

DC-FWD4



# FSA LOAN PORTFOLIO CHANGES AND IMPLICATIONS

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2017 Agricultural Outlook Forum

## Slide 1

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**DC-FWD4** Template taken from National Policy Meeting presentation --upper panel added for color.

Dodson, Charles - FSA, Washington, DC, 2/16/2017

# Back to the Future?

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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

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- FSA credit primarily direct lending
- Safety net
  - production losses
  - price declines



# What's Different Today?

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- Crop Insurance
- Policy changes shifted focus of direct lending
- Guaranteed lending provides safety net

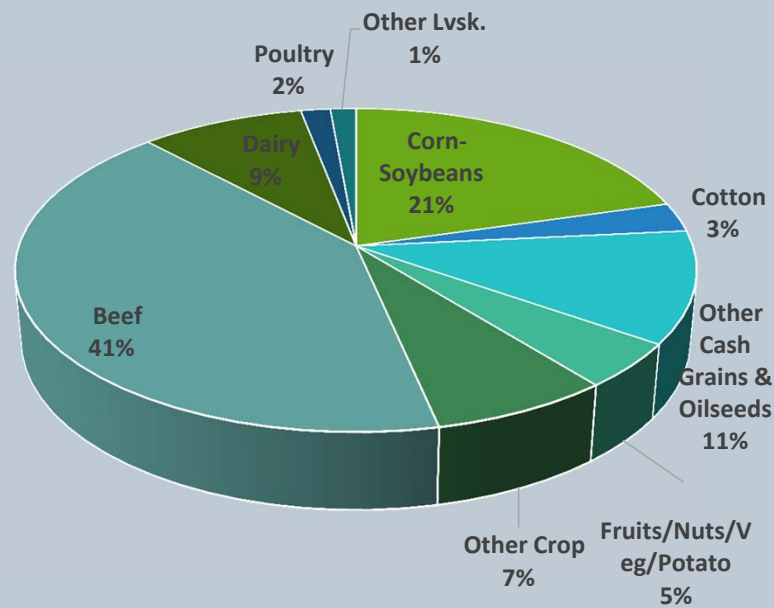
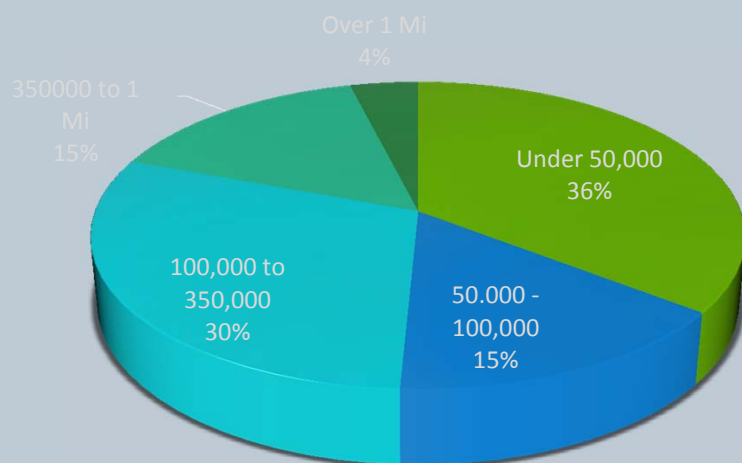


## Targeting to Beginning Farmers & Implementation of Microloans Program Has Focused Direct Program on Small Farms

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

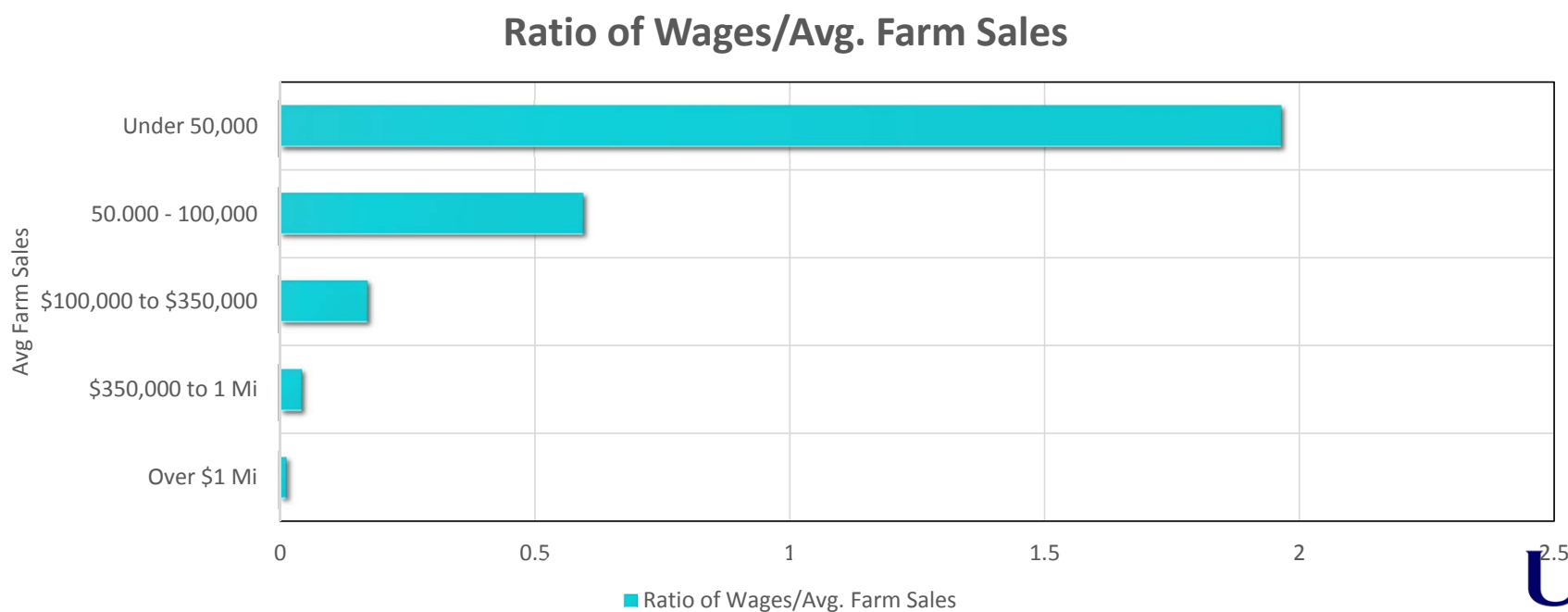
40% OF BORROWERS ARE COW-CALF OPERATIONS

