FSA Lending Programs During the 1990s

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by Charles Dodson[1]

Credit programs administered by USDAs Farm Service Agency represent one of the primary farm policy instruments of the Federal Government. These programs are intended to assist family-farmers to generate incomes sufficient to support their family needs. This task is accomplished by providing low-cost credit to family farmers unable to obtain loans from conventional lenders at affordable rates and terms. Through the direct loan program, FSA makes loans directly to farmers, while under the guaranteed loans program FSA guarantees loans made by conventional lenders for up to 95 percent of the principal

With over 2,500 offices and over 150,000 borrowers, FSA's farm loan programs have an extensive presence in rural America. With over $18 billion in direct and guaranteed loans, FSA represents the second largest institutional farm lender, surpassed only by the Farm Credit System. Originating and servicing a loan portfolio of this size requires a large outlay of public resources. While expected loan losses are recognized through the current budget process, there remains a contingent liability to the Federal Government should losses be greater than expected.

Given the expanse of the farm loan programs, it becomes important to closely monitor their performance. This paper focuses on the performance of FSA loan programs during the 1990s using a geographic analysis. Using GIS software, county-level demand for and performance of program funds are presented. Presentation of the data in this format enables one to see in greater detail regions where program demand has been greatest.

FSA operates a guaranteed and direct farm ownership (FO) and operating loan (OL) program. FO loan funds can be used to purchase farmland, construct or repair farm structures, and develop farmland to promote soil and water conservation. Guaranteed FO loans can also be used for refinancing. Acceptable uses of OL funds include the purchase of livestock, machinery, annual operating expenses, family living expenses, and the refinancing of debt. Through the Emergency Disaster Loan Program (EM), FSA provides low-interest loans (3.75%) to cover production or physical losses in an essential farm enterprise in counties the Federal Government has designated a disaster area.

Direct farm loans are made and serviced by Farm Loan Officers (FLOs) who are typically located in county offices. FLOs are also responsible for providing credit supervision and counseling to borrowers and in administering the guaranteed loan program. Each county office is under the direction of the State offices with credit programs supervised by the State Farm Loan Chiefs and State Executive Director who, in turn, obtains guidance from

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the National Offices in Washington. While the National Office can exercise considerable influence over the State and County offices by developing procedures and implementing regulations, State and County Office personnel may exercise considerable leeway in administering the programs by setting standards for loan approval or establishing procedures for dealing with delinquent loans.

Large Regional Variance in Demand for Direct Loans

FSA direct programs have a much greater presence in certain regions of the country as evidenced by the number of direct loans and amount of unpaid principal per county. Many counties, some of which are within major farming regions, have less than 25 cases, or loans, and less than $1 million in total outstanding loan volume (figure 1). In contrast, there are several counties with case loads in excess of 200 loans and over $10 million in loan volume. A region that stands out is the northern Plains; the Dakotas, eastern Montana and the Red River Valley. Also, counties in the intensive cotton-producing region around Lubbock, Texas have high direct loan demand. Most of the counties bordering the Mississippi River from the Missouri Bootheel to the Gulf of Mexico have very high demand for direct loans. Other high-demand regions include the dairy-producing areas in New York, Vermont, and Massachusetts and the potato producing region of northern Maine. Demand is high in the rice-growing region of California as well as within California counties with large agricultural production including Kern, Tulare, King, and Fresno Counties.

The areas of high demand for direct loans do not necessarily coincide with areas of greater agricultural production. For example, there has been less demand for direct loans in Ohio, Indiana, Illinois, and northern Iowa. This becomes more apparent from the share of indebted farmers within a county receiving FSA assistance (figure 2).[2] In recent years FSAs market share of all farm debt has been about 7 percent. However, this would seem to understate the relative importance of FSA loan programs in many regions. For example, in many counties in the Mississippi River Delta, Maine, West Virginia, Utah and Northern Arizona, over 50 percent of the indebted farms were receiving some of their credit through FSA direct loan programs. With the exception of a few counties in northern Missouri and southern Iowa, fewer than 10 percent of the farms within the Corn Belt obtained FSA direct loans. While many counties in California had large volumes of direct loans, in most counties FSA still served fewer than 10 percent of all indebted farmers.

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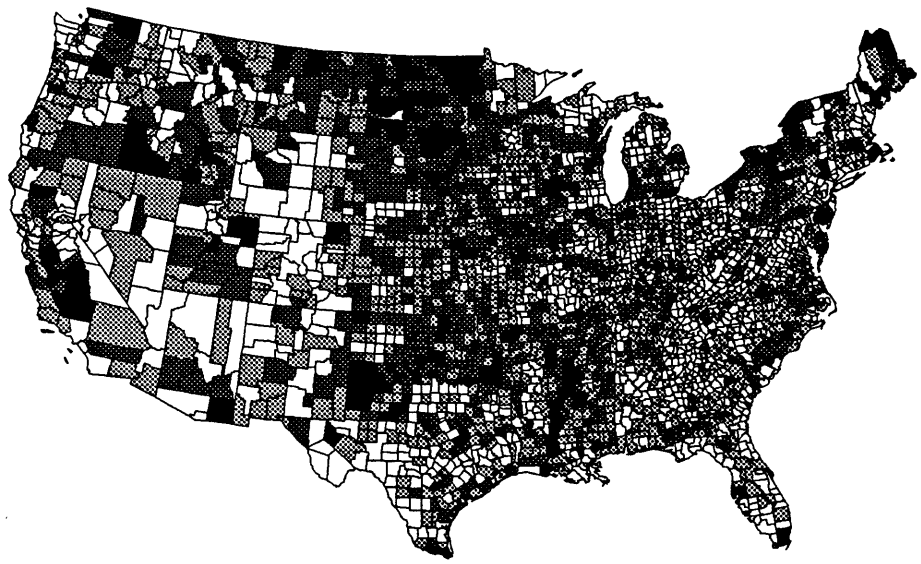
[2]The percentages for each county were estimated as follows:

# of FSA direct borrowers in the county (from December 1999 farm loan files)

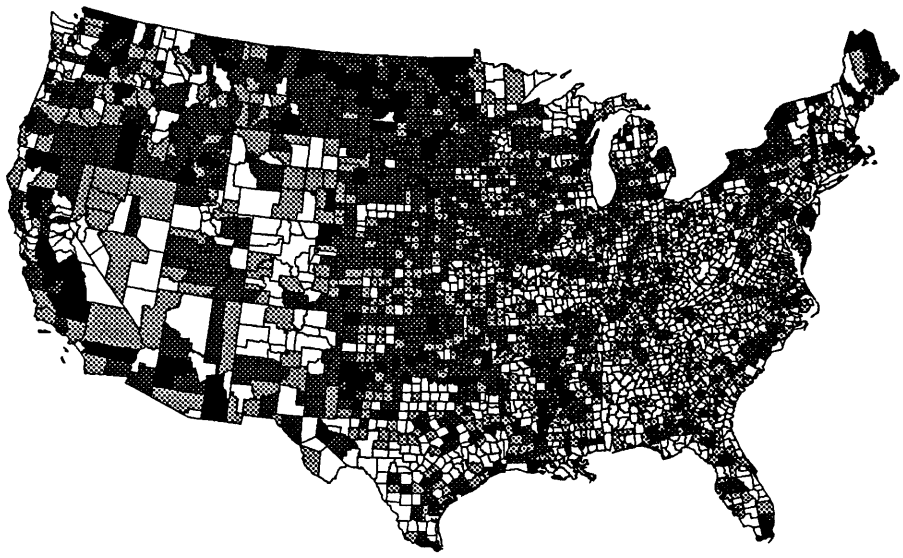
# of farms with annual sale of $10,000 or more which reported interest expense (Census of Ag)

Using farm loan data from 1997 to match with the time of the Census of Agriculture did not notably change the map patterns.



