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FARM FINANCE

Financial Condition of American Agriculture as of December 31, 1988

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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

This report is the fifth in a series of GAO reports covering the financial condition of American agriculture.[1] We stated in our previous reports that we would continue to monitor and report on the agricultural situation following several years of financial stress. Our previous reports presented data that was, for the most part, current through the end of calendar years 1984 through 1987, respectively. At the request of your Committees, this briefing report presents information on the financial condition of American agriculture as of December 31, 1988.

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 improve in 1988. For example, large increases were experienced in agricultural exports, in the total value of farm assets and especially in the value of farmland, and in farmers' cash income. In addition, substantial declines were experienced in the total level of farm debt, the amount of problem debt, and in the number of agricultural banks that failed or are vulnerable to failure. On the other hand, federal outlays to support the nation's agricultural sector, although lower than in 1987, continued at a very high level.

This briefing report follows the format of our last three reports. It is divided into five sections. The first provides an overall summary on the financial condition of American agriculture following 1988 operations. The second contains information on the economic environment facing agriculture. The third and fourth contain information on

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[1]Our four previous reports are listed in "Related GAO Products" in this report. (See page 92.)

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 May 1989 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.

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

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. In addition, 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; 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.

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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
FLB	Federal Land Bank
FRB	Board of Governors of the Federal Reserve System
FmHA	Farmers Home Administration
GAO	General Accounting Office
PCA	Production Credit Association
USDA	U.S. Department of Agriculture

SECTION 1

REPORT SUMMARY

We previously reported that American agriculture experienced a boom during the 1970s with rapid expansion and growth.[1] However, due to a reversal in the economic forces that led to that growth, American farmers and their lenders experienced adverse economic and financial conditions which began in the early 1980s and continued through 1986. On the other hand, as we reported last year, the overall financial condition of the nation's farmers and their lenders generally improved in 1987 from the financial stress experienced in the previous years.

Continued improvement in the financial condition of American agriculture occurred during 1988. Most economic and financial indicators were positive following 1988 operations. Although federal outlays to support the nation's agricultural sector were lower than in 1987, they continued at a very high level during 1988.

In this briefing report on the financial condition of American agriculture as a result of 1988 operations,[2] we report that

- -- the economic environment surrounding the farm sector continued to improve,
- -- the financial position of the farm sector also continued to improve, and
- -- the financial stress of the farm finance sector continued to lessen.

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: CONTINUED IMPROVEMENT IN 1988

The economic environment surrounding the farm sector continued to improve in 1988, building on the general improvements of 1987. While American agriculture again produced large amounts of many key farm commodities, total production was generally lower in market year 1988 compared with 1987. Coarse grain and soybean production

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[1]Our previous reports on the financial condition of American agriculture are listed in "Related GAO Products" in this report. (See page 92.)

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

decreased somewhat while wheat production increased slightly. Also, consumption of these key farm commodities was mixed in market year 1988, with soybean and wheat consumption decreasing and coarse grain consumption increasing slightly. For example, total coarse grain production declined by almost 15 percent while consumption rose by about 1 percent in 1988 compared with 1987. (See pp. 22-23.)

Year-end stocks of these three key farm commodities (coarse grains, soybeans, and wheat) decreased by more than 17 percent in market year 1988 from the levels in market year 1987. Past high stock levels had a depressing effect on the prices of farm commodities. In 1988, prices for various important farm commodities increased considerably, including corn which increased by 29 percent, soybeans by 23 percent, and wheat by 6 percent. (See pp. 22-23.)

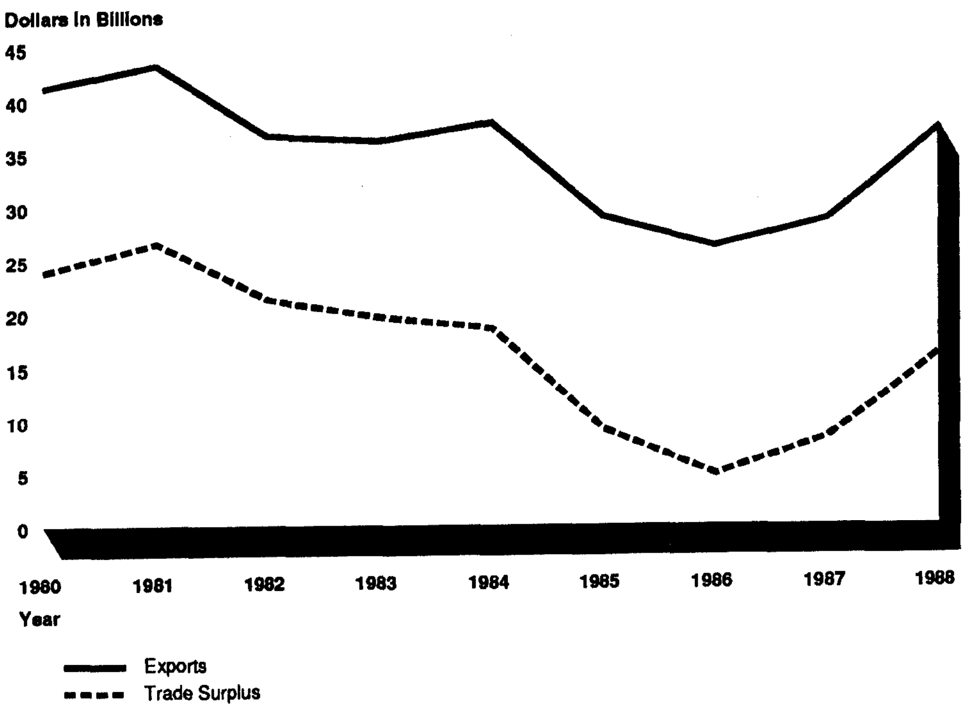
In addition, based on U.S. domestic average consumption rates, the number of months of wheat, coarse grain, and soybean stocks on hand at the end of market year 1988 decreased compared with market year 1987. However, despite the decrease, the number of months of coarse grain stocks continued to exceed the quantity that was on hand at the end of market year 1983, which subsequently was followed by the U.S. Department of Agriculture's (USDA) payment-in-kind program. (See pp. 24-25.)

U.S. exports of agricultural products increased in both value and volume in 1988 compared with 1987, the second consecutive annual increase. The value of agricultural exports increased by 29 percent from almost $29 billion to $37 billion. The volume increased by 11.5 percent from 133 million metric tons to 148.5 million metric tons. Large increases in the volume of coarse grain and wheat exports offset a decrease in the volume of soybean and soybean product exports. Also, U.S. imports of agricultural products increased to $21 billion, or by 3 percent, in 1988 compared with 1987. As a result, the U.S. agricultural trade surplus increased 94 percent to $16 billion. Figure 1.1 shows the trend in the value of agricultural exports and trade surplus since 1980. (See pp. 26-27.)

U.S. agricultural exports increased in 1988 for a variety of reasons, including lower prices for U.S. agricultural products in foreign markets because of the decline in the value of the dollar, decreased supply from some competitor countries primarily caused by the effect of adverse weather on production, and a continuation of federal export subsidy programs, such as USDA's Export Enhancement Program. (See pp. 26-27.)

The trade-weighted value of the dollar fell 4 percent in 1988 compared with 1987. The decline occurred primarily in relation to other heavily traded industrialized countries' currencies. This decline in the dollar contributed to an 18-percent increase in the value of exports to developed countries in 1988. In addition, subsidies offered under federal export programs made U.S. products more competitive in developing countries and contributed to an almost 33-percent increase in 1988 exports. (See pp. 30-31.)

Figure 1.1
U.S. Agricultural Exports and Trade Surplus, 1980-88



Source: USDA.

Although federal outlays to support the nation's agricultural sector declined by 35 percent in fiscal year 1988 compared with fiscal year 1987, they remained at a very high level, totaling $17.2 billion. Commodity price and farm income support programs, such as nonrecourse commodity loans and cash deficiency payments, accounted for $12.5 billion of the fiscal year 1988 outlays; other farm income stabilization programs and agricultural research and services accounted for the $4.7 billion balance. Since fiscal year 1980, federal agricultural outlays have totaled $173 billion. (See pp. 32-33.)

In addition, while the nation experienced one of the worst droughts in its history in 1988 (based on area covered and according to USDA's classification of extreme or severe drought areas), the overall effect of the drought was less than had been anticipated. According to USDA, while the 1988 drought had an adverse effect on agricultural production, supplies were sufficient to meet both U.S. domestic and export demand. However, the large surpluses of farm commodities that existed in the recent past are much smaller as a result of the drought and this contributed to increases in prices for farm commodities. ERS reported that, while the effects of the drought on farmers were more noticeable and received considerable public attention, its effects on the components of the food and fiber system and on rural communities was less evident.

THE FARM SECTOR: FINANCIAL POSITION CONTINUED TO IMPROVE IN 1988

The improvement in the financial condition of the nation's farm sector, which began in 1987, continued in 1988. For example, most farm sector balance sheet and income statement indicators that had turned positive or shown improvement in 1987 continued to improve in 1988.

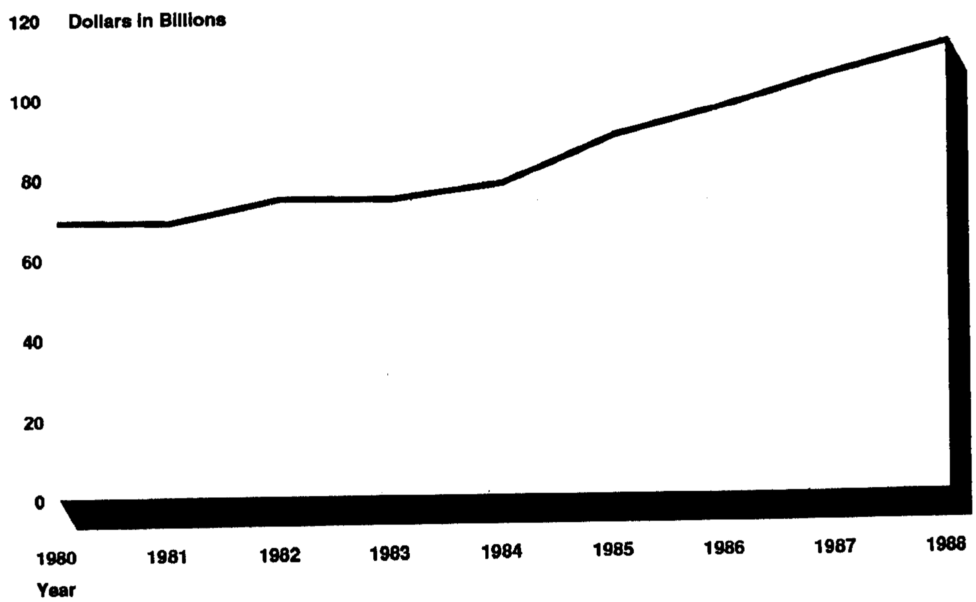
The value of total farm assets increased 6 percent in 1988 compared with 1987, the second consecutive increase. The increase in total asset values continued to be primarily attributable to an increase in real estate values. The national average value of farmland--the main farm asset--increased by almost 6 percent from February 1988 to February 1989. Forty-two of the 48 contiguous states had increases in farmland values; the states with the greatest percentage increases are located primarily in the northeastern part of the country (Pennsylvania had the greatest increase--21 percent) and the Corn Belt and Northern Plains. However, 3 states--Texas, Wyoming, and Arizona--continued to experience decreases in farmland values. In addition, three other states--Colorado, Oregon, and Utah--had no change in farmland values. (See pp. 36-37.)

The improvement in farmers' rates of return on assets and on equity also continued in 1988, with both total rates remaining positive and rising. While income returns declined slightly in 1988 compared with 1987, they remained positive. Also, capital gains returns increased significantly. From 1981 until 1987, positive income returns had been offset by capital losses. (See pp. 38-39.)

Farmers' gross farm income increased by 3.5 percent in 1988 compared with 1987; however, total production expenses increased 6 percent, resulting in a 3-percent decrease in net farm income. Net farm income in 1988 totaled almost $46 billion. The increase in gross farm income is primarily attributable to increases in gross farm cash income, which resulted from improved livestock and crop cash receipts, and nonmoney income. These increases more than offset decreases in direct government payments, farm-related income, and inventory values. However, the $6-billion increase in gross farm income was not sufficient to offset the $7.5-billion increase in total production expenses, which resulted in about a $1.4-billion decrease in net farm income. (See pp. 40-41.)

In terms of cash income, gross farm cash income increased by $9.6 billion, or 6 percent, in 1988 which offset a $7.4 billion, or 7-percent, increase in cash expenses, and resulted in a record high net farm cash income of $59.9 billion. The increase in net farm cash income, combined with $51.7 billion in farmers' cash income from off-farm sources, resulted in a record $111.6 billion in farmers' total cash income in 1988, or almost 7 percent more than the 1987 level. Figure 1.2 shows the increasing level of farmers' total cash income since 1980. (See pp. 42-45.)

Figure 1.2
Farmers' Total Cash Income, 1980-88



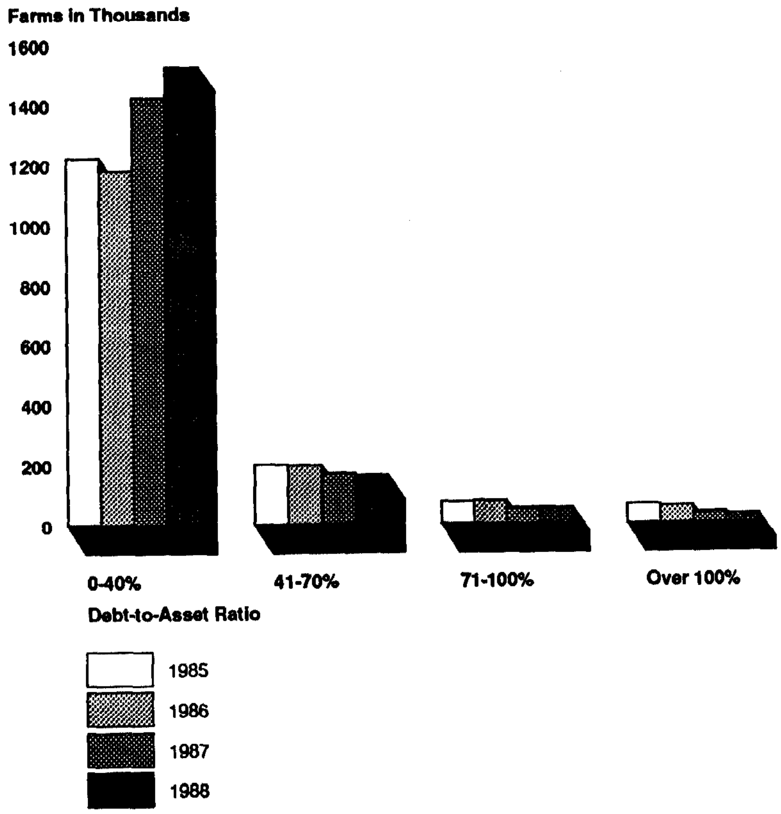
Source: USDA.

Most farmers had a low debt-to-asset ratio of 40 percent or less following 1988 operations; however, some were in financial difficulty with a high debt-to-asset ratio of 71 percent or more.[3] Slightly over 1.5 million farms, or 86 percent of all farms, had a debt-to-asset ratio of 40 percent or less; they held about 49 percent of the 1988 farm debt. On the other hand, 79,000 farms, or 4.5 percent of all farms, had a debt-to-asset ratio of 71

[3]See the note in fig. 3.8 for an explanation of debt-to-asset ratio categories.

percent or more; they held 19.5 percent of the 1988 farm debt. Figure 1.3 shows the number of farms in 1985 through 1988 by debt-to-asset ratio category. (See pp. 50-51.)

Figure 1.3
Number of Farms by Debt-to-Asset Ratio, 1985-88



Note: 1987 and 1988 data are not directly comparable with the 1985 and 1986 data because ERS changed its methodology for compiling the 1987 and 1988 information.

Source: USDA.

According to ERS, many farmers had favorable income and debt levels in 1988 (positive net farm cash income and a debt-to-asset ratio of 40 percent or less); however, the majority had earnings and/or solvency problems (negative net farm cash income and/or a debt-to-asset ratio exceeding 40 percent).[4] For example, 811,000 farms, or 46 percent of all farms, were in a sound financial position with positive net farm cash income and a debt-to-asset

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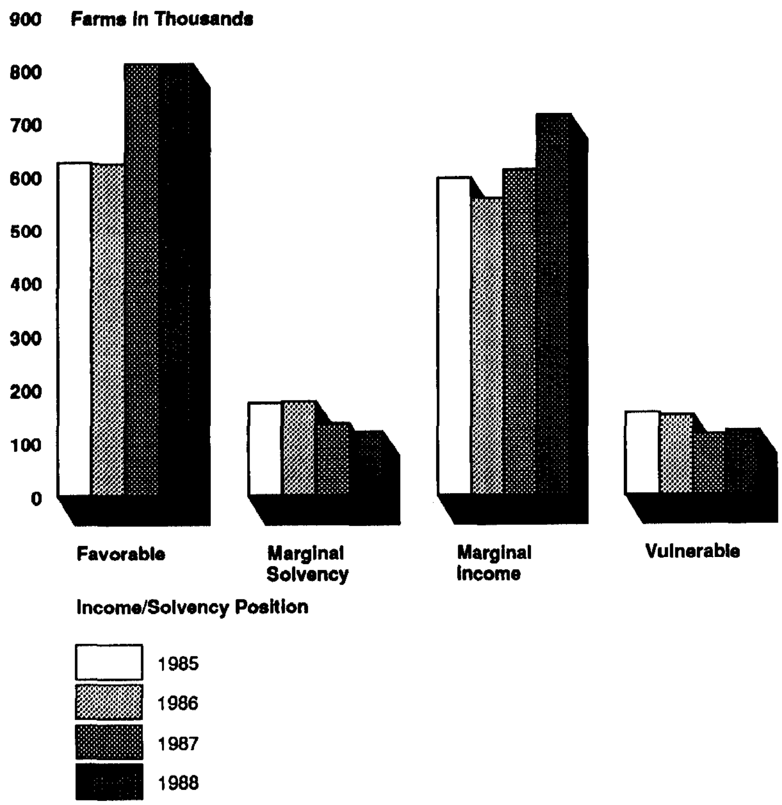
[4]See the note in fig. 3.9 for an explanation of income/solvency position categories.

ratio of 40 percent or less; they held 30 percent of the 1988 farm debt. On the other hand, 833,000 farms, or 47 percent of all farms, were in a marginal position with either (1) positive net farm cash income but a debt-to-asset ratio exceeding 40 percent or (2) a debt-to-asset ratio of 40 percent or less but negative net farm cash income. These marginal farms held about 48 percent of the 1988 farm debt. In addition, 120,000 farms, or 6.8 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 exceeding 40 percent; they held about 22 percent of the 1988 farm debt. Figure 1.4 shows the number of farms in 1985 through 1988 by income/solvency position. (See pp. 52-53.)

Figure 1.4
Number of Farms by Income/Solvency Position, 1985-88



Note: 1987 and 1988 data are not directly comparable with the 1985 and 1986 data because ERS changed its methodology for compiling the 1987 and 1988 information.

Source: USDA.