**Direct Obligations (5-yr) FBP by Farm Sales**



Sources: FSA OBFN and Farm Business Plan

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

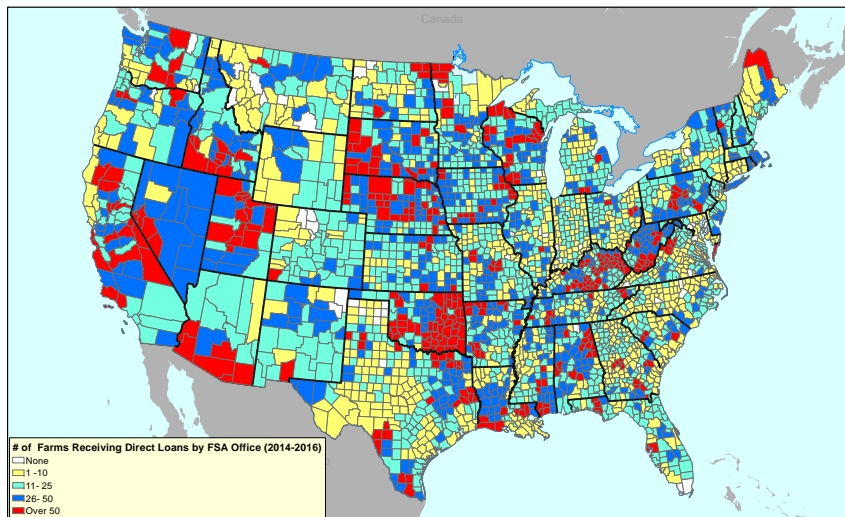


Source: FSA FLP Farm Business Plan

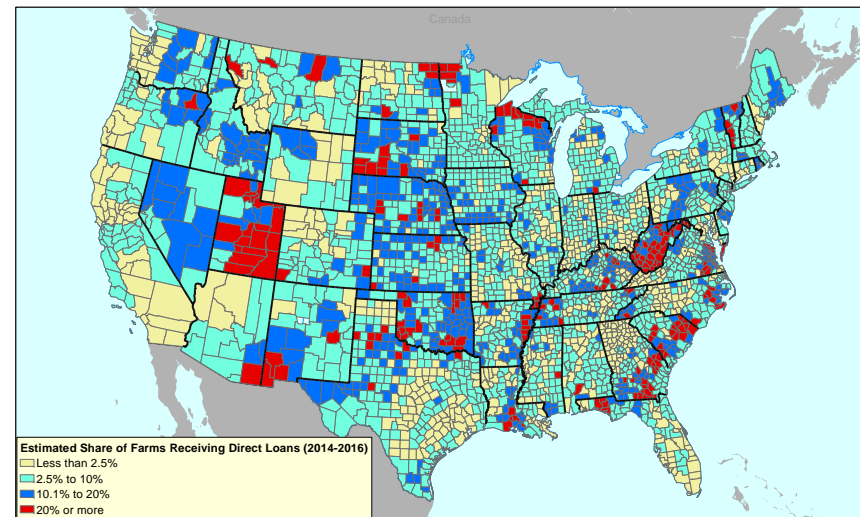


# Number & Share of Farms Receiving Direct Loans Since 2014, by FSA County Office Area

Number of Farms



Share of Indebted Farms



Sources: USDA FSA PLAS & 2012 Census of Agriculture





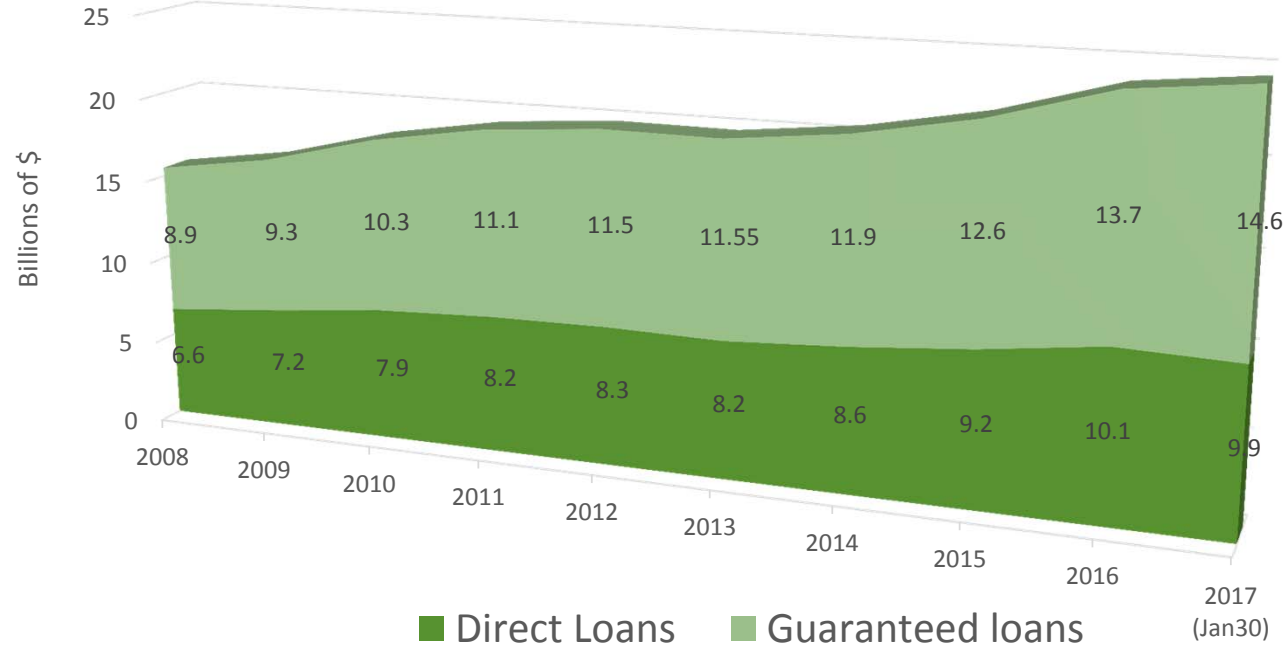
# Key factors in FSA Direct Portfolio Today

