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

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FARM FINANCE

Financial Condition of American Agriculture As of December 31, 1986

GAO

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General Accounting Office
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Resources, Community, and
Economic Development Division

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The Honorable Patrick J. Leahy
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 and September 1986, we issued reports that presented our analysis of the nature and causes of American agriculture's financial problems.[1] Those reports stated that we would continue to monitor the agricultural situation as it goes through its current condition of financial stress. As your Committee staff requested in May and June 1987, this briefing report presents information on the financial condition of American agriculture as of December 31, 1986.

Our analysis of numerous key economic and financial indicators shows that the overall financial condition of the nation's farmers and their lenders continued to exhibit financial stress in 1986. However, there were some indicators, while remaining negative in 1986, that showed a reduced rate of decline compared with 1985. Additionally, there were other indicators that actually turned positive in 1986. Federal outlays to support the nation's agricultural sector continued at a high level during this period.

This briefing report follows the format of our September 1986 report. It is divided into five sections. The first provides an overall summary on the financial condition of American agriculture following 1986 operations. The second contains information on the economic environment facing

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[1]Financial Condition of American Agriculture (GAO/RCED-86-09; Oct. 10, 1985) and Farm Finance: Financial Condition of American Agriculture as of December 31, 1985 (GAO/RCED-86-191BR; Sept. 3, 1986). These reports presented data, for the most part, that were current through the end of calendar years 1984 and 1985, respectively.

agriculture. The third and fourth 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 July 1987 and was conducted by gathering and analyzing numerous data from public and private sources, including the U.S. Department of Agriculture and its Economic Research Service and Farmers Home Administration, the Federal Deposit Insurance Corporation, the Federal Reserve System, the Farm Credit Administration, and the Farm Credit System.

We did not obtain official agency comments on the briefing report because of its informational nature. Portions of the briefing report, however, have been discussed with officials of the Economic Research Service, Farmers Home Administration, the Federal Deposit Insurance Corporation, and the Farm Credit Administration. Their comments have been incorporated where appropriate.

Copies of this briefing report are being sent to the Chairmen of the Senate Committee on Banking, Housing and Urban Affairs and Senate Committee on the Budget, and to the Chairmen of the House Committee on Banking, Finance and Urban Affairs and House Committee on the Budget. Also, copies are being sent to the Secretary of Agriculture; the Director, Office of Management and Budget; the Chairman, Board of Directors of the Federal Deposit Insurance Corporation; the Comptroller of the Currency; the Chairman, Board of Governors of the Federal Reserve System; the Chairman, Farm Credit Administration Board; and other interested parties. Copies will be available to others upon request. If we can be of further assistance, please contact me at (202) 275-5138.

Major contributors to this briefing report are listed in appendix I.

Brian P. Crowley
Senior Associate Director

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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

As we previously reported in Farm Finance: Financial Condition of American Agriculture as of December 31, 1985 (GAO/RCED-86-191BR, Sept. 3, 1986), American agriculture experienced a boom during the 1970s with rapid expansion and growth. However, the economic forces that led to that growth reversed in the 1980s, and through 1985 American farmers and their lenders experienced adverse economic and financial conditions.

The overall financial condition of the nation's farmers and their lenders continued to exhibit financial stress in 1986. However, some economic and financial indicators, while remaining negative in 1986, showed a reduced rate of decline compared with 1985. Other indicators actually turned positive in 1986. Federal outlays to support the nation's agricultural sector continued at a high level during this period.

In this follow-up briefing report on the financial condition of American agriculture as a result of 1986 operations,[1] we report that

--the economic environment surrounding the farm sector generally continued to be adverse,

--the farm sector showed some improvement over 1985 but its adverse financial position continued, and

--the finance sector continued to experience financial stress.

This section of the briefing report provides summary information covering each of these topics. Sections 2, 3, and 4 provide detailed information.

THE ECONOMIC ENVIRONMENT: ADVERSE CONDITIONS CONTINUED IN 1986

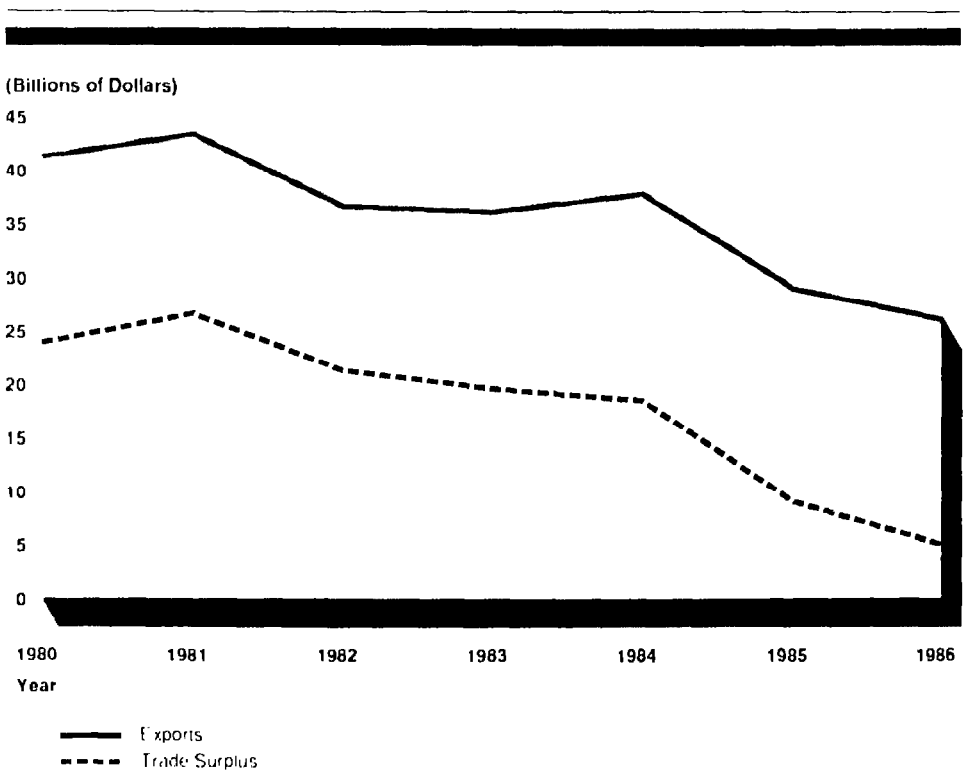
The economic environment surrounding the farm sector generally continued to be adverse during 1986. American agriculture continued to produce a surplus of many key commodities. For example, while both production and consumption of coarse grains and soybeans increased compared with 1985, the rate of production increase continued to be much greater than the consumption increase. U.S. wheat production and consumption, on the other hand, declined. Year-end stocks of all these key farm commodities, however, increased considerably compared with 1985. For example, coarse grain stocks rose nearly 119 percent while soybean and wheat

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

stocks rose nearly 70 percent and 34 percent, respectively. On the basis of U.S. domestic average consumption rates, the supply of key commodity stocks on hand at the end of 1986 increased compared with 1985 and also 1983, which subsequently was followed by the U.S. Department of Agriculture's (USDA) payment-in-kind program. (See pp. 22-25.)

U.S. exports of agricultural products continued to decline in both value and volume in 1986. For example, the value of agricultural exports declined from 1985 by 10 percent from $29 billion to slightly over $26 billion--the lowest level since 1977. Also, U.S. agricultural imports rose 5.5 percent to slightly over $21 billion--the highest level ever. As a result, the U.S. agricultural trade surplus declined by 45 percent to $5 billion--the lowest level since 1972. Figure 1.1 shows the overall declining value of agricultural exports and trade surplus since 1980. (See pp. 26-27.)

Figure 1.1
U.S. Agricultural Exports and Trade Surplus, 1980-86



Source: USDA.

U.S. agricultural exports declined in 1986 for various reasons, including continued strong competition from other exporting countries, production gains by traditional importing countries, and large worldwide surpluses of many agricultural products. Also, while the overall value of the dollar declined by about 22 percent in 1986 from 1985, which should have improved the price competitiveness of U.S. agricultural commodities in some foreign countries, USDA's Economic Research Service (ERS) reported that the dollar did not decline against major U.S.-competitor agricultural exporter countries' currencies or against some major agricultural importing countries' currencies. For example, the dollar did not weaken against the currencies of most developing countries; these countries accounted for over 41 percent of the U.S. 1986 agricultural exports; however, exports to them declined about 11 percent compared with 1985. (See pp. 26-27 and 30-31.)

Federal outlays continued to prove critical in supporting the nation's agricultural sector during this period of financial stress and adjustment. In 1986, federal outlays for agriculture increased to over $31 billion and since 1980 have totaled about $130 billion. Commodity price support programs accounted for most of the 1986 outlays, almost $26 billion. (See pp. 32-33.)

THE FARM SECTOR: SOME IMPROVEMENT OVER 1985 BUT ADVERSE FINANCIAL POSITION CONTINUED IN 1986

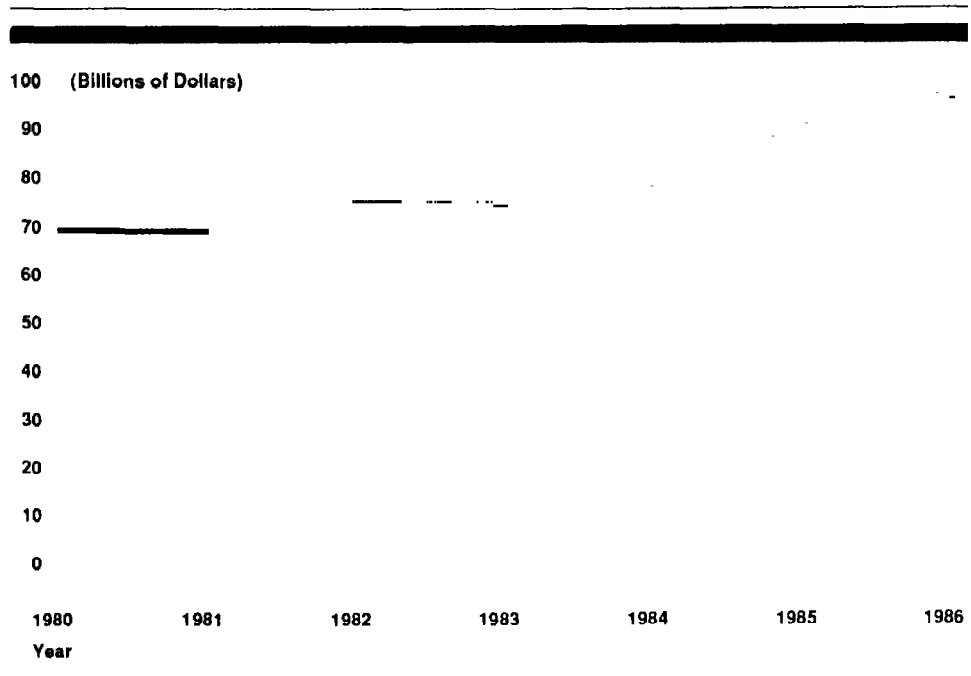
The financial condition of the nation's farmers improved somewhat in 1986 compared with 1985; however, their adverse financial position continued. Some economic and financial indicators, while remaining negative in 1986, showed some improvement in terms of a lessening of additional financial stress or a turnaround from negative to positive. For example, some balance sheet and income statement indicators show a reduced rate of decline in 1986 compared with 1985. Other indicators show that the adverse condition reversed and turned positive. However, overall financial stress continued for the nation's farm sector.

According to ERS, the value of total farm assets declined by an estimated 8 percent in 1986 from 1985, compared with a nearly 10-percent decline in the previous year. Nationally, farmland values--the main farm asset--declined by 7.9 percent from February 1986 to February 1987, compared with a decline of over 12 percent between 1985 and 1986. Thirty-two of the 48 contiguous states had declines; 4 of the 32 states--Louisiana, Minnesota, Montana, and South Dakota--had declines exceeding 17 percent. Further, ERS preliminary data showed that farmers' rates of return on assets and on equity remained negative in 1986 but improved over those experienced in 1985. The rates of return remained negative because of the declining value of farm assets. These capital losses have been greater than the continued increases in farmers' income returns. (See pp. 36-39.)

Farmers' gross farm cash income declined during 1986, but net farm cash income increased to $52 billion, or nearly 10 percent more than the 1985 level. Also, gross farm income declined while net farm income increased to $37.5 billion, or slightly over 16 percent more than the 1985 level. According to ERS, declines in the gross income amounts are mainly attributable to decreases in crop cash receipts. A reduction in nonmoney income and decreased inventory values also contributed to the gross farm income decline. However, net income rose with increases in livestock cash receipts, government payments, and farm-related income, and decreases in farm cash expenses and total production expenses. (See pp. 40-43.)

The increase in net farm cash income, together with an increase in farmers' cash income from off-farm sources, which was about $45 billion during 1986, resulted in about $97 billion in farmers' total cash income, or about 8 percent more than the 1985 level. Figure 1.2 shows the increasing level of farmers' total cash income since 1980. (See pp. 44-45.)

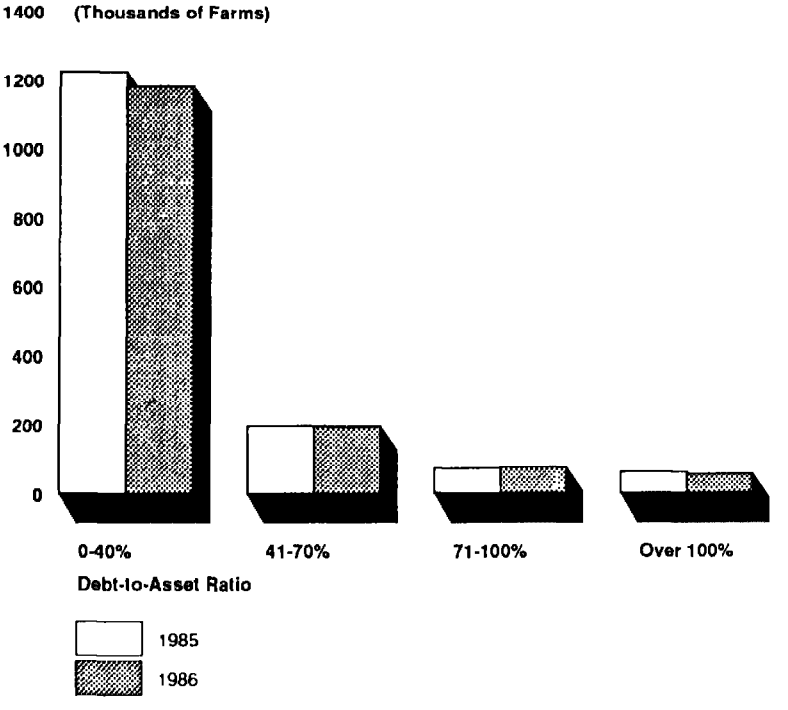
Figure 1.2
Farmers' Total Cash Income, 1980-86



Source: USDA.

According to ERS, while most farmers were financially sound in 1986 (debt-to-asset ratio of 40 percent or less), many continued to have a high debt-to-asset ratio.[2] About 1.2 million farms, or over 78 percent of all farms, had a debt-to-asset ratio of 40 percent or less; they held nearly 33 percent of the 1986 farm debt. On the other hand, 130,000 farms, or about 9 percent of all farms, had a debt-to-asset ratio of 71 percent or more; they held slightly over 33 percent of the 1986 farm debt. Figure 1.3 shows the number of farms in 1985 and 1986 by debt-to-asset ratio category. (See pp. 50-51.)

Figure 1.3
Number of Farms by Debt-to-Asset Ratio, 1985 and 1986

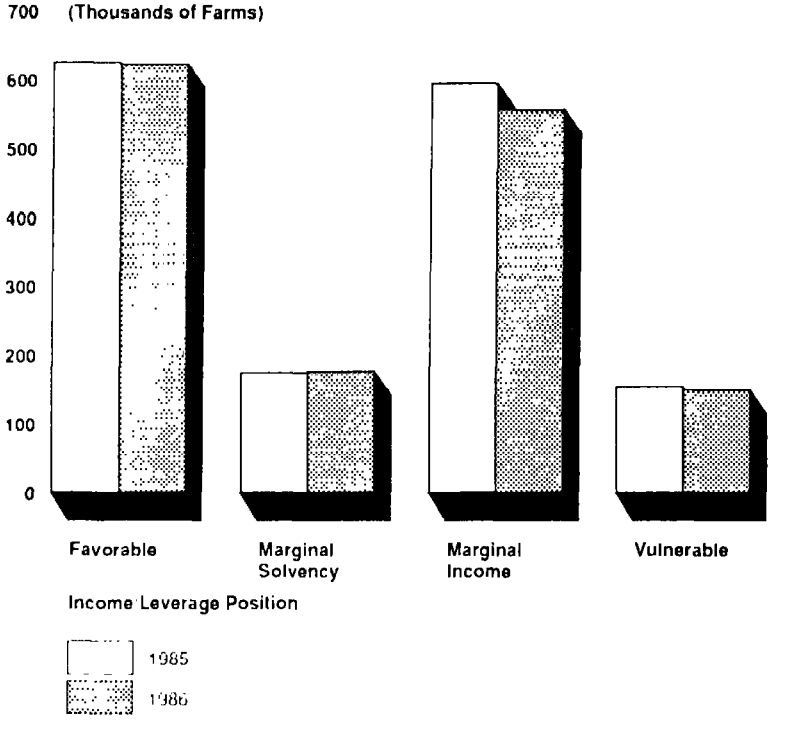


Source: USDA.

[2]See note a, p. 50, for an explanation of debt-to-asset ratio categories.

An income/leverage measure for analyzing financial condition (based on farms' net farm cash income and debt-to-asset ratio) shows that while many farms had favorable income and debt levels in 1986, a large number had earnings and leverage problems.[3] For example, according to ERS, 623,000 farms, or over 41 percent of all farms, were in a sound financial position with positive net farm cash income and a debt-to-asset ratio of 40 percent or less; they held about 22 percent of the 1986 farm debt. On the other hand, 150,000 farms, or 10 percent of all farms, were in a vulnerable position as viable business operations because they had negative net farm cash income and a debt-to-asset ratio of 40 percent or more; they held slightly over 25 percent of the 1986 farm debt. Figure 1.4 shows the number of farms in 1985 and 1986 by income/leverage position. (See pp. 54-55.)

Figure 1.4
Number of Farms by Income/Leverage Position, 1985 and 1986



Source: USDA.