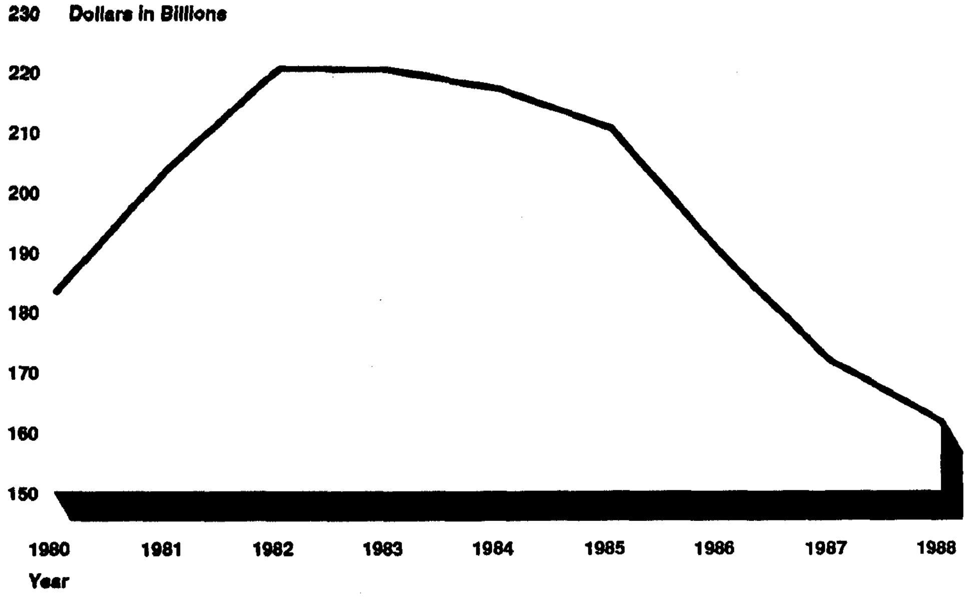
Additionally, while national nonfarm employment continued to grow in 1988, farm employment decreased by 1.2 percent compared with 1987, continuing an overall declining trend that has been underway for many years. Also, the Bureau of the Census reported that the number of people living on farms decreased by slightly less than 1 percent in 1988 compared with the 1987 level. (See pp. 56-57.)

The total number of agricultural businesses that failed in 1988, according to the Dun & Bradstreet Corporation, decreased by about 52 percent compared with the number that failed in 1987. Failures among crop production and livestock production businesses decreased by a combined total of 60 percent in 1988 and more than offset an almost 14-percent increase in agricultural service business failures. (See pp. 58-59.)

THE FINANCE SECTOR: FARM LENDERS' FINANCIAL STRESS CONTINUED TO LESSEN IN 1988

Total outstanding farm debt was about $162 billion in 1988, or almost 6 percent less than the $171.5 billion in 1987 total farm debt. The decline in 1988 farm debt reflects the continued improvement in the farm sector and farmers' overall decreased demand for new loans. Also, the 1988 decrease continues a downward trend that has been underway since 1982 when total farm debt peaked at $221 billion. Most of the 1988 debt--over $131 billion--was held by the following institutional lenders: commercial banks, Federal Land Banks (FLBs) and Production Credit Associations (PCAs) in the Farm Credit System (FCS), 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. Each of these lenders held less debt in 1988 than in 1987, except for commercial banks and PCAs, whose outstanding debt increased by 4 percent and 1 percent, respectively. Figure 1.5 shows the trend in total farm debt since 1980. (See pp. 62-63.)

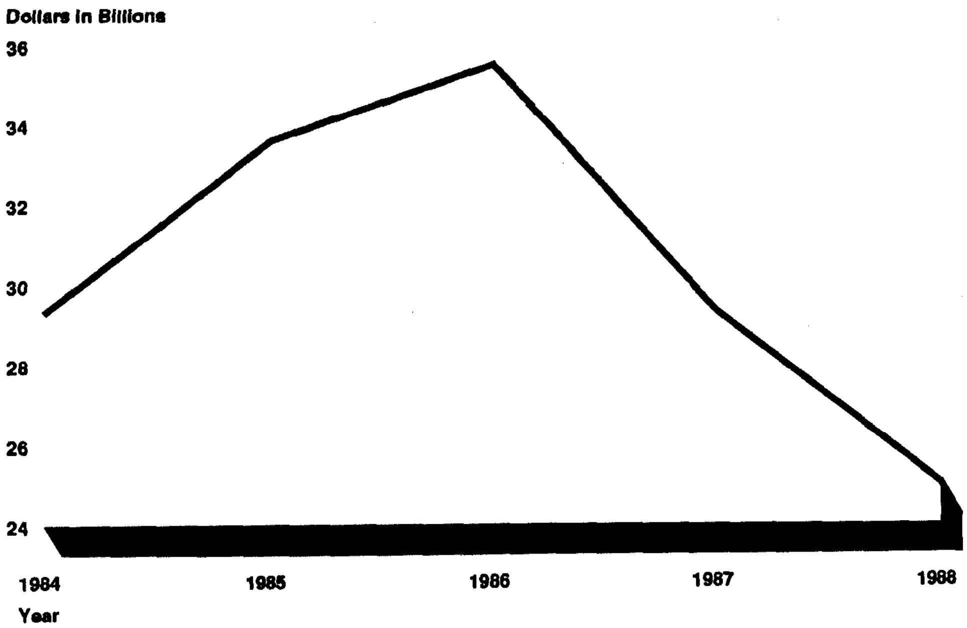
Figure 1.5
Total Outstanding Farm Debt, 1980-88



Source: GAO analysis of Farm Credit Administration (FCA), FCS, Board of Governors of the Federal Reserve System (FRB), FmHA, CCC, American Council of Life Insurance, and ERS data.

The quality of the major institutional lenders' farm loan portfolios reflects conditions in the farm sector. As the farm sector experienced continued improvement in its financial condition in 1988, the lenders' portfolios also improved. For example, the institutional lenders, excluding CCC, had $25 billion in farm loans that were nonperforming and/or delinquent at the end of 1988, or 24 percent of the total outstanding principal ($105 billion). This was a $4 billion, or almost 14-percent, decrease from 1987. Figure 1.6 shows the trend in total nonperforming and/or delinquent farm loans since 1984. (See pp. 64-65.)

Figure 1.6
Total Nonperforming and/or Delinquent Farm Loans
for Major Institutional Lenders, 1984-88



Source: GAO analysis of FCA, FCS, FRB, FmHA, and American Council of Life Insurance data.

The overall quality of these lenders' portfolios continued to be skewed by the poor condition of FmHA's portfolio. Excluding FmHA, the total nonperforming and/or delinquent loans held by the nonfederal lenders was about $10 billion at the end of 1988, or 12 percent of their outstanding debt, a decrease from the more than $13 billion, or 16 percent of their outstanding debt, that was nonperforming and/or delinquent in 1987. (See pp. 64-65.)

The improvement in lenders' portfolios was also reflected in a reduction in farm loans written off as uncollectible by commercial banks, FLBs, and PCAs in 1988, and in the amount of nonaccrual loans at the end of 1988. These lenders wrote off about $413 million in 1988, or 67 percent less than the almost $1.3 billion they wrote off in 1987. In addition, as of December 31, 1988, these lenders had slightly over $4 billion in nonaccrual loans--the most severe category of nonperforming loans, which may indicate future write-offs--or 35 percent less than the more than $6 billion they had at the end of 1987. (See pp. 66-67.)

Another indication of the improvement in farm lenders' financial condition was that FCS experienced its first profit--$704 million--in 1988, after three consecutive years of losses.

The 1988 improvement in earnings is due, in large part, to an increase in net interest income and a substantial reduction in FCS' allowance for loan losses. (See pp. 68-69.)

The gross value of farm real estate property held by FLBs decreased in 1988, the second consecutive annual decrease. FLBs held about $578 million in property acquired through foreclosure or deed in lieu of foreclosure at the end of 1988, a 30-percent decrease compared with 1987. In addition, farm real estate acquired by life insurance companies through foreclosure totaled $364 million in 1988, a 47-percent decrease compared with 1987. (See pp. 72-75.)

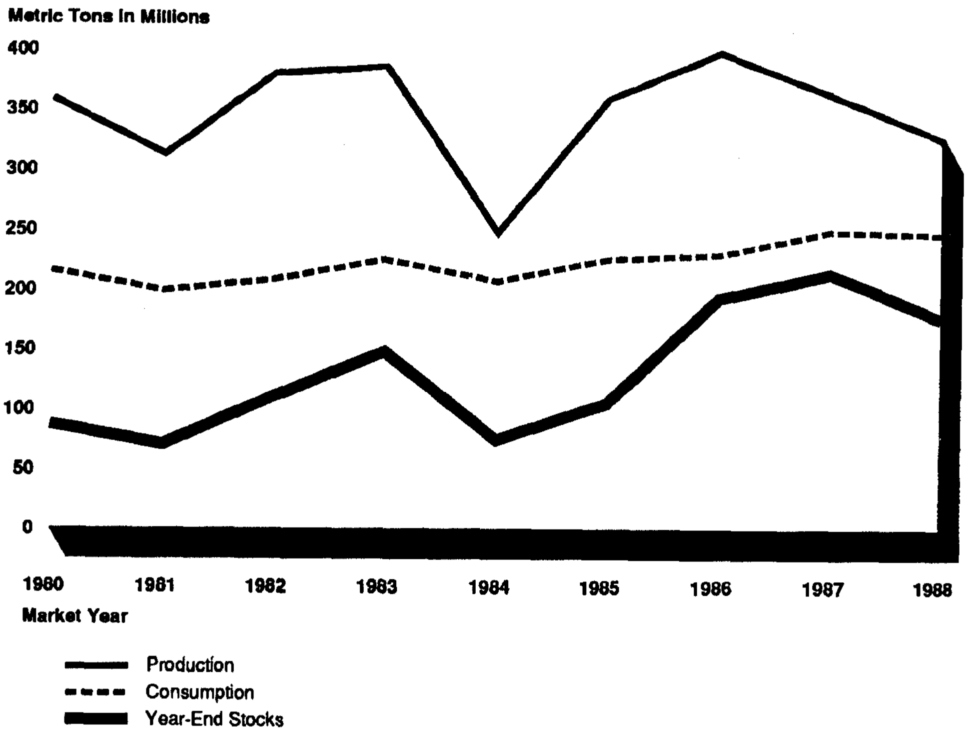
Commercial banks that are heavily involved in agriculture experienced an easing of financial stress in 1988. According to the Federal Deposit Insurance Corporation (FDIC), 29 agricultural banks failed in 1988, or half of the 58 that failed in 1987. In addition, 333 agricultural banks, from a total of 1,406 banks, were on the FDIC problem bank list, which classifies banks warranting more than normal supervision, at the end of 1988. A year earlier, 513 agricultural banks were on the FDIC problem bank list. Further, according to the FRB, 55 agricultural banks with above-average farm loan ratios were highly vulnerable to failure at the end of 1988 because their nonperforming loans exceeded their capital. A year earlier, 82 agricultural banks were identified by FRB as vulnerable. A number of the banks that failed in 1988, or that were vulnerable to failure at the end of 1988, were located in the central part of the country covering Minnesota, Iowa, Nebraska, Kansas, Oklahoma, and Texas. (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. Loan payments that were overdue to FmHA increased in 1988; however, total outstanding principal on loans to delinquent borrowers decreased. As of December 31, 1988, delinquent FmHA borrowers were overdue on $9.7 billion in principal and interest payments, a 1-percent increase compared with the $9.6 billion that was overdue a year earlier. Almost $8.3 billion, or 86 percent, of the 1988 overdue amount was 3 years or more late and $9.2 billion, or 95 percent, was at least 1 year late. The total outstanding principal on FmHA loans to delinquent borrowers was slightly over $15 billion at the end of 1988, an $800-million decrease from a year earlier. (See pp. 82-85.)

SECTION 2

THE ECONOMIC ENVIRONMENT: CONTINUED IMPROVEMENT

Figure 2.1
U.S. Production, Consumption, and Year-End Stocks for Key Commodities, 1980-88



Source: USDA.

WHILE PRODUCTION, CONSUMPTION, AND TOTAL YEAR-END STOCKS OF SOME KEY FARM COMMODITIES DECREASED, FARM PRICES INCREASED

Total U.S. production, consumption, and year-end stocks of key farm commodities decreased in 1988 compared with 1987. Production of coarse grains--including corn, the primary coarse grain--and soybeans decreased while wheat production increased. Consumption of soybeans and wheat decreased while coarse grain consumption increased slightly. Year-end stocks of these three key farm commodities all decreased by a combined total of over 17 percent; however, prices for each of the three increased in 1988.

Table 2.1
U.S. Production, Consumption, Year-End Stocks, and Market Prices for Key Commodities, 1987 and 1988

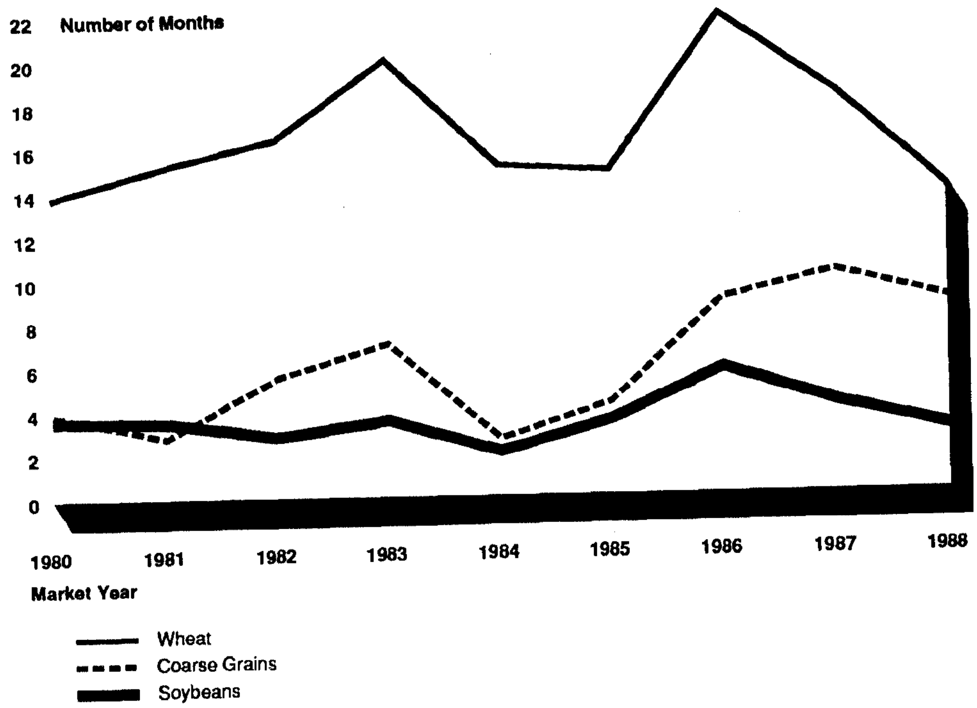
	Market year[a] 1987[b]	Market year[a] 1988	Percent change
	(metric tons in millions)		
Production:			
All coarse grains	252.8	215.9	(14.6)
Corn only	209.6	179.6	(14.3)
Soybeans	52.8	52.3	(0.9)
Wheat	56.9	57.4	0.9
Consumption:			
All coarse grains	181.8	182.8	0.6
Corn only	150.0	151.6	1.1
Soybeans	34.9	34.2	(2.0)
Wheat	32.5	29.7	(8.6)
Year-end stocks:			
All coarse grains	152.3	134.1	(12.0)
Corn only	124.0	108.2	(12.7)
Soybeans	11.9	8.2	(31.1)
Wheat	49.6	34.3	(30.8)
Average market price:	(dollars per bushel)		
Corn	$1.50	$1.94	29.3
Soybeans	4.78	5.88	23.0
Wheat	2.42	2.57	6.2

[a]The market year varies by crop. For example, it begins June 1 for wheat and September 1 for corn and soybeans. We use 1987 for USDA's 1986/87 market year and 1988 for the 1987/88 market year.

[b]USDA-revised 1987 figures.

In addition, USDA estimated in August 1989 that U.S. production, consumption, and year-end stocks for these key commodities would generally decline in market years 1989 and 1990.

Figure 2.2
Supply of Key Commodity Stocks on Hand at Year-End, by Number of Months, 1980-88



Source: GAO analysis of USDA data.

STOCKS OF WHEAT, COARSE GRAINS, AND SOYBEANS ON HAND DECREASED

The stocks of wheat, coarse grains, and soybeans on hand at the end of the 1988 marketing year, on the basis of U.S. monthly average consumption rates, decreased compared with the 1987 marketing year. For example, according to USDA, at the end of 1988, 34 million metric tons of wheat were in U.S. stock. During 1988, U.S. wheat consumption averaged 2.5 million metric tons each month. On the basis of that consumption rate, about 14 months of wheat supply were in stock at year-end. Previously, at the end of 1987, about 50 million metric tons of wheat were in stock and the average monthly consumption rate was 2.7 million metric tons. As a result, 18 months of wheat supply were in stock at the end of 1987. Similarly, the supply of soybean stocks decreased from 4 months to almost 3 months, and the supply of coarse grain stocks decreased from 10 months to almost 9 months.

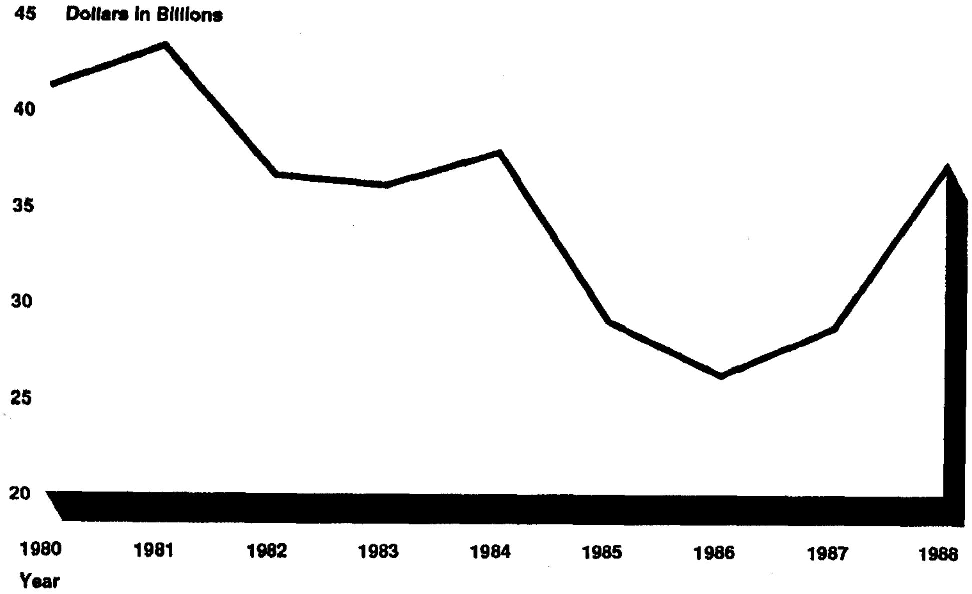
Table 2.2
Supply of Key Commodity Stocks on Hand at Year-End, by Number of Months, 1987 and 1988

Commodity	Market year 1987	Market year 1988	Percent change
	(number of months)		
Wheat	18.4	13.7	(25.5)
Coarse grains	10.1	8.8	(12.9)
Soybeans	4.1	2.9	(29.3)

The stock of coarse grains on hand at the end of the 1988 marketing year continued to exceed the level that existed at the end of the 1983 marketing year, which was followed by USDA's 1983/84 payment-in-kind program. There were almost 9 months of coarse grain stocks on hand at the end of 1988 compared with 7 months at the end of 1983.