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- off-farm employment
- Cattle sector
- General farm economy



# Majority of FSA Portfolio is Guaranteed

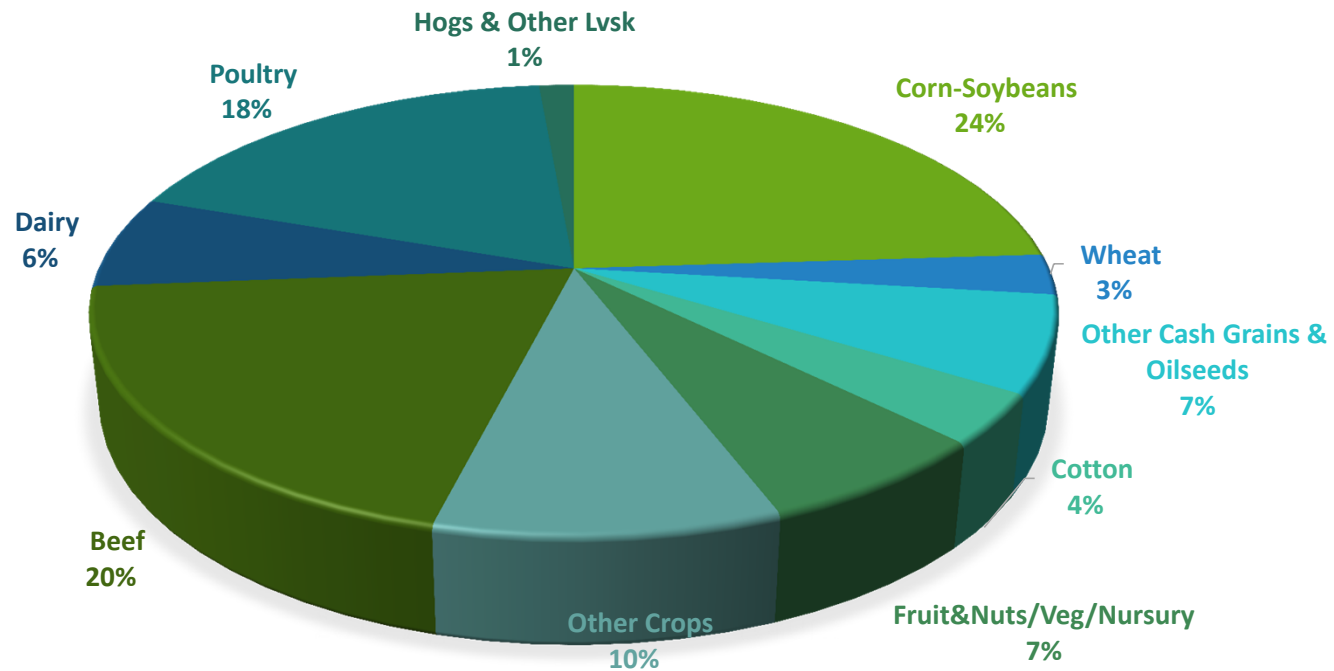


Source: FSA management reports

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# Majority of Guarantee Borrowers Are Crop Producers

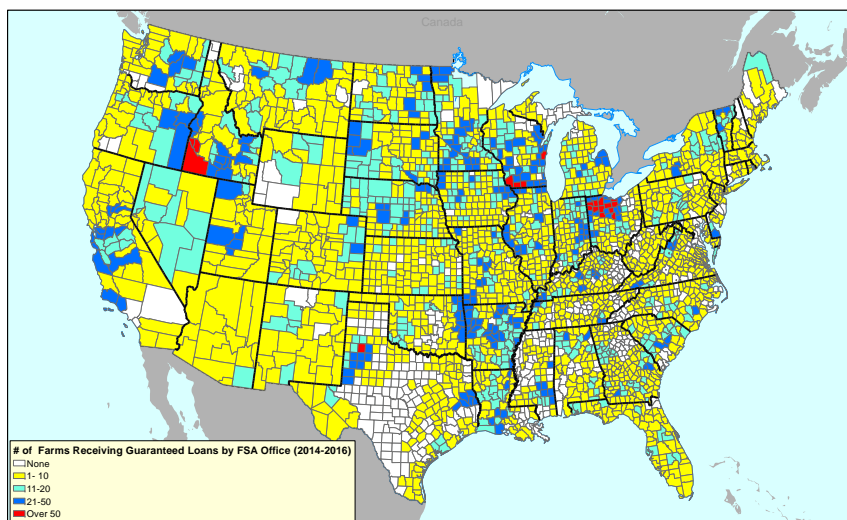
DISTRIBUTION OF BORROWERS RECEIVING NEW FSA GUARANTEES (PAST 5 YEARS)