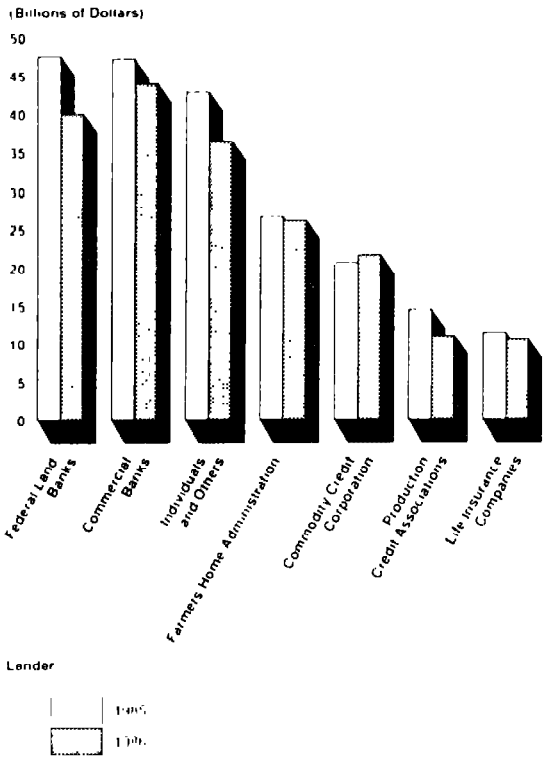
[3]See note a, p. 55, for an explanation of income/leverage position definitions.

Additionally, while national nonfarm employment continued to grow in 1986, farm employment continued a general declining trend that has been underway for many years. Farm employment declined by slightly less than 1 percent in 1986 from 1985, compared with a decline of over 4 percent in the previous year. Also, according to the Dun & Bradstreet Corporation, the total number of agricultural businesses that failed in 1986 decreased by about 3 percent compared with the number that failed in 1985. While failures among crop production and agricultural service businesses increased by more than 2 percent and 4 percent, respectively, in 1986, that increase was more than offset by about a 23-percent decrease in livestock production business failures. (See pp. 56-59.)

THE FINANCE SECTOR: FARM LENDERS CONTINUED TO EXPERIENCE FINANCIAL STRESS IN 1986

Total farm debt outstanding in 1986 was an estimated $190 billion, nearly 10 percent less than 1985 total farm debt. Figure 1.5 shows the amount of 1985 and 1986 farm debt by lender.

Figure 1.5
Total Farm Debt by Lender, 1985 and 1986

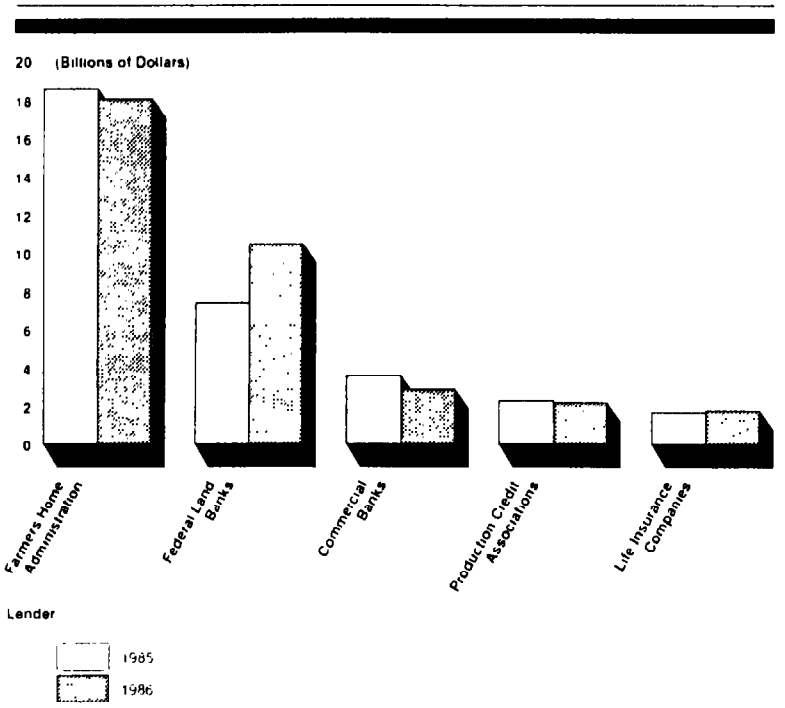


Source: Farm Credit Administration (FCA) for FLBs and PCAs; Board of Governors of the Federal Reserve System (FRB) for commercial banks; FmHA; CCC; American Council of Life Insurance for life insurance companies; and ERS for others.

Most of the 1986 debt--$153 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) and the Commodity Credit Corporation (CCC) in USDA, and life insurance companies. The balance was held by individuals, input suppliers, and others according to ERS estimates. The principal changes in 1986 compared with 1985 show a declining amount of debt for all lenders except CCC, whose outstanding debt increased by $1 billion. (See pp. 62-63.)

The farm loan portfolio of the major institutional lenders continued in 1986 to exhibit financial stress because of the problems being experienced in the farm sector. The institutional lenders, excluding CCC, had $35.5 billion in farm loans that were nonperforming and/or delinquent in 1986, or nearly 30 percent of the total outstanding principal (almost $119 billion). This was nearly a $2-billion, or about 6-percent, increase from 1985. Figure 1.6 shows the amount of 1985 and 1986 nonperforming and/or delinquent farm loans by lender. (See pp. 64-65.)

Figure 1.6
Major Institutional Lender's Nonperforming and/or Delinquent Farm Loans, 1985 and 1986



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 nonfederal lenders was over $17 billion, or about 19 percent of their outstanding debt, a considerable increase from the $15 billion, or nearly 14 percent of their outstanding debt that was nonperforming and/or delinquent in 1985. Lenders' delinquences change during the year, and seasonal repayment patterns make FmHA's delinquences much higher at year-end than at other times. Also, the FLBs, PCAs, and commercial banks had a high amount of nonperforming and/or delinquent loans even though these institutions wrote off over $2.4 billion in farm loans as uncollectible during 1986. (See pp. 64-67.)

FCS, which continues to be the largest lender to the nation's farmers, had a $1.9-billion net loss in 1986, which was its second consecutive billion dollar loss. Operationally, FCS had net interest income that totaled about $781 million; however, when accounting for other income and expenses, it had a $115-million loss. An almost $1.8-billion provision for loan losses resulted in the $1.9-billion net loss. (See pp. 68-69.)

Also, FCS' FLBs wrote off $938 million in farm loans as uncollectible in 1986, a 112-percent increase from 1985. PCAs, on the other hand, wrote off $306 million, a 44-percent decrease. In addition, as of December 31, 1986, FLBs and PCAs had almost $7 billion in nonaccrual loans--the most severe category of nonperforming loans which may indicate future write-offs, a 38-percent increase from December 31, 1985. (See pp. 66-67.)

Furthermore, farm property acquired by FLBs and by life insurance companies continued to increase in 1986. FLBs had slightly over $1 billion in property acquired through foreclosure or deed in lieu of foreclosure at the end of 1986, about a 30-percent increase over 1985. Seven FLBs had more than $100 million in acquired property. Also, life insurance companies foreclosed on farm loans totaling about $828 million in 1986, slightly over a 56-percent increase from 1985. (See pp. 72-75.)

Financial stress continued to be evident in commercial banks that are heavily involved in agriculture. According to the Federal Deposit Insurance Corporation (FDIC), 59 agricultural banks failed in 1986, a slight decrease from the 62 that failed in 1985. Also, 600 agricultural banks, from a total of 1,457 banks, were on the FDIC problem bank list, which classifies banks warranting more than normal supervision. A year earlier, 437 agricultural banks were on the FDIC problem bank list. Additionally, according to the FRB, 152 banks with above-average farm loan ratios are highly vulnerable to failure because their nonperforming loans exceed their capital. A year earlier, 141 agricultural banks were identified as vulnerable. Many of the banks that failed in 1986, and many of

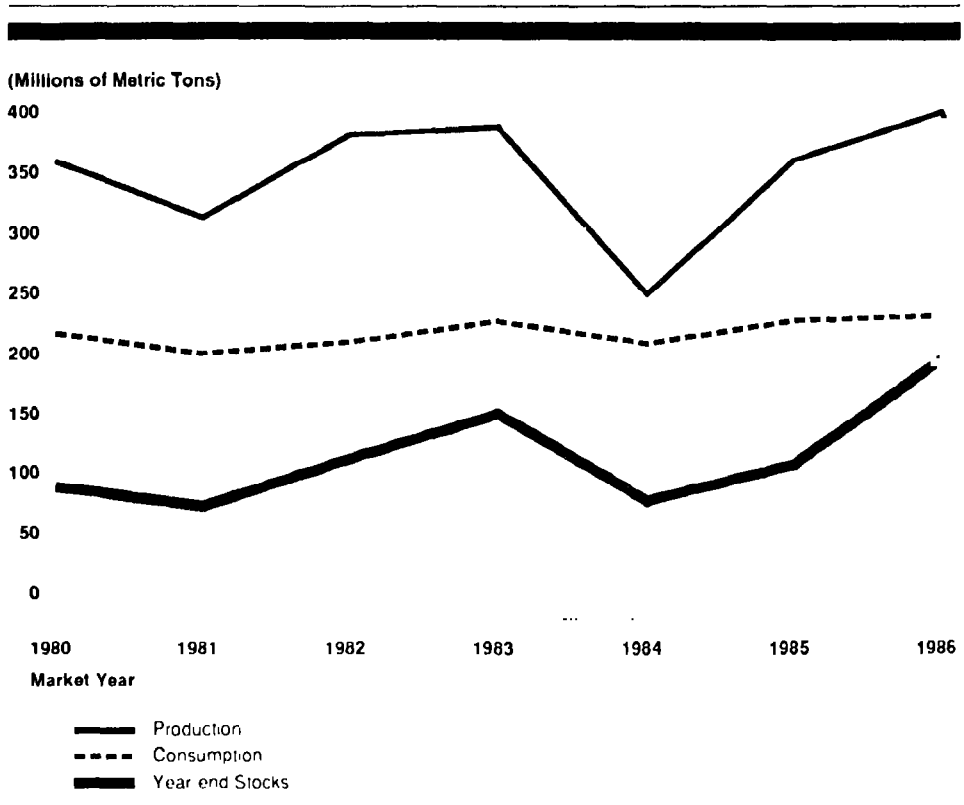
those that were vulnerable to failure at the end of 1986, were located throughout the central areas of the country. (See pp. 76-81.)

FmHA services the weakest farm customers of any lender, and the condition of its portfolio continued to reflect its position as the federal lender of last resort. As of December 31, 1986, delinquent FmHA borrowers were overdue on $8.5 billion in principal and interest payments, approximately equal to the overdue amount of a year earlier. The outstanding balance on FmHA loans to delinquent borrowers totaled slightly over $18 billion, a $500-million decrease from a year earlier. Also, almost $6 billion, or 70.5 percent, of the $8.5-billion overdue amount was 3 years or more late. (See pp. 82-85.)

SECTION 2

THE ECONOMIC ENVIRONMENT: ADVERSE CONDITIONS CONTINUED

Figure 2.1
U.S. Production, Consumption, and Year-end Stocks for Key Commodities, 1980-86



Source: USDA.

WHILE U.S. PRODUCTION, CONSUMPTION, AND YEAR-END STOCKS INCREASED FOR SOME KEY FARM COMMODITIES, FARM PRICES CONTINUED TO DECLINE

U.S. production and consumption of coarse grains--including corn the primary coarse grain--and soybeans continued to increase in 1986. U.S. production and consumption of wheat, on the other hand, decreased. Year-end stocks of these three key farm commodities increased in 1986 compared with 1985 levels. Prices for corn, soybeans, and wheat continued to decline in 1986.

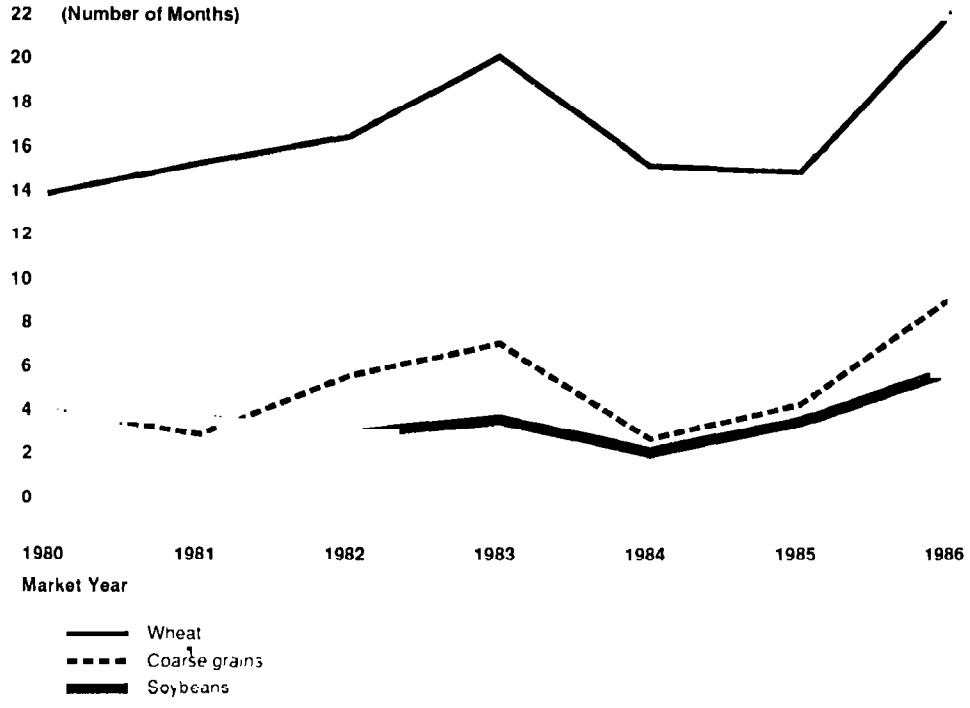
Table 2.1
U.S. Production, Consumption, and Year-end Stocks for Key Commodities, 1985 and 1986

	Market year[a]		Percent change
	1985	1986	
	(millions of metric tons)		
U.S. production:			
All coarse grains	237.7	274.9	15.6
Corn only	194.9	225.5	15.7
Soybeans	50.6	57.1	12.8
Wheat	70.6	66.0	(6.5)
U.S. consumption:			
All coarse grains	163.8	170.3	4.0
Corn only	131.3	133.5	1.7
Soybeans	30.5	31.0	1.6
Wheat	31.4	28.5	(9.2)
U.S. year-end stocks:			
All coarse grains	58.0	126.9	118.8
Corn only	41.9	102.6	144.9
Soybeans	8.6	14.6	69.8
Wheat	38.8	51.9	33.8
U.S. average market price:	(dollars per bushel)		
Corn	$2.63	$2.23	(15.2)
Soybeans	5.84	5.05	(13.5)
Wheat	3.39	3.08	(9.1)

[a]The market year varies by crop. For example, it begins October 1 and ends September 30 for corn. We use 1985 for USDA's 1984/85 market year and 1986 for the 1985/86 market year.

ERS projected in August 1987 that U.S. production for key commodities would decline in 1987; consumption would increase; year-end coarse grain stocks would increase while soybean and wheat stocks would decrease; and prices would decline further. For example, corn production was projected at 210 million metric tons, consumption at 148 million metric tons, year-end stocks at 125 million metric tons, and priced at $1.51 per bushel.

Figure 2.2
Supply of Key Commodity Stocks on Hand at Year-end, by Number of Months, 1980-86



Source: GAO analysis of USDA data.

SUPPLY OF KEY COMMODITY STOCKS ON HAND INCREASED

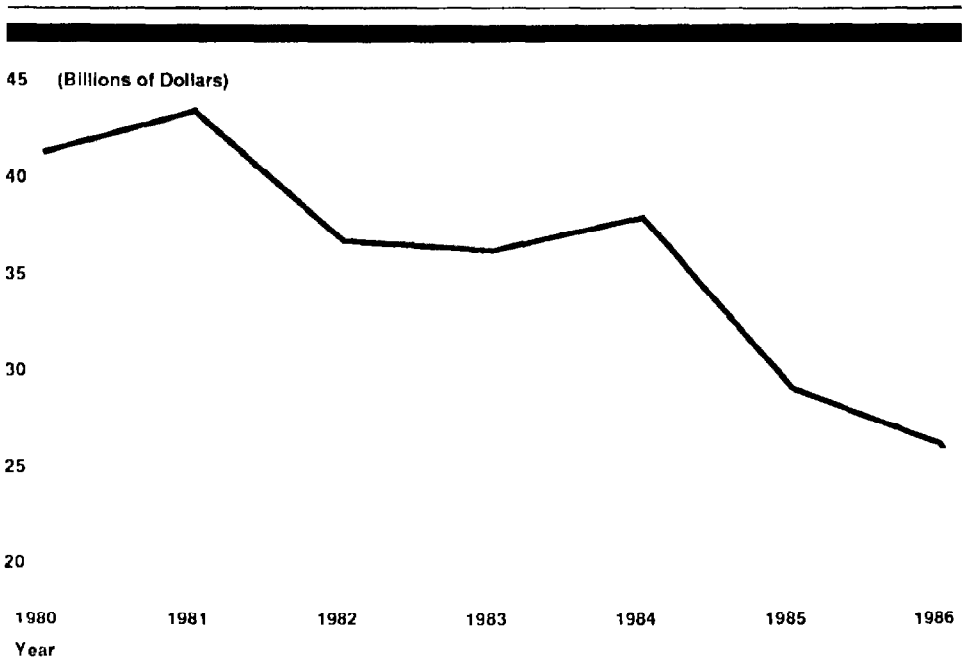
The supply of key commodity stocks on hand at the end of the 1986 marketing year, on the basis of U.S. monthly average consumption rates, increased considerably over the 1985 marketing year. For example, according to USDA, at the end of 1986 about 52 million metric tons of wheat were in U.S. stock. During 1986 U.S. wheat consumption averaged 2.4 million metric tons each month. On the basis of that consumption rate, almost 22 months of wheat supply were in stock at year-end. Previously, at the end of 1985 about 39 million metric tons of wheat were in stock and the average monthly consumption rate was 2.6 million metric tons. As a result, about 15 months of wheat supply were in stock at the end of 1985. High levels of commodity stocks have, among other things, resulted in lower commodity prices and increased federal outlays for agriculture.

Table 2.2
Supply of Key Commodity Stocks on Hand at Year-end, by Number of Months, 1985 and 1986

Commodity	Market year 1985	1986	Percent change
	(number of months)		
Wheat	14.8	21.9	48.0
Coarse grains	4.2	9.0	114.3
Soybeans	3.4	5.7	67.6

Additionally, the supply of key commodity stocks on hand at the end of the 1986 marketing year exceeded the levels that existed at the end of the 1983 marketing year which subsequently was followed by USDA's 1983/84 payment-in-kind program. Under this program, farmers received commodities from USDA, rather than cash payments, in return for reduced planting. Because of this, 1984 and 1985 year-end stocks were lower than stocks at the end of the 1983 marketing year. However, as a result of large production increases in 1986, comparatively constant consumption, and declining exports, the United States had a greater supply of stocks on hand than it had at the end of 1983. For example, as shown above, almost 22 months supply of wheat were on hand on the basis of the 1986 monthly average consumption rate. This compares with 20 months supply of wheat on hand at the end of 1983 on the basis of the 1983 monthly average consumption rate. Similarly, a greater supply of coarse grain and soybean stocks were on hand at the end of 1986 than on hand at the end of 1983.

Figure 2.3
U.S. Agricultural Exports, 1980-86



Source: USDA.