However, on the basis of USDA's August 1989 estimates, the stocks of wheat and coarse grains at the end of the 1989 and 1990 marketing years are estimated to decline considerably from the levels at the end of 1988 because of production declines. For example, wheat and coarse grain stocks are estimated at 6 months and 4 months, respectively, at the end of the 1990 marketing year. Soybean stocks, on the other hand, are estimated at 2.9 months at the end of the 1990 marketing year, the same as the level at the end of 1988.

Figure 2.3
U.S. Agricultural Exports, 1980-88



Source: USDA.

U.S. AGRICULTURAL EXPORTS INCREASED

Total U.S. agricultural exports increased to $37 billion in 1988, a 29-percent increase over 1987. In addition, total export volume rose to 148.5 million metric tons, an 11.5-percent increase compared with 1987. Most of the more than 15-million metric ton increase in U.S. agricultural exports involved coarse grains and wheat, which increased 6 million and almost 10 million metric tons, respectively, more than offsetting a 2.8-million metric ton decrease in soybeans and soybean products. According to USDA, increased demand for U.S. agricultural products resulted from a variety of factors including relatively strong world economic growth, decreased supplies from some competitor countries because of the effect of adverse weather on production, and lower prices for U.S. products because of a continued decline in the value of the dollar. In addition, federal export programs contributed to the increase in exports. For example, according to USDA, 54 percent of all 1988 U.S. wheat exports, or 22 million metric tons, can be attributed to the Export Enhancement Program.

Among key U.S. agricultural export commodities, coarse grains experienced a 55-percent increase in value and almost a 13-percent increase in volume in 1988 compared with 1987. Wheat exports increased 59 percent in value and almost 31 percent in volume. Soybeans and soybean products, on the other hand, had about a 17-percent increase in value but a 10-percent decrease in volume.

Table 2.3
U.S. Agricultural Export Statistics, 1987 and 1988

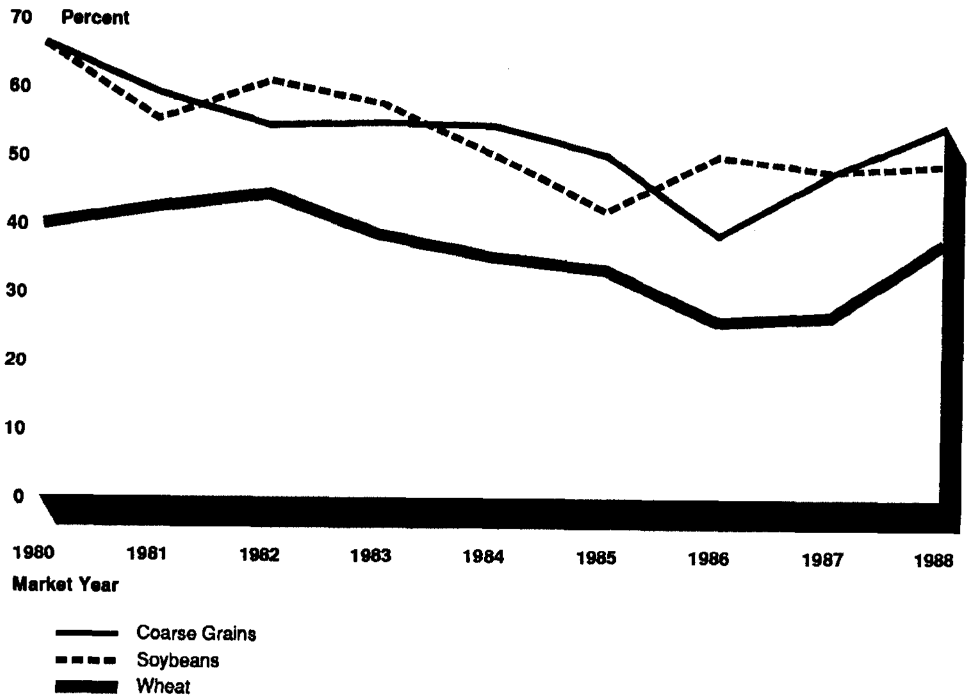
U.S. exports	Value of exports 1987[a]	Value of exports 1988	Value of exports Percent change	Volume of exports 1987[a]	Volume of exports 1988	Volume of exports Percent change
	--(billions)--			(metric tons in millions)		
Total	$28.7	$37.1	29.3	133.2	148.5	11.5
Key export crops:						
Coarse grains[b]	3.8	5.9	55.3	48.8	55.0	12.7
Soybeans and soybean products	5.9	6.9	16.9	28.1	25.3	(10.0)
Wheat	3.2	5.1	59.4	31.9	41.7	30.7

[a]USDA-revised 1987 figures.

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

U.S. agricultural imports increased in 1988 to $21 billion, a 3-percent increase over 1987. As a result, the U.S. agricultural trade surplus increased to $16.1 billion, a 94-percent increase compared with 1987, and the second consecutive annual increase.

Figure 2.4
U.S. Share of World Market for Key Commodities, 1980-88



Source: GAO analysis of USDA data.

U.S. MARKET SHARE FOR KEY FARM COMMODITIES INCREASED

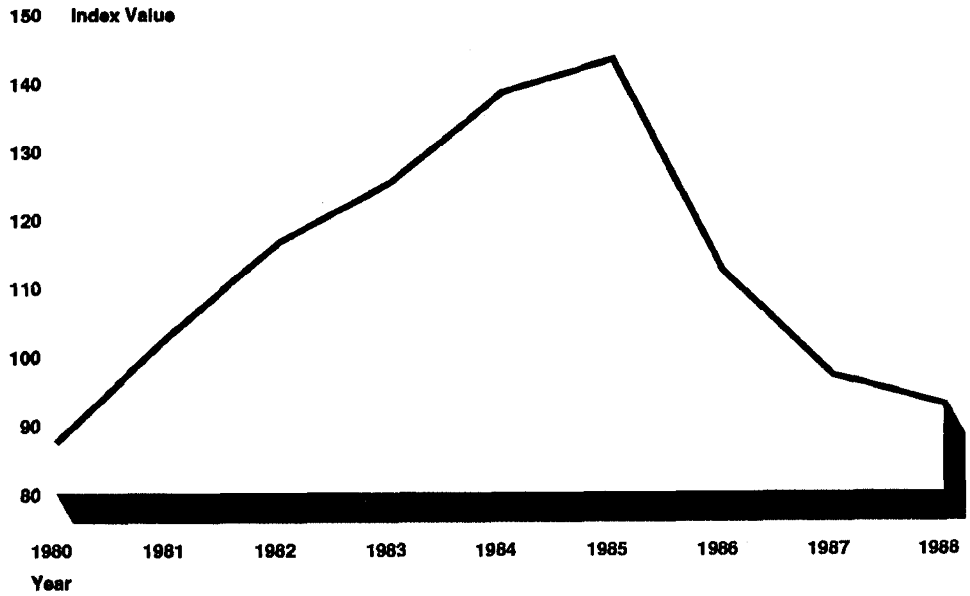
The U.S. share of the world market, on a volume basis, for three of the most heavily traded commodities--coarse grains, wheat, and soybeans and soybean products (meal and oil)--increased in 1988 compared with 1987. This was the second consecutive increase for coarse grains and for wheat. The market share for coarse grains rose to over 54 percent in 1988 from about 48 percent in 1987. The market share for wheat showed a substantial increase to about 38 percent in 1988 from about 27 percent in 1987. In addition, soybeans and soybean products, which had previously decreased in 1987 from 1986, increased by 2 percent in 1988. The market share for soybeans and soybean products increased to almost 49 percent in 1988 as a result of decreases in exports of these products by other countries.

Table 2.4
U.S. Market Share of Total World Trade for Three Key Commodities, 1987 and 1988

Commodity	Market year 1987	Market year 1988	Percent change
	---(percent)----		
Coarse grains	47.7	54.4	14.0
Wheat	26.8	37.5	39.9
Soybeans and soybean products	47.9	48.9	2.1

However, on the basis of USDA's August 1989 estimates, the U.S. market share for two of these key commodities (wheat and soybeans and soybean products) is estimated to decrease in market year 1989 while the share for coarse grains is estimated to increase in 1989. Wheat was estimated to reach about 36 percent, and soybeans and soybean products were estimated to reach slightly over 38 percent in market year 1989, as a result of USDA-projected decreases in U.S. exports. Coarse grains, on the other hand, were estimated to reach slightly over 58 percent in market year 1989 as a result of USDA-projected increases in U.S. exports.

Figure 2.5
Yearly Average Index Value of the U.S. Dollar, 1980-88



Note: The index is based on a March 1973 value that equals 100.

Source: Economic Report of the President transmitted to the Congress in January 1989 and Board of Governors of the Federal Reserve System.

TRADE-WEIGHTED VALUE OF THE U.S. DOLLAR DECLINED

The yearly average multilateral trade-weighted value of the U.S. dollar declined in 1988, the third consecutive annual decline.[1] Compared with a 1973 base index of 100, the yearly average index of the dollar's nominal value measured almost 93 for 1988, a 4-percent decline from the previous year's index value. On the basis of this index, the dollar's value has fallen by more than 17 percent in the past 2 years.

Table 2.5
Yearly Average Multilateral Trade-Weighted Index Value of the U.S. Dollar, 1987 and 1988

Value	1987	1988	Percent change
Nominal	96.9	92.7	(4.3)
Real	90.6	88.0	(2.9)

Note: The index is based on a March 1973 value that equals 100.

The dollar's decline in 1988 continued to be primarily in relation to heavily traded industrialized countries' currencies, such as the Japanese yen. According to USDA, increased demand as a result of the lower value of the dollar was one of the reasons U.S. agricultural exports to developed countries increased in value by 17.9 percent in 1988 compared with 1987.

Two of the leading foreign markets for U.S. agricultural exports in 1988 were Japan and Canada. Exports to Japan and Canada increased by 33.5 percent and 11.7 percent, respectively, as the dollar declined by 11 percent against the yen and 7 percent against the Canadian dollar.

In addition, subsidies offered under federal export programs made U.S. products more competitive in developing countries, contributing to an almost 33-percent increase in 1988 exports to such countries.

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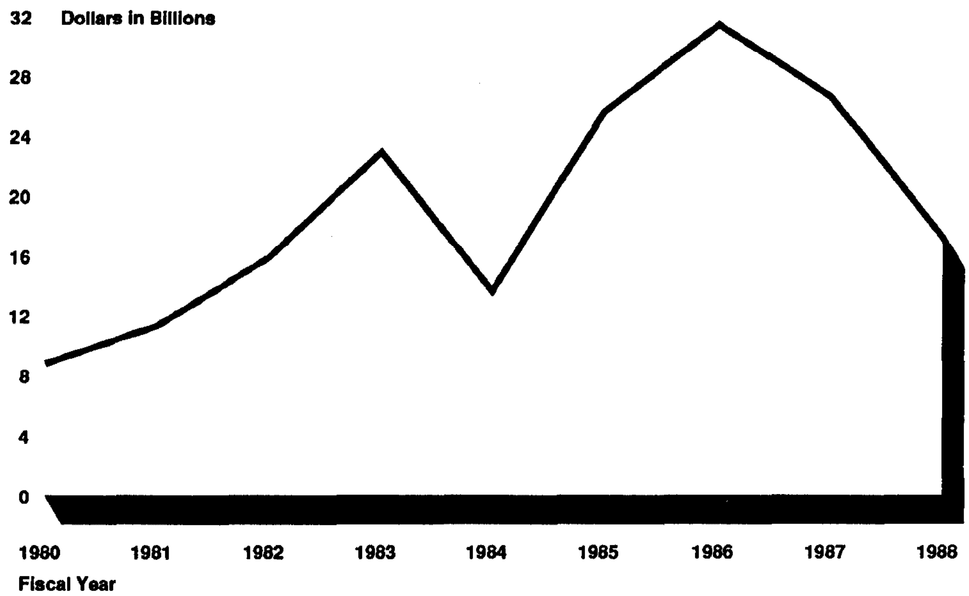
[1]The multilateral trade-weighted value of the dollar is a composite index showing the appreciation or depreciation of the dollar as measured against a number of major currencies, weighted by the respective countries' trade volume with the United States.

Figure 2.6
Federal Agricultural Outlays, Fiscal Years 1980-88



Source: Economic Report of the President transmitted to the Congress in January 1989.

FEDERAL OUTLAYS FOR AGRICULTURE DECREASED

According to the 1989 Economic Report of the President, federal agricultural outlays decreased to $17 billion in fiscal year 1988, a 35-percent decrease from the previous year. Federal agricultural outlays totaled $173 billion from 1980 through 1988.

Table 2.6
Federal Agricultural and Total Outlays, 1987 and 1988

Outlays	Fiscal year 1987[a]	Fiscal year 1988	Percent change
	---(billions)---		
Agricultural	$ 26.6	$ 17.2	(35.3)
Total federal	1,003.8	1,064.0	6.0
Agricultural as a percentage of total	2.6	1.6	(38.5)

[a]The 1989 Economic Report of the President revised 1987 figures.

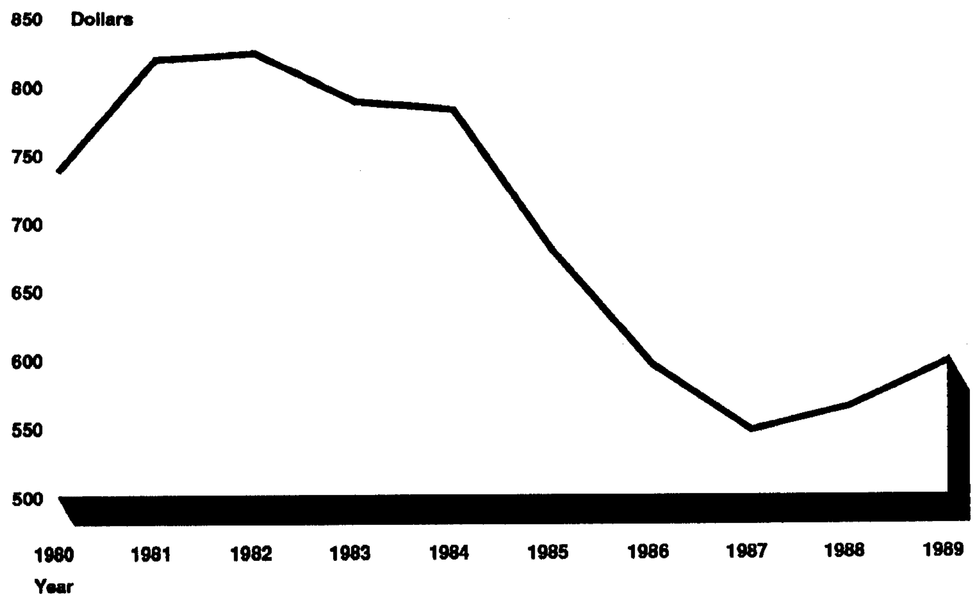
Commodity price support programs accounted for $12.5 billion of the fiscal year 1988 federal agricultural outlays; other farm income stabilization programs, such as FmHA loans and Federal Crop Insurance Corporation payments, accounted for $2.7 billion; and agricultural research and services accounted for $2.0 billion. Most of the commodity price support outlays applied to three CCC programs: nonrecourse commodity loans (net cash outlays of $4.6 billion), direct cash deficiency payments ($4.0 billion), and storage of farm commodities and related activities ($1.8 billion). Other CCC price support programs included the dairy termination program and export subsidy programs. In addition to direct outlays, farmers received other benefits by participating in federal programs, such as interest subsidies with CCC nonrecourse commodity loans and FmHA direct loans.

The President's January 1989 economic report also projected that fiscal year 1989 federal agricultural outlays will increase to $21 billion and then decrease to almost $16 billion in fiscal year 1990. Commodity price support programs are projected to account for approximately 70 percent of the total federal agricultural outlays in each year.

SECTION 3

THE FARM SECTOR: FINANCIAL POSITION CONTINUED TO IMPROVE

Figure 3.1
Average Per-Acre Value of Farmland,
1980-89



Note: Values as of February 1, 1980 and 1981; April 1 for 1982 through 1985; and February 1 for 1986 through 1989.

Source: USDA.

FARMLAND VALUES INCREASED

ERS reported that the national average value of farmland increased from $564 per acre on February 1, 1988, to $597 per acre on February 1, 1989. This 5.9-percent increase was the second consecutive yearly increase after 5 years of declining values.

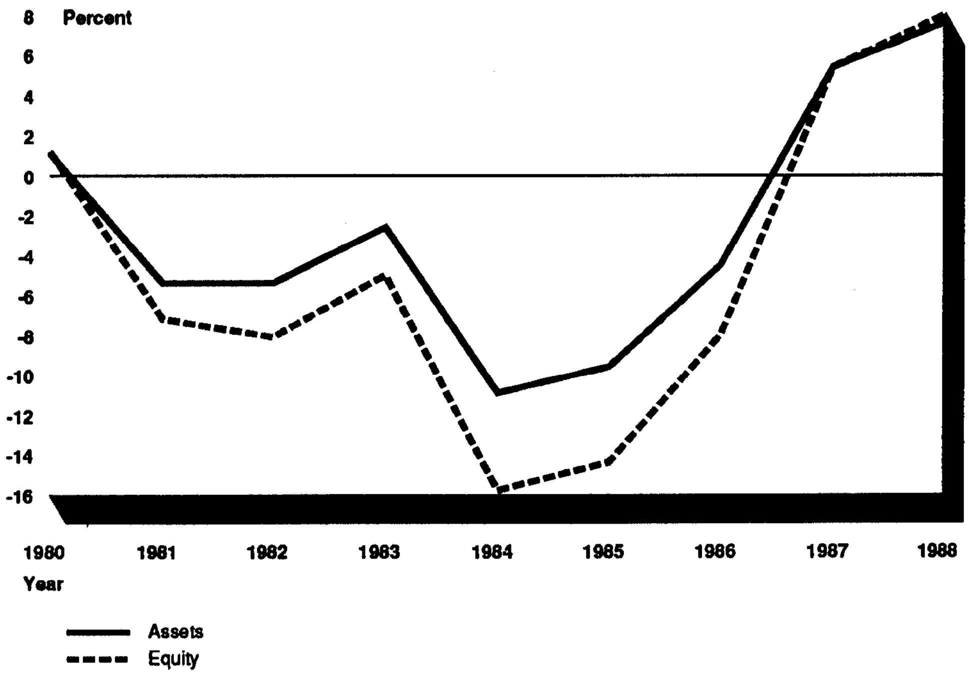
ERS also reported that total farm assets increased by 6.1 percent in 1988 compared with 1987; this was the second consecutive annual increase. The increase in total farm assets was primarily due to the increase in farm real estate values. Farm real estate is the primary farm asset, accounting for about 73 percent of total farm assets in 1988.

