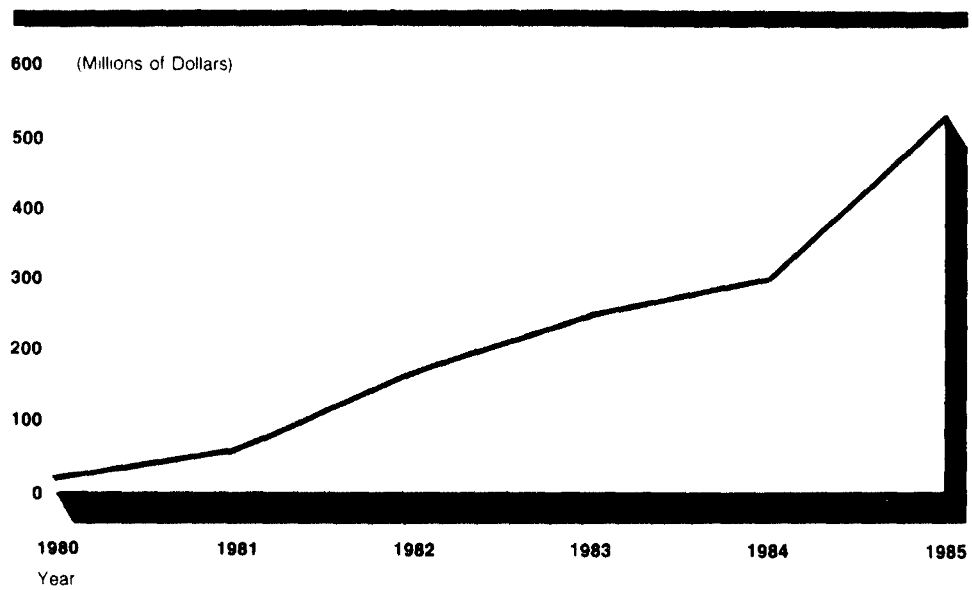
A more liberal measure for identifying banks whose future may be in doubt is when delinquent loans--those 30 to 89 days past due and still accruing interest plus nonperforming loans--exceed capital. As of December 31, 1985, 332 agricultural banks fell into this category. According to ERS, a high proportion of banks that failed in recent years met this condition shortly before they failed.

---

[2]Nonperforming loans are loans 90 days or more past due and still accruing interest, nonaccrual loans, and renegotiated debt. Capital is equity capital plus loan-loss reserves.

[3]FRB defines an agricultural bank as a bank with a farm loan ratio that is above the national average of farm loan ratios at all banks (16.15 percent as of December 31, 1985).

Figure 4.10
Farm Loan Foreclosures by Life Insurance Companies, 1980-85



Source: American Council of Life Insurance.