TOTAL U.S. AGRICULTURAL EXPORTS CONTINUED TO DECLINE

Total U.S. agricultural exports declined in value and in volume in 1986, continuing an overall decline that has been underway since 1981. U.S. agricultural exports have continued to face strong competition from other exporting countries, production gains by traditional importing countries, and large worldwide surpluses of many agricultural products. According to ERS, a major reason that U.S. agricultural exports declined in 1986 was increased grain production in importing countries that reduced their demand for U.S. grain products.

Among key U.S. agricultural export commodities, coarse grains experienced over a 48-percent decline in value and a 36-percent decline in volume in 1986. Soybeans, on the other hand, had a 16-percent increase in value and about a 26-percent increase in volume. The U.S. soybean export increase is partly attributable to decreased Brazilian soybean exports caused by a drought that reduced that country's production. Wheat exports had about a 16-percent decline in value but over a 1-percent increase in volume.

Table 2.3
U.S. Agricultural Export Statistics, 1985 and 1986

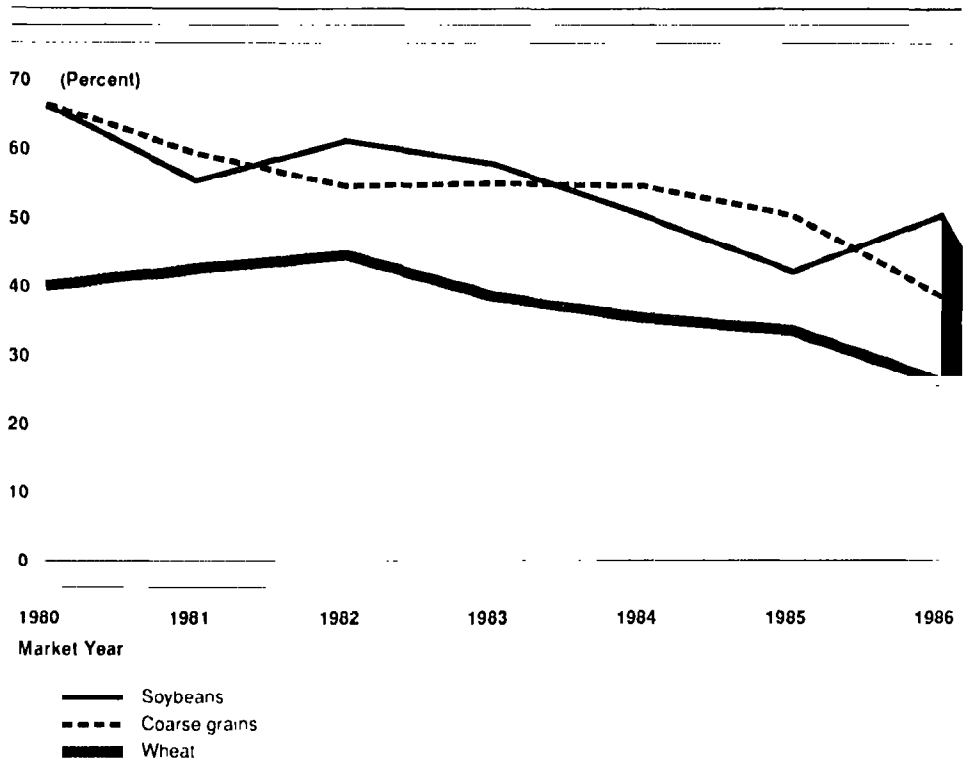
U.S. exports	Value of exports			Volume of exports		
	1985	1986	Percent change	1985	1986	Percent change
	--(billions)--			(millions of metric tons)		
Total	$29.0	$26.1	(10.0)	118.8	108.5	(8.7)
Key export crops:						
Coarse grains[a]	6.0	3.1	(48.3)	51.4	32.7	(36.4)
Soybeans and soybean products	5.0	5.8	16.0	22.2	27.9	25.7
Wheat	3.8	3.2	(15.8)	25.6	25.9	1.2

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

While U.S. agricultural exports declined in 1986, agricultural imports increased by $1.1 billion to slightly over $21 billion. As a result, the U.S. agricultural trade surplus decreased to $5 billion, a decline of over $4 billion from the 1985 surplus. The 1986 agricultural trade surplus was the lowest since 1972. In addition, agricultural trade deficits occurred in May and July 1986, the first monthly deficits since August 1971.

During the January through June 1987 period, the United States had almost a $3-billion agricultural trade surplus, nearly a $1-billion increase over the surplus for the same period in 1986.

Figure 2.4
U.S. Share of World Market for Key Commodities, 1980-86



Source: GAO analysis of USDA data.

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

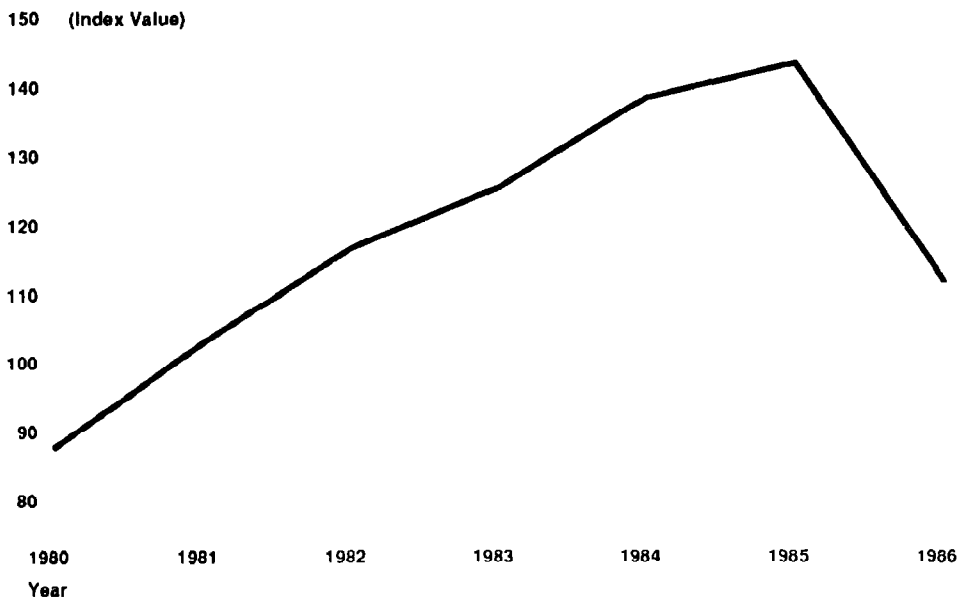
The U.S. share of the world market for two of the most heavily traded commodities--coarse grains and wheat--continued the declining trend in 1986 that has been underway since 1980. On the other hand, the U.S. share of the world market for a third heavily traded commodity--soybeans and soybean products--increased during 1986, reversing a declining trend that had also existed since 1980. According to ERS, an increase in foreign soybean and soybean product consumption, coupled with a decrease in world production and exports (caused partly by a drought in Brazil), resulted in an increase in the U.S. soybeans' market share.

Table 2.4
U.S. Market Share of Total World Trade for Three Key Commodities, 1985 and 1986

Commodity	Market year 1985	Market year 1986	Percent change
	(percent)		
Coarse grains	50.2	38.4	(23.5)
Soybeans and soybean products	42.0	50.2	19.5
Wheat	33.4	26.0	(22.2)

ERS projected in August 1987 that the U.S. market share for two key commodities would increase during 1987--coarse grains was projected to increase to almost 47 percent and wheat to about 27 percent. ERS also projected that the U.S. market share for soybeans and soybean products would decline to 48.5 percent.

Figure 2.5
Yearly Average Index Value of the U.S. Dollar, 1980-86[a]



[a]March 1973 = 100

Source: Economic Report of the President transmitted to the Congress in January 1987.

TRADE VALUE OF THE U.S. DOLLAR DECLINED

The yearly average multilateral trade-weighted value of the U.S. dollar fell in 1986, declining for the first time since 1980.[1] Relative to a 1973 base index of 100, the yearly average index of the dollar's nominal value measured 112 for 1986, about a 22-percent decline from the previous year's index value.

Table 2.5
Yearly Average Multilateral Trade-Weighted Value of the U.S. Dollar, 1985 and 1986
(March 1973 = 100)

Value	1985	1986	Percent decline
Nominal	143.2	112.0	21.8
Real	132.0	103.4	21.7

Theoretically, declines in the dollar's value should improve the price competitiveness of U.S. agricultural commodities in some countries and could increase foreign demand for U.S. farm products. However, even though the dollar's value declined by about 22 percent, 1986 U.S. agricultural exports declined rather than improved. According to ERS, many U.S. agricultural export commodities continued to face strong competition from cheaper foreign products in both developed and developing countries because of, among other things, the large worldwide surpluses that exists.

The dollar's drop in 1986 was primarily against heavily traded industrialized countries' currencies, such as the Japanese yen and the West German mark. According to ERS, the dollar did not decline against major U.S.-competitor agricultural exporter countries' currencies or against some major agricultural importing countries' currencies. For example, the dollar did not weaken against the currencies of most developing countries. These countries accounted for over 41 percent of the 1986 U.S. agricultural export value, about an 11-percent decline from the previous year.

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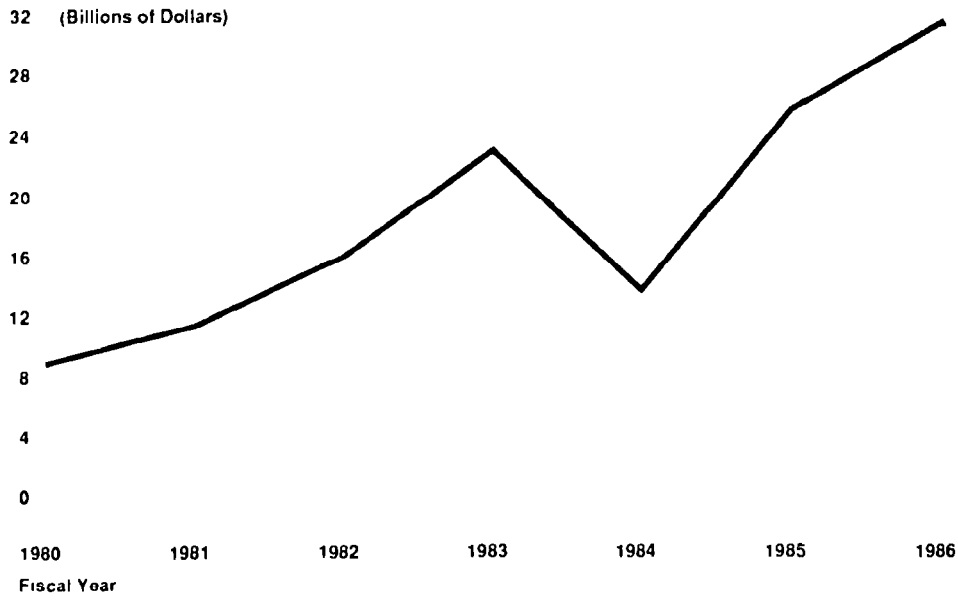
[1]The multilateral trade-weighted value of the dollar is a composite index showing the appreciation or depreciation of the dollar as measured against a number of major currencies, weighted by the respective countries' trade volume with the United States.

Figure 2.6
Federal Agricultural Outlays, Fiscal Years 1980-86



Source: Economic Report of the President transmitted to the Congress in January 1987.

FEDERAL OUTLAYS FOR AGRICULTURE CONTINUED TO INCREASE

According to the Economic Report of the President, which was transmitted to the Congress in January 1987, federal outlays for agriculture increased to over $31 billion in fiscal year 1986, about a 23-percent increase over fiscal year 1985 outlays. Federal agricultural outlays have increased each year from 1980 through 1986, except 1984, and totaled about $130 billion.

Table 2.6
Federal Agricultural and Total Outlays, Fiscal Years 1985 and 1986

	Fiscal year		Percent increase
	1985	1986	
	---(billions)---		
Agricultural outlays	$ 25.6	$31.4	22.7
Total federal outlays	$946.3	$989.8	4.6
Agricultural outlays as a percentage of total federal outlays	2.7	3.2	18.5

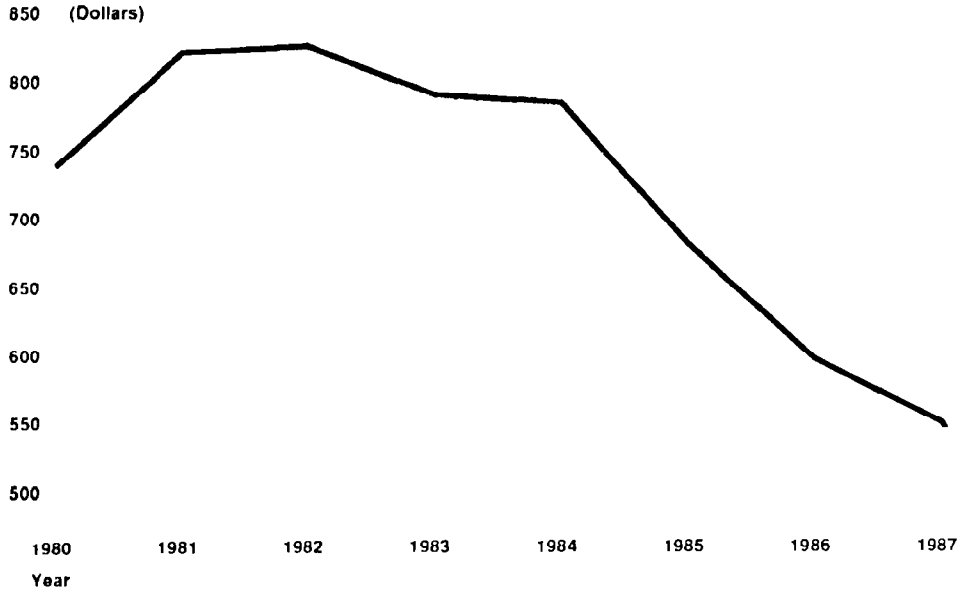
Commodity price support programs accounted for nearly $26 billion of the fiscal year 1986 outlays; other farm income stabilization programs, such as FmHA loans and Federal Crop Insurance Corporation payments, accounted for $3.7 billion; and agricultural research and services accounted for $1.8 billion. Most of the commodity price support outlays applied to four CCC programs: nonrecourse commodity loans (net cash outlays of $13.6 billion), direct cash deficiency payments ($6.2 billion), purchase of farm commodities ($2.7 billion), and storage of farm commodities and related activities ($1.4 billion).

Additionally, the President's economic report projects that fiscal year 1987 federal outlays will total slightly over $31 billion, or slightly less than the fiscal year 1986 amount. Commodity price support programs are projected to account for most of the fiscal year 1987 outlays.

SECTION 3

THE FARM SECTOR:
SOME IMPROVEMENT OVER 1985 BUT
ADVERSE FINANCIAL POSITION CONTINUED

Figure 3.1
Average Per Acre Value of Farmland, 1980-87[a]



[a]Values as of February 1, 1980 and 1981; April 1 for 1982 through 1985; and February 1, 1986 and 1987.

Source: USDA.

FARMLAND VALUES CONTINUED TO DECLINE

ERS reported that the national average value of farmland continued to fall from the peak April 1, 1982, value of $823 per acre, to $595 per acre on February 1, 1986, and to $548 per acre on February 1, 1987. This is more than a 33-percent overall decline since 1982 and nearly an 8-percent decline between 1986 and 1987. The 8-percent decline was much less than the over 12-percent decline that occurred between 1985 and 1986.

ERS also reported that total farm asset values declined by about 8 percent in 1986 from 1985. Farm asset values had declined nearly 10 percent in 1985 from 1984.

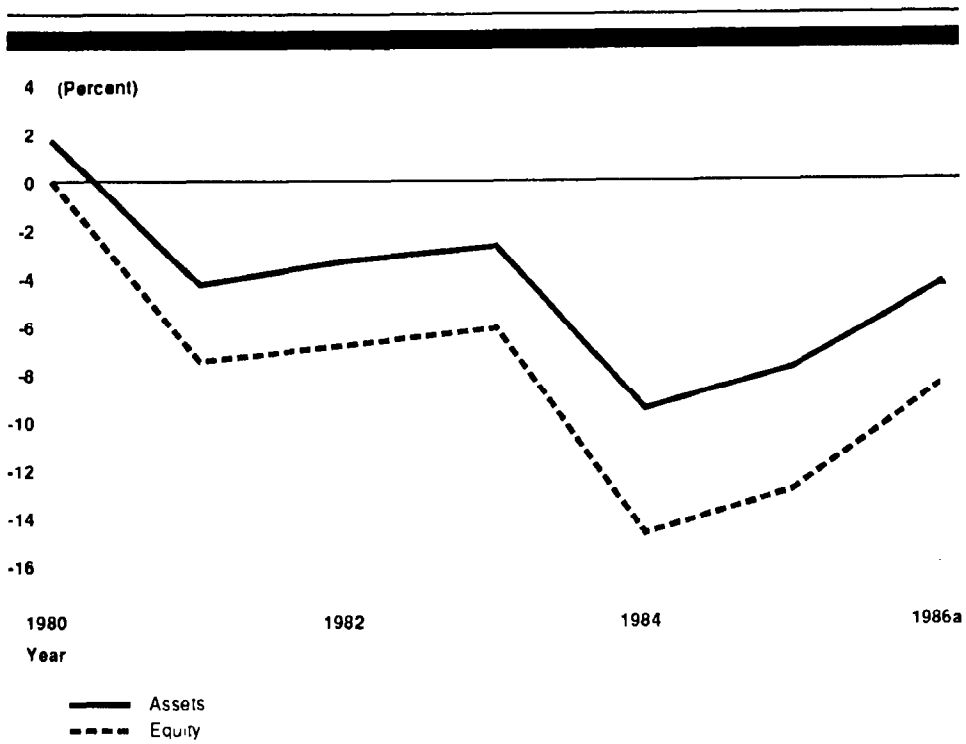
Between 1982 and 1987, three states experienced declines in the average value of farmland that exceeded 50 percent--Minnesota (61 percent), Iowa (60 percent), and Nebraska (54 percent)--and 10 other states had declines that exceeded 40 percent.

Between 1986 and 1987, the average value of farmland declined in 32 of the 48 contiguous states. Four states--Louisiana, Minnesota, Montana, and South Dakota--had declines that exceeded 17 percent, and 20 other states had declines that exceeded the 8-percent national average decline.