Of the 48 contiguous states, 42 had increases in farmland values in February 1989 compared with February 1988. States in all farm production regions, except the Southwest Plains, experienced increases in values with the Northeast experiencing the largest gain of over 13 percent. Pennsylvania led all states with a 21-percent increase and 11 other states had increases of 9 percent or greater. Three states--Colorado, Oregon, and Utah--had no change in farmland values. On the other hand, 3 states continued to experience decreases in farmland values--Texas (5 percent), Wyoming (3 percent), and Arizona (1 percent).

Table 3.1
Average Per-Acre Farmland Values in States with the Greatest Increases, February 1, 1988, to February 1, 1989

State	Per-acre value February 1988	Per-acre value February 1989	Percent change
Highest percent increases:			
Pennsylvania	$1,819	$2,201	21.0
New Jersey	6,189	7,241	17.0
Delaware	1,895	2,217	17.0
Iowa	890	1,041	17.0
Nebraska	366	421	15.0
Virginia	1,143	1,292	13.0
Maryland	2,014	2,216	10.0
Illinois	1,114	1,225	10.0
South Dakota	187	204	9.1
South Carolina	874	953	9.0
Oklahoma	421	459	9.0
Georgia	865	943	9.0
National average for the 48 contiguous states	$ 564	$ 597	5.9

Figure 3.2
Rates of Return on Assets and on Equity, 1980-88



Source: USDA.

RATES OF RETURN ON ASSETS AND ON EQUITY CONTINUED POSITIVE

Farmers' total rates of return on assets and on equity improved in 1988 compared with 1987. According to ERS data, farmers' total rates of return on assets and on equity in 1988 remained positive for the second consecutive year. The positive rates of return on assets and on equity resulted from high income returns along with positive capital gains returns.

Table 3.2
Rates of Return on Assets and on Equity, 1987 and 1988

	1987[a]	1988[b]
	----(percent)---	
Return on assets:		
Income[c]	5.4	4.9
Capital gains	0.0	2.8
Total	5.4	7.6
Return on equity:		
Income[d]	4.2	3.5
Capital gains	1.2	4.4
Total	5.4	8.0

[a]ERS-revised 1987 percentages.

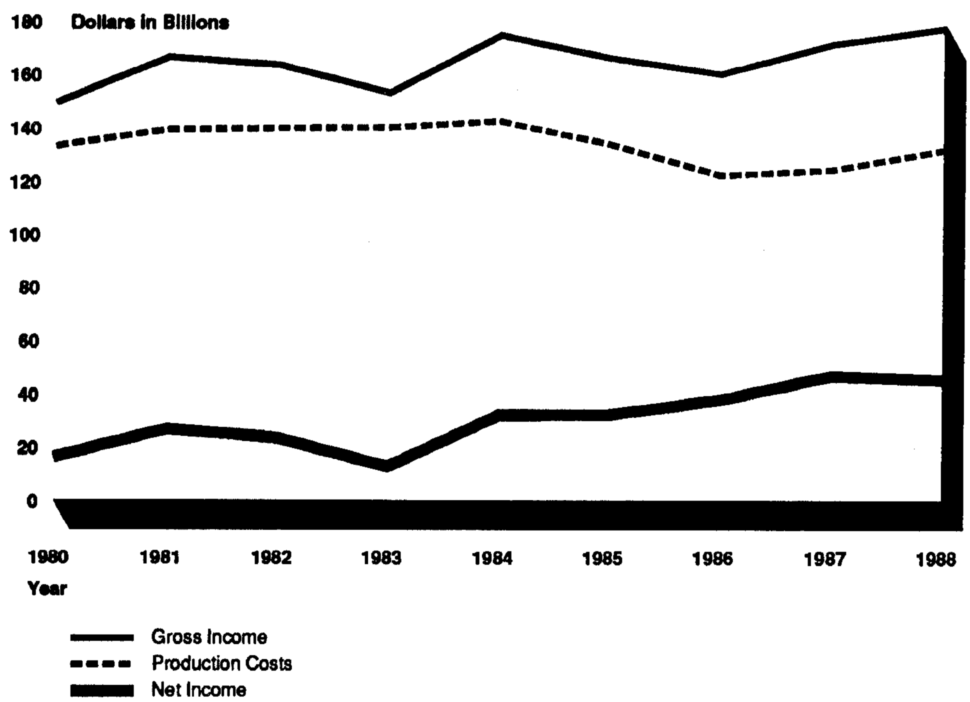
[b]Totals do not add because of rounding.

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

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

ERS projected in August 1989 that farmers' total rates of return on assets and equity would continue to be positive in 1989. The total return on both assets and equity was projected to be in the 6-percent range.

Figure 3.3
Gross and Net Farm Income and Production Costs, 1980-88



Source: USDA.

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

Farmers' gross farm income, excluding off-farm income and after adjusting for changes in the value of inventory, increased by 3.5 percent in 1988 from the 1987 level, the second consecutive annual increase. However, net farm income decreased by 3 percent.[1] According to ERS statistics, the 1988 increase in gross farm income is primarily attributable to about a 6-percent increase in gross farm cash income, which occurred mainly as a result of increases in livestock and crop cash receipts, and a 3-percent increase in nonmoney income, such as the value of home consumption of farm products. These increases offset decreases in government payments, farm-related income, and inventory values.

ERS also reported that total production expenses increased by 6 percent in 1988. The large increase in production expenses ($7.5 billion) more than offset the smaller increase in gross farm income ($6 billion), resulting in the 1988 net farm income decline.

Table 3.3
Farmers' Gross and Net Farm Income and Total Production Expenses, 1987 and 1988

	1987[a]	1988	Percent change
	---(billions)---		
Gross farm cash income	$162.0	$171.6	5.9
Nonmoney income	10.0	10.3	3.0
Value of inventory change	(0.4)	(4.3)	(975.0)
Gross farm income	171.6	177.6	3.5
Total production expenses	124.5	132.0	6.0
Net farm income	$47.1	$45.7[b]	(3.0)

[a]ERS-revised 1987 values.

[b]Total does not add because of rounding.

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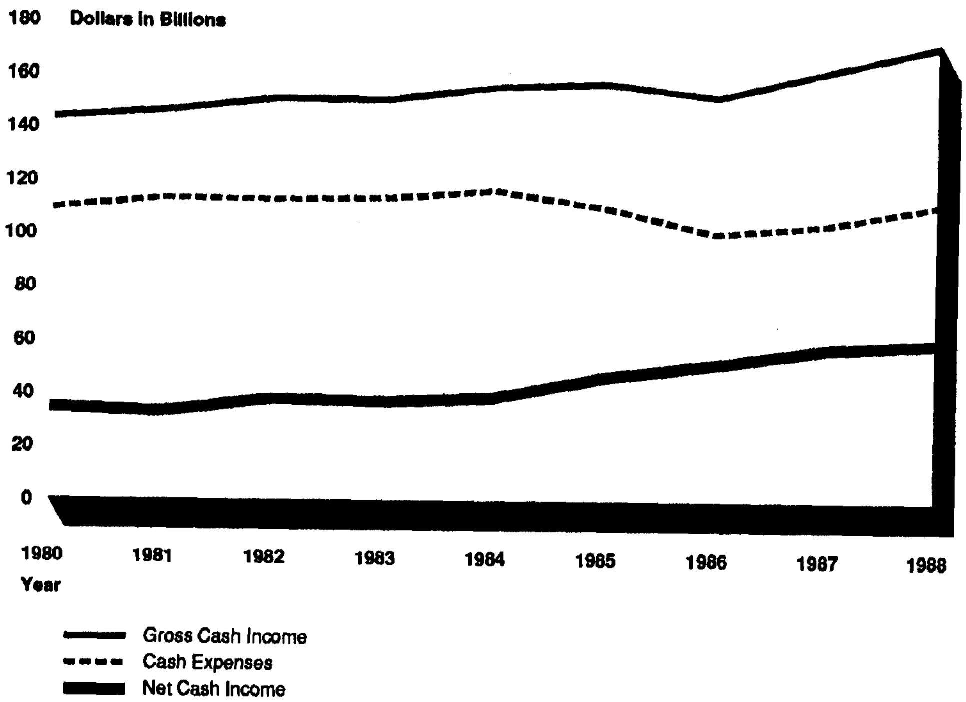
[1]Gross and net farm income measure the value of farm production during a year. Gross farm income includes the receipts from the sale of farm products, government payments, farm-related income, nonmoney income, and the value of inventory changes. Net farm income is gross income less total production 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, 1980-88



Source: USDA.

FARMERS' GROSS AND NET FARM CASH INCOME INCREASED

Farmers' gross and net farm cash income increased by almost 6 percent and 4 percent, respectively, in 1988 from the 1987 level.[2] According to ERS statistics, the 1988 increase in gross farm cash income is attributable to an almost 14-percent increase in crop cash receipts and a 4-percent increase in livestock cash receipts. These increases more than offset a 13-percent decrease in direct government payments and an almost 2-percent decrease in farm-related income, such as custom work and machine hire.

ERS also reported that farm cash expenses increased in 1988 by over 7 percent and that farmers' net farm cash income was a record high $59.9 billion, or a 3.8-percent increase compared with 1987.

Table 3.4
Farmers' Gross and Net Farm Cash Income and Cash Expenses, 1987 and 1988

	1987[a]	1988	Percent change
	---(billions)---		
Crop cash receipts[b]	$ 63.8	$ 72.6	13.8
Livestock cash receipts	75.7	78.9	4.2
Government payments	16.7	14.5	(13.2)
Farm-related income	5.8	5.7	(1.7)
Gross farm cash income	162.0	171.6[c]	5.9
Farm cash expenses	104.3	111.7	7.1
Net farm cash income	$ 57.7	$ 59.9	3.8
Net farm cash income margin (percent)	35.6	34.9	(2.0)

[a]ERS-revised 1987 values.

[b]Includes net CCC loans.

[c]Total does not add due to rounding.

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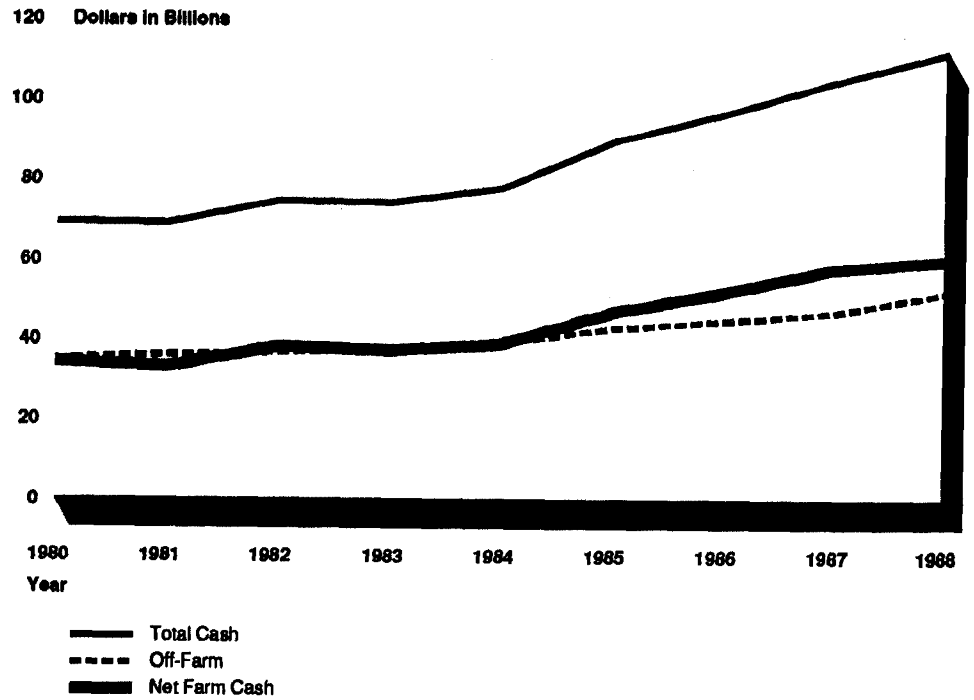
[2]Gross and net farm cash income measure farm cash earnings regardless of when the commodities were produced. Gross farm cash income includes cash receipts from the sale of all farm products, government payments, and farm-related income. Net farm cash income is gross farm cash income less farm cash 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, 1980-88



Source: USDA.

FARMERS' OFF-FARM INCOME CONTINUED TO INCREASE

Farmers' off-farm cash income[3] increased in 1988 to a record high of almost $52 billion, a 10.5-percent increase compared with 1987, and continued an increasing trend. According to ERS statistics, most off-farm income--approximately 80 percent in recent years--was received by noncommercial farms with annual sales of less than $40,000. In addition, about 10 percent of the off-farm income was received by farms with annual sales in the $40,000 to $99,999 range. Off-farm income provides these farmers with a buffer against the financial risks of farming.

Farmers' net farm cash income, which totaled almost $60 billion, combined with the high level of off-farm cash income resulted in an increase in farmers' total cash income[4] in 1988 to a record high level of almost $112 billion. This high level of total cash income improves the liquidity of the farm sector and contributes to its ability to service debt.

Table 3.5
Farmers' Off-Farm, Net Farm Cash, and Total Cash Income, 1987 and 1988

	1987[a]	1988	Percent change
	---(billions)---		
Off-farm income	$46.8	$ 51.7	10.5
Net farm cash income	57.7	59.9	3.8
Total cash income of farm operators	$104.5	$111.6	6.8

[a]ERS-revised 1987 values.

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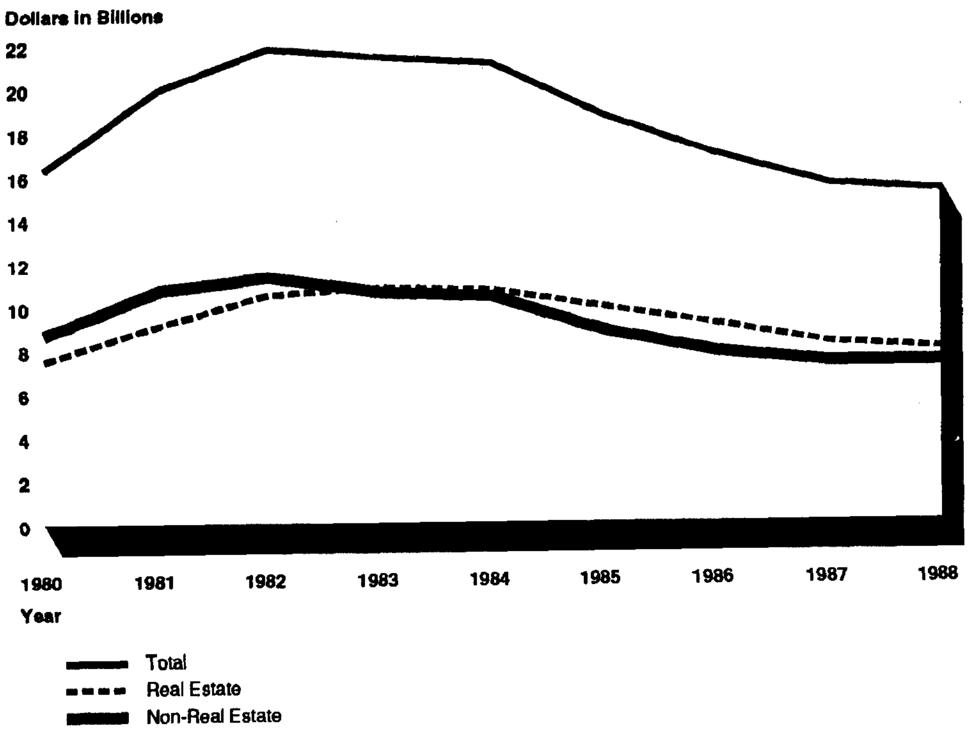
[3]Off-farm income includes all cash income received by farm operators and members of their households from nonfarm employment, such as nonfarm wages and salaries and nonfarm business and professional income.

[4]Total farm cash income is a measure that combines net farm cash income and off-farm income, an all-cash measure.

Figure 3.6
Farm Real Estate, Non-Real Estate, and Total
Interest Expenses, 1980-88



Source: USDA.

FARMERS' TOTAL PRODUCTION EXPENSES INCREASED, BUT INTEREST PAYMENTS DECREASED

Total farm production expenses increased by about 6 percent in 1988 compared with 1987. However, farmers' interest payments decreased by $300 million, or almost 2 percent, continuing a declining trend that has been underway since 1983. All other major farm production expense categories increased by percentages ranging from almost 2 percent to 16 percent in 1988 compared with 1987. For example, manufactured inputs increased by 7 percent to $18 billion and farm-origin inputs increased by 16 percent to almost $37 billion.

With lower interest rates and a substantial reduction in the amount of debt outstanding, ERS reported 1988 interest payments at $15.2 billion. Real estate interest expenses were $7.9 billion, or $300 million less than 1987. Non-real estate interest expenses were $7.3 billion, or about $18 million less than 1987. However, the $300-million decline in interest expenses was substantially offset by the $7.8-billion increase in expenses in the four other production expense categories.

Table 3.6
Farm Production Expenses, 1987 and 1988

Farm production expense category	1987	1988	Percent change
	---(billions)---		
Farm-origin inputs[a]	$31.8	$36.9	16.0
Manufactured inputs[b]	17.0	18.2	7.1
Interest payments	15.5	15.2	(1.9)
Other operating expenses[c]	31.5	32.3	2.5
Overhead expenses[d]	28.8	29.3	1.7
Total[e]	$124.5	$132.0	6.0

[a]Includes feed, livestock, and seed.

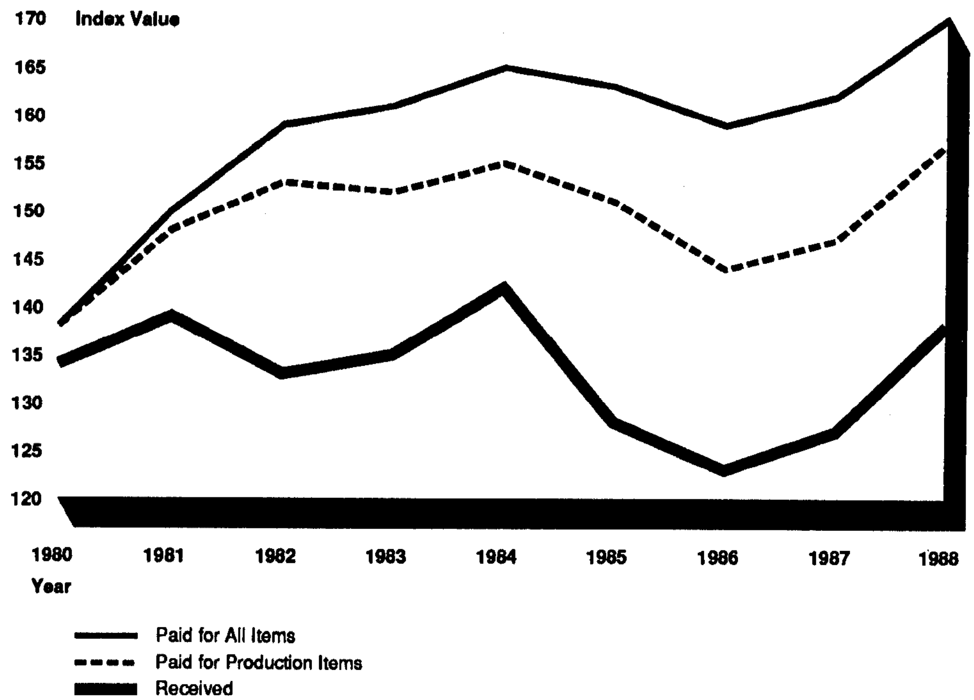
[b]Includes fertilizer, fuel, and pesticides.