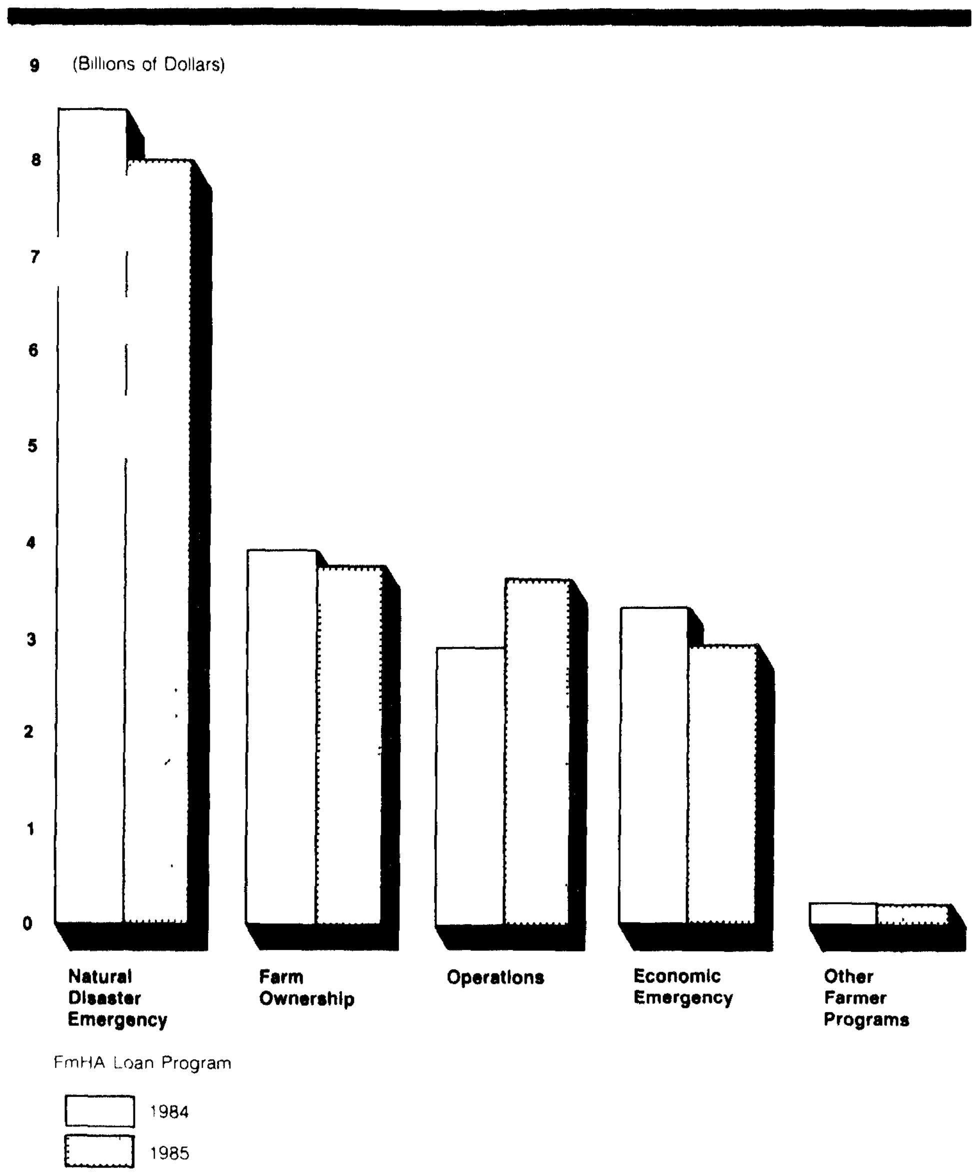
FARM LOAN FORECLOSURES BY LIFE INSURANCE COMPANIES INCREASED

Farm loan foreclosures by life insurance companies increased in 1985, continuing a trend that has been underway since 1980. According to the American Council of Life Insurance, during 1985, life insurance companies foreclosed on 1,000 farm loans. These loans had a total value exceeding $530.2 million, an 83.3 percent increase in value over 1984 foreclosures. Additionally, as of December 31, 1985, life insurance companies had 1,743 loans in the process of foreclosure that had a total value of about $810.6 million.

Table 4.10
Life Insurance Companies' Farm Loan Foreclosure Statistics, 1984 and 1985

Farm loans	1984	1985	Percent increase
Foreclosed:			
Number	475	1,000	110.5
Value (millions)	$289.3	$530.2	83.3
In the process of foreclosure:			
Number	1,195	1,743	45.9
Value (millions)	$553.2	$810.6	46.5

Figure 4.11
FmHA Loans by Program: Amount Delinquent, 1984 and 1985



Source: FmHA.

DELINQUENCIES IN FmHA's LOAN PROGRAMS

As of December 31, 1985, FmHA had almost $26.6 billion in outstanding individual loans to farmers. As the "lender of last resort" to the farming sector, the agency's portfolio contains the highest amount and percentage of delinquent loans of the major institutional lenders. FmHA borrowers were past due on almost $8.5 billion in payments, and the outstanding balance on loans where payments were late totaled about $18.6 billion. Overall, almost 70 percent of the outstanding balance on FmHA's farmer program loans were delinquent. The natural disaster emergency loan program accounted for about $8 billion of the delinquency.