Table 3.1
Farmland Average Per Acre Values in States That Had Greater Than 10-Percent Declines From February 1, 1986, to February 1, 1987

State	Per acre value		Percent decline
	February 1986	February 1987	
Louisiana	$1,005	$ 734	27.0
Minnesota	609	493	19.0
Montana	204	167	18.1
South Dakota	215	178	17.2
California	1,571	1,366	13.0
Mississippi	752	654	13.0
Kansas	387	340	12.1
Indiana	1,058	931	12.0
Idaho	644	567	12.0
Wisconsin	711	626	12.0
Iowa	841	748	11.1
North Dakota	317	282	11.0
Oklahoma	481	428	11.0
Michigan	936	833	11.0
Washington	812	723	11.0
Texas	541	482	10.9
Arkansas	705	634	10.1
National average for the 48 contiguous states	$ 595	$ 548	7.9

Figure 3.2
Rates of Return on Assets and on Equity, 1980-86



[a]Percent based on ERS' preliminary 1986 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 continued to improve in 1986 compared with their rates of return the previous year. However, both rates also continued to be negative. Farmers have experienced negative rates of return primarily because the market value of farm assets continued to decline at the end of the year from their value at the start of the year. Farmers have continued to experience capital losses on the assets used for production. These capital losses have been greater than the continued increases in the farmers' income returns.

Table 3.2
Rates of Return on Assets and on Equity, 1985 and 1986

	1985	1986[a]
	(percent)	
Return on assets:		
Income[b]	3.3	4.2
Capital gains	(11.1)	(8.5)
Total	(7.8)	(4.3)
Return on equity:		
Income[c]	1.5	2.8
Capital gains	(14.4)	(11.4)
Total	(12.9)	(8.6)

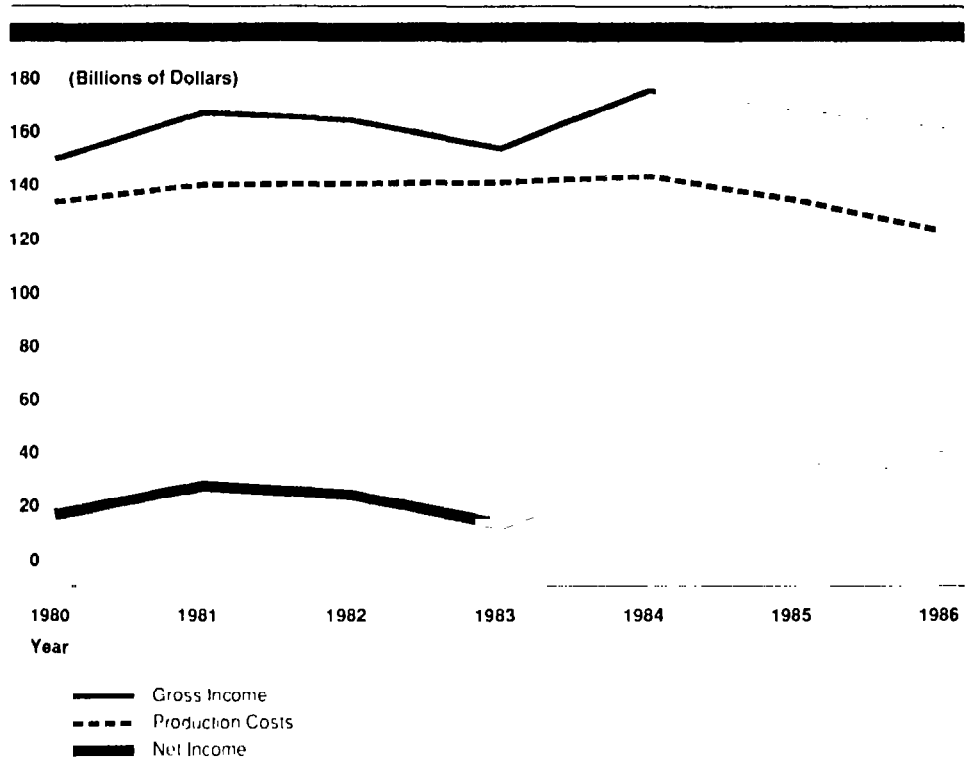
[a]The 1986 rates are based on August 1987 ERS' preliminary information and exclude farm operator households.

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

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

ERS projected in August 1987 that farmers' rates of return on assets and on equity would both turn positive in 1987. The last year in which both rates were positive was 1979. ERS' 1987 projection was based on continued increases in farmers' income returns and further lessening of their negative capital gains returns.

Figure 3.3
Gross and Net Farm Income and Production Costs, 1980-86



Source: USDA.

WHILE FARMERS' GROSS FARM INCOME DECREASED, THEIR NET FARM INCOME INCREASED

Farmers' gross farm income, excluding off-farm income and after adjusting for changes in the value of inventory, declined in 1986 from the level of 1985; however, net farm income increased.[1] ERS reported that farmers' gross farm income declined nearly 4 percent in 1986. According to ERS statistics, the 1986 decline is primarily attributable to decreases in crop cash receipts which resulted in a nearly $5-billion decrease in gross farm cash income. Also contributing to the 1986 decline was a reduction in nonmoney income, such as the value of home consumption of farm products, and decreased inventory values.

ERS also reported that farmers' net farm income increased slightly over 16 percent in 1986. The significant reduction in farm production expenses ($11.6 billion) more than offset the reduced gross farm income ($6.5 billion), and resulted in the 1986 net farm income increase.

Table 3.3
Farmers' Gross and Net Farm Income and Total Production Expenses, 1985 and 1986

	1985[a]	1986	Percent change
	---(billions)---		
Gross farm cash income	$156.9	$152.0	(3.1)
Nonmoney income	11.8	10.8	(8.5)
Value of inventory change	(2.7)	(3.3)	(22.2)
Gross farm income	166.0	159.5	(3.9)
Total production expenses	133.7	122.1	(8.7)
Net farm income	$ 32.3	$ 37.5[b]	16.1

[a]ERS revised 1985 values.

[b]Total does not add due to rounding.

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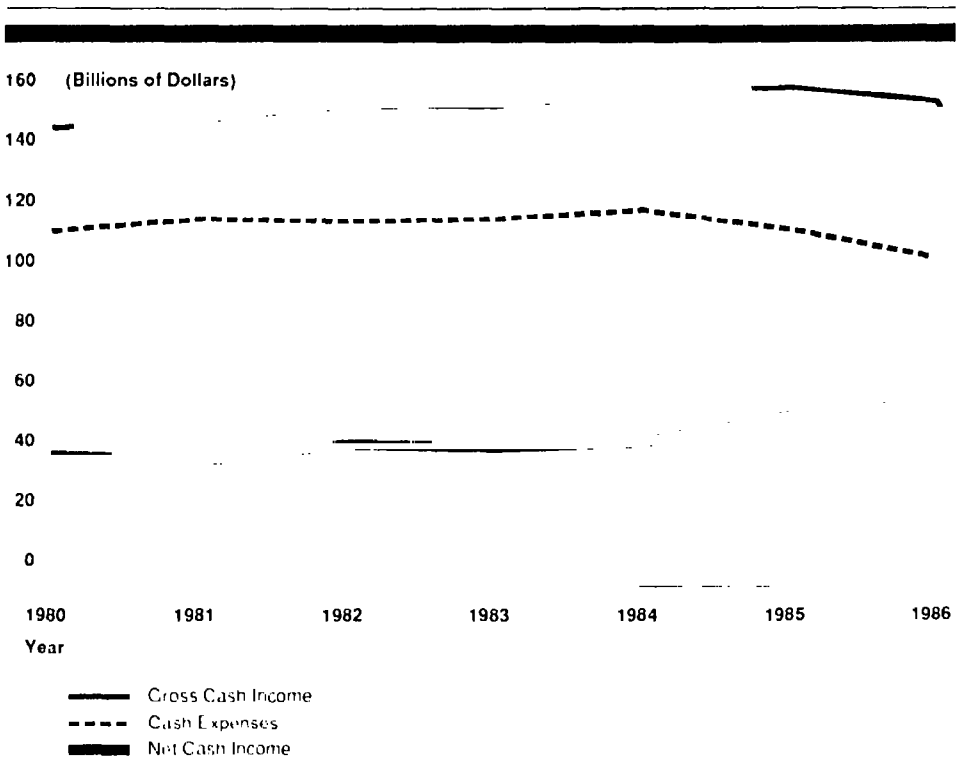
[1]Gross and net farm income measure the value of farm production during a year. Gross farm income includes the receipts from the sale of farm products, government payments, farm-related income, nonmoney income, and the value of inventory changes. Net farm income is gross income less total production expenses. Included are the income, except off-farm income, and expenses associated with operators' households.

Figure 3.4
Gross and Net Farm Cash Income and Cash Expenses, 1980-86



Source: USDA.

WHILE FARMERS' GROSS FARM CASH INCOME DECREASED, THEIR NET FARM CASH INCOME INCREASED

Farmers' gross farm cash income declined in 1986 from the 1985 level; however, net farm cash income increased.[2] ERS reported that farmers' gross farm cash income declined slightly over 3 percent in 1986. According to ERS statistics, the 1986 decline is primarily attributable to nearly an $11-billion decrease in crop cash receipts. That decrease more than offset about a $2-billion increase in livestock cash receipts, a slightly over $4-billion increase in government payments, and a $100-million increase in farm-related income (income from machine hire and custom work).

ERS also reported that farmers' net farm cash income increased nearly 10 percent in 1986. The reduction in farm cash expenses ($9.5 billion) offset the reduced gross farm cash income ($4.9 billion), and resulted in the 1986 net farm cash income increase.

Table 3.4
Farmers' Gross and Net Farm Cash Income and Cash Expenses, 1985 and 1986

	1985[a]	1986	Percent change
	---(billions)---		
Cash receipts[b]	$144.2	$135.2	(6.2)
Government payments	7.7	11.8	53.2
Farm-related income	5.0	5.1	2.0
Gross farm cash income	156.9	152.0[c]	(3.1)
Farm cash expenses	109.6	100.1	(8.7)
Net farm cash income	$ 47.3	$ 52.0[c]	9.9
Net farm cash income margin (percent)	30.1	34.2	13.6

[a]ERS revised 1985 values.

[b]Includes net CCC loans.

[c]Totals do not add due to rounding.

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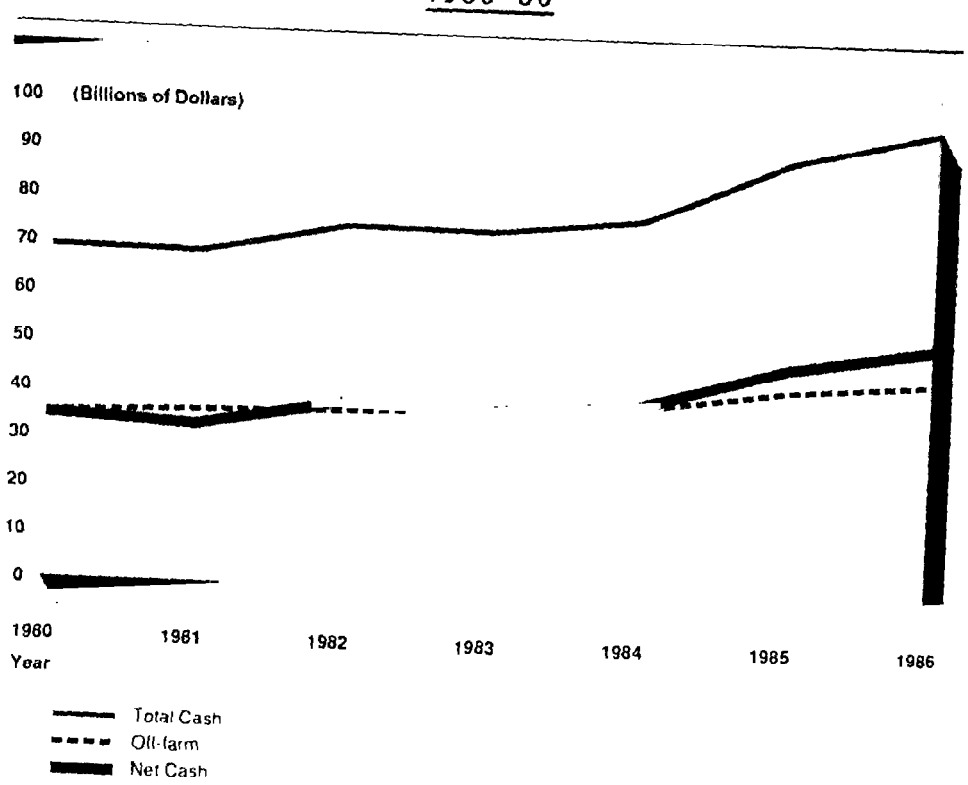
[2]Gross and net farm cash income measure farm cash earnings regardless of the year in which commodities were produced. Gross farm cash income includes cash receipts from the sale of all farm products, government payments, and farm-related income. Net farm cash income is gross farm cash income less farm cash expenses. Excluded are the income and expenses associated with farm operators' households.

Figure 3.5
Farmers' Off-farm, Net Farm Cash, and Total Cash Income, 1980-86



Source: USDA.

FARMERS' OFF-FARM INCOME INCREASED

Farmers' total cash income, including cash income from off-farm sources, continued to increase in 1986.[3] According to ERS, off-farm income, such as wages and salaries received by farm operators and members of the household from nonfarm employment, increased to about $45 billion in 1986, slightly over a 5-percent increase compared with 1985 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 3.5
Farmers' Off-farm, Net Farm Cash, and Total Cash Income, 1985 and 1986

	1985	1986	Percent change
	(billions)		
Off-farm income	$42.5	$44.7	5.2
Net farm cash income	47.3	52.0	9.9
Total cash income of farm operators	$89.8	$96.7	7.7

[3]Total farm cash income is a measure that combines net farm cash income and off-farm income, an all-cash measure. Off-farm income includes all cash income of farm operators and members of their households from nonfarm employment, such as nonfarm wages and salaries and nonfarm business and professional income.

Figure 3.6
Farm Real Estate, Non-real Estate, and Total Interest Expenses, 1980-86

Source: USDA.

FARMERS' INTEREST PAYMENTS DECREASED

Farmers' interest payments declined in 1986, continuing a trend that has been underway since 1983. Likewise, all other major farm production expense categories declined in 1986 from their 1985 levels. As a result, total farm production expenses fell about 9 percent. Total farm production expenses had fallen more than 6 percent in 1985 from their 1984 levels.

With declines in interest rates and in the amount of debt outstanding, ERS reported 1986 interest payments at nearly $17 billion, or about 10 percent less than 1985 interest payments. Non-real estate interest expenses declined to about $8 billion and real estate interest expenses declined to slightly over $9 billion, or over 11 percent and 8 percent, respectively, from their 1985 levels. Additionally, declines in the prices paid for farm and manufactured inputs, such as feed and fertilizer, and in the overall use of these inputs, contributed to the decline in total production costs.

Table 3.6
Farm Production Expenses, 1985 and 1986

Farm production expenses	1985	1986	Percent decline
	---(billions)---		
Farm-origin inputs[a]	$ 30.4	$ 28.8	5.3
Manufactured inputs[b]	20.8	17.0	18.3
Interest payments	18.7	16.9	9.6
Other operating expenses[c]	30.6	29.5	3.6
Overhead expenses[d]	33.2	29.8	10.2
Total	$133.7	$122.1[e]	8.7

[a]Includes feed, livestock, and seed.

[b]Includes fertilizer, fuel, and pesticides.

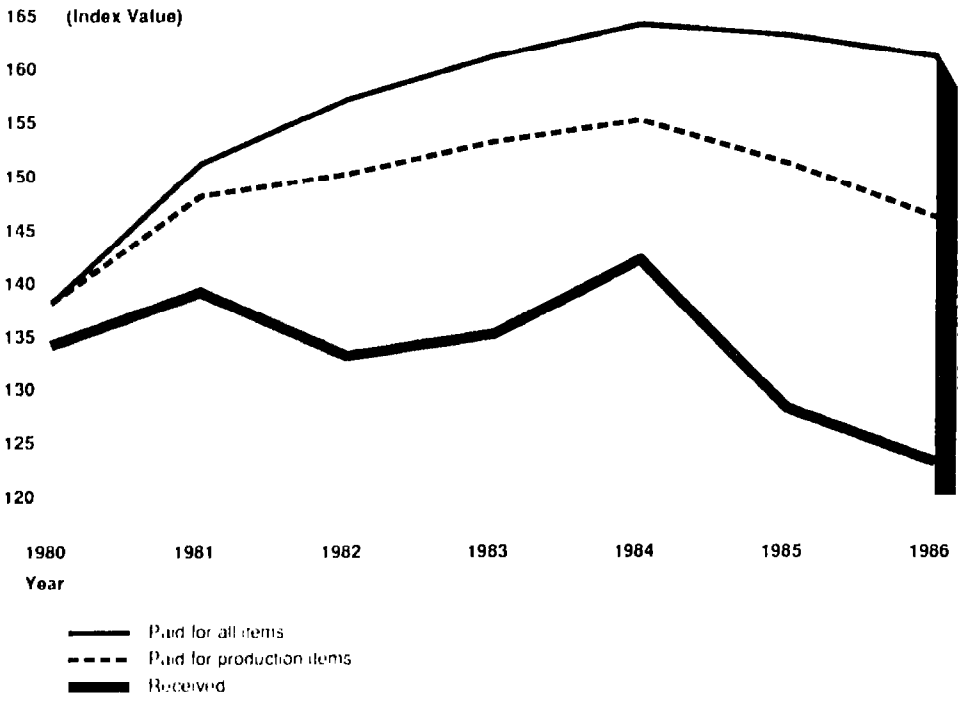
[c]Includes repair and operation, hired labor, and machine hire.

[d]Includes depreciation, taxes, and rent.

[e]Total does not add due to rounding.

In addition, ERS has estimated that interest payments in 1987 will continue to decline as farmers continue to reduce their outstanding debt.

Figure 3.7
Indexes of Prices Received and Paid by Farmers, 1980-86[a]



[a]1977=100

Source: Economic Report of the President transmitted to the Congress in January 1987.

INDEXES OF PRICES RECEIVED AND PAID BY FARMERS DECLINED

The index of prices received by farmers in 1986 for their products was less than the index of prices they paid, continuing a negative trend. The last year that the index of prices received by farmers for their farm products exceeded the index of prices they paid was 1979.

Using 1977 as a base year index value of 100, the index of prices received by farmers in 1986 for all farm products measured 123--nearly a 4-percent decline from a year earlier. The 1986 index of prices paid by farmers for production items, such as fertilizer, fuel, and equipment measured 146--more than a 3-percent decline from 1985. Also, the 1986 index of prices paid by farmers for all commodities, services, interest, taxes, and wages measured 161--slightly over a 1-percent decline from 1985.