FSA Direct Loans Per County

- 25 or less
- 26 - 75
- 76 - 199
- 200 or more



Unpaid Principal Owed to FSA per County

- Under $1 Mi.
- $1.0 - $2.5 Mi.
- $2.5 Mi - $10 Mi.
- Over $10 Mi.

USDA: Economics and Policy Analysis Staff
Source : Farm Loan Database -Nov, 1999

Figure 1. Number of FSA Direct Loans and Unpaid Principal, by County.

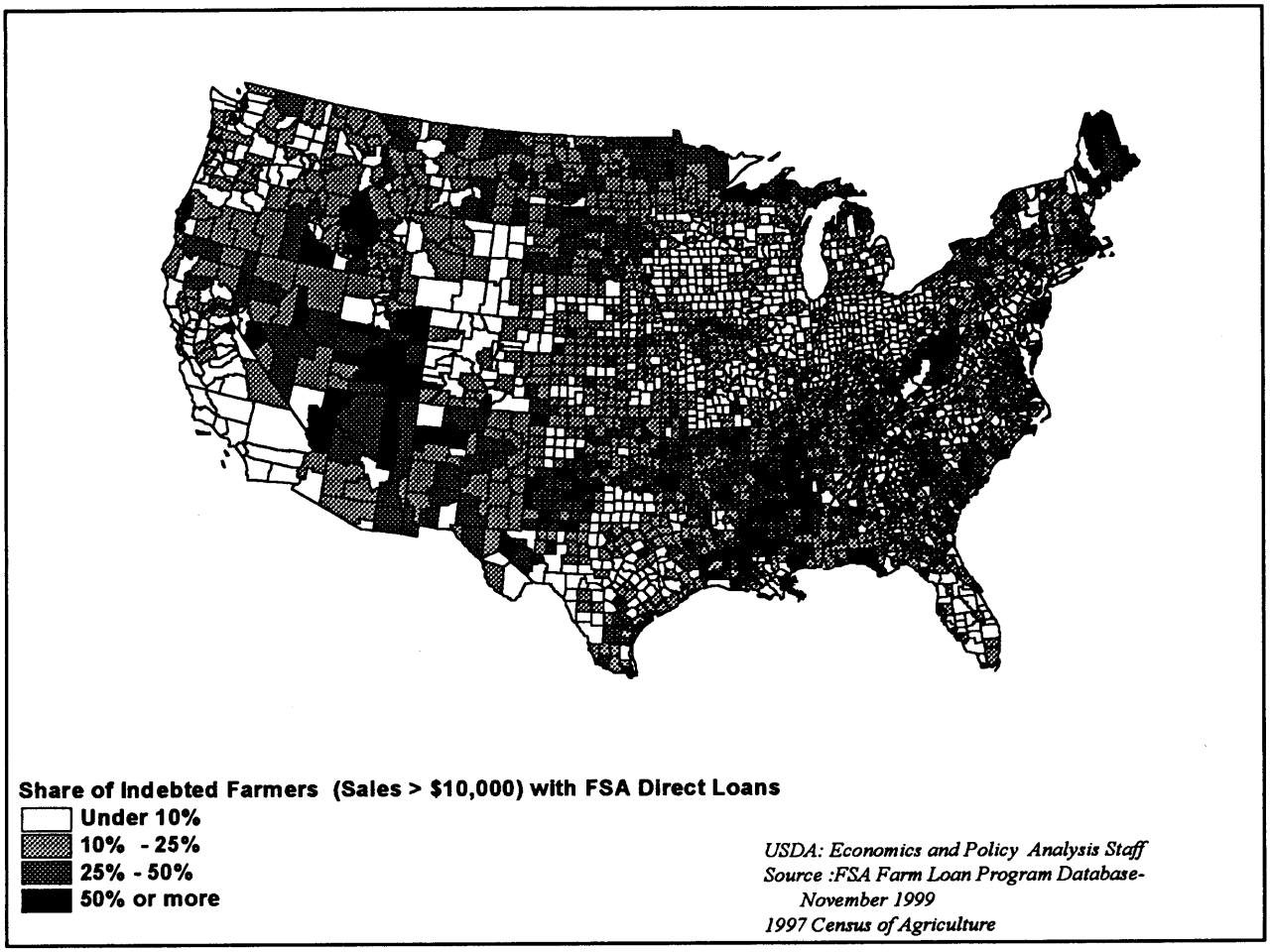
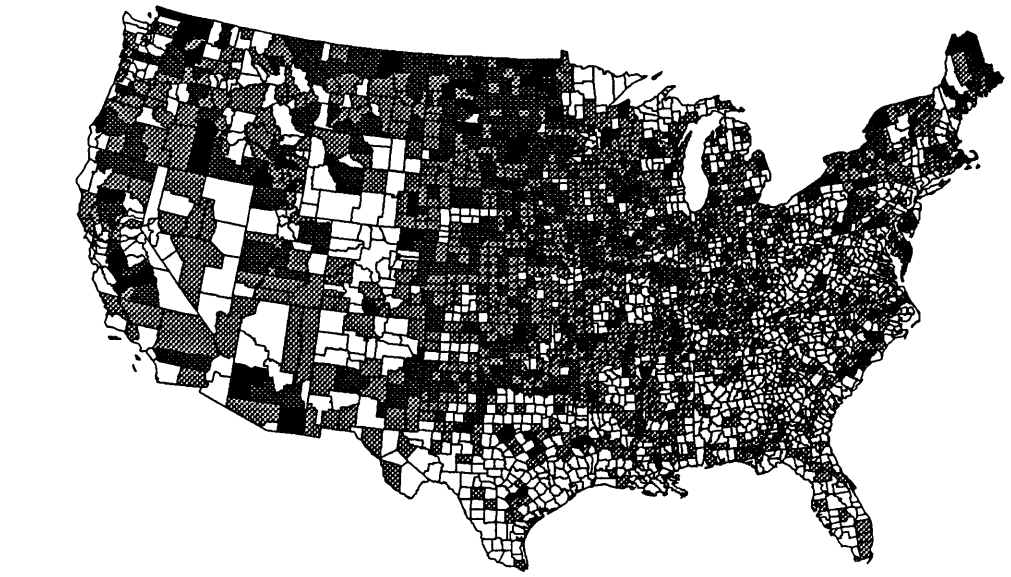


Figure 2. Share of Indebted Farms Receiving FSA Direct Loans, by County.