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

[d]Includes depreciation, taxes, and rent.

[e]Totals do not add due to rounding.

Figure 3.7
Indexes of Prices Received and Paid by Farmers, 1980-88



Note: The index is based on a 1977 value that equals 100.

Source: Economic Report of the President transmitted to the Congress in January 1989.

INDEXES OF PRICES RECEIVED AND PAID BY FARMERS INCREASED

The index of prices received by farmers in 1988 for their products continued to be less than the index of prices they paid. The spread between the indexes, however, continued to narrow in 1988. The last year that the index of prices received by farmers for their 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 1988 for all farm products measured 138--almost a 9-percent increase from 1987. The 1988 index of prices paid by farmers for production items, such as fertilizer and fuel, measured 157--almost a 7-percent increase from 1987. The 1988 index of prices paid by farmers for all commodities, services, interest, taxes, and wages measured 170--almost a 5-percent increase from 1987.

Table 3.7
Indexes of Prices Received and Paid by Farmers, 1987 and 1988

Index item	1987	1988	Percent change
Prices received	127	138	8.7
Prices paid:			
Production items[a]	147	157	6.8
All items[b]	162	170	4.9
Prices received as a percentage of prices paid for			
production items[a]	86.4	87.9	1.7
all items[b]	78.4	81.2	3.6

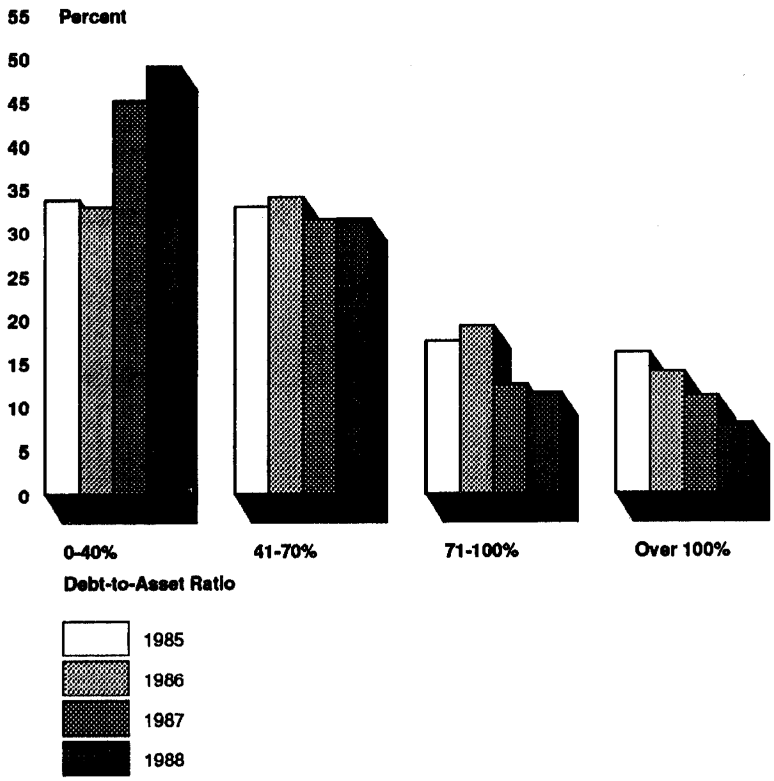
Note: The index is based on a 1977 value that equals 100.

[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 1989, the index values of prices farmers received and paid continued to increase. ERS reported that the index of prices received increased to 147 in April 1989 (a 13-percent increase compared with the April 1988 index of 130). However, the indexes of prices paid for production items increased to 165 and for all items to 177 in April 1989 (6.5-percent and 5.4-percent increases compared with April 1988 index values of 155 and 168, respectively).

Figure 3.8
Percent of Total Farm Debt by Debt-to-Asset Ratio, 1985-88



Note: The debt-to-asset ratio compares the value of assets to the amount of debt and is one indicator of financial soundness. 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.

The 1987 and 1988 data are not directly comparable with the 1985 and 1986 data because ERS changed its methodology for compiling the 1987 and 1988 information.

Source: USDA.

MOST FARMERS CONTINUED TO HAVE A FAVORABLE DEBT-TO-ASSET RATIO

More than 86 percent of all farmers had a debt-to-asset ratio of 40 percent or less following 1988 operations; they held about 49 percent of the 1988 farm debt. Another 9 percent of all farmers were classified by ERS as having some debt repayment problems but an adequate net worth, with a debt-to-asset ratio of 41 through 70 percent; they held about 32 percent of the farm debt. However, 4.5 percent of all farmers were in financial difficulty with a debt-to-asset ratio of 71 percent or more; they held 19.5 percent of the 1988 farm debt.

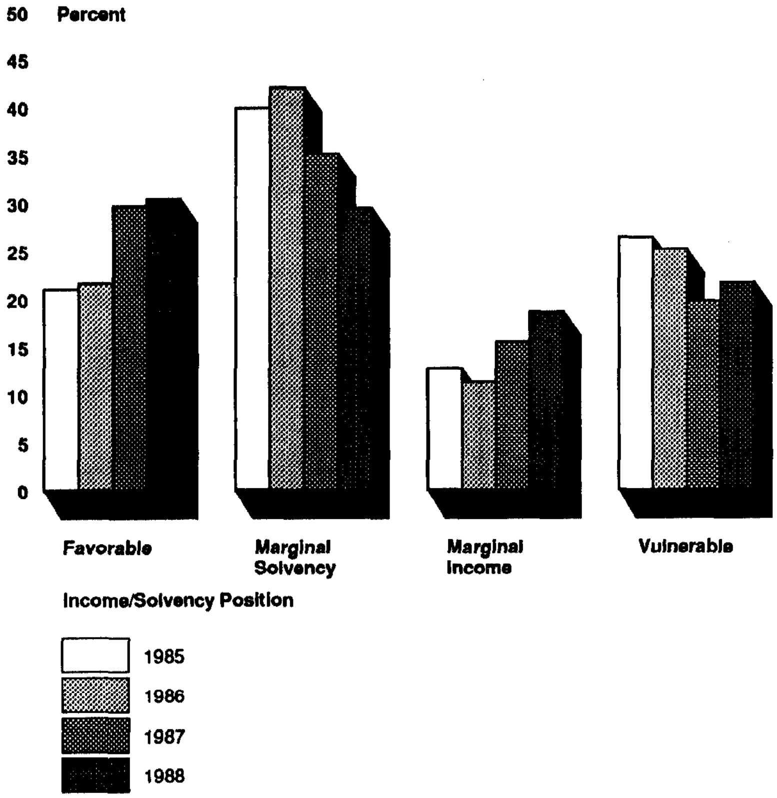
Table 3.8
Number of Farms and Amount of Farm Debt, by Debt-to-Asset Ratio, 1987 and 1988

	Debt-to-asset ratio				
	0-40%	41-70%	71-100%	Over 100%	Total[a]
Number of farms	(farms in thousands)				
1987	1,422	167	50	33	1,672
1988	1,524	162	51	28	1,764
Percent of farms					
1987	85.0	10.0	3.0	2.0	100.0
1988	86.4	9.2	2.9	1.6	100.0
Amount of debt[b]	(billions)				
1987	$39.9	$27.8	$10.9	$9.8	$88.4
1988	41.6	26.9	9.8	6.8	85.1
Percent of debt					
1987	45.1	31.4	12.4	11.1	100.0
1988	48.9	31.6	11.5	8.0	100.0
Average ratio	(percent)				
1987	7.8	51.3	80.3	144.3	15.1
1988	6.7	52.0	80.0	155.0	13.4

[a]Totals may not add because of rounding.

[b]ERS gathers farm debt information through USDA's annual Farm Costs and Returns Survey. The 1987 survey showed 1987 farm debt of $88.4 billion; the 1988 survey showed 1988 farm debt of $85.1 billion. These figures differ from the $172 billion and $162 billion we report in table 4.1 for 1987 and 1988, 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, CCC commodity loans, and some small-scale farmers. Our higher figures are based on information reported by 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 Income/Solvency Position, 1985-88



Note: 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--a 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--a 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--a 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.

The 1987 and 1988 data are not directly comparable with the 1985 and 1986 data because ERS changed its methodology for compiling the 1987 and 1988 information.

Source: USDA.

MANY FARMS HAD A FAVORABLE INCOME AND DEBT LEVEL, BUT MOST WERE IN A MARGINAL OR VULNERABLE POSITION

According to ERS, 811,000 farms, or 46 percent of all farms, in 1988 were in a sound financial position in terms of combined net farm cash income and debt-to-asset ratio. These sound farms held 30.4 percent of the 1988 farm debt; an increase from the 29.7 percent of the 1987 farm debt held by sound farms. However, the majority of farms continued to be in a marginal or vulnerable position. For example, 6.8 percent of all farms had positive net farm cash income but a high debt-to-asset ratio, and another 40.4 percent had a low debt-to-asset ratio but negative net farm cash income. In addition, 120,000 farms, or 6.8 percent of all farms, had both negative net farm cash income and a high debt-to-asset ratio, a combination that makes them vulnerable as viable business operations.

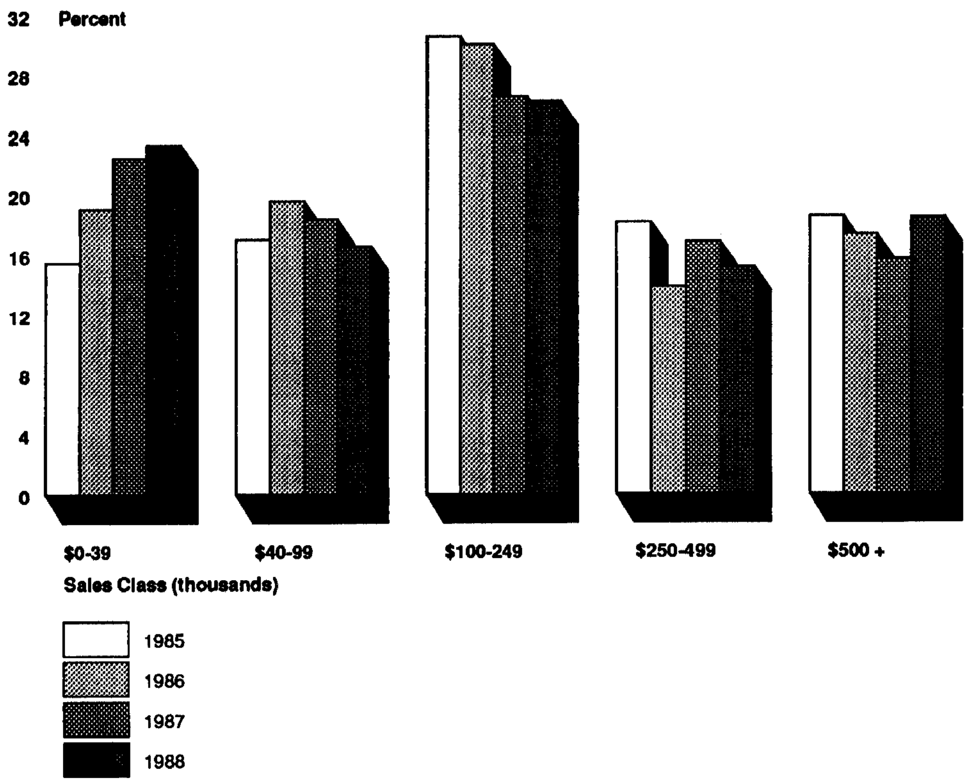
Table 3.9
Number of Farms and Amount of Farm Debt, by Net Farm Cash Income and Solvency Position, 1987 and 1988

	Farm income and solvency position				
	Favorable	Marginal solvency	Marginal income	Vulnerable	Total[a]
Number of farms	(farms in thousands)				
1987	811	136	611	113	1,672
1988	811	120	713	120	1,764
Percent of farms					
1987	48.5	8.2	36.6	6.8	100.0
1988	46.0	6.8	40.4	6.8	100.0
Amount of debt[b]	(billions)				
1987	$26.2	$31.1	$13.7	$17.4	$88.4
1988	25.9	25.0	15.8	18.4	85.1
Percent of debt					
1987	29.7	35.1	15.5	19.7	100.0
1988	30.4	29.4	18.6	21.6	100.0
Average debt-to-asset ratio	(percent)				
1987	7.9	64.7	7.7	65.8	15.1
1988	7.5	63.6	7.1	64.8	13.4

[a]Totals may not add because of rounding.

[b]See note b in table 3.8 for an explanation of the difference in total debt listed here and in table 4.1.

Figure 3.10
Percent of Total Farm Debt by Farm Sales Class, 1985-88



Note: 1987 and 1988 data are not directly comparable with the 1985 and 1986 data because ERS changed its methodology for compiling the 1987 and 1988 information.

Source: USDA.

MOST FARM DEBT WAS HELD BY COMMERCIAL FARMS

According to ERS, commercial farms' share of total farm debt decreased in 1988 while noncommercial farms' share increased. Most 1988 farm debt, however, continued to be held by commercial farms, those having $40,000 or more in sales. In 1988, commercial farms accounted for 31.7 percent of all farms and 76.6 percent of the farm debt. In 1987, commercial farms accounted for 32.8 percent of all farms and 77.5 percent of the debt.

The greatest share of 1988 farm debt, 26.3 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 2 percent of all farms and 18.6 percent of total farm debt. The smallest farms--sales of less than $40,000--accounted for 68.3 percent of all farms and 23.4 percent of the debt.

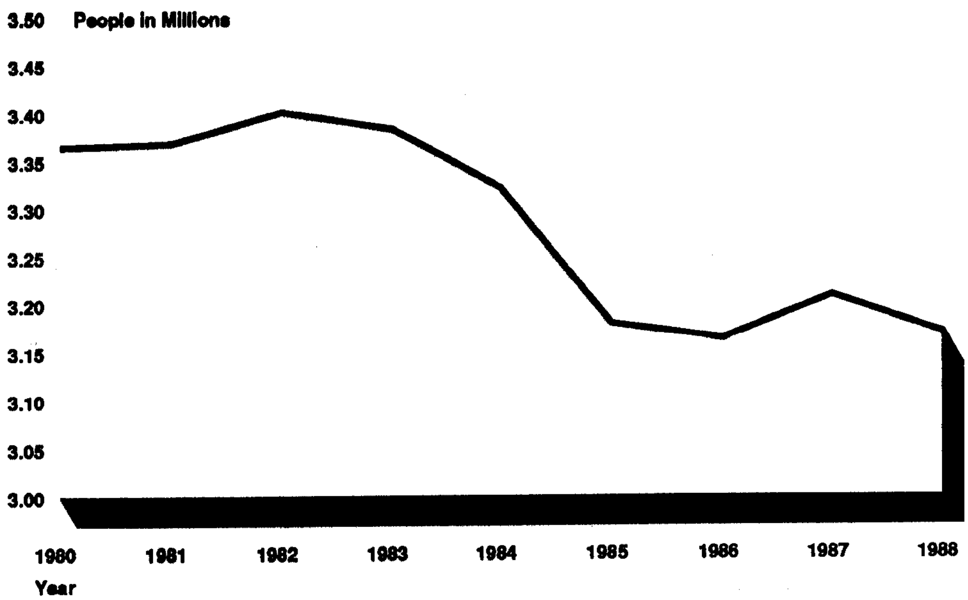
Table 3.10
Number of Farms and Amount of Farm Debt, by Farm Sales Class, 1987 and 1988

	Sales class (thousands)					
	$0 to 39	$40 to 99	$100 to 249	$250 to 499	$500 and over	Total[a]
Number of farms	(farms in thousands)					
1987	1,123	255	199	67	28	1,672
1988	1,205	248	206	70	35	1,764
Percent of farms						
1987	67.2	15.2	11.9	4.0	1.7	100.0
1988	68.3	14.1	11.7	4.0	2.0	100.0
Amount of debt[b]	(billions)					
1987	$19.9	$16.3	$23.5	$14.9	$13.9	$88.4
1988	19.9	14.1	22.4	12.9	15.8	85.1
Percent of debt						
1987	22.5	18.4	26.6	16.9	15.7	100.0
1988	23.4	16.6	26.3	15.2	18.6	100.0
Average debt-to-asset ratio	(percent)					
1987	8.1	16.8	20.2	22.4	23.2	15.1
1988	7.7	14.6	18.2	17.5	19.9	13.4

[a]Totals may not add because of rounding.

[b]See note b in table 3.8 for an explanation of the difference in total debt listed here and in table 4.1.

Figure 3.11
Agricultural Employment, 1980-88



Source: Economic Report of the President transmitted to the Congress in January 1989 and Department of Labor's Bureau of Labor Statistics.

FARM EMPLOYMENT DECREASED

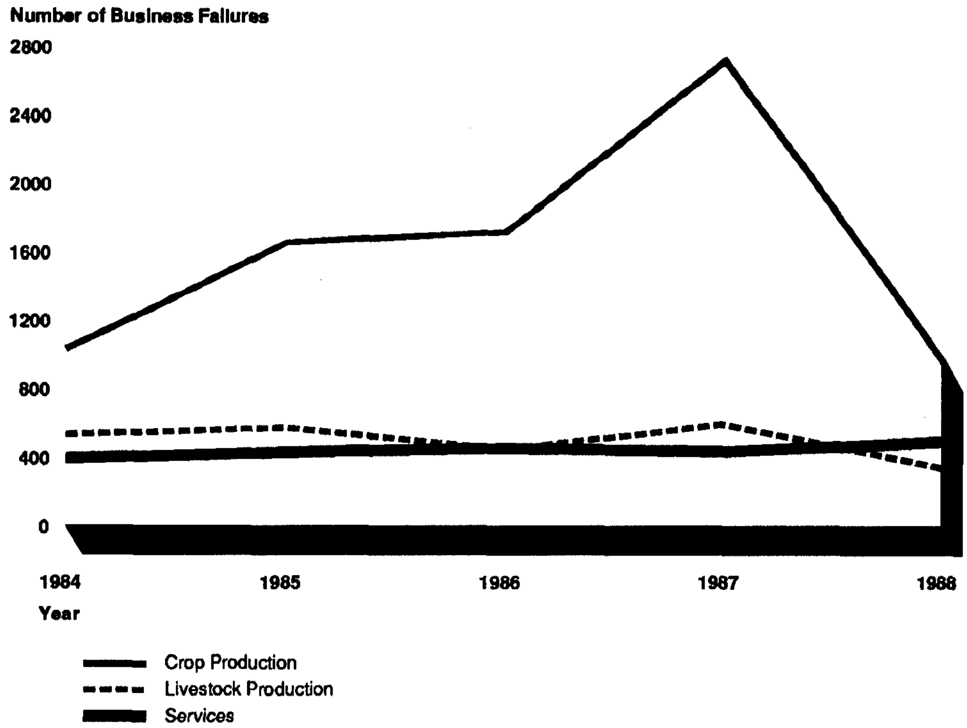
According to the Department of Labor's Bureau of Labor Statistics, farm employment decreased by 1.2 percent in 1988 compared with 1987, continuing an overall declining trend that has been underway for many years. For example, farm employment has decreased each year since 1982, except for 1987. Nonfarm employment, however, increased by 2.4 percent in 1988. Farm employment decreased to 3.1 million people and comprised 2.8 percent of the civilian labor force during 1988.