Table 4.11
FmHA Outstanding Principal and Delinquent Loans, by Program, 1984 and 1985[a]

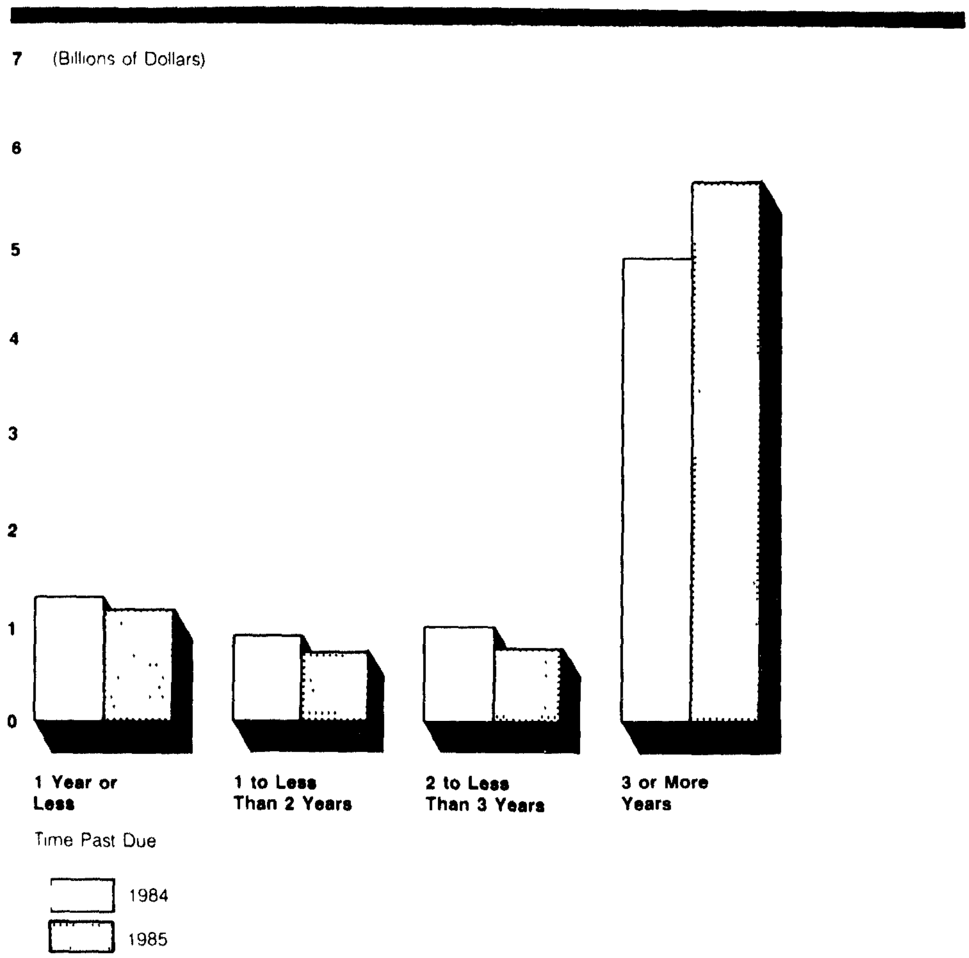
FmHA loan program	1984 Total principal outstanding	1984 Amount past due	1984 Principal on amount past due	1984 Percent of principal delinquent	1985 Total principal outstanding	1985 Amount past due	1985 Principal on amount past due	1985 Percent of principal delinquent
	(billions)				(billions)			
Natural disaster emergency	$ 9.8	$4.6	$ 8.5	86.7	$ 9.5	$4.7	$ 8.0	84.2
Farm ownership	7.0	0.5	3.9	55.7	7.5	0.6	3.8	50.7
Operations	3.8	1.6	2.9	76.3	5.2	1.9	3.6	69.2
Economic emergency	4.2	1.3	3.3	78.6	4.0	1.3	2.9	72.5
Other farmer programs	0.3	0.1	0.2	66.7	0.3	0.1	0.2	66.7
Total[b]	$25.0	$8.1	$18.9	75.6	$26.6	$8.5	$18.6	69.9