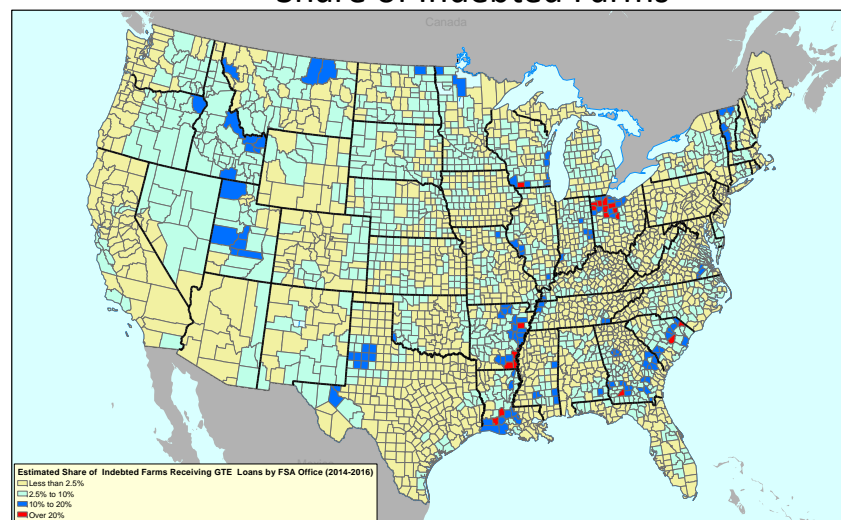
Source: USDA FSA GLS Data

# Number & Share of Farms Receiving Gte Loans Since 2014, by FSA County Office Area

Number of Farms



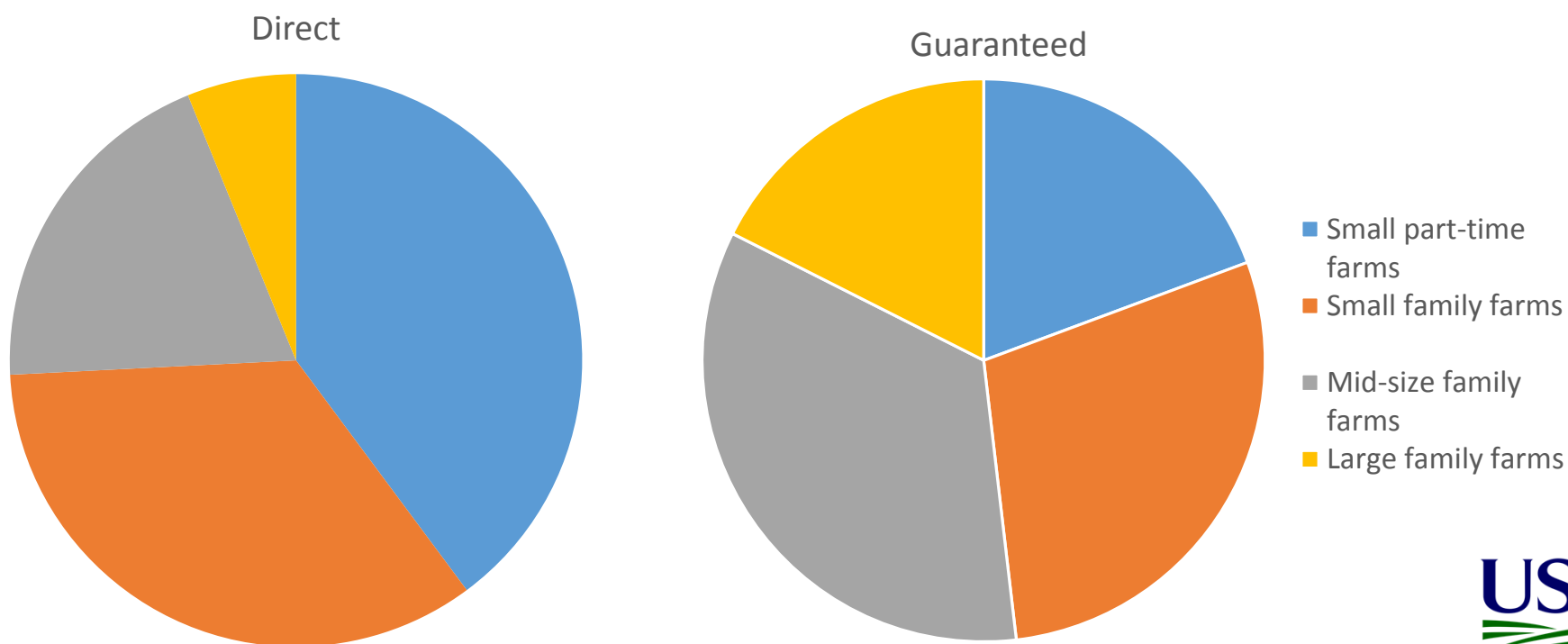
Share of Indebted Farms



Sources: USDA FSA GLS & 2012 Census of Agriculture



## Outstanding loans (EOY 2015), --Direct Serves Small Farms, While Guaranteed Serves Mid-Size Farms



## Slide 12

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**DC-FWD5** Next slide (hidden) gives typology definitions

Dodson, Charles - FSA, Washington, DC, 2/16/2017

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

The Revised Farm Typology	
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.	
Small family farms (GCFI less than \$350,000)	Midsized family farms (GCFI between \$350,000 and \$999,999)
<p><b>Retirement farms.</b> 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.</p> <p><b>Off-farm occupation farms.</b> Small family farms whose operators report a primary occupation other than farming. The category also includes farms—12 percent of the group in 2010—whose operators are not in the labor force but are not retired.</p> <p><b>Farming-occupation farms.</b> Small family farms whose operators report farming as their primary occupation.</p> <ul style="list-style-type: none"> <li>• <b>Low-sales farms.</b> GCFI less than \$150,000.</li> <li>• <b>Moderate-sales farms.</b> GCFI between \$150,000 and \$349,999.</li> </ul>	Family farms with GCFI between \$350,000 and \$999,999.
	<b>Large-scale family farms</b> (GCFI greater than \$1,000,000)
	<b>Large family farms.</b> Family farms with GCFI between \$1,000,000 and \$4,999,999.
	<b>Very large family farms.</b> Family farms with GCFI of \$5,000,000 or more.
	<b>Nonfamily farms</b>
	Any farm where the operator and persons related to the operator do not own a majority of the business.
GCFI = Gross cash farm income.	