Thus, it appears that FSA is relatively more important as a credit source for counties outside the major agricultural production regions. The greater risk associated with farming in some of these regions may discourage private sector lenders from lending to agriculture. Also, FSA seems to have a greater presence in counties with fewer farms such as New England or the Mid-Atlantic States. In these regions private sector lenders may view the market potential for agricultural loans to be too small to justify a farm lending program.

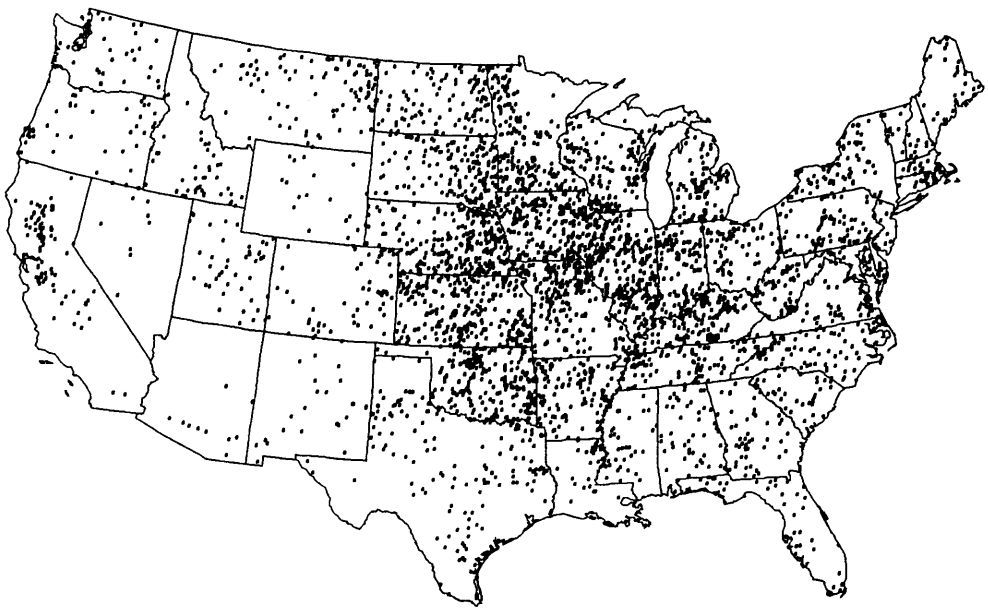
Loan Demand by Program

Demand for FSA loans by loan program also shows some interesting regional disparities. While many counties have less than $500,000 in outstanding FO loan volume many have in excess of $5 million (figure 3). Many of the counties with the greatest FO demand are also those with heavy usage of all farm loan programs. Specifically, the northern Plains and Red River Valley, New York State and New England, and central California represent regions with high demand for FO loans. As was the case for overall usage of direct loans, the demand for FO loans does not necessarily coincide with areas of greater farm production. Counties in the western Corn Belt have originated a large number of FO loans since 1993. But, there has been little activity in Ohio, Indiana, or Texas.



Outstanding FO Loan Volume (Unpaid Principal) by County

- Under $500,000
- $500,000-$2 Mi.
- $2 Mi-$5 Mi
- Over $5 Mi.



FO Loans Originated Since 1993
Each Dot = 2 FO Loans

USDA Farm Service Agency,
Economics and Policy Analysis Staff
Source : FSA Farm Loan Database Nov, 1999

Figure 3. Outstanding Direct FO Loan Volume by County, and FO Loans Obligated Since 1993.

With the exception of the western Corn Belt, FO originations since 1993 have been sparse. California FO loan demand has been centered in the rice-growing region. Despite the overall high usage of the direct loan program in Texas and the Mississippi Delta, few of the loans have been for FO purposes.

As of November 1999, most counties throughout the Corn Belt had outstanding OL volume of under $500,000. However, there were some localized regions with loan volume in excess of $5 million (figure 4). Specifically, counties in dairy growing regions of New York State and Pennsylvania have had strong demands for OL loans since 1993. Also, there has been a strong demand for OL loans in cotton-production region of west Texas, the potato-farming region of northern Maine, the Mississippi River Delta, and the Red River Valley.

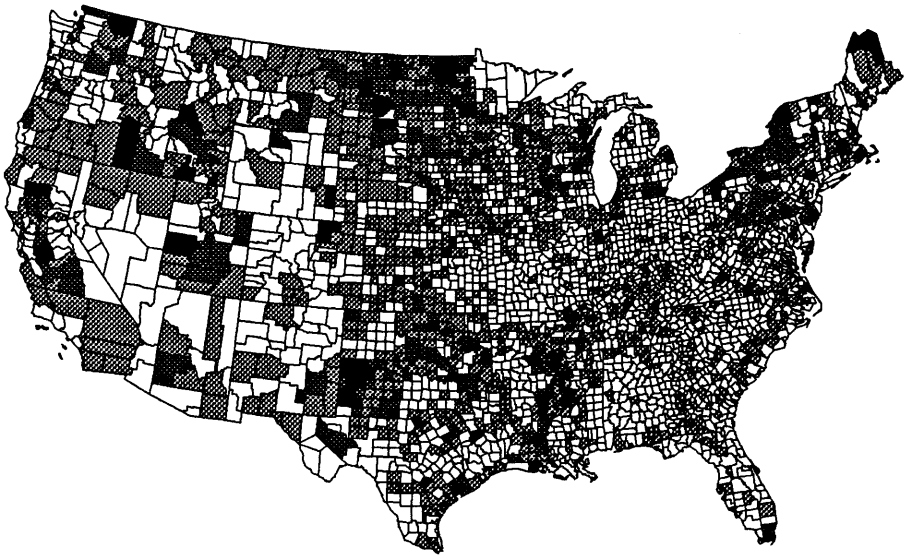
Outstanding EM loan volume is greatest in northern Plains including the Dakotas and eastern Montana (figure 5). Dade County, Florida still displays a large volume of outstanding EM loans most likely as a consequence of physical losses associated with Hurricane Andrew in 1992. EM loan volume is also high in New York State, partially as a consequence of physical losses associated with the recent winter storms. Demand for EM loans also seems greater in regions characterized by high value crops including California, Arizona, New Jersey, and Massachusetts.