[a]FmHA recognizes loan delinquencies as only the total loan payments past due, rather than the total loan principal where payments are past due. This latter definition is used by the other major institutional lenders (as listed on p. 59) and is also used in this report for FmHA's delinquencies to present comparable delinquency data for all major institutional lenders. Also, page 59 discusses how FmHA's delinquency rate varies during the year.

[b]Totals may not add due to rounding.

Three states--Texas, Mississippi, and Georgia--each had more than $1 billion in loan delinquencies in 1985. Also, these three states and eight other states had more than 75 percent of the outstanding balance on their loans that were delinquent.

Figure 4.12
Aging of FmHA's Past Due Amount, 1984 and 1985



Source: GAO analysis of FmHA data.

FmHA DELINQUENCIES OF 3 OR MORE YEARS PAST DUE INCREASED

The duration of FmHA farmer program delinquencies continues to be a significant problem for the agency. As of December 31, 1985, over 67 percent of FmHA's past due amount was at least 3 years past due. Also, 85.4 percent of the agency's past due amount has been due for more than 1 year.

Table 4.12
Aging of FmHA's Past Due Amount, 1984 and 1985

Time past due	1984 Amount past due (millions)	1984 Percent past due[a]	1985 Amount past due (millions)	1985 Percent past due[a]
1 year or less	$1,322.9	16.3	$1,235.7	14.6
1 to 2 years	884.6	10.9	787.1	9.3
2 to 3 years	973.9	12.0	753.3	8.9
3 years or more	4,934.6	60.8	5,687.5	67.2
Total	$8,116.0	100.0	$8,463.6	100.0

[a]Percent of total amount past due by length of delinquency.

SECTION 5

OBJECTIVES, SCOPE, AND METHODOLOGY

Our study of the financial condition of American agriculture in 1985 began in February 1986 and was conducted by gathering and analyzing a large amount of data from both public and private sources. Our objective was to determine what happened to American farmers and their lenders in 1985: had their financial condition improved or deteriorated further from their position as we reported in our initial report, Financial Condition of American Agriculture (GAO/RCED-86-09, Oct. 10, 1985). The data sources we used in this study included ERS, FmHA, and CCC within USDA; FCA; FCS; FDIC; FRB; the American Council of Life Insurance; and others. We did not independently verify the accuracy of the data obtained.

We used information from ERS to analyze the economic environment surrounding the farm sector, including data on production, consumption, and exports. We also used ERS balance sheet and income statement information to analyze the financial condition of the farm sector. In addition, other sources provided valuable information on the economic environment and the farm sector, including the Economic Report of the President, transmitted to the Congress in February 1986, and data compiled by the Dun & Bradstreet Corporation on agricultural business failures. We used actual 1985 data except on pages 44 and 45, where we used ERS' August 1986 preliminary data for 1985 rates of return on assets and on equity. Some actual 1985 amounts needed to determine these rates were not available at the time of our review.

Information on the financial sector was compiled from a variety of sources including: FCA and the Federal Farm Credit Banks Funding Corporation for FCS information; FDIC and FRB for commercial bank information; FmHA and CCC for information on their loan portfolios; the American Council of Life Insurance for information on life insurance companies; and, ERS' estimate of the farm debt held by other lenders.

We discussed various aspects of the financial condition of American agriculture with officials from a variety of offices including ERS, FDIC, FRB, and the American Council of Life Insurance. Also, we reviewed literature, legislation, and publications concerning the financial condition of American agriculture; economic conditions; the farm sector; 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. Portions of this report, however, have been discussed with officials of ERS, FDIC, and FCA, and their suggestions were incorporated, as appropriate.

(029154)

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

Address Correction Requested

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100