## Slide 13

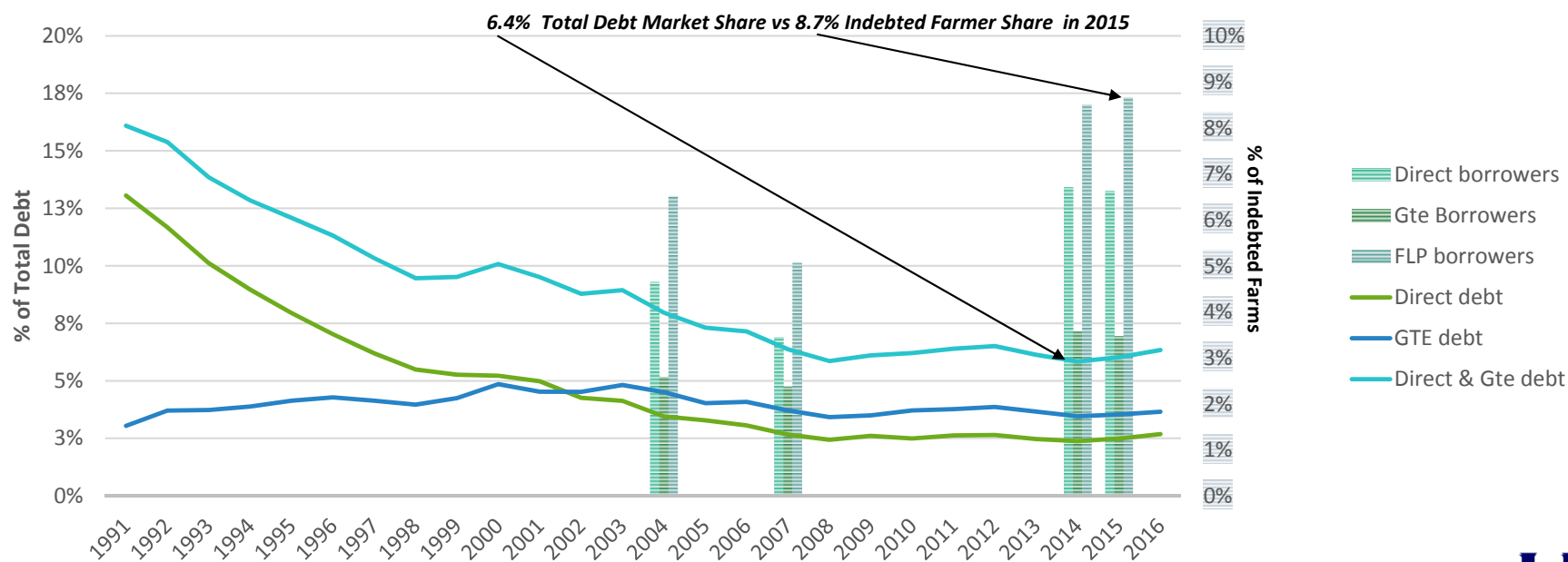
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### DC-FWD1 Hidden slide--showing source data for ERS typologies