Table 3.11
Agricultural and Total Employment, 1987 and 1988

	1987	1988	Percent change
	(people in thousands)		
Farm employment	3,208	3,169	(1.2)
Nonfarm employment	109,232	111,800	2.4
Total	112,440	114,969	2.2
Farm employment as a percent of total employment	2.9	2.8	(3.4)

In addition, according to the Department of Commerce's Bureau of the Census, the U.S. rural farm population decreased slightly in 1988 from the 1987 level. Almost 5 million people lived on rural farms in 1988, a less than 1-percent decline from the 1987 level. States in the central and northcentral parts of the country accounted for slightly over 50 percent of the total U.S. farm population. On the other hand, states in the northeastern part accounted for only 5 percent of the farm population.

Figure 3.12
Agricultural Business Failures, 1984-88



Note: 1987 and 1988 data are not directly comparable with 1984-86 data because firms were able to file for bankruptcy in 1987 and 1988 under a provision of the bankruptcy code that was not available in 1984 through 1986.

Source: The Dun & Bradstreet Corporation.

AGRICULTURAL BUSINESS FAILURES DECREASED

According to preliminary information reported by the Dun & Bradstreet Corporation, slightly more than 1,800 agricultural businesses failed in 1988, about a 52-percent decrease compared with 1987 failures.[5] Failures decreased in 1988, compared with the previous year, among firms that had been engaged in crop production and livestock production; however, failures increased among firms engaged in agricultural services. Crop production firms continued to account for most of the agricultural business failures, about 54 percent in 1988 and 73 percent in 1987. In addition, Dun & Bradstreet reported that total business failures recorded the largest decline in a decade in 1988, decreasing by about 7 percent from 1987 levels.

Table 3.12
Number of Agricultural Businesses That Failed, 1987 and 1988

Agricultural business	1987[a]	1988[b]	Percent change
Crop production	2,716	971	(64.2)
Livestock production	592	339	(42.7)
Total	3,308	1,310	(60.4)
Agricultural services	433	492	13.6
Total	3,741	1,802	(51.8)

[a]Dun & Bradstreet-revised 1987 statistics.

[b]The 1988 data were reported as preliminary.

Also, the average value of liabilities owed by agricultural businesses that failed in 1988 decreased to about $297,000, or by more than 18 percent, from the $364,000 average owed by the 1987 failed agricultural businesses. Total liabilities of failed agricultural firms in 1988 were $535 million, a 61-percent decrease from the 1987 level of $1.4 billion.

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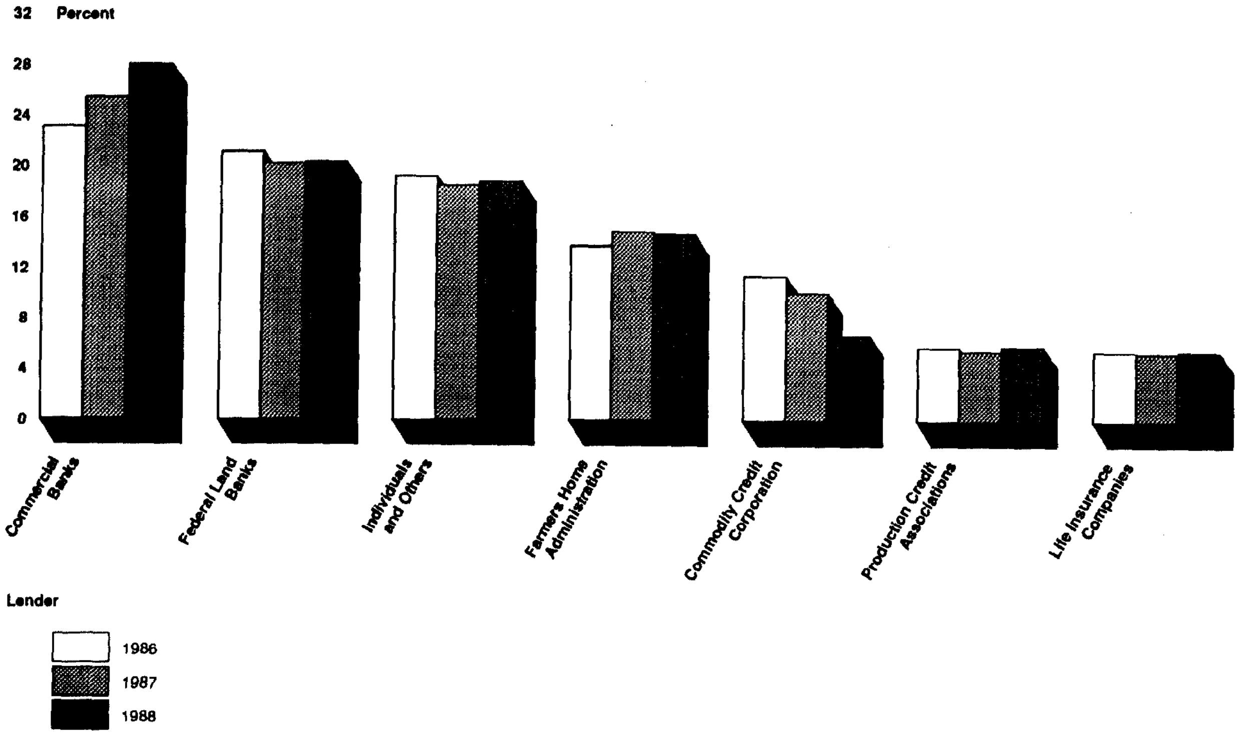
[5]Dun & Bradstreet Corporation produces and markets business information and related services. Its business failure statistics include businesses that ceased operations following assignment or bankruptcy, or after such actions as foreclosure or attachment; voluntarily withdrew leaving unpaid obligations;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

SECTION 4

THE FINANCE SECTOR: FARM LENDERS' FINANCIAL STRESS CONTINUED TO LESSEN

Figure 4.1
Percent of Total Farm Debt Held by Lenders, 1986-88



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

WHILE OVERALL TOTAL FARM DEBT CONTINUED TO DECLINE, SOME LENDERS' FARM DEBT INCREASED

Total outstanding farm debt declined to about $162 billion at the end of 1988, a 5.8-percent decrease compared with 1987; it has declined by almost $59 billion since the 1982 peak of $220.5 billion. Most of the outstanding farm loans, over $131 billion, continued to be held by several major institutional lenders, although ERS has estimated that 1988 farm debt held by other lenders, such as individuals, totaled over $30 billion.

The outstanding farm debt held by all lenders, except commercial banks and PCAs, declined in 1988 compared with 1987. Outstanding debt held by the two federal lenders, FmHA and CCC, was $8.2 billion less at the end of 1988.

Table 4.1
Total Farm Debt, 1987 and 1988

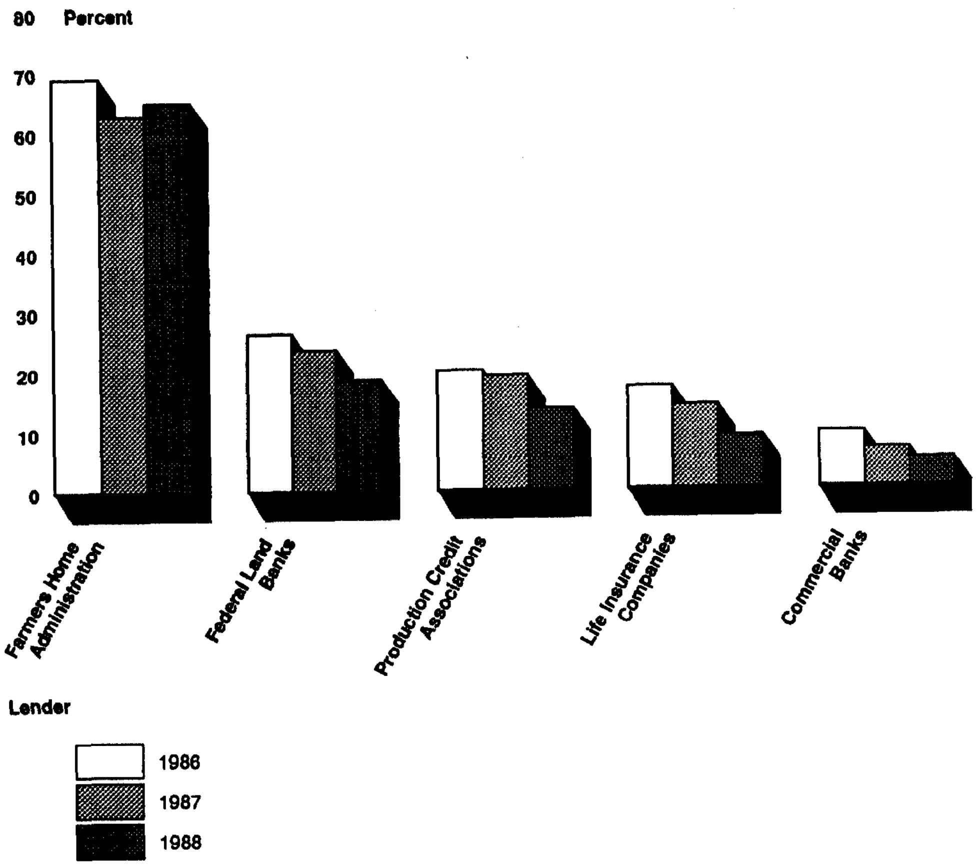
Lender	1987 Real estate	1987 Non-real estate	1987 Total	1988 Real estate	1988 Non-real estate	1988 Total
	(billions)					
Commercial banks[a]	$14.5	$29.0	$ 43.5	$ 15.4	$29.8	$ 45.2
FCS:						
FLBs[b]	34.7	0.0	34.7	32.8	0.0	32.8
PCAs	0.0	9.4	9.4	0.0	9.5	9.5
FmHA[c]	9.5	16.1	25.6	9.0	14.7	23.7
CCC	0.0	17.3	17.3	0.0	11.0	11.0
Life insurance companies	9.3	0.0	9.3	9.1	0.0	9.1
Total	$68.0	$71.8	$139.8	$66.3	$65.0	$131.3
Individuals and others	20.6	11.1	31.7	18.3	12.0	30.3
Total	$88.6	$82.9	$171.5	$84.6	$77.0	$161.6

[a]FRB-revised 1987 figures.

[b]FLBs and Federal Intermediate Credit Banks merged in 1988. FLB amounts in this report are FCS estimates of the FLB position without the mergers.

[c]Debt data used in this report reflect FmHA's portfolio on January 1 of the following year. For example, 1988 data is as of January 1, 1989.

Figure 4.2
Major Institutional Lenders' Percent of Loan Portfolio
Nonperforming and/or Delinquent, 1986-88



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

NONPERFORMING AND/OR DELINQUENT FARM DEBT DECREASED

The overall quality of the major institutional lenders' farm loan portfolios, which reflects conditions in the farm sector, continued to improve in 1988 for the second consecutive year. For example, total nonperforming and/or delinquent loans held by four of the institutional lenders totaled over $25 billion, an improvement from the over $29 billion that was nonperforming and/or delinquent a year earlier. The overall quality of these lenders' portfolios continued to be skewed by the poor condition of FmHA's portfolio. Excluding FmHA, the total nonperforming and/or delinquent loans held by the three nonfederal lenders at the end of 1988 was about $10 billion, or 12 percent of their outstanding debt--a considerable decrease from the more than $13 billion that was nonperforming and/or delinquent at the end of 1987.

Table 4.2
Nonperforming and/or Delinquent Farm Debt Held by Major Institutional Lenders, 1987 and 1988

Lenders	1987 Amount (billions)	1987 Percent of portfolio nonperforming and/or delinquent[a]	1988 Amount (billions)	1988 Percent of portfolio nonperforming and/or delinquent[a]
FmHA[b]	$16.1	62.9	$15.4	65.0
FCS:[c]				
FLBs	8.2	22.8	6.4	19.5
PCAs	1.8	18.7	1.3	14.3
Commercial banks[d]	1.9	6.5	1.4	4.7
Life insurance companies	1.3	14.0	0.8	8.8
Total	$29.3	27.1	$25.3	24.1

Note: Excludes CCC since borrowers can either repay the loan or forfeit the commodity to satisfy the loan. CCC acquired the collateral on loans totaling over $6.1 billion and $2.1 billion in fiscal years 1987 and 1988, respectively. Also excludes "individuals and others" since the quality of their portfolio is unknown.

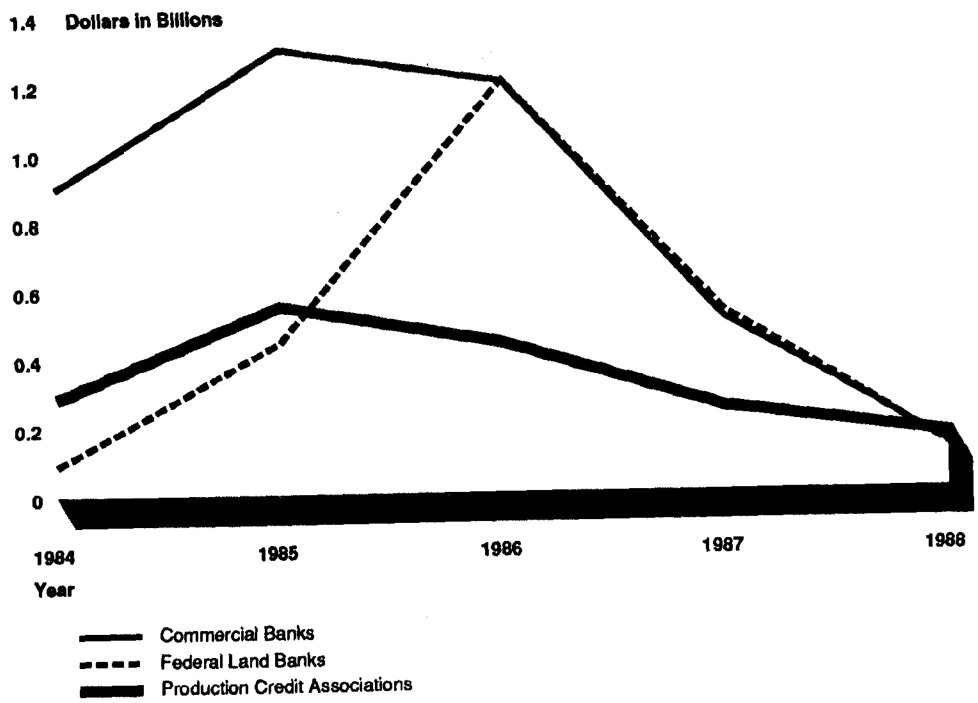
[a]Definitions of nonperforming and/or delinquent farm loans vary somewhat by lender.

[b]The FmHA amount is total unpaid principal outstanding for delinquent borrowers.

[c]Includes FCA-revised 1987 values.

[d]Commercial banks' data are incomplete because all banks are not required to report farm loan quality data; the data included here apply to non-real estate loans.

Figure 4.3
Farm Loan Net Charge-Offs by Commercial Banks, FLBs, and PCAs, 1984-88



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

TOTAL FARM LOAN NET CHARGE-OFFS AND NONACCRUAL LOANS DECREASED

Commercial banks, FLBs, and PCAs charged off about $413 million in farm loans during 1988, a significant reduction from the almost $1.3 billion they charged off the previous year. Charge-offs are loans written off by lenders as uncollectible. PCAs had the largest amount of 1988 charge-offs, $159 million, or about 35 percent, less than the previous year. Commercial banks had $129 million in charge-offs, a 74-percent reduction. FLBs had the lowest amount of charge-offs, $125 million, a 76-percent reduction.

These lenders had nonaccrual loans totaling over $4.1 billion at the end of 1988. This was more than a $2.2 billion, or 35-percent, decrease in the amount of nonaccruals at the end of 1987. Nonaccrual loans are loans for which the accrual of interest has been suspended because full collection of principal and interest is in doubt. These loans are highly significant because they are the most severe category of nonperforming loans and may indicate future loan charge-offs if financial stress continues in agriculture. FLBs had the largest amount of nonaccrual loans, about $2.8 billion, while PCAs had the lowest amount, $486 million. Commercial banks' nonaccrual loans decreased to $857 million in 1988 from over $1.2 billion in 1987.

Table 4.3
Farm Loan Net Charge-Offs and Nonaccrual Loans for Various Lenders, 1987 and 1988

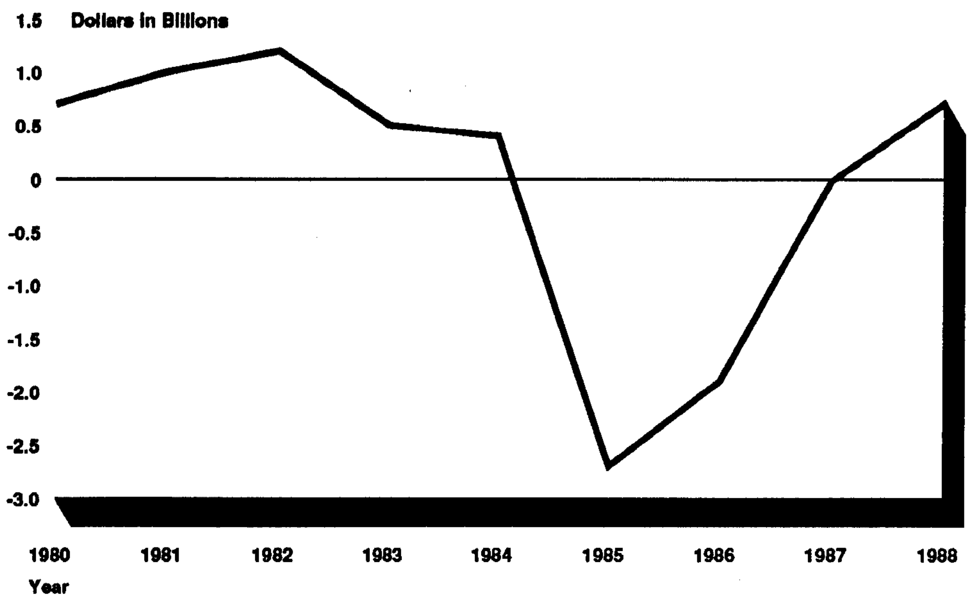
	Net charge-offs[a]			Nonaccrual loans[b]		
Lender	1987	1988	Percent change	1987	1988	Percent change
	---(millions)---			---(millions)---		
FLBs	$523	$ 125	(76.1)	$4,367	$2,763	(36.7)
PCAs	243	159	(34.6)	766	486	(36.6)
Commercial banks[c]	502	129	(74.3)	1,210	857	(29.2)
Total	$1,268	$413	(67.4)	$6,343	$4,106	(35.3)

[a]For the 12 months ending December 31 each year.

[b]As of December 31 each year.

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

Figure 4.4
FCS Net Income, 1980-88



Source: FCA and FCS.

FCS' EARNINGS CONTINUED TO IMPROVE

In 1988, FCS experienced its first profit--$704 million--after three consecutive years of losses. The 1988 improvement in earnings reflected, in large part, an increase in net interest income and a substantial reduction in FCS' allowance for loan losses.