The effect of the 1993 Midwest Floods becomes apparent when EM originations by year are examined (figure 6). Most of the loans associated with the Midwest floods were for production losses and have since either been either repaid or liquidated. Hence, there are fewer EM loans currently outstanding in counties affected by the 1993 floods. Since FY95, usage of the EM program appears to have has been greatest in the Mississippi River Delta, Red River Valley, and west Texas. Since FY97, there has been expanded usage of EM loans in Oklahoma, south Texas, and throughout the Northeast.

Loans Past Due Vary by State

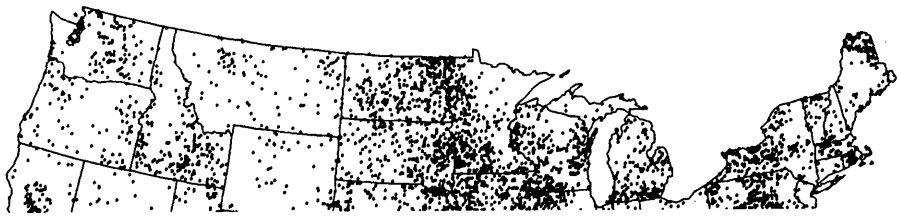
The number of loans past due 90 days or more represents an important indicator of potential losses and servicing costs. This is because once a loan becomes 90 days past due, the borrower becomes eligible for servicing options available under 1951-S. The 1951-S procedure, or restructuring, tends to be very expensive, both in terms of time and cost. On average, farm loan program personnel will spend 40 hours or more on a loan once it enters 1951-S. In addition, losses may occur as a consequence of debt write-offs or partial write-downs.

The percent of total loans past due 90 days or more is influenced a number of factors. Farm economic and weather conditions, current and past underwriting standards, and by the current policy and procedures followed by the State or County office in dealing with past due loans. Presumably, deteriorating farm economic conditions would result in more counties with high levels of past due loans.



Outstanding OL Loan Volume (Unpaid Principal) by County

- Under $500,000
- $500,000- $2 Mi.
- $2 Mi. - $5 Mi
- Over $5 Mi.



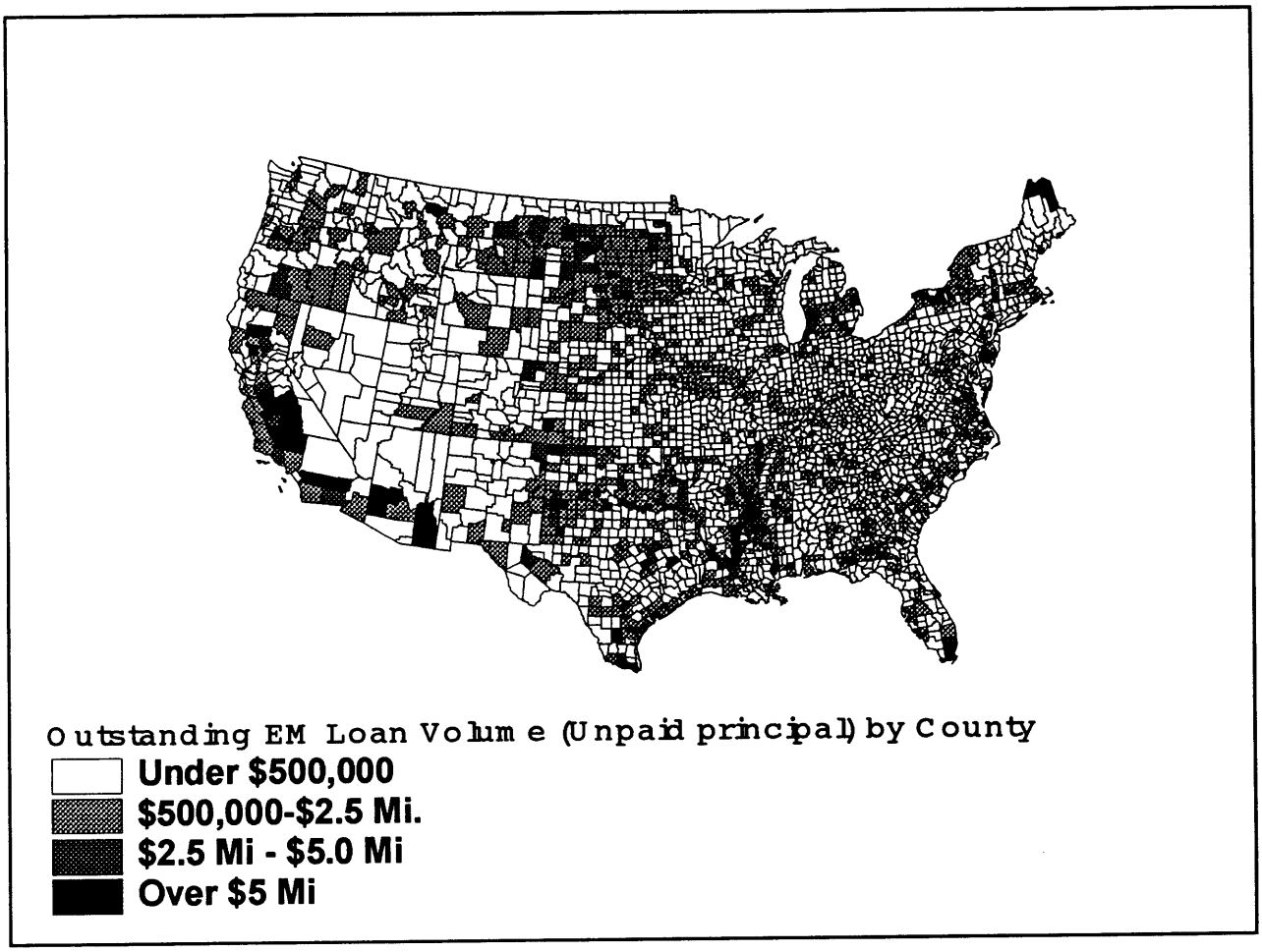
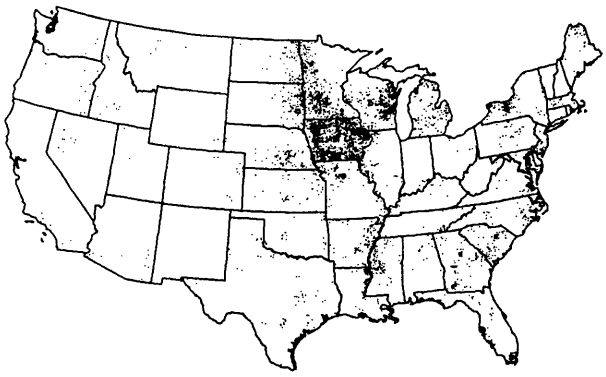


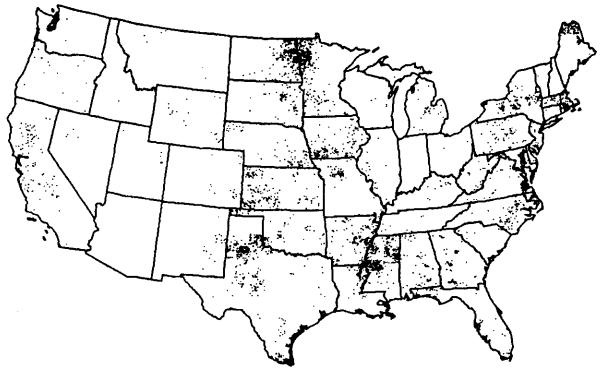
Figure 5. Outstanding EM Loan Volume, by County, November 1999.