Dodson, Charles - FSA, Washington, DC, 2/16/2017

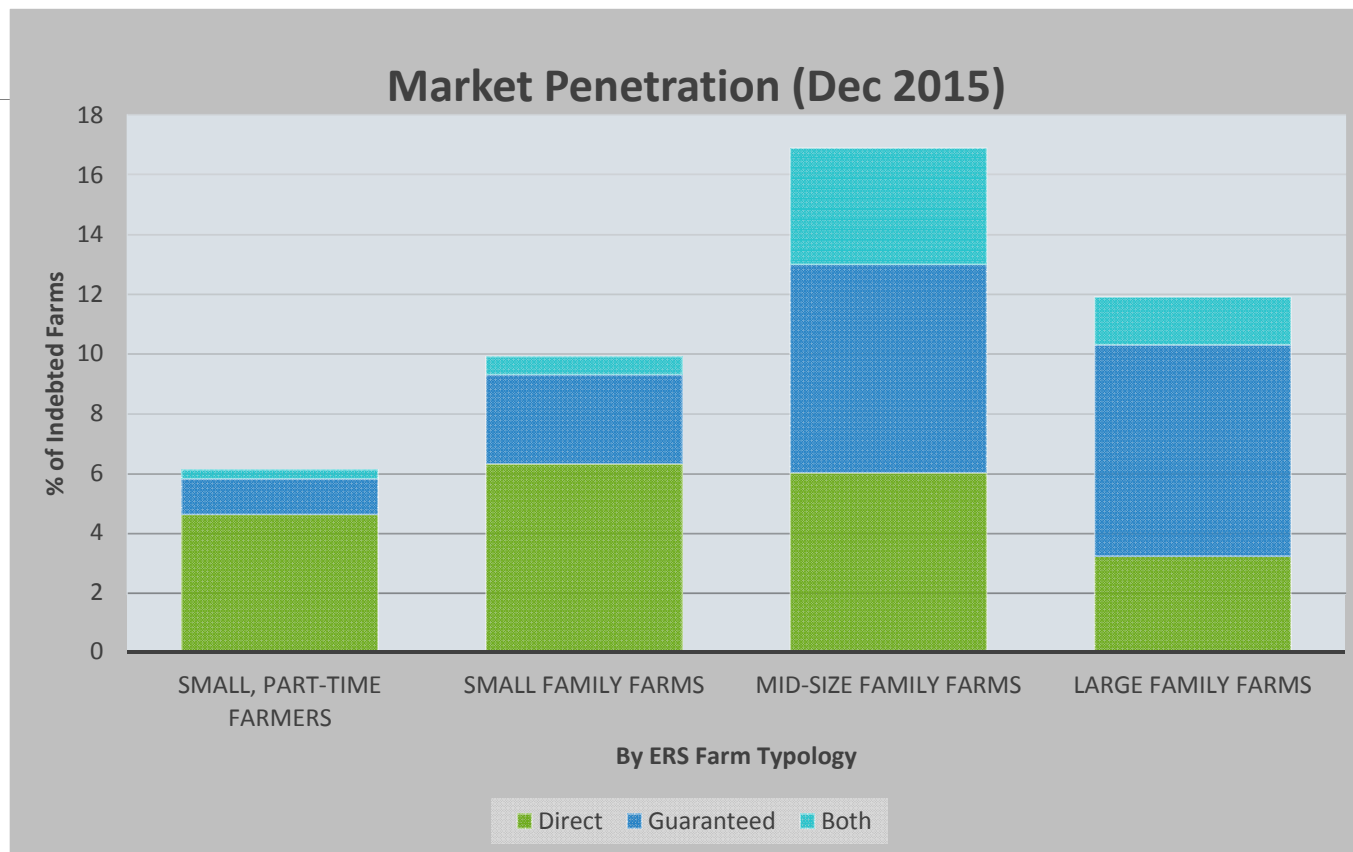


# Debt Market Shares Understates Share of Farmers Served Through FSA Loans



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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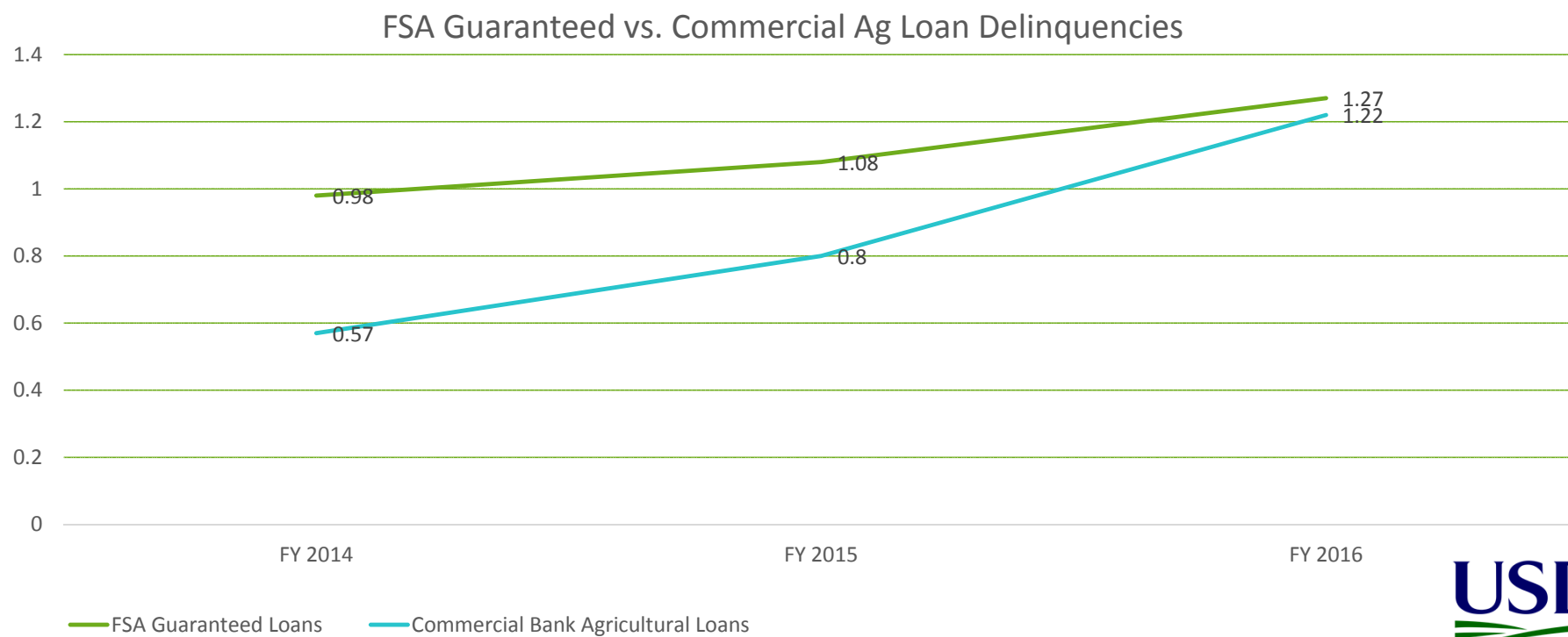
# FSA Guaranteed Portfolio

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- Reflects loan performance in the sector
- Not substantially different from Bank Ag loan performance