Table 3.7
Indexes of Prices Received and Paid by Farmers, 1985 and 1986
(1977=100)

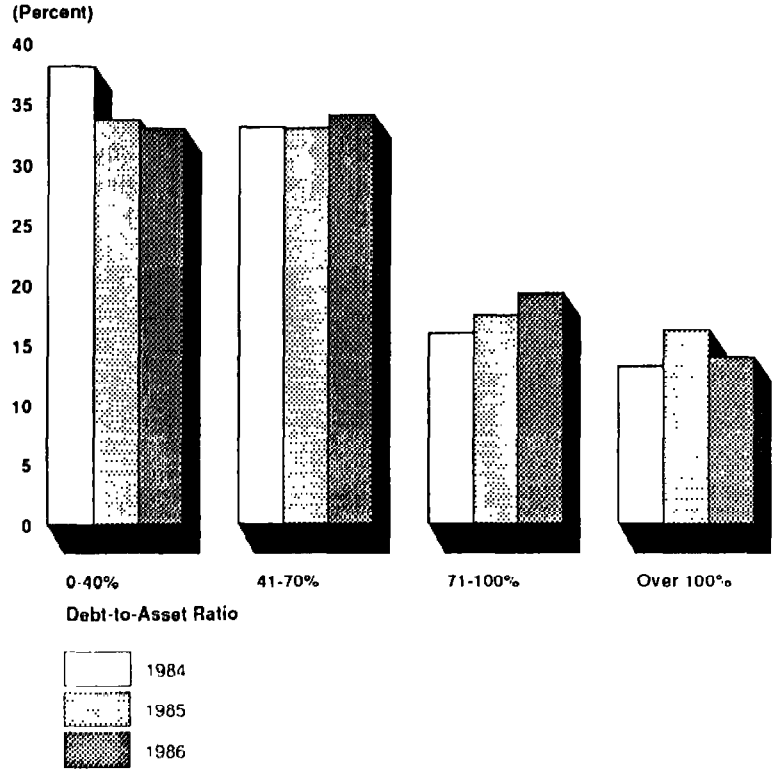
Index item	1985	1986	Percent decline
Prices received	128	123	3.9
Prices paid:			
Production items[a]	151	146	3.3
All items[b]	163	161	1.2
Prices received as a percentage of prices paid for			
--production items[a]	84.8	84.2	0.7
--all items[b]	78.5	76.4	2.7

[a]Includes equipment, fertilizer, and fuel.

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

During the early part of 1987, however, the index values of prices farmers received and paid have increased. According to ERS, the index of prices received in April 1987 increased to 125 (compared with an index of 121 in April 1986). Also, the indexes of prices paid in April 1987 for production items increased to 147 and for all items to 162 (compared with April 1986 index values of 145 and 159, respectively).

Figure 3.8
Percent of Total Farm Debt by Debt-to-Asset Ratio,[a] 1984-86



[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, farms with ratios of 40 percent or less are in the best position to withstand financial adversity. They can likely offset negative cash flows from farming operations by borrowing against or selling assets. Farms in the 41 to 70 percent category may be able to borrow to offset negative cash flows and meet all expenses. Farms in the 71 to 100 percent category are less likely to be able to offset negative cash flows through borrowing. Farms with a ratio over 100 percent have severe problems meeting principal and interest commitments and have a negative net worth. Farms in this 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 CONTINUE TO HAVE HIGH DEBT-TO-ASSET RATIOS

Over 78 percent of all farmers in 1986 were financially sound in terms of a debt-to-asset ratio of 40 percent or less; these farmers held nearly 33 percent of the 1986 farm debt. Another 13 percent of all farmers were classified by ERS as having some debt repayment problems but an adequate net worth, in terms of a debt-to-asset ratio of 41 through 70 percent; these farmers held 34 percent of the farm debt. However, according to ERS, about 9 percent of all farmers were in financial difficulty in terms of a debt-to-asset ratio of 71 percent or more; these farmers held slightly over 33 percent of the 1986 farm debt.

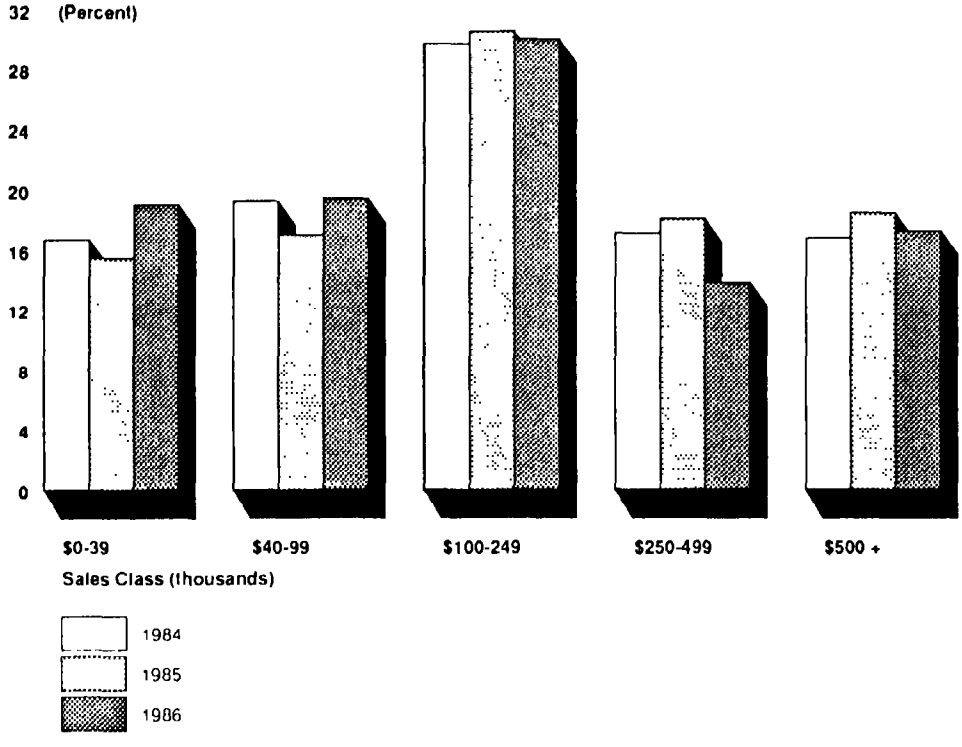
Table 3.8
Number of Farms and Amount of Total 1985 and 1986 Farm Debt, by Debt-to-Asset Ratio

	Debt-to-asset ratio				
	0-40%	41-70%	71-100%	Over 100%	Total[a]
Number of farms	(thousands of farms)				
1985	1,221	197	72	61	1,551
1986	1,180	196	75	55	1,506
Percent of farms					
1985	78.7	12.7	4.6	4.0	100.0
1986	78.4	13.0	5.0	3.7	100.0
Amount of debt[b]	(billions of dollars)				
1985	$38.2	$37.2	$19.7	$18.2	$113.4
1986	$32.4	$33.5	$18.9	$13.7	$98.5
Percent of debt					
1985	33.7	32.9	17.4	16.1	100.0
1986	32.9	34.0	19.2	13.9	100.0
Overall average debt-to-asset ratio	(percent)				
1985	10.6	53.3	82.4	138.0	22.5
1986	9.1	52.6	81.4	152.7	21.8

[a]Totals may not add due to rounding.

[b]ERS gathers farm debt information through USDA's annual Farm Costs and Returns Survey. The 1985 survey showed 1985 farm debt of $113.4 billion; the 1986 survey showed 1986 farm debt of $98.5 billion. These figures differ from the $210 billion and $190 billion we report on page 63 for 1985 and 1986, respectively, because they are based on survey responses, only include farm operators' debt related to farming operations, and exclude 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, 1984-86



Source: USDA.

MOST FARM DEBT CONTINUED TO BE HELD BY COMMERCIAL FARMS

Commercial farms' share of total farm debt decreased in 1986 while noncommercial farms' share increased. Most 1986 farm debt, however, continued to be held by commercial farms, those having $40,000 or more in sales. In 1986, according to ERS, commercial farms accounted for over 36 percent of all farms and nearly 81 percent of the farm debt. In 1985, commercial farms accounted for slightly over 40 percent of all farms and 84.5 percent of the debt.

The greatest share of the 1986 farm debt, slightly over 30 percent, continued to be held by mid-size commercial farms--sales of $100,000 to $249,000. The largest farms--sales of $500,000 or more--accounted for nearly 2 percent of all farms and over 17 percent of the total farm debt. The smallest farms--sales of less than $40,000--accounted for about 64 percent of all farms and slightly over 19 percent of the debt. In 1985, the debt percentages for the largest and the smallest farms were about 19 percent and 15.5 percent, respectively.

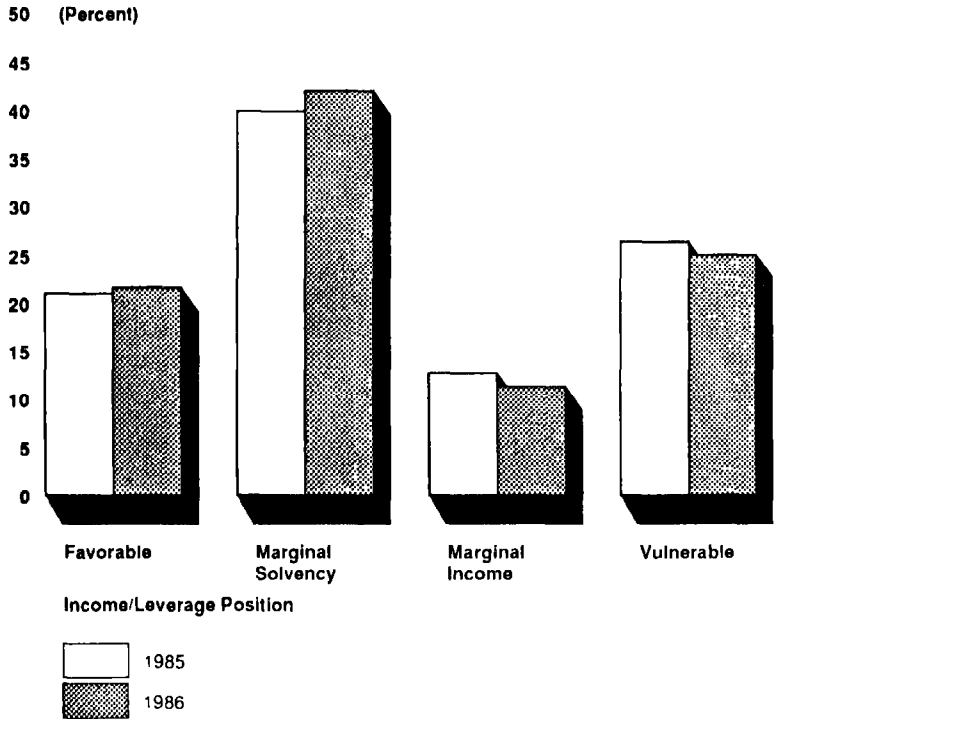
Table 3.9
Number of Farms and Amount of Total 1985 and 1986 Farm Debt by Farm Sales Class

	Sales class (thousands)					
	$0 to 39	$40 to 99	$100 to 249	$250 to 499	$500 and more	Total[a]
Number of farms	(thousands of farms)					
1985	928	286	226	79	32	1,551
1986	959	255	212	52	28	1,506
Percent of farms						
1985	59.8	18.4	14.6	5.0	2.1	100.0
1986	63.7	16.9	14.1	3.5	1.9	100.0
Amount of debt[b]	(billions of dollars)					
1985	$17.5	$19.3	$34.7	$20.7	$21.1	$113.4
1986	$18.8	$19.3	$29.6	$13.7	$17.1	$98.5
Percent of debt						
1985	15.5	17.1	30.6	18.2	18.6	100.0
1986	19.1	19.6	30.1	13.9	17.4	100.0
Overall average debt-to-asset ratio	(percent)					
1985	11.1	21.1	30.5	31.7	27.9	22.5
1986	11.0	23.1	27.5	31.1	30.5	21.8

[a]Totals may not add due to rounding.

[b]See note b, p. 51, for an explanation of the difference in total debt listed here and on p. 63.

Figure 3.10
Percent of Total Farm Debt by Net Farm Cash Income and Debt Leverage Position,[a] 1985 and 1986



[a]See table 3.10 for Income/Leverage Position definitions.

Source: USDA.

WHILE MANY FARMS HAVE FAVORABLE INCOME AND DEBT LEVELS, A LARGE NUMBER HAVE EARNINGS AND LEVERAGE PROBLEMS

Over 41 percent of all farms in 1986 were in a sound financial position in terms of combined net farm cash income and debt-to-asset ratio. However, according to ERS, 10 percent of all farms, or 150,000 farms, had negative income and a high debt ratio, a combination that makes them vulnerable as viable business operations. These vulnerable farms held slightly over 25 percent of the 1986 farm debt; a decrease from more than 26 percent of the 1985 farm debt held by vulnerable farms.

Table 3.10
Number of Farms and Amount of Total 1985 and 1986 Farm Debt, by Net Farm Cash Income and Solvency Position

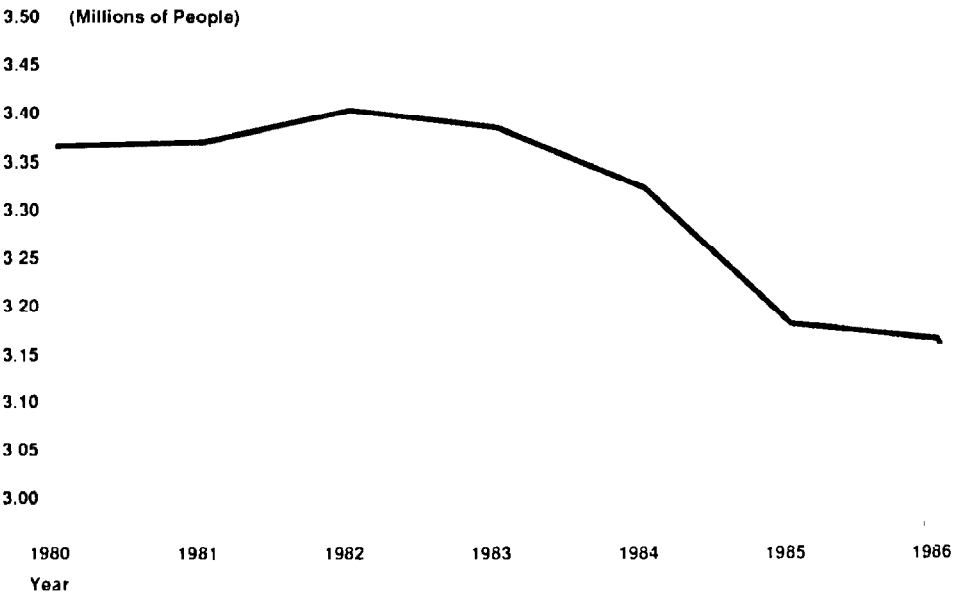
	Farm Income and Solvency Position[a]				
	Favorable	Marginal solvency	Marginal income	Vulnerable	Total[b]
Number of farms	(thousands of farms)				
1985	626	175	595	155	1,551
1986	623	177	557	150	1,506
Percent of farms					
1985	40.4	11.3	38.4	10.0	100.0
1986	41.4	11.7	37.0	10.0	100.0
Amount of debt[c]	(billions of dollars)				
1985	$23.8	$45.3	$14.4	$29.9	$113.4
1986	$21.3	$41.4	$11.1	$24.7	$98.5
Percent of debt					
1985	21.0	39.9	12.7	26.4	100.0
1986	21.6	42.0	11.3	25.1	100.0

[a]Favorable farms have positive net farm cash income and favorable solvency--debt-to-asset ratio of 40 percent or less. These farms are in stable financial position. Marginal solvency farms have positive net farm cash income but high leverage--debt-to-asset ratio over 40 percent. These farms, without current earnings problems, have high debt service requirements that could lead to future earnings problems. Marginal income farms have favorable solvency--debt-to-asset ratio of 40 percent or less--but negative net farm cash income. These farms, without short-term debt problems, have current earnings problems that could lead to future solvency problems. Vulnerable farms have high leverage--debt-to-asset ratio exceeding 40 percent--and negative net farm cash income. These farms, with high debt service requirements and earnings problems, are vulnerable as viable business operations.

[b]Totals may not add due to rounding.

[c]See note b, p. 51, for an explanation of the difference in total debt listed here and on p. 63.

Figure 3.11
Agricultural Employment, 1980-86



Source: Economic Report of the President transmitted to the Congress in January 1987.

FARM EMPLOYMENT CONTINUED TO DECLINE

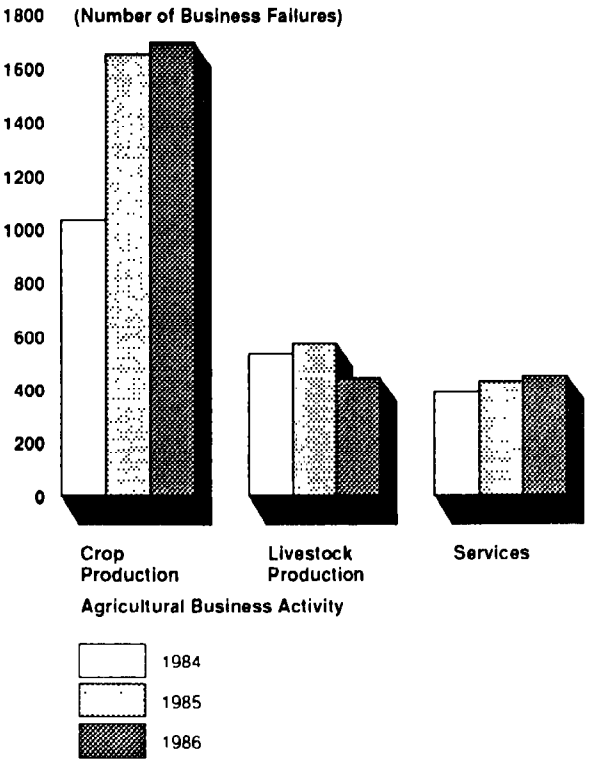
While nonfarm employment continued to grow during 1986, farm employment continued an overall declining trend that has been underway for many years. According to the Department of Labor's Bureau of Labor Statistics, nonfarm employment grew by over 2 percent in 1986 compared with 1985. Farm employment, on the other hand, declined slightly by less than 1 percent. The 1986 decline in agricultural employment was much less than the over 4 percent decline that occurred in 1985 from 1984. Additionally, in 1986 slightly more than 3 million people were employed in agriculture, or nearly 3 percent of the civilian labor force.

Table 3.11
Agricultural and Total Employment, 1985 and 1986

	1985	1986	Percent change
	(thousands)		
Agricultural employment	3,179	3,163	(0.5)
Nonagricultural employment	103,971	106,434	2.4
Total	107,150	109,597	2.3
Agricultural employment as a percent of total employment	3.0	2.9	(3.3)

USDA also compiles farm employment information 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 slightly over 7 percent in 1986 compared with 1985, continuing a downward trend that has been underway since the late 1940s. Also, according to USDA, the number of hired workers on farms decreased slightly over 6 percent in 1986, the second consecutive year of decline following a trend of increasing numbers of hired workers that existed from 1979 through 1984.

Figure 3.12
Agricultural Business Failures, 1984-86



Source: The Dun & Bradstreet Corporation.

AGRICULTURAL BUSINESS FAILURES DECREASED

The total number of agricultural businesses that failed in 1986 decreased slightly compared with the number that failed in 1985. According to information reported by the Dun & Bradstreet Corporation,[4] almost 2,600 agricultural businesses failed in 1986--71 fewer than the number that failed the previous year. Failures increased in 1986, compared with the previous year, among firms that had been engaged in crop production and agricultural services; however, failures decreased among firms engaged in livestock production. Most of those that failed in 1986, and in 1985, had been engaged in crop production.