Graphs showing percent of loans over due 90 days or more as of year-end 1994-99 reflects recent regional economic stress (figure 7; figure 8; figure 9). An increase in the number of counties in the northern Plains with high levels of past due loans after 1995 may be attributed to weather conditions; winter blizzards and spring floods. The recent increase in the number of counties with high levels of past due loans in North Carolina in 1999 could be attributable to summer drought followed by floods of fall 1999.

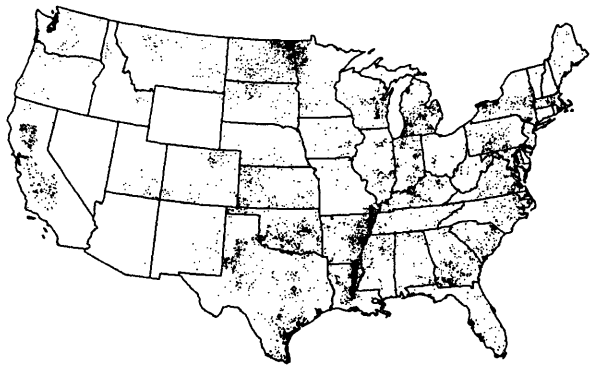
On the other hand, in some counties there has been little change in the number of past due loans from 1994 through 1999. For example, many of the counties in Texas and Mississippi have continued to report high levels of 90 day past due loans. In contrast, Louisiana counties have shown a marked improvement in reducing past due loans since 1994. Likewise, most of the counties in Alabama have held 90 day past due loans to under 5 percent. Since the economic conditions should not differ dramatically between Texas, Mississippi, Alabama, and Louisiana, it is possible that these differences are attributable to procedures of the State and County Offices.



EM Loans Obligated FY93-FY94



EM Loans Obligated FY95-FY96



EM Loans Obligated FY97-FY99

USDA Farm Service Agency,
Economics and Policy Analysis Staff
Source : FSA Farm Loan Database Nov, 1999

Each dot = 1 loan

Figure 6. EM Loans Obligated Since 1993

Likewise, one can easily see the differences between Alabama and Mississippi. Since 1994 Alabama has not had a large number of the counties with over 20 percent of loans past due 90 days or more. Weather related problems along the East Coast and southeastern US appear to be resulting in greater loan repayment problems. Specifically, this is most apparent from the North Carolina coast through Florida. Also, repayment problems appear to have increased somewhat for counties in northern Alabama and in southern parts of Tennessee.

Guaranteed Lending

Guaranteed lending during the 1990s has been heaviest in the western Corn Belt and Northern Plains where many counties have over 50 guaranteed borrowers (figure 10). The region of greatest demand for guaranteed loans appeared to lie somewhat east of regions with the highest demand for direct programs. Many of the counties with high demand for guaranteed loans also had high usage of the direct program. Counties in the Red River Valley, Mississippi Delta, west Texas, and south Florida reported high levels of demand for both the direct and guaranteed loan programs. Counties in Wisconsin, Iowa, and Southern Minnesota showed relatively high usage of guaranteed lending but limited usage of the direct program.

During the 1990s, banks have been the primary user of FSA's guaranteed program. For most counties, banks originated most of the guaranteed loans (Figure 11). Regions where the Farm Credit System was the primary user of the guaranteed program was primarily limited to southeastern and northeastern states. Other lenders, which was mostly comprised of State lending agencies, were most active in Vermont, California, and North Carolina.

Loan Losses From the Direct and Guaranteed Programs

Areas experiencing greater loan losses during the 1990s include the northern Plains, western Texas, Maine, and the Mississippi Delta (figure 12, top panel). Both higher loan volumes and greater repayment problems characterized these regions. Many of the same counties in the northern Plains Mississippi Delta, west Texas and Maine with more loan losses also had a large share of borrowers 90 days or more past due (figures 7-9). Also, counties in these regions also had greater outstanding loan volume (figure 1). Despite high levels of past due loans in the southern and eastern Texas, loan losses were relatively low. This apparent contradiction is likely a result of loan volumes in these counties.

Guaranteed losses paid during the 1990s were greatest in the Mississippi Delta and the South Plains which included West Texas and Southwest Oklahoma. (figure 12, bottom panel). There were a large number of counties that reported little or no guaranteed losses during the 1990s. But, most of these counties reported little guaranteed loan volume. Guaranteed losses were widespread across Iowa, Minnesota, Wisconsin, and the Dakotas. But, most counties reported total losses of under $500,000.