# Loan Performance Comparison

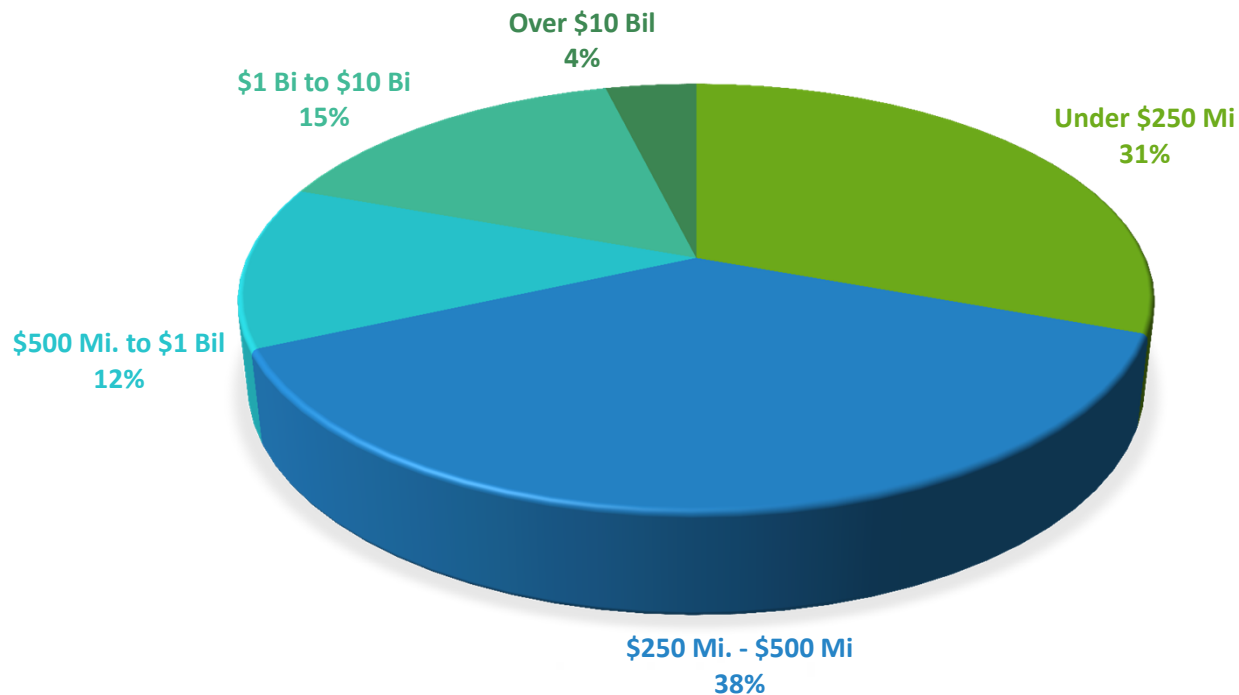


Source: USDA FSA GLS and Federal Reserve Data



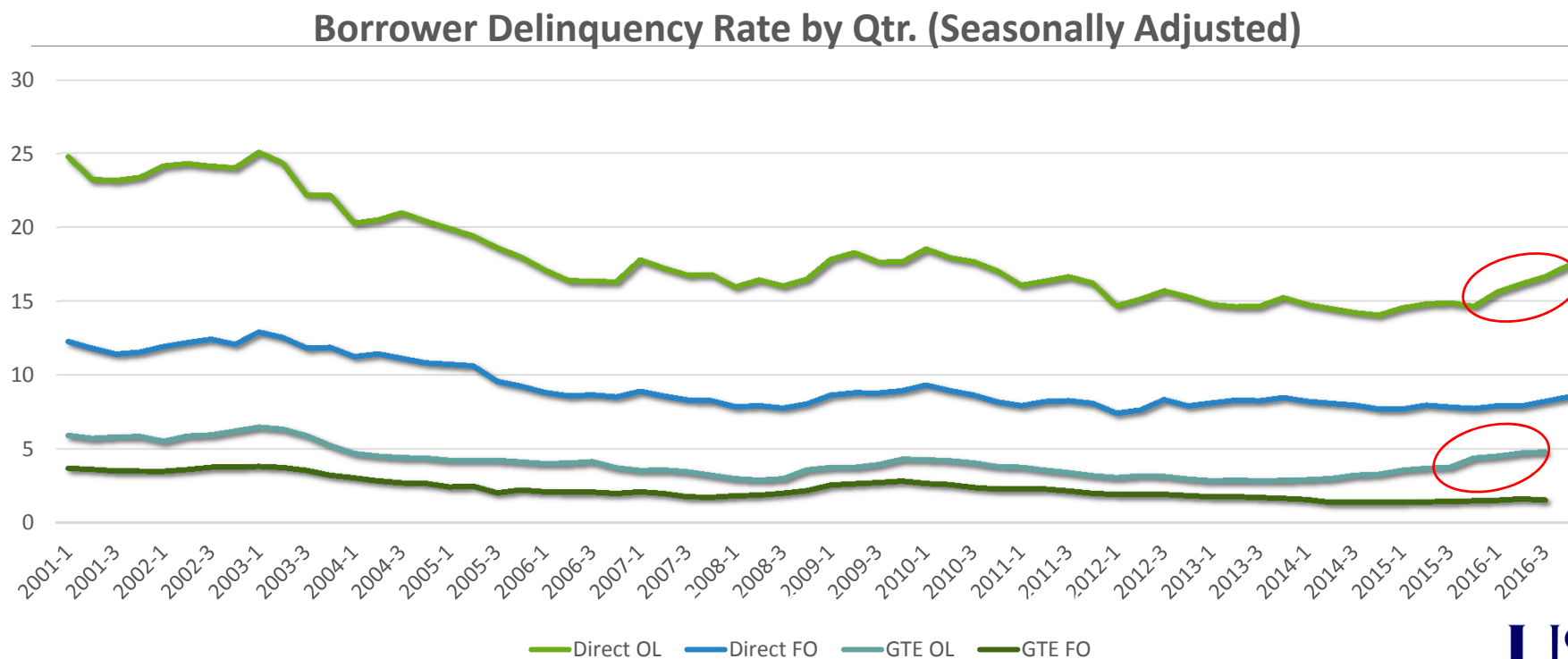
*..As are Smaller Community Banks*

#### SHARE OF FSA GUARANTEES OUTSTANDING DEC 2015 BY BANK ASSETS



Source: USDA FSA GLS & Bank Call Report Data

## Borrower Delinquency Rates Edging Up for OL Programs



USDA FSA R540 & GLS Data

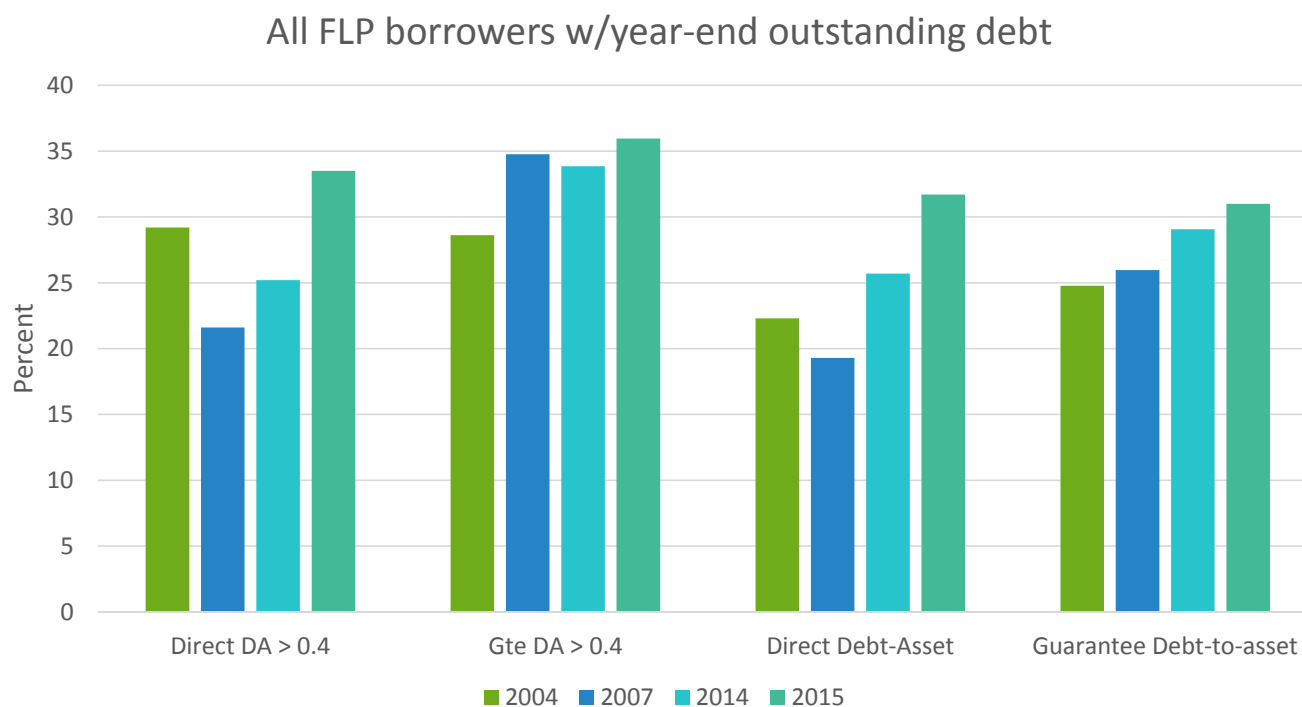