Table 3.12
Number of Agricultural Businesses That Failed, 1985 and 1986

Agricultural businesses	1985	1986	Percent change
Crop production	1,655	1,695	2.4
Livestock production	573	443	(22.7)
Total	2,228	2,138	(4.0)
Agricultural services	430	449	4.4
Total	2,658	2,587	(2.7)

The total value of liabilities held by agricultural businesses that failed in 1986 was slightly over $1 billion, nearly a 9-percent increase over the value of liabilities held by 1985 failed agricultural businesses. The average value of liabilities increased to over $426,000 for the 1986 failed agricultural businesses from almost $381,000 for the 1985 failed agricultural businesses, nearly a 12-percent increase.

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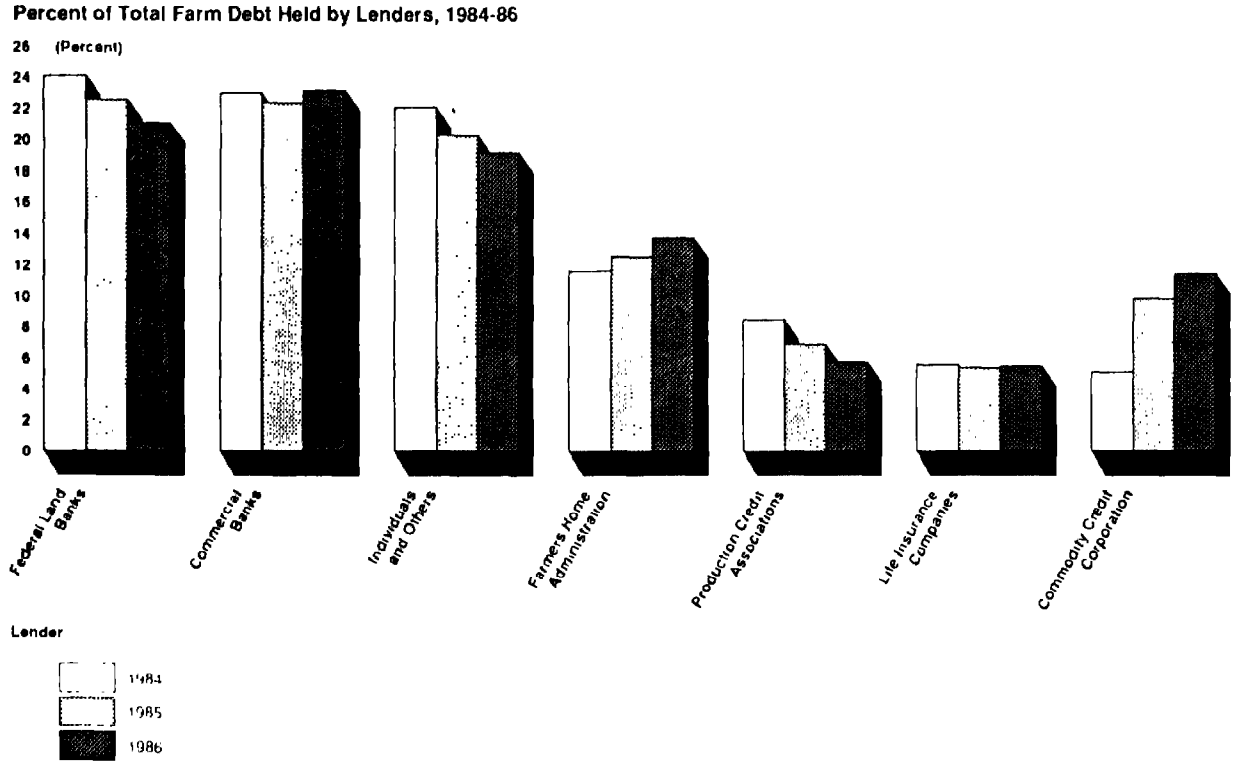
[4]The Dun & Bradstreet Corporation produces and markets business information and related services. Its business failure statistics include businesses that ceased operations following assignment or bankruptcy; ceased operations with losses to creditors after such actions as foreclosure or attachment; 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

Figure 4.1
Percent of Total Farm Debt Held by Lenders, 1984-86



Source: GAO analysis 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 CONTINUED TO DECLINE

Five major institutional lenders held most of the outstanding loans to the nation's farmers during 1986. As of December 31, 1986, the outstanding debt held by these institutional lenders totaled slightly over $153 billion. In addition, ERS has estimated that farm debt held by other lenders, such as individuals, totaled over $36 billion. The total outstanding debt at the end of 1986--about $190 billion--was nearly $21 billion, or 10 percent less than the total outstanding debt at the end of 1985. Total outstanding debt to the nation's farmers has fallen each year since the 1982 peak amount of $220.5 billion.

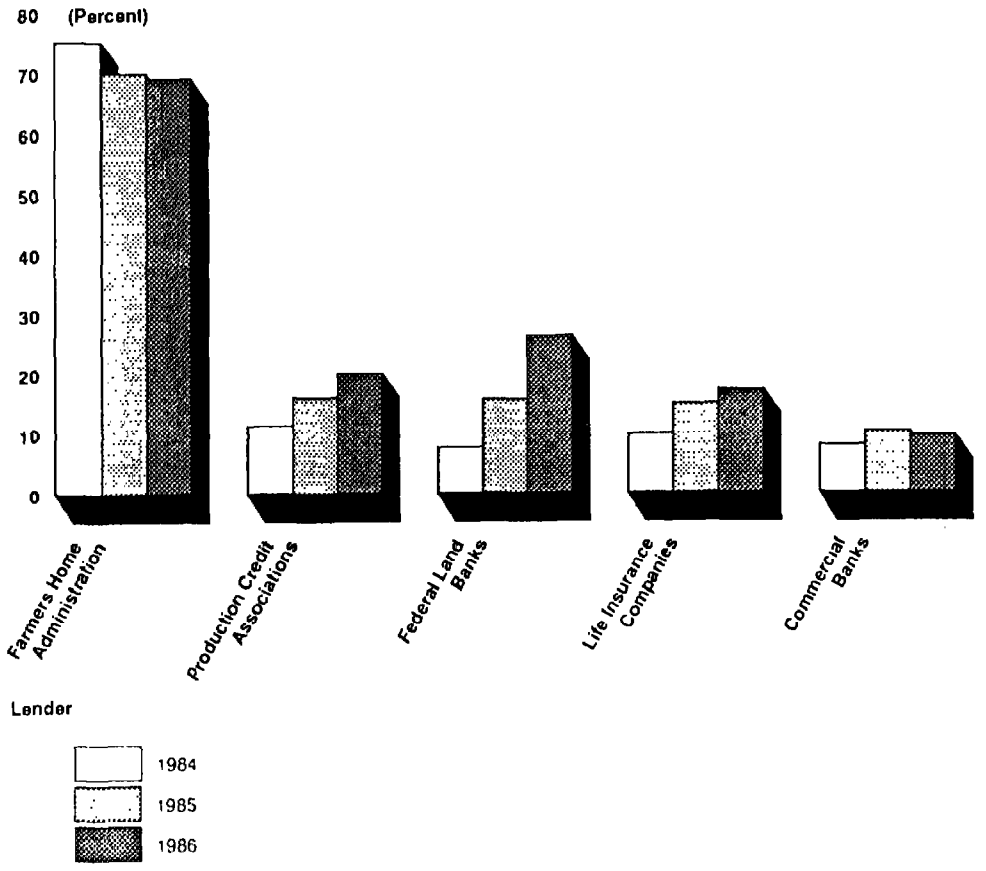
The principal changes in 1986 from 1985 show a declining amount of debt for all lenders except CCC, whose outstanding debt increased by $1 billion. For example, FLBs had a $7.5-billion decrease in outstanding debt. The two federal lenders, FmHA and CCC, had about $48 billion of outstanding farm debt in 1986, or slightly over 25 percent of the total farm debt.

Table 4.1
Total Farm Debt, 1985 and 1986

Lender	1985			1986		
	Real estate	Non-real estate	Total	Real estate	Non-real estate	Total
	(billions)					
FCS:						
FLBs[a]	$ 47.5	0	$ 47.5	$40.0	0	$ 40.0
PCAs[a]	0	$ 14.4	14.4	0	$11.0	11.0
Commercial banks	11.4	35.7	47.1	12.7	31.2	43.9
FmHA	9.8	16.8	26.6	9.8	16.4	26.2
CCC	0	20.6	20.6	0	21.6	21.6
Life insurance companies	11.4	0	11.4	10.5	0	10.5
Total	$ 80.1	$ 87.5	$167.6	$73.0	$80.2	$153.2
Individuals and others	25.9	16.9	42.8	24.0	12.4	36.4
Total	$106.0	$104.4	$210.4	$97.0	$92.6	$189.6

[a]According to FCA, the FLB and PCA loan totals include nonfarm loans of about 6 percent and 3 percent, respectively.

Figure 4.2
Major Institutional Lenders' Percent of Loan Portfolio Nonperforming and/or Delinquent, 1984-86



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 CONTINUED TO INCREASE

The farm loan portfolio of the major institutional lenders continued to reflect the problems being experienced in the farm sector. As of December 31, 1986, the total nonperforming and/or delinquent loans held by four of the institutional lenders totaled $35.5 billion, or nearly 30 percent of their outstanding principal (almost $119 billion). The overall 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 nonfederal lenders was over $17 billion, or about 19 percent of their outstanding debt--a considerable increase from the $15 billion, or nearly 14 percent of their outstanding debt that was nonperforming and/or delinquent at the end of 1985.

Table 4.2
Nonperforming and/or Delinquent Farm Debt Held by Major Institutional Lenders, 1985 and 1986[a]

	1985		1986	
Lenders	Amount (billions)	Percent of portfolio nonperforming and/or delinquent[b]	Amount (billions)	Percent of portfolio nonperforming and/or delinquent[b]
FCS:				
FLBs	$ 7.4	15.6	$10.5	26.2
PCAs	2.3	16.1	2.2	20.1
Commercial banks[c]	3.6	10.1	2.9	9.4
FmHA[d]	18.6	69.9	18.1	69.1
Life insurance companies	1.7	14.9	1.8	17.1
Total	$33.6	24.9	$35.5	29.9

[a]Excludes CCC 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 $1.6 billion and $5.6 billion in fiscal years 1985 and 1986, respectively. Also, excludes "individuals and others" since the quality of their loan portfolio is unknown.

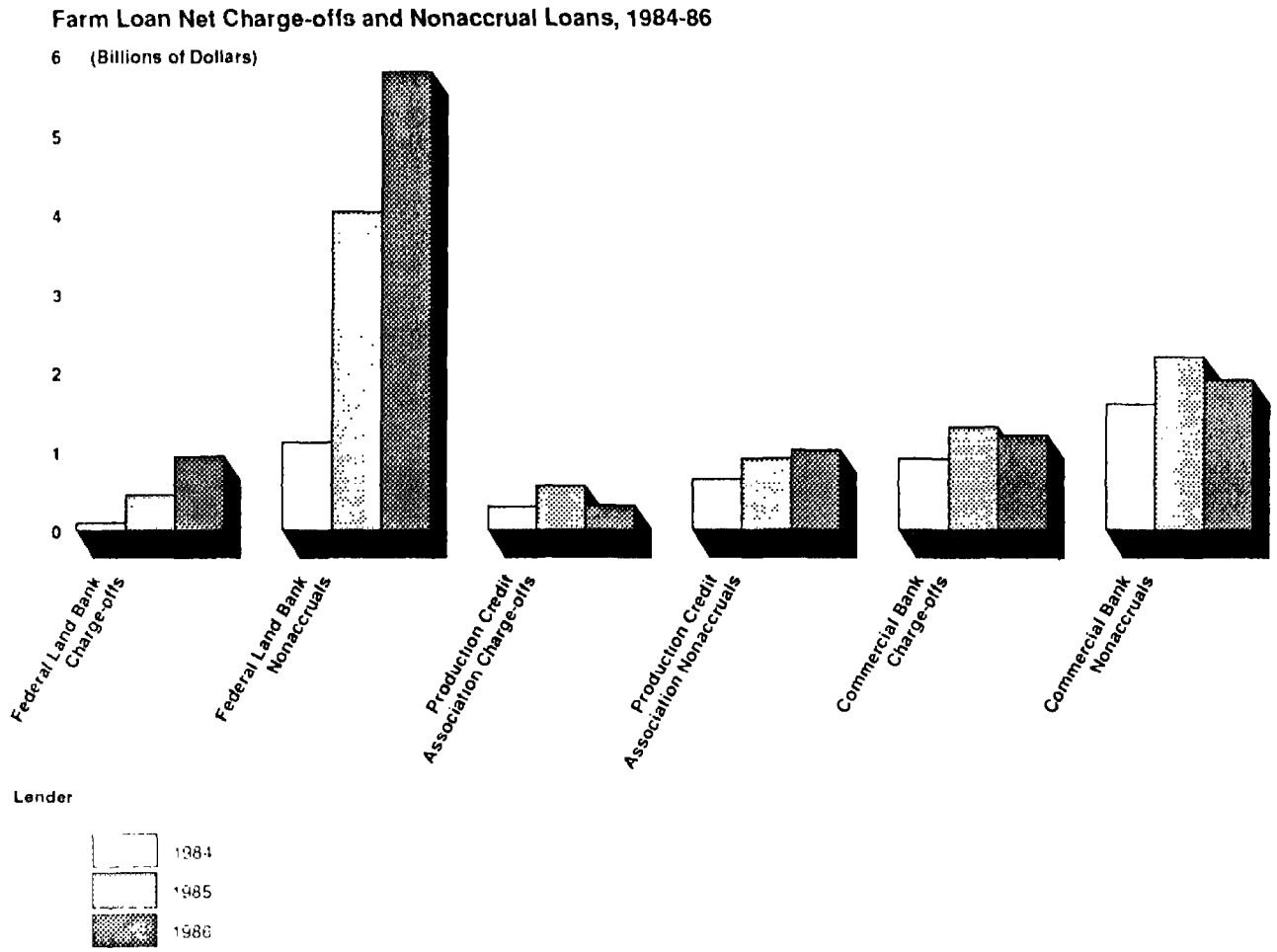
[b]Definitions of nonperforming and/or delinquent farm loans vary somewhat by lender.

[c]Commercial banks' amount and percent is incomplete because all banks are not required to report farm loan quality data. The amount and percent included here is FRB reported non-real estate loans.

[d]The amount listed for FmHA is the total unpaid principal outstanding for delinquent borrowers.

Lenders' delinquency rates change during the year and are generally higher at year-end. For example, FmHA had a 49-percent rate at June 30, 1987. Seasonal repayment patterns make FmHA's rate much higher at year-end than at other times.

Figure 4.3
Farm Loan Net Charge-offs and Nonaccrual Loans, 1984-86



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

TOTAL FARM LOAN NET CHARGE-OFFS AND NONACCRUAL LOANS INCREASED

The portfolios of the FLBs, PCAs, and commercial banks contain about $16 billion in nonperforming loans despite these lenders having farm loan net charge-offs during 1986 that totaled over $2.4 billion. Charge-offs are loans written off by lenders as uncollectible. FLBs had almost a $500-million increase in 1986 charge-offs compared with 1985; however, PCAs and commercial banks had a combined $344 million decrease compared with their 1985 charge-offs.

In addition, as of December 31, 1986, these lenders had nonaccrual loans totaling about $9 billion. Nonaccrual loans are loans where the accrual of interest has been suspended because full collection of principal and interest is in doubt. They 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. FLBs and PCAs had an increase of nearly $2 billion in nonaccrual loans compared with the previous year-end amount. Commercial banks, however, had a $300-million decrease.

Table 4.3
Farm Loan Net Charge-offs and Nonaccrual Loans for Various Lenders, 1985 and 1986

Lender	Net Charge-offs[a]			Nonaccrual loans[b]		
	1985	1986	Percent change	1985	1986	Percent change
	---(millions)---			---(millions)---		
FLBs[c]	$ 443	$ 938	111.7	$4,029	$5,793	43.8
PCAs	550	306	(44.4)	901	1,015	12.7
Commercial banks[d]	1,300	1,200	(7.7)	2,200	1,900	(13.6)
Total[e]	$2,293	$2,443	6.5	$7,131	$8,709	22.1

[a]For the 12-months ending December 31, 1985, and 1986.

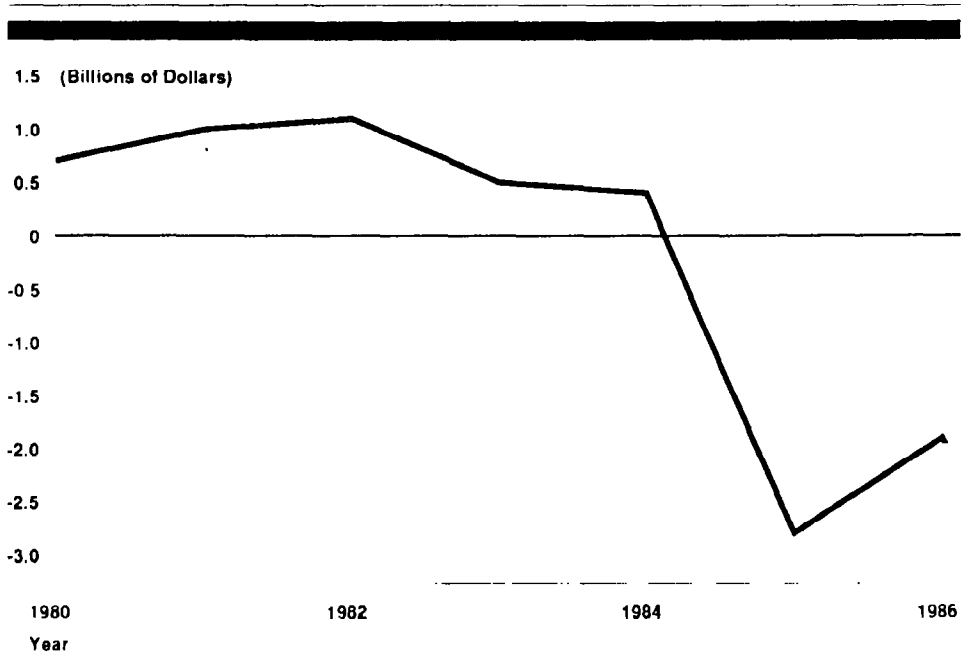
[b]As of December 31, 1985, and 1986.

[c]Excludes $50 million and $101 million in net charge-offs by Federal Land Bank Associations in 1985 and 1986, respectively.

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

[e]Totals may not add due to rounding.

Figure 4.4
FCS Net Income, 1980-86



Source: FCS' Federal Farm Credit Banks Funding Corporation.

FCS HAD A $1.9-BILLION NET LOSS

The adverse financial conditions facing the agricultural sector continued to have a major negative impact on FCS in 1986. FCS experienced a $1.9-billion loss in 1986--its second consecutive billion dollar loss. All major FCS lending components had a loss, except the Banks for Cooperatives, which had about a $1-million profit. FLBs experienced the greatest loss--over $1.4 billion.