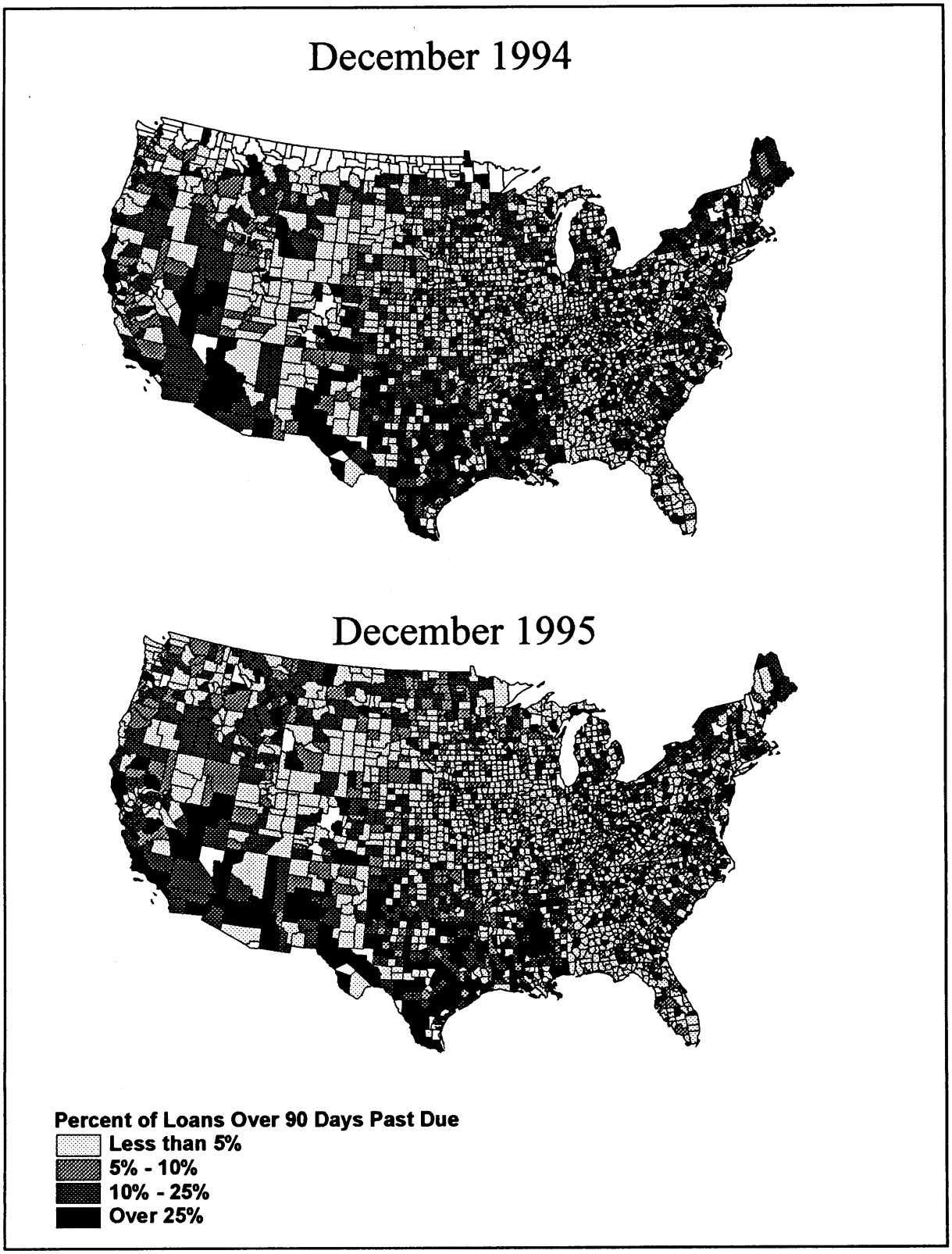


Figure 7. Percent of Loans Over 90 Days Past Due, by County, as of Year-End 1994 and 1995.

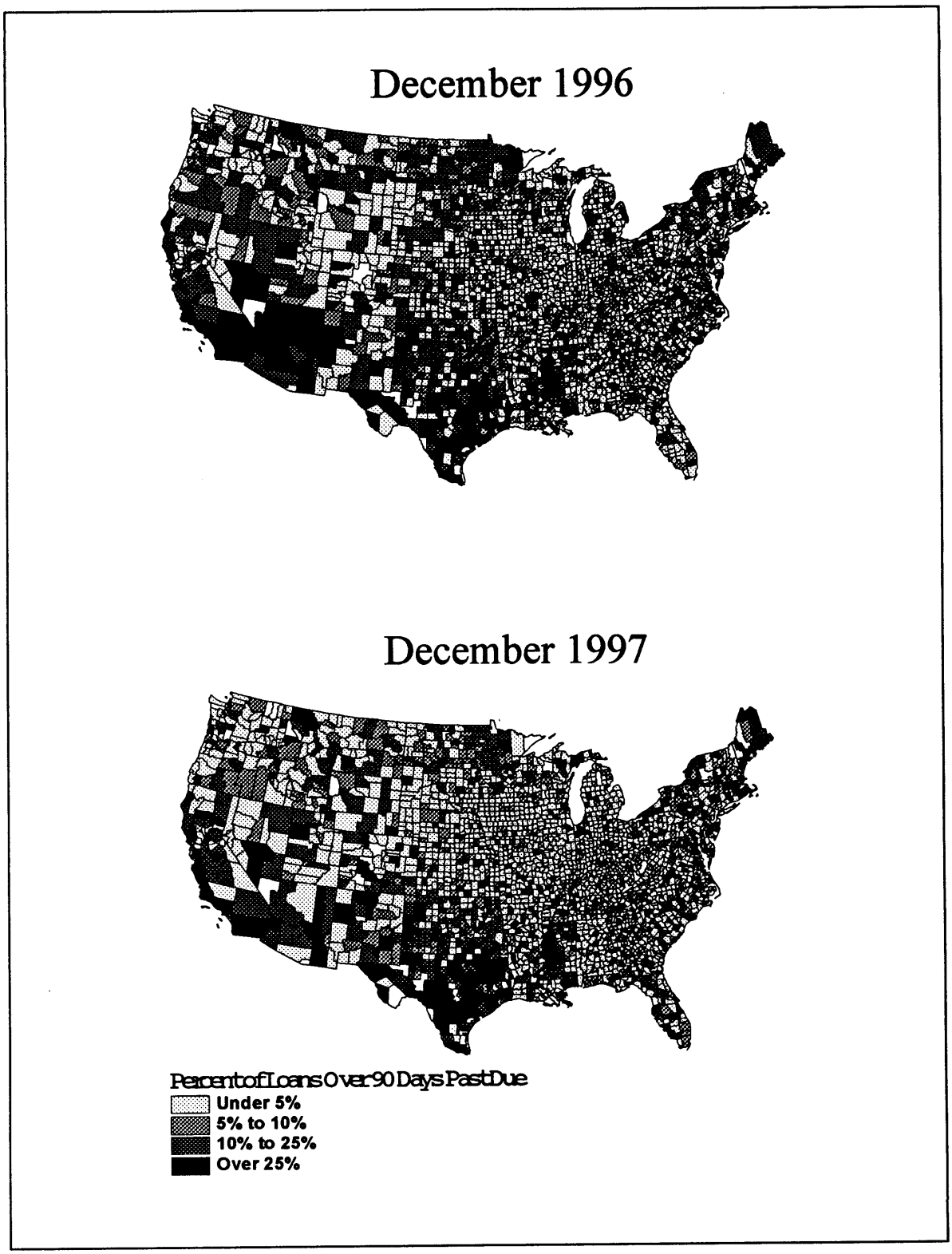


Figure 8. Percent of Loans Over 90 Days Past Due, by County, as of Year-End 1996 and 1997.