FCS' 1988 net interest income--interest income less interest expense--totaled almost $787 million. After accounting for other income (over $121 million) and expenses ($710.5 million), FCS had a $198-million profit. The $680.5-million reversal in FCS' provision for loan losses, along with a $174-million loss related to restructuring of debt by three banks and losses related to the Jackson FLB, resulted in a $704-million net profit.

All FLBs, except the Jackson FLB which is in receivership, had an improvement in 1988 earnings compared to 1987. In total, the FLBs had net earnings of $675 million. The combined PCAs in 6 of the 12 FCS districts showed improvement in 1988 earnings compared with 1987. Total net income of the PCAs in the 12 FCS districts was $245 million.

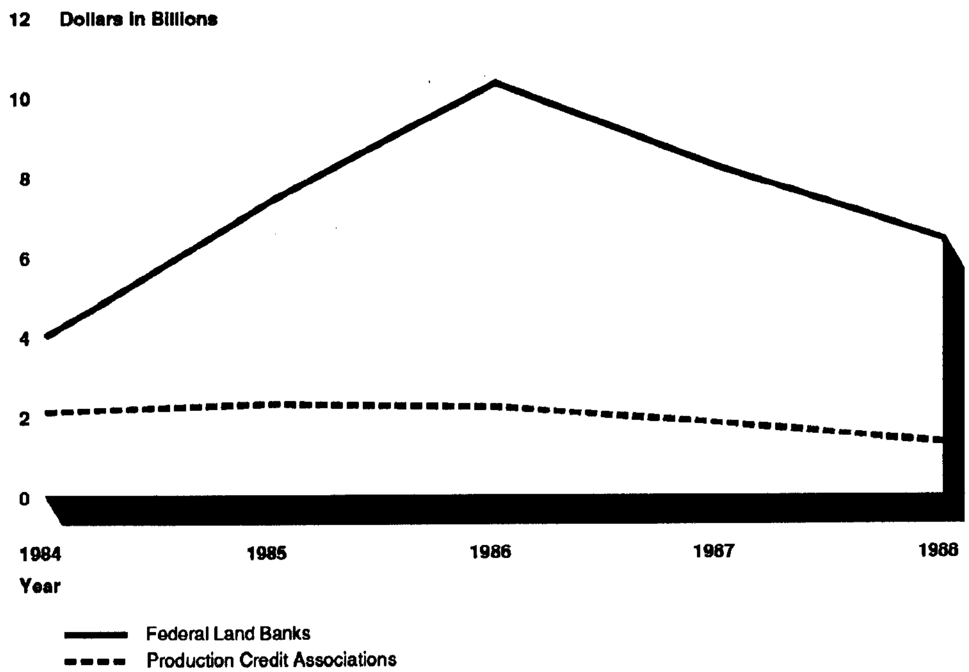
Table 4.4
Net Income for FLBs and PCAs, by FCS District, 1987 and 1988

FCS district	FLBs 1987	FLBs 1988	FLBs Change	PCAs 1987[a]	PCAs 1988	PCAs Change
	(millions)					
Omaha	$ (109.6)	$ 155.4	$ 265.0	$ 0.9	$ 44.1	$ 43.2
Spokane	(50.4)	90.3	140.7	(2.5)	40.3	42.8
Sacramento	(53.5)	83.9	137.4	(4.3)	27.0	31.3
Columbia	53.8	160.7	106.9	38.3	33.9	(4.4)
Wichita	39.7	143.7	104.0	9.1	(9.8)	(18.9)
St. Paul	(36.1)	62.5	98.6	48.3	81.8	33.5
St. Louis	5.2	102.0	96.8	4.8	(7.9)	(12.7)
Baltimore	(6.3)	76.1	82.4	4.5	1.1	(3.4)
Springfield	2.4	23.7	21.3	(1.0)	(0.8)	0.2
Louisville	(29.7)	(11.4)	18.3	(5.0)	41.5	46.5
Texas	11.7	78.6	66.9	6.8	(6.0)	(12.8)
Jackson	(44.3)	(290.5)	(246.2)	1.1	0.0	(1.1)
Total[b]	($217.2)	$675.0	$892.2	$101.1	$245.2	$144.1

[a]Includes some FCA-revised 1987 values.

[b]Totals do not add due to rounding.

Figure 4.5
Amount of FLB and PCA Nonperforming Loans, 1984-88



Source: FCA and FCS.

FLB AND PCA NONPERFORMING LOANS DECREASED

FLBs and PCAs had $7.7 billion in nonperforming loans as of December 31, 1988, about $2.3 billion less than in 1987. Combined, 18.5 percent of their total outstanding loans were nonperforming at the end of 1988 compared with almost 22 percent at the end of 1987. FLB and PCA nonperforming loans include those that have been restructured; those that are 90 days or more past due but adequately secured by collateral; those in the process of liquidation, bankruptcy, or foreclosure; and nonaccrual loans.

The extent of FLB and PCA nonperforming loans continued to vary widely between FCS districts in 1988. For example, two FLBs had nonperforming loan rates exceeding 30 percent. One FLB (St. Paul) had more than $1 billion in nonperforming loans. Among the PCAs, the St. Paul district had the highest nonperforming loan rate and nonperforming amount, 28 percent and $471 million, respectively. On the other hand, the Springfield FLB and combined PCAs had 1988 nonperforming loan rates that were less than 3 percent. All FLBs, except the Sacramento FLB, and the combined PCAs in all districts, except Texas, had less value in nonperforming loans in 1988 than in 1987.

Table 4.5

FLB and PCA Nonperforming Loans: Amount and Percent of Total Outstanding Loans, by FCS District, 1987 and 1988

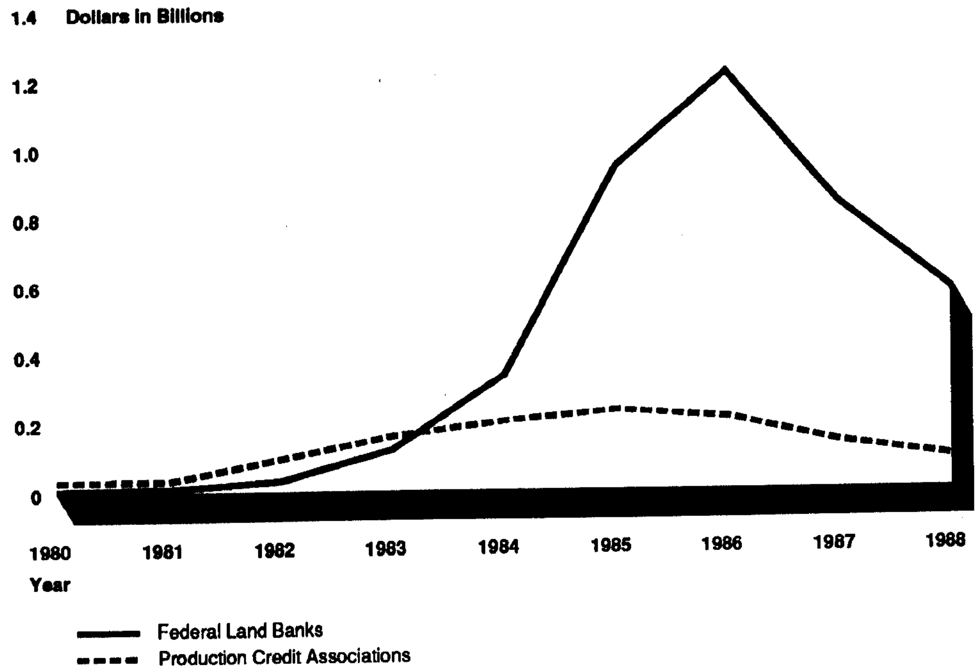
FCS district	FLBs				PCAs			
	1987[a]		1988		1987[a]		1988	
	Nonperforming (millions)	Percent[b]	Nonperforming (millions)	Percent[b]	Nonperforming (millions)	Percent[b]	Nonperforming (millions)	Percent[b]
St. Paul	$ 2,354.4	44.9	$1,924.1	40.6	$ 639.7	35.2	$ 471.3	28.4
Jackson	680.2	40.3	468.4	39.1	62.2	16.0	48.8	13.0
Spokane	569.7	20.1	508.8	19.4	97.1	25.2	53.6	16.7
Sacramento	638.4	15.6	719.0	19.0	405.2	21.4	339.5	19.7
St. Louis	1,013.7	30.0	567.8	18.9	87.3	16.8	44.9	8.4
Omaha	907.2	23.7	788.8	23.8	83.0	18.8	59.6	12.8
Louisville	753.8	27.0	428.4	16.4	117.1	14.8	75.1	8.7
Wichita	487.4	14.1	414.9	12.9	76.3	15.1	46.8	9.3
Columbia	509.2	13.7	284.2	8.4	127.1	15.6	78.9	10.2
Texas	192.0	8.0	173.0	7.6	70.9	8.8	94.2	12.6
Baltimore	77.3	4.3	64.7	3.5	35.4	5.0	28.1	3.6
Springfield	24.4	3.2	18.4	2.3	7.6	1.3	6.0	0.9
Total[c]	$8,208.0	22.8	$6,360.5	19.8	$1,808.9	18.7	$1,346.8	14.3

[a]Includes FCA-revised 1987 values.

[b]Percent of total outstanding loans which are nonperforming.

[c]Totals may not add due to rounding.

Figure 4.6
FLB- and PCA-Acquired Property Holdings, 1980-88



Source: FCA and FCS.

FLB- AND PCA-ACQUIRED PROPERTY HOLDINGS AGAIN DECREASED

The gross value of acquired property held by FLBs and PCAs totaled $667.5 million as of December 31, 1988, which is $297 million less than 1987. These two FCS elements acquire property through foreclosure or deed in lieu of foreclosure. The 1988 decrease is the second consecutive year in which FLB-acquired property has decreased and the third consecutive decrease for PCA-acquired property.

At year-end 1988, FLBs had about $578 million in the gross value of acquired property, a 30-percent decrease from their year-end 1987 total. PCAs had about $90 million in the gross value of acquired property, a 33-percent decrease from 1987.

The extent of FLB- and PCA-acquired property holdings varied widely between FCS districts. For example, the St. Paul FLB had acquired property that exceeded $200 million while the Springfield FLB's acquired property was valued at less than $1 million. Among the PCAs, the St. Paul district had the highest amount, about $29 million, while the combined PCAs in the Springfield and Baltimore districts each had less than $1 million in property.

Table 4.6
Gross Value of FLB- and PCA-Acquired Property, by FCS District, 1987 and 1988

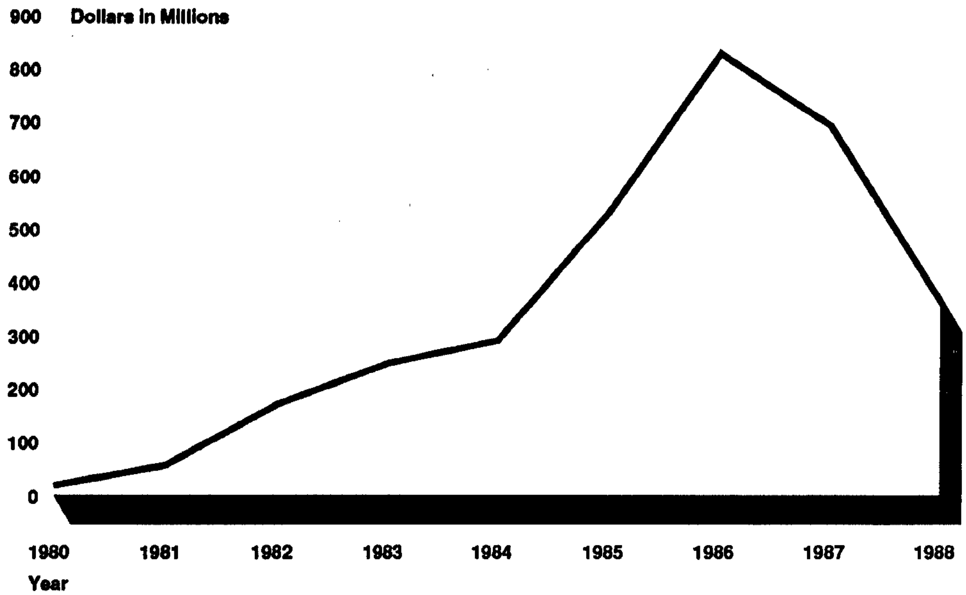
FCS district	FLBs 1987 --(millions)--	FLBs 1988	FLBs Percent change	PCAs 1987[a] --(millions)--	PCAs 1988	PCAs Percent change
St. Paul	$247.0	$247.1	0.0[b]	$ 33.7	$ 28.7	(14.8)
St. Louis	90.3	60.7	(32.8)	7.5	5.5	(26.7)
Sacramento	71.6	58.2	(18.7)	21.6	12.9	(40.3)
Omaha	119.3	58.0	(51.4)	15.0	3.9	(74.0)
Jackson	92.6	49.8	(46.2)	3.3	2.9	(12.1)
Texas	17.0	21.6	27.1	16.4	11.7	(28.7)
Spokane	46.3	29.1	(37.1)	7.7	4.0	(48.1)
Wichita	83.4	28.4	(65.9)	10.3	7.5	(27.2)
Louisville	35.0	13.9	(60.3)	8.9	4.7	(47.2)
Columbia	20.9	9.0	(56.9)	7.0	7.0	0.0
Baltimore	1.6	1.3	(18.8)	2.9	0.5	(82.8)
Springfield	4.6	0.5	(89.1)	0.5	0.6	20.0
Total	$829.6	$577.6	(30.4)	$134.7[c]	$89.9	(33.3)

[a]Includes some FCA-revised 1987 values.

[b]Less than 0.1 percent.

[c]Total does not add due to rounding.

Figure 4.7
Farm Loan Foreclosures by Life Insurance Companies, 1980-88



Source: American Council of Life Insurance.

FARM LOAN FORECLOSURES BY LIFE INSURANCE COMPANIES DECREASED

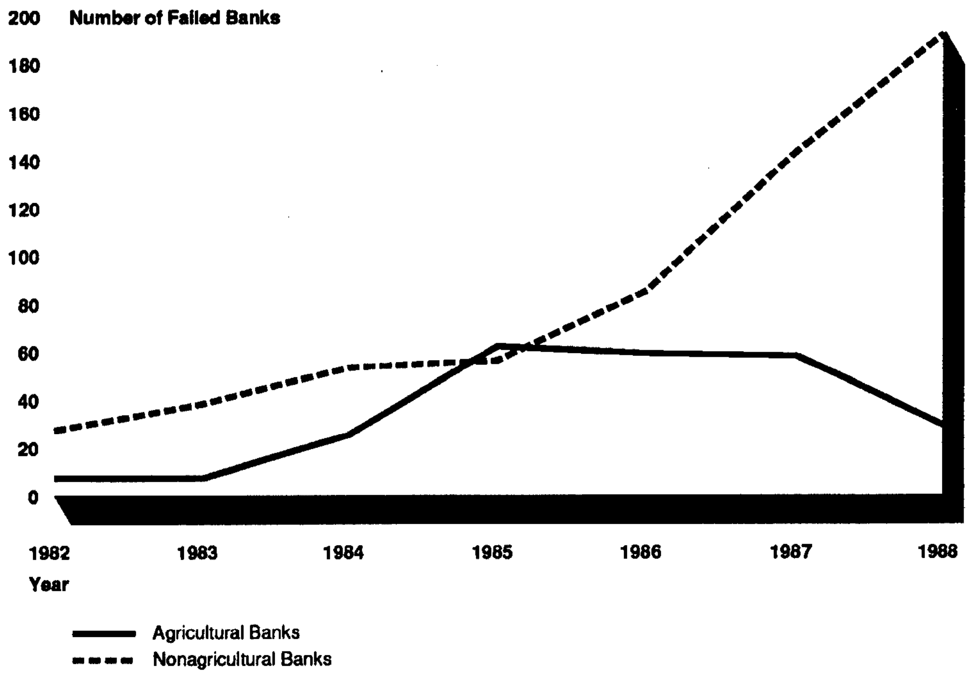
Farm loan foreclosures by life insurance companies decreased in 1988, the second consecutive annual decrease. During 1988, life insurance companies foreclosed on 727 farm loans, a decrease of 788, or 52 percent, compared with 1987. These 727 loans had a total value of slightly over $364 million, a $327.5-million decrease in value, or over 47 percent, compared with the value of 1987 foreclosures.

Additionally, the outlook for a continued reduction in foreclosures by life insurance companies existed at year-end 1988. For example, the American Council of Life Insurance reported that both the average delinquency rate and foreclosure rate for agricultural loans had declined sharply. Delinquency rates were about 9 percent at the end of 1988, down from 14 percent at the end of 1987. The number of farm loans in foreclosure was at its lowest level since year-end 1984, at about 2.6 percent at the end of 1988 compared with slightly over 3 percent at the end of 1987. Life insurance companies had 1,073 loans in the process of foreclosure as of December 31, 1988; these loans had a total value of $440.5 million. This was considerably less than the 1,403 loans valued at $597 million that were in the process of foreclosure a year earlier.

Table 4.7
Life Insurance Companies' Farm Loan Foreclosure Statistics, 1987 and 1988

Farm loans	1987	1988	Percent change
Foreclosed:			
Number	1,515	727	(52.0)
Value (millions)	$691.9	$364.4	(47.3)
In the process of foreclosure at year-end:			
Number	1,403	1,073	(23.5)
Value (millions)	$597.2	$440.5	(26.2)

Figure 4.8
Agricultural and Nonagricultural Failed Banks, 1982-88



Source: FDIC.

AGRICULTURAL BANK FAILURES DECREASED

Agricultural bank failures decreased in 1988 for the third consecutive year. According to FDIC, 29 agricultural banks failed in 1988--this is half of the 58 that failed in 1987 or the 59 that failed in 1986.

Most of the 29 agricultural banks that failed in 1988 were located in 4 states: Iowa (7), Kansas and Minnesota (6 each), and Oklahoma (4).

Agricultural banks represented about 25 percent of all banks in both 1987 and 1988. They accounted for 29 percent and 13 percent of the 1987 and 1988 failed banks, respectively.