Operationally, FCS had 1986 net interest income--interest income less interest expense--that totaled about $781 million. However, when accounting for other income ($129 million) and expenses ($1,025 million), FCS had a $115-million loss. The substantial provision for loan losses, which totaled almost $1.8 billion, resulted in the $1.9-billion net loss.

All 12 FLBs, and the combined PCAs in 10 of the 12 FCS districts, had a loss in 1986. However, the total 1986 losses experienced by the FLBs and the combined PCAs (over $1.4 billion and about $276 million, respectively) were less than their 1985 losses (slightly over $2 billion and nearly $614 million, respectively).

Table 4.4
Net Income for FLBs and PCAs, 1985 and 1986

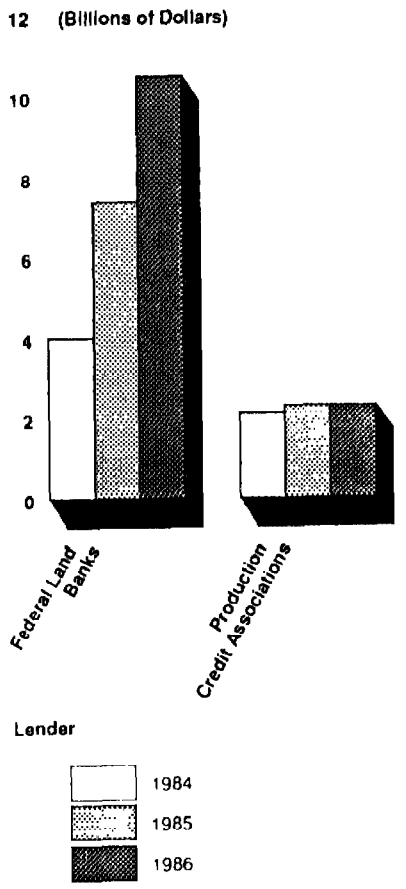
FCS district	FLBs			PCAs[a]		
	1985[b]	1986	Change	1985[b]	1986	Change
	(millions)					
St. Paul	($ 390.0)	($ 318.7)	$ 71.3	($148.6)	($ 97.0)	$ 51.6
Columbia	(118.7)	(292.0)	(173.3)	(30.1)	(32.9)	(2.8)
Spokane	(59.4)	(219.4)	(160.0)	(36.1)	(21.6)	14.5
Sacramento	(100.4)	(114.7)	(14.3)	(30.0)	(62.5)	(32.5)
Jackson	(116.3)	(96.4)	19.9	(27.2)	0.3	27.5
Texas	(34.1)	(88.5)	(54.4)	(4.6)	(6.6)	(2.0)
St. Louis	(260.0)	(88.1)	171.9	(17.1)	(5.1)	12.0
Baltimore	6.2	(66.4)	(72.6)	3.0	0.9	(2.1)
Louisville	(209.9)	(56.6)	153.3	(77.9)	(15.5)	62.4
Omaha	(356.2)	(39.4)	316.8	(189.0)	(5.8)	183.2
Springfield	6.0	(27.4)	(33.4)	0.9	(4.9)	(5.8)
Wichita	(383.5)	(11.7)	371.8	(57.2)	(24.8)	32.4
Total	($2,016.3)	($1,419.3)	$597.0	($613.9)	($275.5)	$338.4

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

[b]Includes some FCS revised 1985 values.

During the first 6 months of 1987, FCS experienced a $201-million loss--a significant improvement compared with the $968 million loss reported for the first 6 months of 1986.

Figure 4.5
Amount of FLB and PCA Nonperforming Loans, 1984-86



Source: FCA.

FLB NONPERFORMING LOANS INCREASED, BUT PCA NONPERFORMING LOANS DECREASED

The amount and percent of nonperforming loans are significant stress indicators for the FCS. As of December 31, 1986, FLBs and PCAs had about $13 billion in nonperforming loans, or nearly 25 percent of their total outstanding loans. These two FCS components had a $3-billion increase in 1986 nonperforming loans compared with their 1985 nonperforming loans.

The 1986 increase is attributable to the deteriorating quality of the FLBs' portfolios. At the end of 1986, FLBs had almost $10.5 billion in nonperforming loans, nearly a 42-percent increase over their year-end 1985 nonperforming loans. Conversely, PCAs had slightly over $2 billion in nonperforming loans at the end of 1986, a 4-percent decrease over their year-end 1985 nonperforming loans.

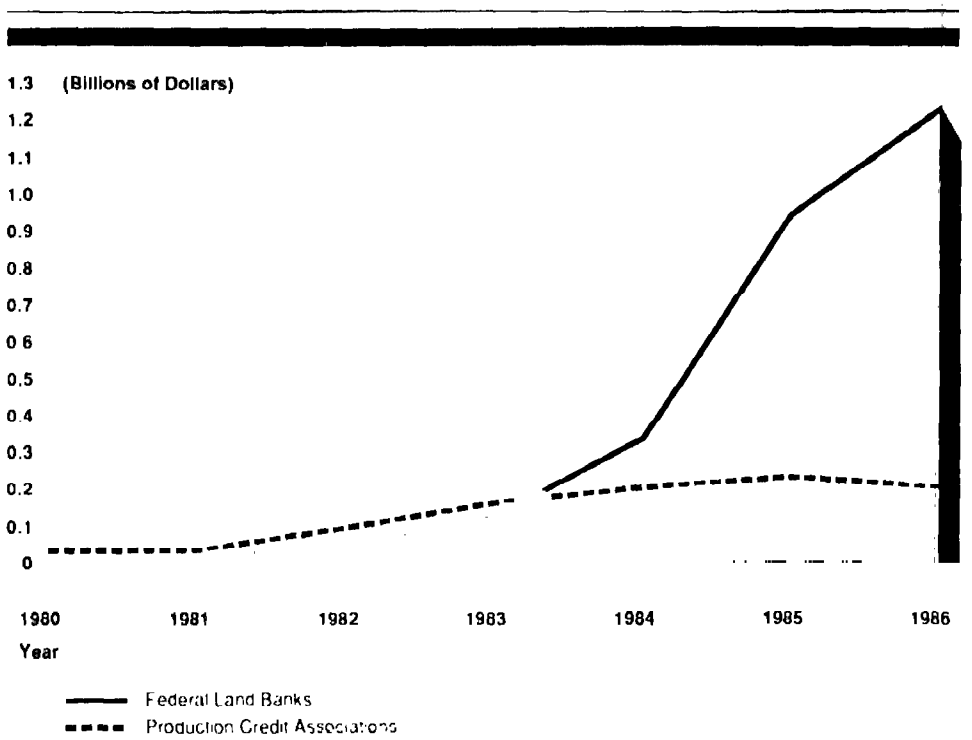
The extent of FLB and PCA nonperforming loans varies widely between FCS districts. For example, six FLBs had nonperforming loan rates exceeding 25 percent. Four FLBs (St. Paul, Omaha, St. Louis, and Wichita) had more than $1 billion in nonperforming loans. The St. Paul FLB had the highest rate, slightly over 46 percent, and amount, almost $2.7 billion. PCAs in two FCS districts had nonperforming loan rates exceeding 25 percent, with those in the St. Paul district having the highest rate, slightly over 35 percent. The Springfield FLB and PCAs in the Springfield district, on the other hand, each had nonperforming loan rates of less than 5 percent.

Table 4.5

FLB and PCA Nonperforming Loans: Amount and Percent of Total Outstanding Loans, by FCS District, 1985 and 1986

FCS district	FLBs				PCAs			
	1985		1986		1985		1986	
	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent
St. Paul	$1,585.8	22.7	$2,699.6	46.1	$ 443.6	17.2	$ 709.9	35.2
Jackson	371.1	14.3	791.7	40.4	65.2	12.7	59.6	12.7
Omaha	1,109.7	20.9	1,530.1	34.7	427.3	38.2	146.2	25.4
St. Louis	915.4	19.4	1,199.4	30.6	147.1	16.9	128.3	20.0
Wichita	1,053.7	21.9	1,005.0	25.4	153.6	17.3	69.3	11.4
Louisville	677.4	16.8	810.9	25.2	177.3	14.5	201.8	22.1
Spokane	564.8	16.0	739.3	23.8	123.2	17.1	117.1	23.0
Sacramento	492.9	10.9	798.1	18.8	447.2	16.8	457.8	21.3
Columbia	421.7	8.2	628.2	15.1	167.5	12.6	179.0	18.6
Texas	65.6	2.4	144.9	5.9	80.6	7.4	85.6	9.5
Baltimore	95.7	4.5	100.0	5.4	61.6	8.7	45.8	6.4
Springfield	37.4	3.9	37.7	4.5	21.2	3.3	22.0	3.9
Total	$7,391.2	15.6	$10,484.9	26.2	$2,315.4	16.1	$2,222.4	20.1

Figure 4.6
Property Acquired by FLBs and PCAs, 1980-86



urce: FCA.

FLB ACQUIRED PROPERTY INCREASED, BUT PCA ACQUIRED PROPERTY DECREASED

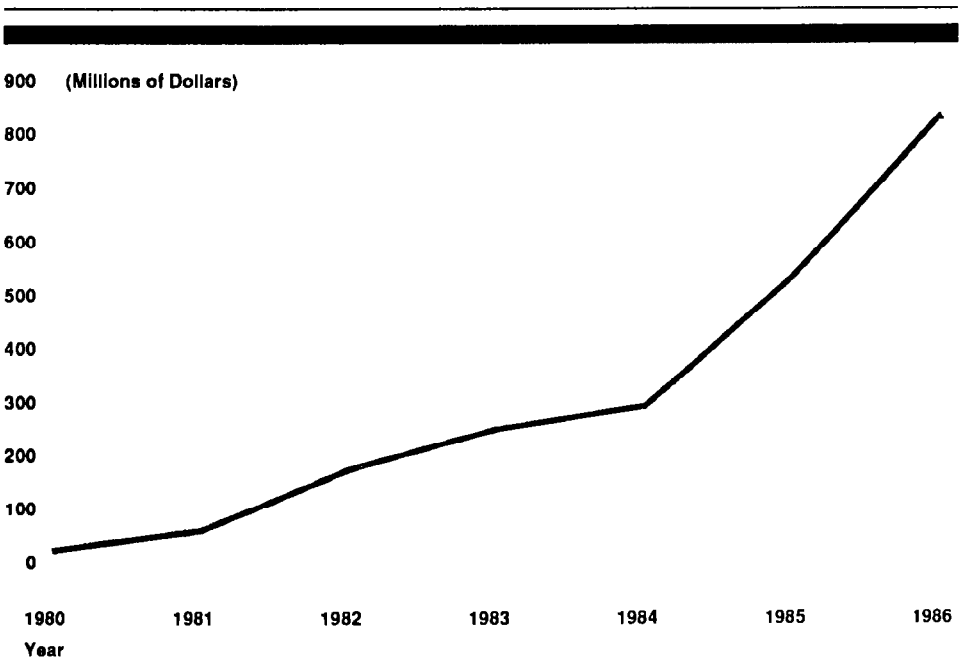
The gross value of property acquired by FLBs and PCAs through foreclosure or deed in lieu of foreclosure totaled over $1 billion as of December 31, 1986, nearly a $253-million increase, or about 22 percent, over 1985. While this increase was substantial, it was considerably less than the $664-million increase, or nearly 125 percent, experienced in 1985 over 1984.

The 1986 increase is attributable to FLB acquisitions. Property acquired by FLBs totaled slightly over $1 billion, about a $281-million increase, or 30 percent, over 1985. Also, seven FLBs had more than $100 million in acquired property as of December 31, 1986; the St. Paul FLB had the greatest amount, more than $262 million. Conversely, property acquired by PCAs totaled over $201 million, about a $28-million decrease, or 12 percent, over 1985. PCAs in the St. Paul FCS district had the greatest amount, about $61 million.

Table 4.6
Property Acquired by FLBs and PCAs, 1985 and 1986

FCS district	FLBs			PCAs		
	1985	1986	Percent change	1985	1986	Percent change
	(millions)			(millions)		
St. Paul	$126.5	$ 262.3	107.4	$ 52.2	$ 60.7	16.3
Omaha	102.7	181.8	77.0	31.3	15.2	(51.4)
Jackson	187.5	170.5	(9.1)	6.3	4.7	(25.4)
Sacramento	90.7	138.2	52.4	23.2	35.6	53.4
St. Louis	90.9	120.9	33.0	17.6	12.9	(26.7)
Wichita	97.3	111.0	14.1	9.5	10.6	11.6
Spokane	90.2	110.0	22.0	7.5	6.2	(17.3)
Columbia	81.6	58.4	(28.4)	26.9	12.3	(54.3)
Louisville	58.7	46.5	(20.8)	36.4	18.6	(48.9)
Texas	4.1	12.3	200.0	14.1	20.6	46.1
Springfield	3.8	5.9	55.3	1.2	0.9	(25.0)
Baltimore	6.9	3.7	(46.4)	2.8	3.0	7.1
Total	$940.9	$1,221.5	29.8	$229.0	$201.3	(12.1)

Figure 4.7
Farm Loan Foreclosures by Life Insurance Companies, 1980-86



Source: American Council of Life Insurance.

FARM LOAN FORECLOSURES BY LIFE INSURANCE COMPANIES INCREASED

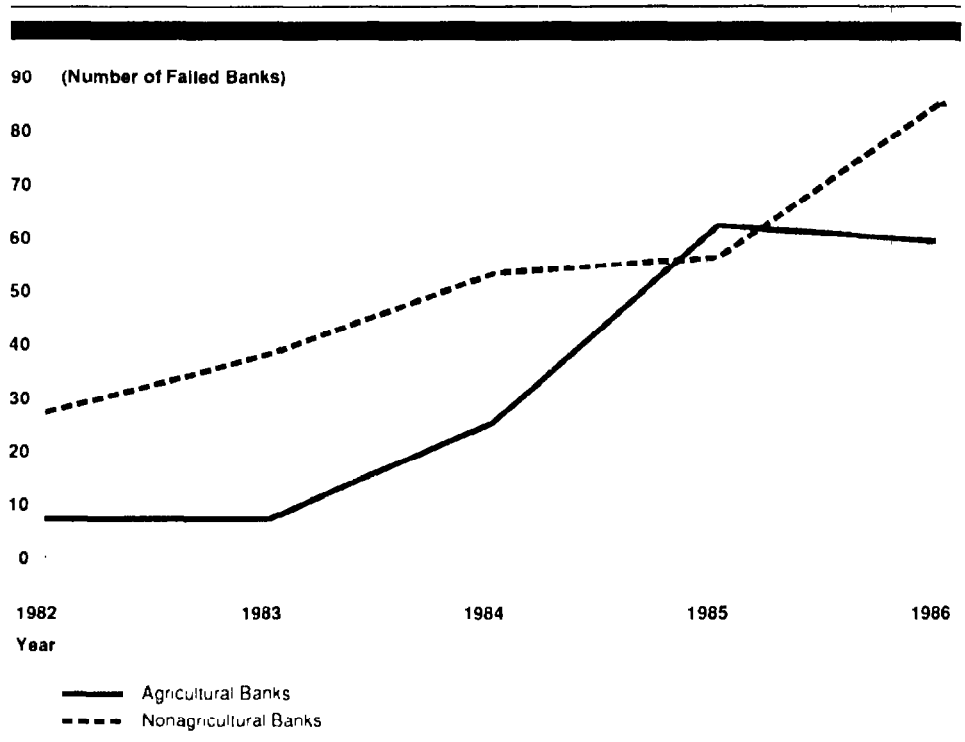
Farm loan foreclosures by life insurance companies increased in 1986, continuing a trend that has been underway since 1980, and paralleling the trend in foreclosure activity by FLBs. During 1986, life insurance companies foreclosed on 1,654 farm loans, an increase of 654, or over 65 percent, compared with 1985. These 1,654 loans had a total value of $827.5 million, more than a $297-million increase in value, or slightly over 56 percent, compared with 1985 foreclosures.

Additionally, as of December 31, 1986, life insurance companies had 2,030 loans in the process of foreclosure that had a total value of $820.5 million.

Table 4.7
Life Insurance Companies' Farm Loan Foreclosure Statistics, 1985 and 1986

Farm loans	1985	1986	Percent increase
Foreclosed:			
Number	1,000	1,654	65.4
Value (millions)	$530.2	$827.5	56.1
In the process of foreclosure at year-end:			
Number	1,743	2,030	16.5
Value (millions)	$810.6	$820.5	1.2

Figure 4.8
Failed Banks: Number of Agricultural and Nonagricultural Banks, 1982-86



Source: FDIC.

AGRICULTURAL BANK FAILURES DECREASED

Agricultural bank failures decreased in 1986, reversing an increasing trend that had been underway since 1983. However, agricultural banks continued to account for a disproportionately large share of all failed banks. According to the FDIC, while agricultural banks represented 25 percent of all banks in 1986, they accounted for 41 percent of all bank failures.

FDIC reported that 59 agricultural banks failed in 1986--3 less than the 62 that failed in 1985. Forty-seven of the 59 failed agricultural banks were located in 6 states: Kansas (14), Iowa (9), Missouri (7), Nebraska (6), Texas (6), and Oklahoma (5). Some failed agricultural banks, such as those in Texas and Oklahoma, were adversely impacted not only by the stressed condition of agriculture but also by the depressed condition of the energy industry in those states.

Table 4.8
Number and Percent of Failed Commercial Banks, 1985 and 1986[a]

Banks	1985		1986		Percent change
	Number	Percent	Number	Percent	
Agricultural	62	52.5	59	41.0	(4.8)
Nonagricultural	56	47.5	85	59.0	51.8
Total	118	100.0	144	100.0	22.0

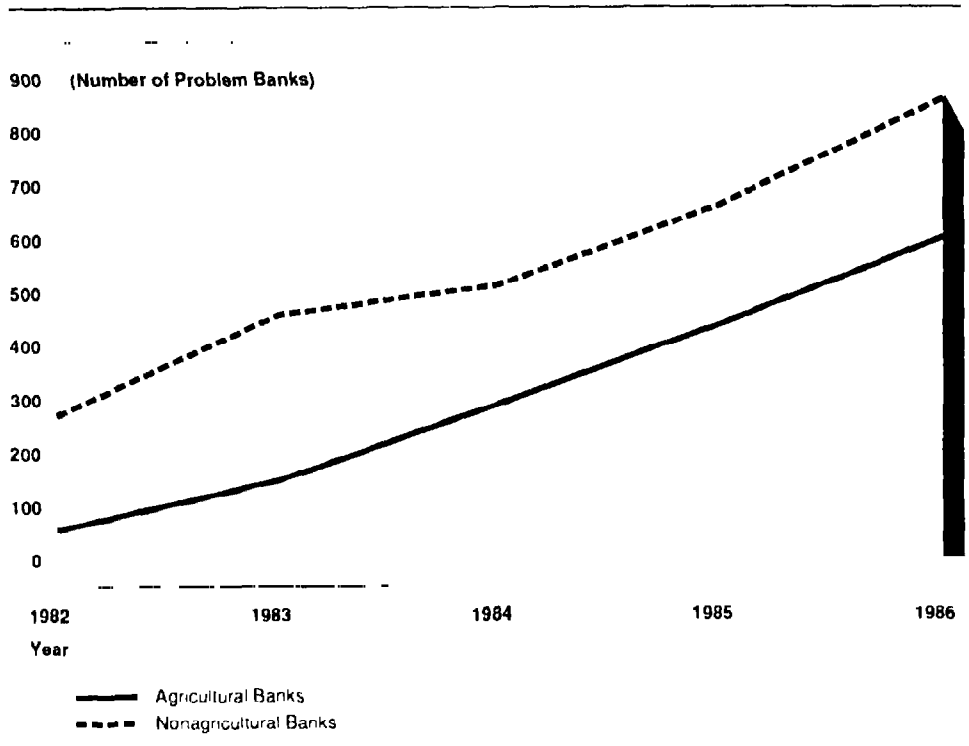
[a]This table is based on the FDIC definition of an agricultural bank (25 percent or more of its portfolio in farm loans).