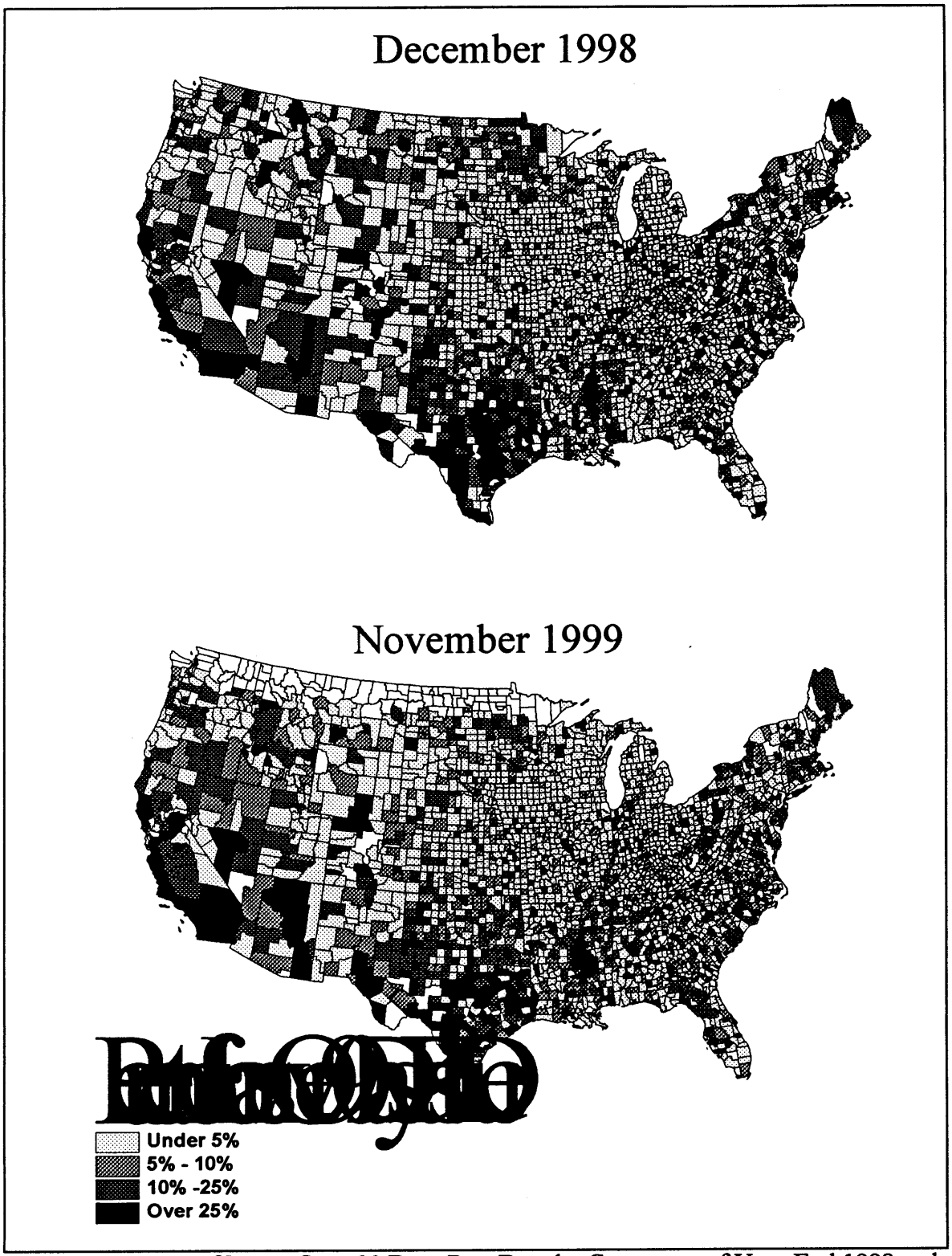
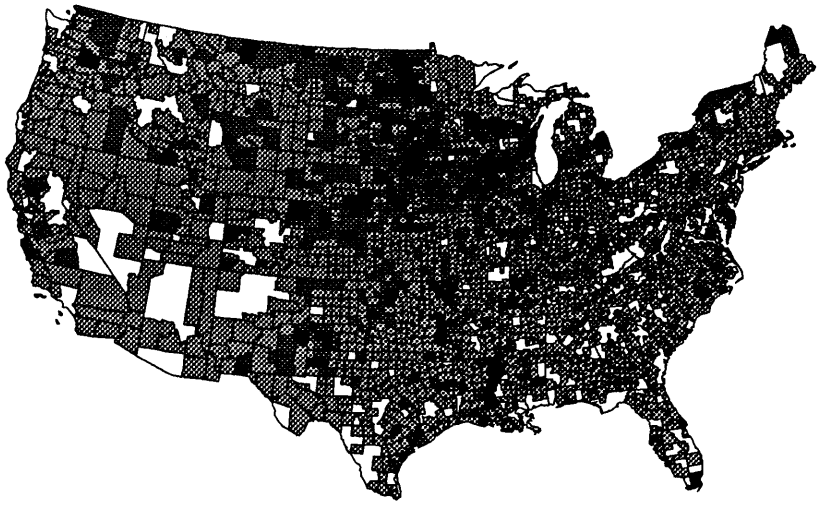
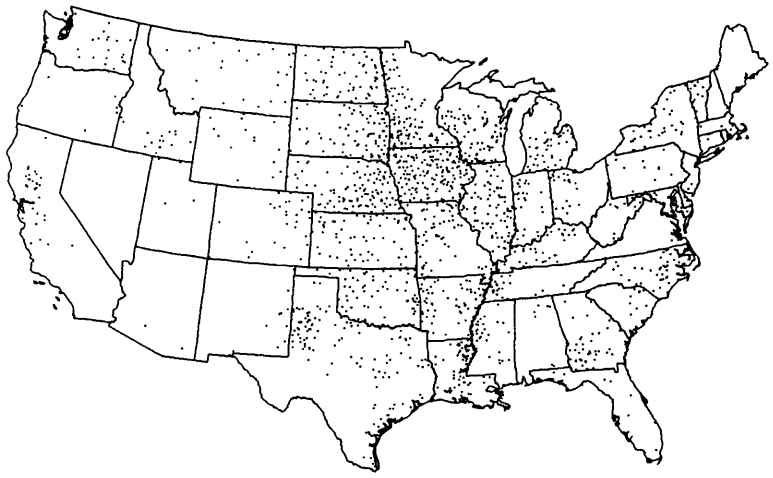


Figure 9. Percent of Loans Over 90 Days Past Due, by County, as of Year-End 1998 and 1999.

Guaranteed Lending Heaviest in Upper Midwest



Number of Guaranteed Borrowers 12/31/99
None
1 - 25
26 - 49
50 or more



Farmers Receiving Guaranteed Loans Since 1992
1 Dot = 25 borrowers

Source : FSA Farm Loan Database Dec, 1999
USDA FSA Economics and Policy Analysis Staff

Figure 10. Number of Farms With Existing Guaranteed Loans or Lines of Credit and Farmers Receiving Loans Since 1993.

