FSA LOAN PORTFOLIO CHANGES AND IMPLICATIONS
Template taken from National Policy Meeting presentation -- upper panel added for color.
Dodson, Charles - FSA, Washington, DC, 2/16/2017
Back to the Future?

1980s-

• FSA (then FmHA) viewed as a bellwether of farm financial stress
• Share of farm credit market grew
• Loan defaults and losses increased dramatically
1980s

• FSA credit primarily direct lending

• Safety net
  o production losses
  o price declines
What’s Different Today?

- Crop Insurance
- Policy changes shifted focus of direct lending
- Guaranteed lending provides safety net
Targeting to Beginning Farmers & Implementation of Microloans Program Has Focused Direct Program on Small Farms

MOST DIRECT OBLIGATIONS GOING TO FARMS < $100,000 IN ANNUAL SALES

40% OF BORROWERS ARE COW-CALF OPERATIONS

Direct Obligations (5-yrs) FBP by Farm Sales

Sources: FSA OBFN and Farm Business Plan

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Direct borrowers with < $100,000 in sales are more dependent on non-farm income.

Source: FSA FLP Farm Business Plan
Number & Share of Farms Receiving Direct Loans Since 2014, by FSA County Office Area

Sources: USDA FSA PLAS & 2012 Census of Agriculture
Key factors in FSA Direct Portfolio Today

• off-farm employment
• Cattle sector
• General farm economy
Majority of FSA Portfolio is Guaranteed

Source: FSA management reports
Majority of Guarantee Borrowers Are Crop Producers

DISTRIBUTION OF BORROWERS RECEIVING NEW FSA GUARANTEES (PAST 5 YEARS)

- Corn-Soybeans: 24%
- Beef: 20%
- Poultry: 18%
- Other Cash Grains & Oilseeds: 7%
- Cotton: 4%
- Other Crops: 10%
- Fruit & Nuts/Veg/Nursery: 7%
- Hogs & Other Livestock: 1%
- Dairy: 6%
- Wheat: 3%

Source: USDA FSA GLS Data
Number & Share of Farms Receiving Gte Loans Since 2014, by FSA County Office Area

Number of Farms

Share of Indebted Farms

Sources: USDA FSA GLS & 2012 Census of Agriculture
Outstanding loans (EOY 2015), --Direct Serves Small Farms, While Guaranteed Serves Mid-Size Farms
DC-FWD Next slide (hidden) gives typology definitions

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Small family farms were farming occupation farms or farms with > 1,000 of operator labor. Small, part-time farms was everything else. Mid- and Large farms are the same as described below.

<table>
<thead>
<tr>
<th>The Revised Farm Typology</th>
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</thead>
</table>

The farm typology focuses on the “family farm,” or any farm where the majority of the business is owned by the operator and individuals related to the operator, including relatives who do not live in the operator’s household. USDA defines a farm as any place that produced and sold—or normally would have produced and sold—at least $1,000 of agricultural products during a given year.

<table>
<thead>
<tr>
<th>Small family farms (GCFI less than $350,000)</th>
<th>Midsize family farms (GCFI between $350,000 and $999,999)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement farms. Small family farms whose operators report they are retired, although they continue to farm on a small scale. These operations sell enough farm products to qualify under the current USDA farm definition.</td>
<td>Family farms with GCFI between $350,000 and $999,999.</td>
</tr>
<tr>
<td>Off-farm occupation farms. Small family farms whose operators report a primary occupation other than farming. The category also includes farms—12 percent of the group in 2010—which are not in the labor force but are not retired.</td>
<td>Large-scale family farms (GCFI greater than $1,000,000)</td>
</tr>
<tr>
<td>Farming-occupation farms. Small family farms whose operators report farming as their primary occupation. • Low-sales farms. GCFI less than $150,000. • Moderate-sales farms. GCFI between $150,000 and $349,999.</td>
<td>Large family farms. Family farms with GCFI between $1,000,000 and $4,999,999.</td>
</tr>
<tr>
<td>Nonfamily farms</td>
<td>Very large family farms. Family farms with GCFI of $5,000,000 or more.</td>
</tr>
</tbody>
</table>

GCFI = Gross cash farm income.
DC-FWD1  Hidden slide--showing source data for ERS typologies
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Debt Market Shares Understates Share of Farmers Served Through FSA Loans

Sources: FSA GLS & PLAS Data merged with the USDA ARMS; USDA ERS
Mid-size and Large Family Farms More Dependent on FSA Credit Programs

Source: FSA GLS & PLAS Data merged with the USDA ARMS

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FSA Guaranteed Portfolio

• Reflects loan performance in the sector

• Not substantially different from Bank Ag loan performance
Loan Performance Comparison

FSA Guaranteed vs. Commercial Ag Loan Delinquencies

Source: USDA FSA GLS and Federal Reserve Data
..As are Smaller Community Banks

SHARE OF FSA GUARANTEES OUTSTANDING DEC 2015 BY BANK ASSETS

- Under $250 Mi: 31%
- $250 Mi. - $500 Mi: 38%
- $500 Mi. to $1 Bil: 12%
- $1 Bi to $10 Bi: 15%
- Over $10 Bil: 4%

Source: USDA FSA GLS & Bank Call Report Data

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Borrower Delinquency Rates Edging Up for OL Programs

Borrower Delinquency Rate by Qtr. (Seasonally Adjusted)

USDA FSA R540 & GLS Data

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..As well as greater indications of financial stress -- declining solvency

Source: FSA GLS & PLAS Data merged with the USDA ARMS

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..and higher debt capacity utilization and lower profitability

of FLP borrowers w/FLP year-end outstanding debt

% of debt repayment capacity utilized

Operating profit margin

Conclusions

• FSA direct portfolio is unique
• FSA credit market share is small in the sector, but critical in some segments
• FSA portfolios are showing some signs of stress

Credits:
Special thanks to FSA Economic and Policy Analysis Staff
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Charles Dodson