The 1986 failed agricultural banks were considerably smaller than the failed nonagricultural banks. The 59 agricultural banks had $26 million in assets on average compared with $72 million for the nonagricultural banks. While the 1986 failed banks continued to have generally low assets on average, the average asset values rose from the $16 million and $38 million for 1985 failed agricultural and nonagricultural banks, respectively.

Most 1986 failed agricultural banks reopened following their failure. According to the FDIC, 46 of the 59 failed agricultural banks reopened, for example as a branch of another bank, and banking operations continued with little interruption.

Additionally, according to the FDIC, 32 of the 99 commercial banks that failed in the first 6 months of 1987 have been agricultural banks.

Figure 4.9
Problem Banks: Number of Agricultural and Nonagricultural Banks, 1982-86



Source: FDIC.

PROBLEM AGRICULTURAL BANKS INCREASED

While the total number of agricultural banks continued to decline in 1986, the number of problem agricultural banks grew, continuing an upward trend that has existed since 1983.[1] Total agricultural banks fell by about 5 percent in 1986 compared with 1985; however, problem agricultural banks rose by over 37 percent.

FDIC reported that, as of December 31, 1986, 600 agricultural banks were classified as problem banks--163 more than the 437 agricultural banks classified as problem banks a year earlier. Almost 17 percent of all agricultural banks were classified as problem banks at the end of 1986. A year earlier, about 12 percent of all agricultural banks were problem banks.

Agricultural banks continued to account for a disproportionately large share of all problem banks. According to the FDIC, agricultural banks represented 25 percent of all banks as of December 31, 1986; they accounted for slightly over 41 percent of all problem banks. A year earlier, agricultural banks represented almost 26 percent of all banks and about 40 percent of all problem banks.

Table 4.9
Number and Percent of Problem and Total Banks That Are Agricultural and Nonagricultural Banks, 1985 and 1986[a]

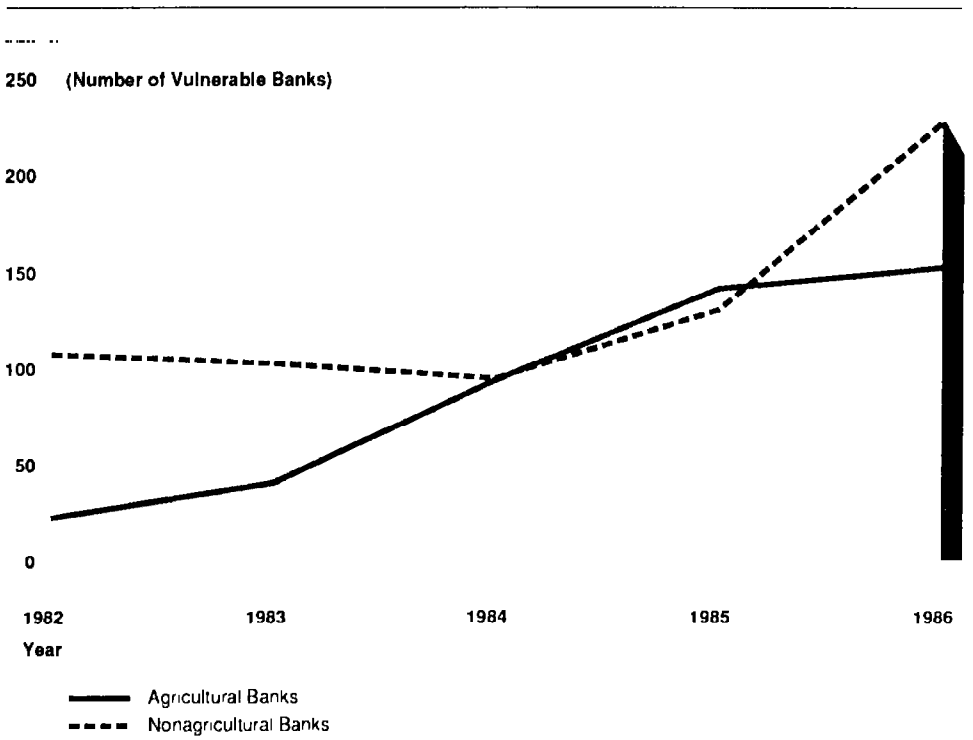
Banks	1985 Number	1985 Percent	1986 Number	1986 Percent	Percent change
Problem banks:					
Agricultural	437	39.8	600	41.2	37.3
Nonagricultural	661	60.2	857	58.8	29.7
Total	1,098	100.0	1,457	100.0	32.7
Total banks:					
Agricultural	3,733	25.9	3,553	25.0	(4.8)
Nonagricultural	10,704	74.1	10,635	75.0	(0.6)
Total	14,437	100.0	14,188	100.0	(1.7)

[a]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 4.10

Vulnerable Banks: Number of Agricultural and Nonagricultural Banks, 1982-86



Source: FRB.

NUMBER OF AGRICULTURAL BANKS VULNERABLE TO FAILURE INCREASED

A measure used by the FRB to identify banks that are particularly vulnerable to failure is when nonperforming loans exceed capital.[2] According to the FRB, most of the banks that failed in 1986 met this condition shortly before their failure. The number of agricultural banks that are vulnerable to failure using this measure increased about 8 percent in 1986 compared with 1985, continuing an increasing trend that had been underway since 1982. As of December 31, 1986, slightly over 3 percent of all FRB defined agricultural banks had nonperforming loans exceeding capital.[3] A year earlier, almost 3 percent of all agricultural banks were in this position.

As of December 31, 1986, FRB defined 152 agricultural banks as vulnerable--11 more than the 141 categorized as vulnerable a year earlier. Of the 152 vulnerable banks, 94 are located in 6 states: Minnesota (24), Kansas (16), Oklahoma (15), Nebraska (14), Iowa (13), and Montana (12).

Agricultural banks continued to account for a disproportionate share of all vulnerable banks in 1986. FRB defined agricultural banks represented slightly over 33 percent of all banks as of December 31, 1986; however, they accounted for slightly over 40 percent of all vulnerable banks. A year earlier, FRB defined agricultural banks represented about 34 percent of all banks and 52 percent of all vulnerable banks.

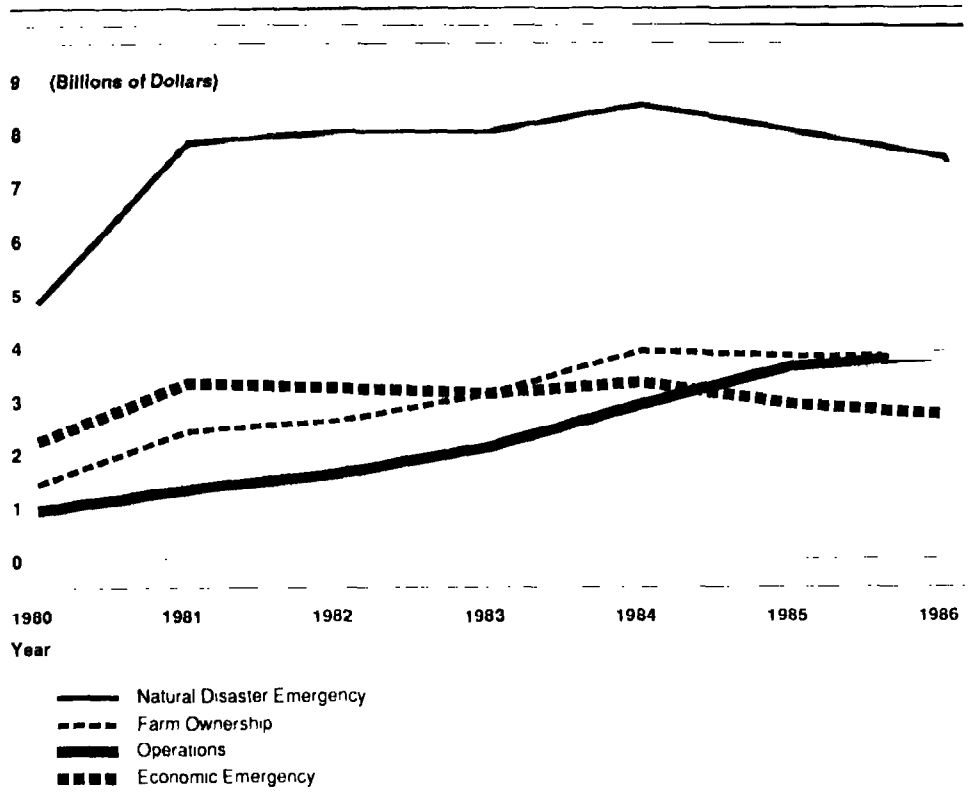
Table 4.10
Number and Percent of Vulnerable Banks That Are Agricultural and Nonagricultural Banks, 1985 and 1986

Banks	1985		1986		Percent increase
	Number	Percent	Number	Percent	
Agricultural	141	52.0	152	40.1	7.8
Nonagricultural	130	48.0	227	59.9	74.6
Total	271	100.0	379	100.0	39.9

[2]Nonperforming loans are loans 90 days or more past due and still accruing interest and nonaccrual loans. Capital is equity capital plus loan-loss reserves. Starting in 1986, nonperforming loans exclude renegotiated debt; the number of banks listed as vulnerable in prior years have been adjusted to reflect this change.

[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 (15.7 percent as of December 31, 1986).

Figure 4.11
FmHA Loans by Program[a]: Amount Owed by Delinquent Borrowers, 1980-86



[a]Excludes FmHA's soil and water, recreation, and economic opportunity programs.

Source: FmHA.

FmHA CONTINUED TO HAVE AN EXTREMELY HIGH AMOUNT OF DELINQUENT LOANS

As of December 31, 1986, FmHA had slightly over $26 billion in outstanding individual loans to farmers, a $360-million decrease from a year earlier. As the federal "lender of last resort" to the nation's farmers, FmHA's portfolio contains an extremely high amount of delinquent loans. At the end of 1986, FmHA borrowers were past due on $8.5 billion in principal and interest payments; the outstanding balance on loans to delinquent borrowers totaled slightly over $18 billion, a $500-million decrease from 1985.

The outstanding balance held by delinquent borrowers on two of FmHA's major loan programs increased in 1986 compared with 1985: operations loans and ownership loans increased by $214 million and $24 million, respectively. However, the outstanding balance on FmHA's two other major loan programs decreased in 1986 compared with 1985: natural disaster emergency loans and economic emergency loans decreased by $492 million and $215 million, respectively.

Table 4.11
FmHA Outstanding Principal and Delinquent Loans, by Program, 1985 and 1986[a]

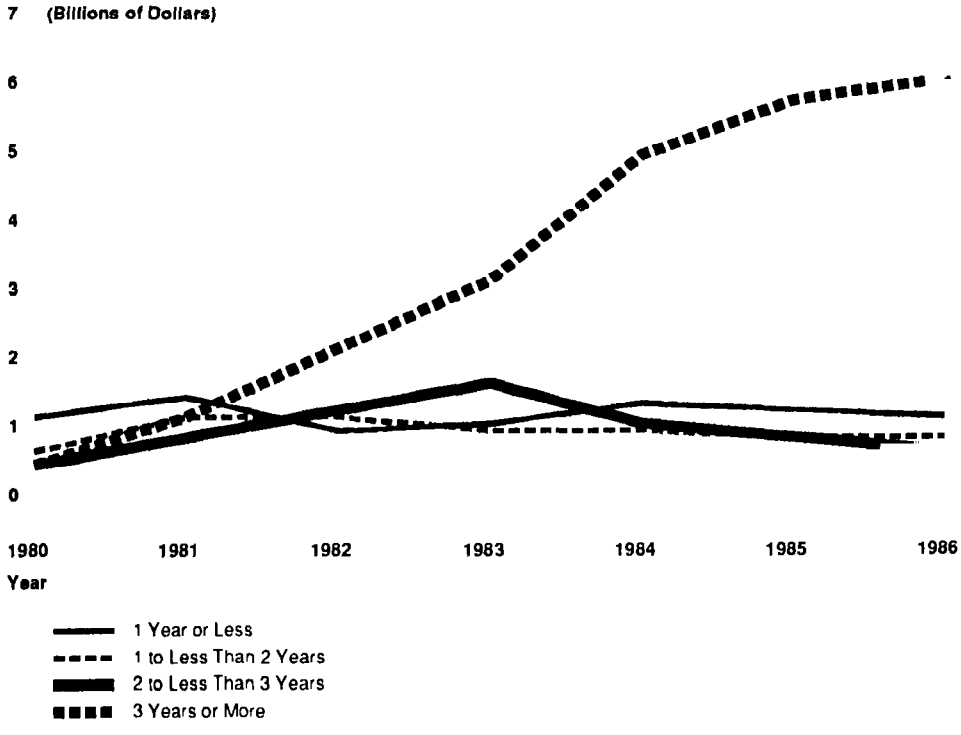
FmHA loan program	1985 Total principal outstanding	1985 Amount past due	1985 Delinquent borrowers' principal	1985 Percent of principal delinquent	1986 Total principal outstanding	1986 Amount past due	1986 Delinquent borrowers' principal	1986 Percent of principal delinquent
	(billions)				(billions)			
Natural disaster emergency	$ 9.5	$4.7	$ 8.0	84.2	$ 9.1	$4.6	$ 7.5	82.4
Farm ownership	7.5	0.6	3.8	50.7	7.6	0.6	3.8	50.0
Operations	5.2	1.9	3.6	69.2	5.5	1.9	3.8	69.1
Economic emergency	4.0	1.3	2.9	72.5	3.7	1.3	2.7	73.0
Other farmer programs	0.3	0.1	0.2	66.7	0.3	0.1	0.2	66.7
Total[b]	$26.6	$8.5	$18.6	69.9	$26.2	$8.5	$18.1	69.1

[a]FmHA recognizes loan delinquencies as only the total loan payments past due, rather than the total loan principal on which payments are past due. This latter definition is used by the other major institutional lenders (as listed on p. 65). Also, p. 65 discusses how FmHA's delinquency rate varies during the year.

[b]Totals may not add due to rounding.

Two states--Texas and Mississippi--each had delinquent borrowers whose total outstanding loans exceeded $1 billion, and 12 other states had delinquent borrowers with outstanding loans that exceeded $500 million.

Figure 4.12
Aging of FmHA's Past Due Amount, 1980-86



Source: GAO analysis of FmHA data.

FmHA DELINQUENCIES OF 1 OR MORE YEARS PAST DUE INCREASED

The duration of FmHA farmer program past due payments continues to be a significant problem for the agency.[4] As of December 31, 1986, FmHA farmer program borrowers were past due on $8.5 billion in payments, approximately equal to the past due amount of a year earlier. However, at the end of 1986, the amount and percent that had been past due for a lengthy time period continued to increase. Almost $6 billion, or 70.5 percent, of FmHA's past due amount was at least 3 years past due. Over $7 billion, or about 87 percent, of the past due amount was overdue for more than 1 year. In comparison with 1985, this represents a 5-percent and 1-percent increase in the amounts that were overdue for at least 3 years and for more than 1 year, respectively.

Table 4.12
Aging of FmHA's Past Due Amount, 1985 and 1986

Time past due	1985 Amount past due (millions)	1985 Percent past due[a]	1986 Amount past due (millions)	1986 Percent past due[a]
1 year or less	$1,235.7	14.6	$1,124.8	13.3
1 to 2 years	787.1	9.3	752.7	8.9
2 to 3 years	753.3	8.9	617.4	7.3
3 years or more	5,687.5	67.2	5,962.2	70.5
Total	$8,463.6	100.0	$8,457.0[b]	100.0

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

[b]Total does not add due to rounding.

[4]Past due payment amounts are overdue principal and interest.

SECTION 5

OBJECTIVES, SCOPE, AND METHODOLOGY

Our study of the financial condition of American agriculture in 1986 began in July 1987 and was conducted by gathering and analyzing a large amount of data from both public and private sources. Our objective was to use final 1986 data, where available, to determine what happened to American farmers and their lenders as a result of 1986 operations--had their financial condition improved or deteriorated further from their position as we reported in two previous reports: Financial Condition of American Agriculture (GAO/RCED-86-09, Oct. 10, 1985) and Farm Finance: Financial Condition of American Agriculture as of December 31, 1985 (GAO/RCED-86-191BR, Sept. 3, 1986).

In the spring of 1987, we conducted an initial study of the financial condition of American agriculture as a result of 1986 operations at the request of the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry. The results of that study, based primarily on preliminary and estimated 1986 data, was an oral briefing of the Senate agricultural committee staff. A briefing was also given to, among others, staff from the House Committee on Agriculture. Staff from the Senate and House committees requested in May and June 1987 that we provide their committee chairmen with a written report on the financial condition of American agriculture as a result of 1986 operations using final 1986 data.

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 CCC information on federal payments and loans to the nation's farmers, the Economic Report of the President transmitted to the the Congress in January 1987, and data compiled by the Dun & Bradstreet Corporation on agricultural business failures. We used actual 1986 data except on page 37 where we used ERS' August 1987 estimate of 1986 total farm asset values, and on pages 38 and 39 where we used ERS' August 1987 preliminary data for 1986 rates of return on assets and on equity. We used ERS' August 1987 estimated and preliminary data because some actual 1986 values were not available during our review. Also, some actual 1985 amounts used in this report differ from the 1985 amounts reported in our September 3, 1986, report (GAO/RCED-86-191BR) because of subsequent revisions to source data.

Additionally, USDA's Farm Costs and Returns Survey was the source for some information contained in this report, such as the number of farms and the amount of debt by debt-to-asset ratio,

sales class, and income and solvency position. ERS' Agricultural Information Bulletin Number 525, dated August 1987, contains a detailed description of the survey.

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 loans; the American Council of Life Insurance for information on life insurance companies' loans; 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, and FRB. 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 the report, however, have been discussed with officials of ERS, FmHA, FDIC, and FCA, and their suggestions were incorporated as appropriate.

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