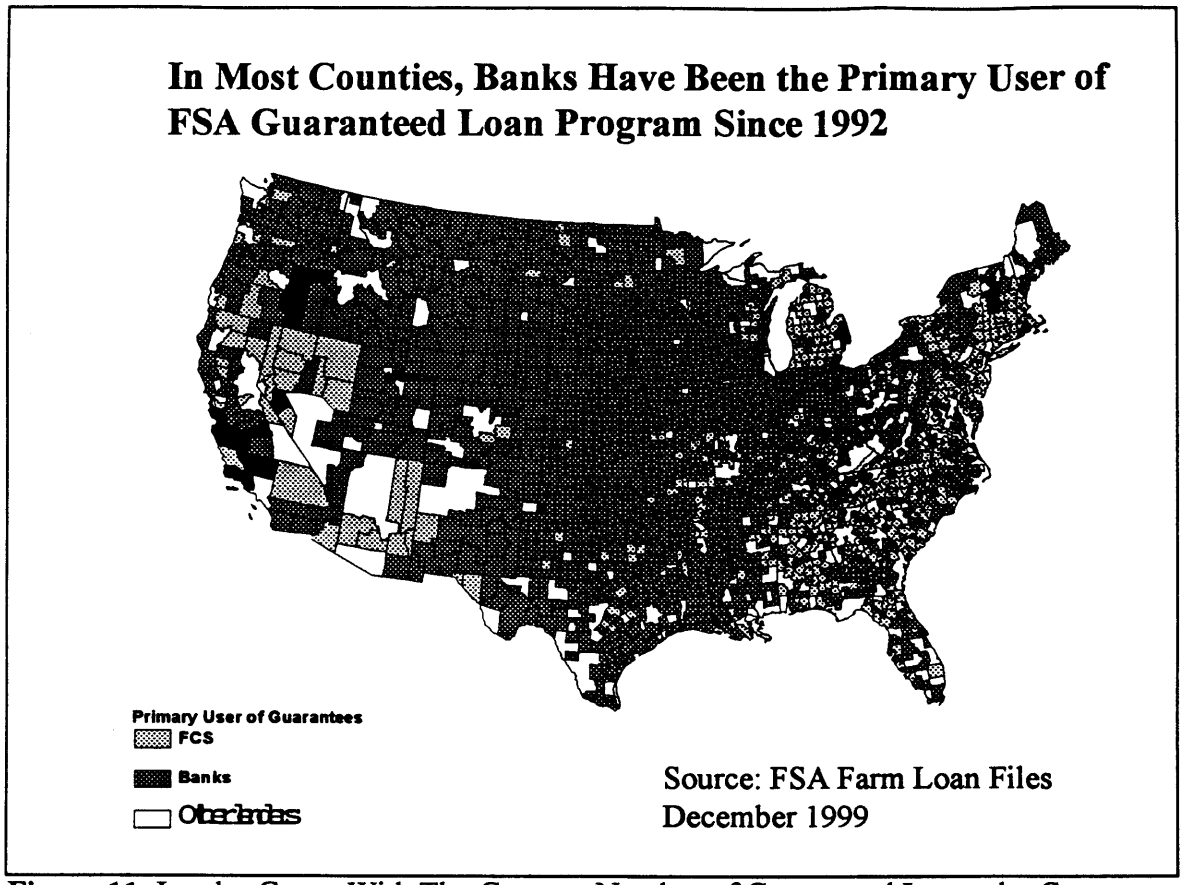


Figure 11. Lender Group With The Greatest Number of Guaranteed Loans, by County

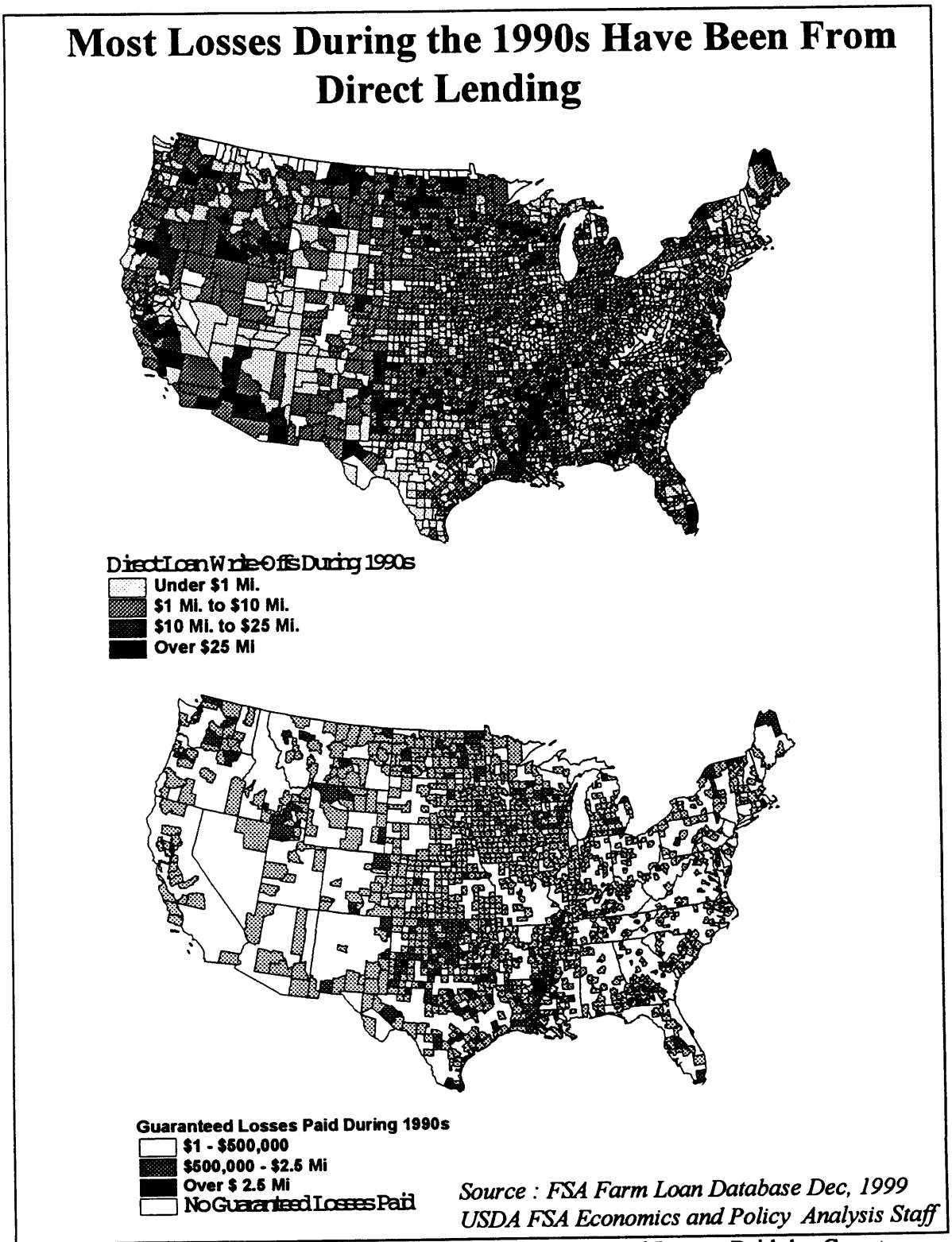


Figure 12. Write-offs From Direct Program and Guaranteed Losses Paid, by County, Since 1990