Table 4.8
Failed Banks: Agricultural and Nonagricultural, 1987 and 1988

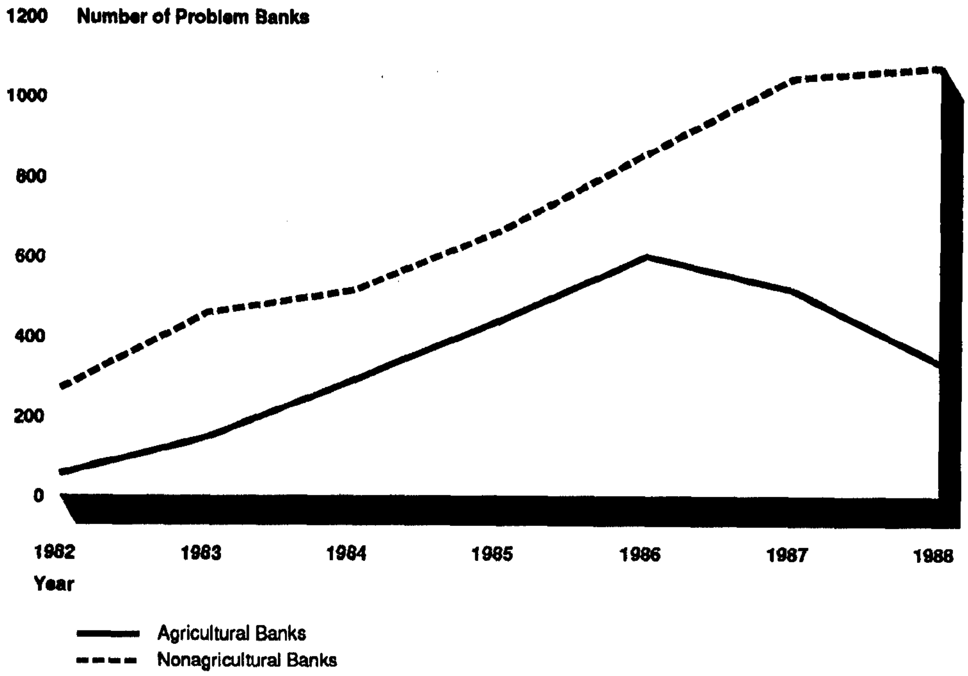
Bank type	1987 Number	1987 Percent	1988 Number	1988 Percent	Percent change
Agricultural	58	28.9	29	13.1	(50.0)
Nonagricultural	143	71.1	192	86.9	34.3
Total	201	100.0	221	100.0	10.0

Note: This table is based on FDIC's definition of an agricultural bank (25 percent or more of its portfolio in farm loans). In addition, the failure statistics include banks for which FDIC provided financial assistance to keep open banks from failing. FDIC provides such assistance when it costs less than what FDIC would incur if the banks actually failed.

The 1988 failed agricultural banks continued to be much smaller than the failed nonagricultural banks. According to FDIC, the 29 agricultural banks had about $17 million in assets on average compared with about $235 million for the nonagricultural banks. In addition, the 1988 failed agricultural banks' $17-million average asset size was about the same as the $16-million average asset size for 1987 failed agricultural banks.

Most 1988 failed agricultural banks reopened following their failure, for example, as a branch of another bank, and banking operations continued with little interruption. According to FDIC, about 83 percent of the failed agricultural banks reopened as a branch of another bank or otherwise continued operations as compared with the 74 percent of failed agricultural banks which reopened or continued operations in 1987.

Figure 4.9
Agricultural and Nonagricultural Problem Banks, 1982-88



Source: FDIC.

PROBLEM AGRICULTURAL BANKS DECREASED

The number of problem agricultural banks decreased by 35 percent in 1988 compared with 1987, the second consecutive annual decrease.[1] FDIC reported that as of December 31, 1988, 333 agricultural banks were classified as problem banks--180 fewer than the 513 agricultural banks classified as problem banks a year earlier. Slightly over 10 percent of all agricultural banks were classified as problem banks at the end of 1988. A year earlier, slightly over 15 percent of all agricultural banks were problem banks.

The total number of agricultural banks declined by about 3 percent in 1988 compared with 1987. In addition, agricultural banks represented about 25 percent of all banks in 1988 and they accounted for almost 24 percent of the 1988 problem banks. A year earlier agricultural banks also represented about 25 percent of all banks, but they accounted for almost 33 percent of the problem banks.

Table 4.9
Problem Banks: Agricultural and Nonagricultural, 1987 and 1988

	1987		1988		Percent
Banks	Number	Percent	Number	Percent	change
Problem banks:					
Agricultural	513	32.9	333	23.7	(35.1)
Nonagricultural	1,046	67.1	1,073	76.3	2.6
Total	1,559	100.0	1,406	100.0	(9.8)
Total banks:					
Agricultural	3,364	24.6	3,267	24.9	(2.9)
Nonagricultural	10,335	75.4	9,871	75.1	(4.5)
Total	13,699	100.0	13,138	100.0	(4.1)

Note: This table is based on FDIC's definition of an agricultural bank (25 percent or more of its portfolio in farm loans).

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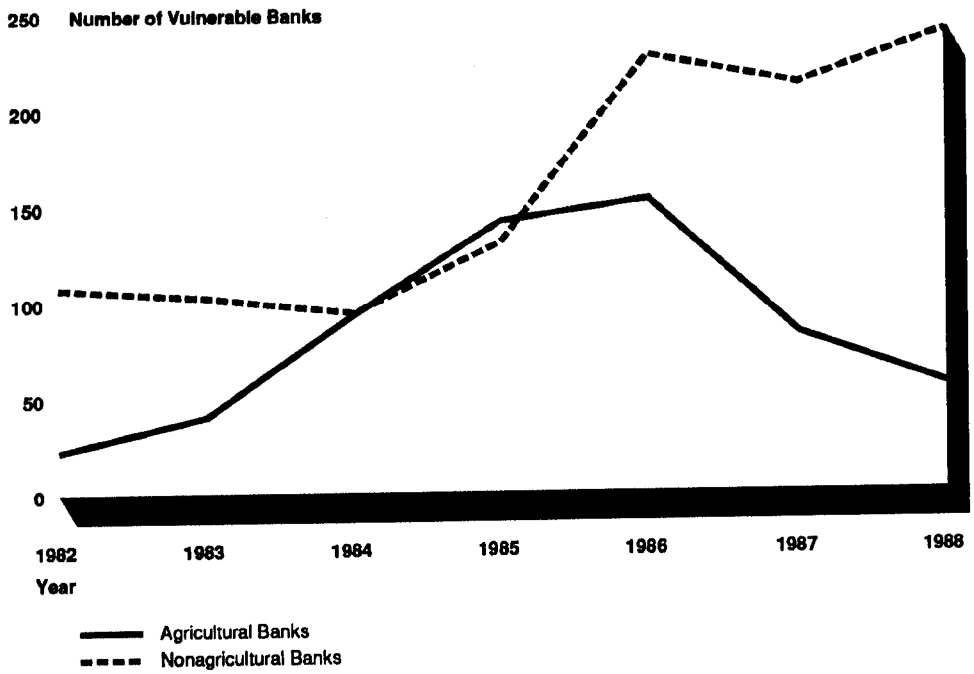
[1]"Problem bank" is the term used by FDIC to classify any bank that warrants more than normal supervision because of financial and/or other weaknesses, which, if left uncorrected, could eventually impair the bank's future viability. Such a bank, therefore, has a greater than normal potential for failure.

Figure 4.10
Agricultural and Nonagricultural Vulnerable Banks, 1982-88



Source: FRB.

AGRICULTURAL BANKS VULNERABLE TO FAILURE DECREASED

The number of agricultural banks that are particularly vulnerable to failure decreased in 1988 compared with 1987, the second consecutive annual decrease. According to FRB, agricultural banks that are vulnerable to failure declined by almost 33 percent in 1988 compared with 1987. FRB identifies a bank as being particularly vulnerable to failure when the bank has nonperforming loans exceeding capital.[2] Many of the banks that failed in recent years met this condition shortly before their failure.

As of December 31, 1988, FRB identified 55 agricultural banks as vulnerable to failure--27 fewer than the 82 categorized as vulnerable a year earlier. Of the 55 vulnerable agricultural banks, 44 were located in 5 states: Texas (16), Oklahoma (10), Kansas (8), Minnesota (5), and Nebraska (5). Some vulnerable banks, such as those in Texas and Oklahoma, have been adversely affected not only by the problems in agriculture but also by the continuing depressed condition of the energy industry in those states.

FRB-defined agricultural banks accounted for about 19 percent of all 1988 vulnerable banks. A year earlier, FRB-defined agricultural banks accounted for almost 28 percent of all vulnerable banks.

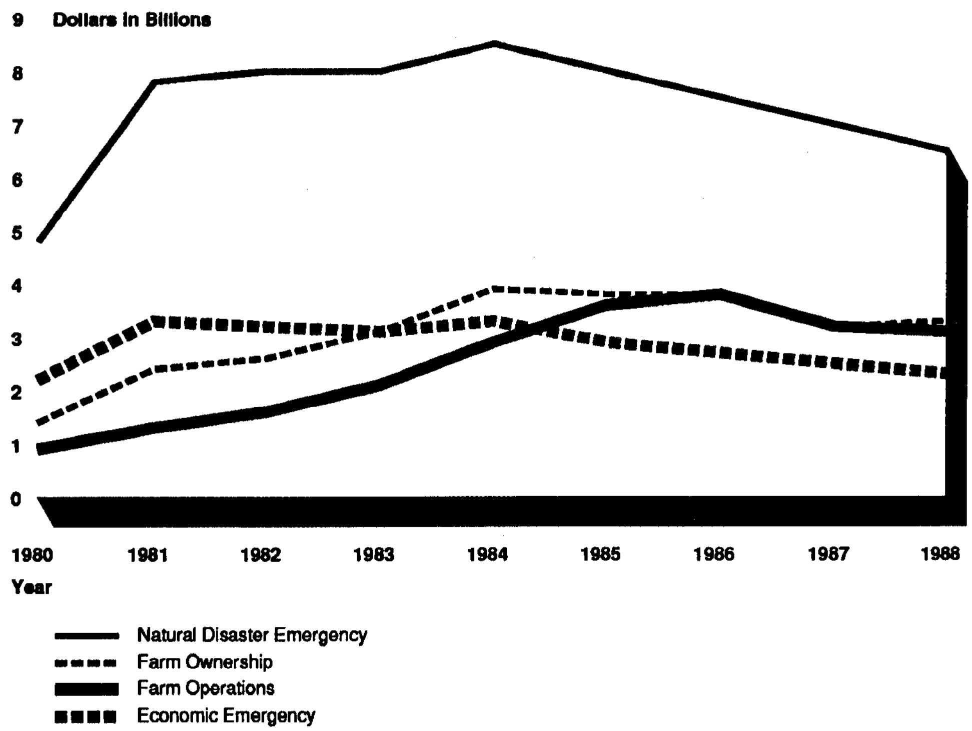
Table 4.10
Vulnerable Banks: Agricultural and Nonagricultural, 1987 and 1988

Banks	1987 Number	1987 Percent	1988 Number	1988 Percent	Percent change
Agricultural	82	27.9	55	18.7	(32.9)
Nonagricultural	212	72.1	239	81.3	12.7
Total	294	100.0	294	100.0	0.0

Note: This table is based on FRB's definition of an agricultural bank: a bank with a farm loan ratio that is above the national average of farm loan ratios at all banks (slightly less than 16 percent in 1988).

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

Figure 4.11
FmHA Loans by Program: Amount Owed by Delinquent Borrowers, 1980-88



Note: This figure excludes FmHA's soil and water, recreation, and economic opportunity programs.

Source: FmHA.

WHILE SOME IMPROVEMENT HAS OCCURRED IN FmHA'S LOAN PORTFOLIO, A LARGE AMOUNT OF DELINQUENT LOANS REMAIN

As of December 31, 1988, FmHA had about $23.7 billion in outstanding individual loans to farmers, a $1.9-billion decrease from a year earlier. As the federal "lender of last resort" to the nation's farmers, FmHA's portfolio continues to contain an extremely high amount of delinquent loans. At the end of 1988, FmHA borrowers were past due on about $9.7 billion in principal and interest payments. However, the outstanding balance on loans to delinquent borrowers totaled $15.3 billion at the end of 1988, an $800-million decrease from 1987.

The total outstanding principal held by delinquent borrowers on three of FmHA's largest farm loan programs decreased in 1988 compared with 1987; disaster emergency loans had the greatest decrease, about $500 million, while economic emergency and operating loans decreased by $200 million and $100 million, respectively. However, the outstanding balance held by delinquent borrowers on farm ownership loans increased by $100 million.

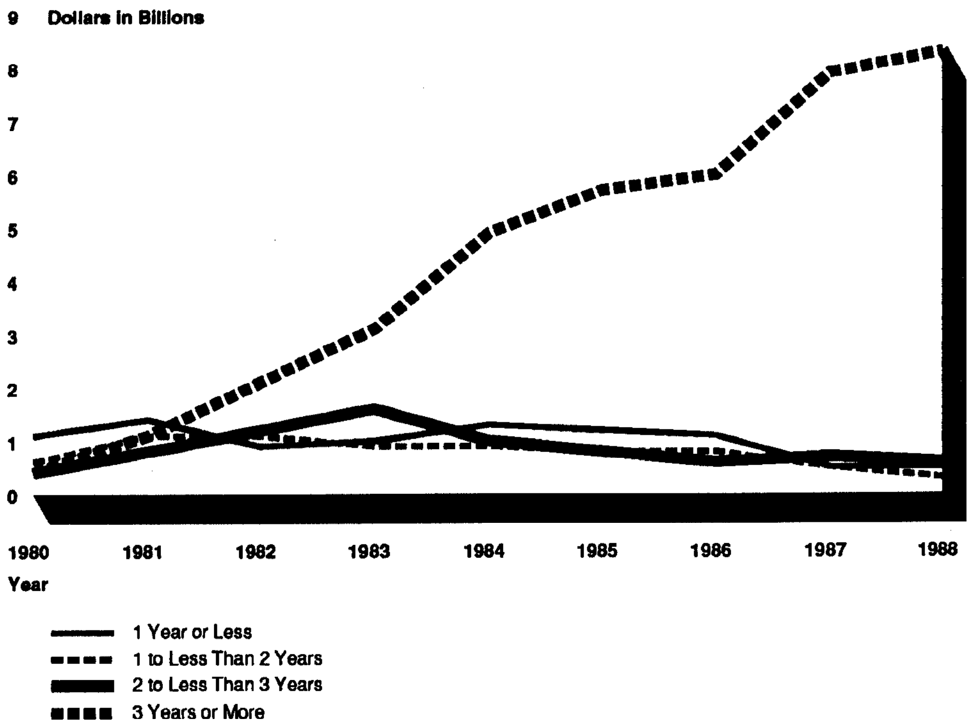
Table 4.11
FmHA Outstanding Principal and Delinquent Loans, by Program, 1987 and 1988

FmHA loan program	1987 Total principal outstanding (billions)	1987 Amount past due (billions)	1987 Delinquent borrowers' principal (billions)	1987 Percent of principal delinquent	1988 Total principal outstanding (billions)	1988 Amount past due (billions)	1988 Delinquent borrowers' principal (billions)	1988 Percent of principal delinquent
Disaster emergency	$ 8.9	$5.3	$ 7.0	78.7	$ 8.1	$5.3	$ 6.5	80.2
Farm ownership	7.4	0.7	3.2	43.2	7.2	0.8	3.3	45.8
Farm operations	5.4	1.9	3.2	59.3	5.0	1.8	3.1	62.0
Economic emergency	3.6	1.6	2.5	69.4	3.2	1.6	2.3	71.9
Other	0.3	0.1	0.2	66.7	0.3	0.1	0.1	33.3
Total[a]	$25.6	$9.6	$16.1	62.9	$23.7	$9.7	$15.3	64.6

Note: FmHA recognizes loan delinquencies as only the total payments past due rather than the total principal on which payments are past due. This latter definition is used by the other major institutional lenders (as listed in table 4.2).

[a]Totals may not add because of rounding.

Figure 4.12
Aging of FmHA's Past Due Amount, 1980-88



Source: FmHA.

PAST DUE LOAN PAYMENTS TO FmHA CONTINUED TO INCREASE

The duration of past due payments on FmHA's farmer program loans continues to be a significant problem for the agency.[3] As of December 31, 1988, FmHA farmer program borrowers were past due on $9.7 billion in payments, a slight increase from last year's $9.6 billion level. However, the amount and percent that had been past due for a lengthy time period continued to increase in 1988. Almost $8.3 billion, or about 86 percent, of FmHA's past due amount was at least 3 years overdue, a 5-percent increase compared with 1987. Also, about $9.2 billion, or 95 percent, of the past due amount was overdue for more than 1 year, a slight increase compared with the situation in 1987.

Table 4.12
Aging of FmHA's Past Due Amount, 1987 and 1988

Time past due	1987 Amount (billions)	1987 Percent[a]	1988 Amount (billions)	1988 Percent[a]
1 year or less	$0.5	5.3	$0.5	4.8
1 to 2 years	0.5	5.5	0.3	3.4
2 to 3 years	0.7	7.3	0.6	6.2
3 years or more	7.9	81.9	8.3	85.6
Total	$9.6	100.0	$9.7	100.0

[a]Percent of total amount past due by length of delinquency. Percent may not compute because of rounding.

Three states accounted for the highest amounts past due at the end of 1988: Georgia ($928 million), Texas ($898 million), and Mississippi ($848 million). Two other states--Louisiana and California--each had about $600 million past due.

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

SECTION 5

OBJECTIVES, SCOPE, AND METHODOLOGY

In May 1989, the staff, Senate Committee on Agriculture, Nutrition, and Forestry, and the House Committee on Agriculture requested that we conduct a study of the financial condition of American agriculture as of December 31, 1988. The objective of the study was to determine what happened to American farmers and their lenders as a result of 1988 operations: Had their financial condition improved or deteriorated further from their position as we reported in our previous reports on this topic?[1] We were requested to provide the Committee Chairmen with a written report on the results of our study. In October 1989, prior to issuance of the report, we preliminarily briefed several members and staff of the two Committees on the results of our study.

To determine the financial condition of American agriculture following 1988 operations, we gathered and analyzed a large amount of data from both public and private sources. We discussed various aspects of the financial condition of American agriculture with officials from a variety of offices including ERS, FCA, FDIC, and FRB. In addition, 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.

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 USDA 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. 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, income and solvency position, and sales class. 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 and the Economic Report of the President transmitted to the Congress in January 1989.

Information on the financial sector was compiled from a variety of sources, including 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. In addition, FCS information was obtained from

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[1]Our four previous reports are listed in "Related GAO Products" in this report. (See page 92.)

FCA and the System's individual Farm Credit Banks. These banks were created during 1988 following the merging of FCS' FLBs and Federal Intermediate Credit Banks. Farm Credit Banks' officials reconstructed and provided us with an estimate of what their FLB financial position would have been without the mergers.

We used final 1988 data, except in table 3.12 where we used Dun & Bradstreet Corporation preliminary information on agriculture business failures because final information was not available at the time of our review. In addition, the 1987 and 1988 data in tables 3.8, 3.9, and 3.10, which is based on USDA's Farm Costs and Returns Surveys, is not directly comparable with 1985 and 1986 data because of changes in the methodology to account for a greater number of smaller farms when compiling the 1987 and 1988 information. Also, the FmHA data on total and delinquent debt reflect payments due and not paid as of January 1 of the following year, rather than December 31; for example, 1988 data is as of January 1, 1989. Further, some 1987 amounts used in this report differ from the 1987 amounts reported in our October 18, 1988, report (GAO/RCED-89-33BR) because of subsequent revisions to source data. We have noted on the tables in this report where there have been significant revisions to the previously reported 1987 data.

Portions of this briefing report have been discussed with officials of ERS, FmHA, FDIC, and FCA, and their suggestions were incorporated where appropriate. We did not obtain formal agency comments on a draft of this report, however, because of its informational nature.

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RELATED GAO PRODUCTS

Farm Finance: Financial Condition of American Agriculture as of December 31, 1987 (GAO/RCED-89-33BR, Oct. 18, 1988).

Farm Finance: Financial Condition of American Agriculture as of December 31, 1986 (GAO/RCED-88-26BR, Oct. 20, 1987).

Farm Finance: Financial Condition of American Agriculture as of December 31, 1985 (GAO/RCED-86-191BR, Sept. 3, 1986).

Financial Condition of American Agriculture (GAO/RCED-86-09, Oct. 10, 1985).

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