## Slide 19

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**DC-FWD6** Dodson, Charles - FSA, Washington, DC, 2/16/2017

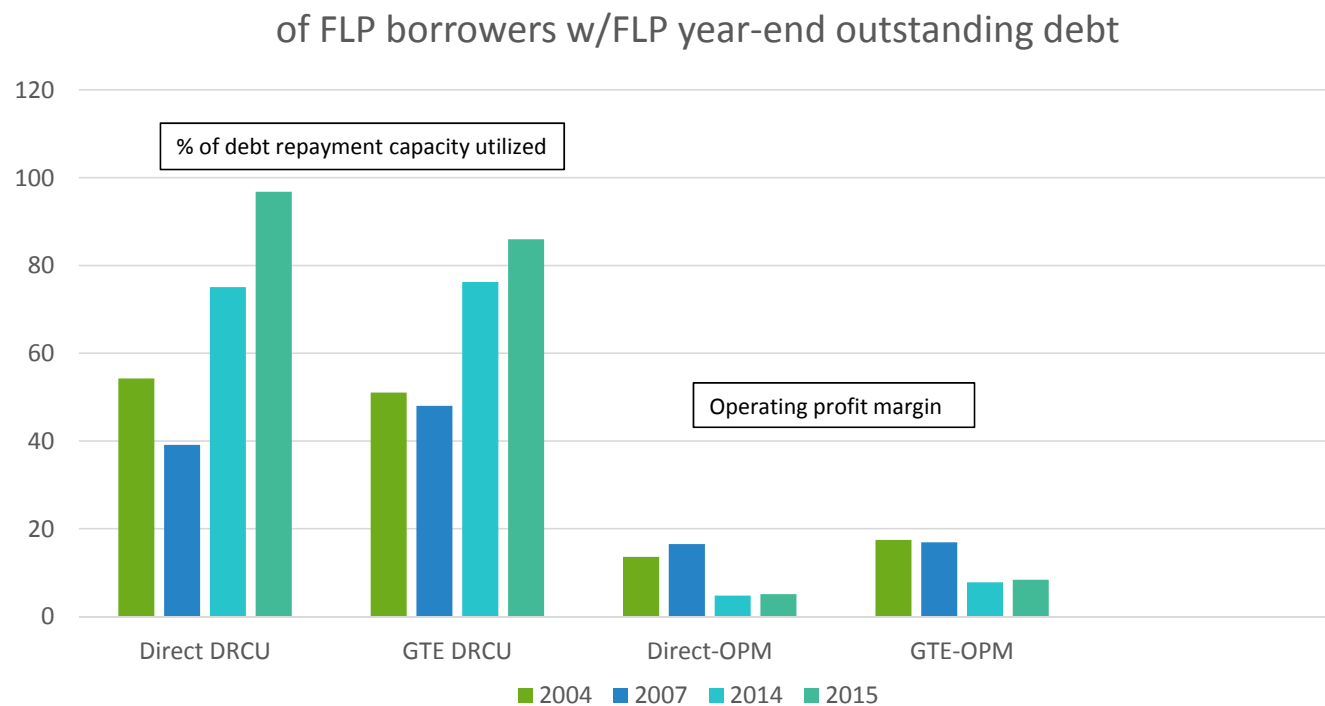
*..As well as greater indications of financial stress  
--declining solvency*



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



*..and higher debt capacity utilization and lower profitability*



# Conclusions

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- 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

Joy Harwood

Charles Dodson

