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Ag Credit Survey
Subdued Farm Economy Weighs on Land Values and Credit Conditions

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Federal Reserve Bank of Kansas City

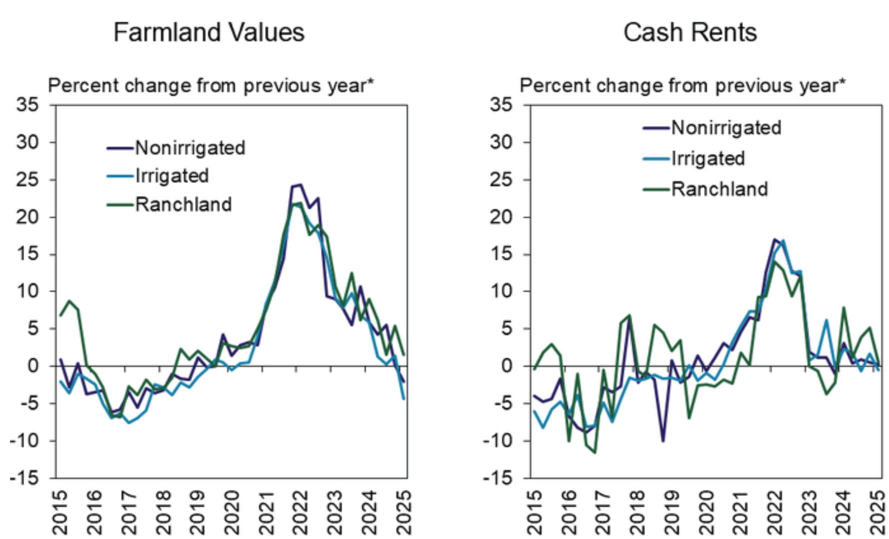
Agricultural real estate values in the Kansas City Federal Reserve District declined slightly in the first quarter of 2025 and credit conditions deteriorated further. According to lenders in the region, the average value of nonirrigated farmland declined about 2 percent from a year ago. Land market conditions varied in some states, but in aggregate, values declined slightly following a moderation in farm incomes over the past year. Alongside subdued economic conditions, farm loan repayment rates declined, demand for financing grew and instances of carryover debt and loan restructuring increased notably from a year ago. Deterioration in farm finances was most pronounced in areas more dependent on crop revenues while strong cattle prices continued to support conditions in some parts of the region.

The agricultural economy remained subdued through early 2025 alongside weak crop prices. The results of the Survey of Agricultural Credit Conditions were captured in late March, ahead of recent distribution of assistance payments from the Emergency Commodity Assistance Program (ECAP) which could potentially improve liquidity for some producers. Looking ahead, however, relatively low crop prices are likely to continue weighing on financial conditions in the sector and further pressure credit conditions. Farm loan interest rates also remained above recent historic averages, which could pressure land markets and make financing costs particularly challenging for more highly leveraged borrowers.

Farm Real Estate Values and Interest Rates

Farm real estate values in the Tenth District declined slightly in early 2025. According to survey respondents, the value of nonirrigated farmland in the Tenth District was about 2 percent less than a year ago in the first quarter and irrigated land values declined about 4 percent (Chart 1). The value of ranchland was about 1 percent higher and cash rents on all types of land were unchanged.

Chart 1: Tenth District Farmland Values and Cash Rents

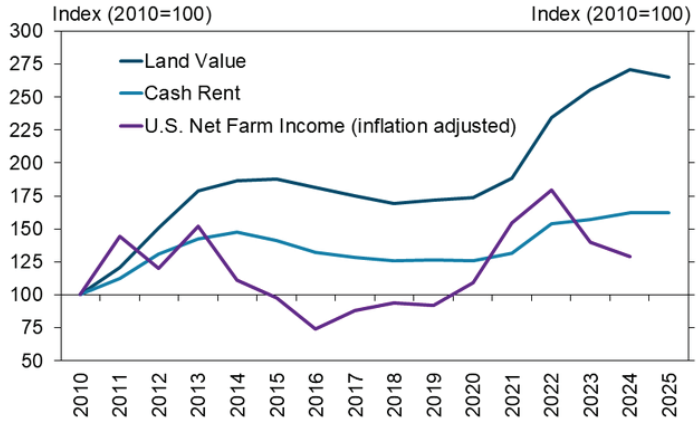


*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters.

Similar to the previous quarter, changes in values varied across states and types of land. The value of nonirrigated land declined slightly in Kansas, Missouri and Nebraska but increased modestly in Oklahoma and the Mountain States. All land types were at least 5 percent less in Nebraska while values in Oklahoma increased for all types.

Farmland markets softened alongside further moderation in the farm economy over the past year, but valuations remained strong. The value of nonirrigated farmland eased modestly from record highs following two consecutive years of declines in U.S. net farm income (Chart 2, blue and purple lines). Despite some easing, average farmland values remained more than 50 percent higher than in 2020 and 165 percent higher than in 2010. Over those same time periods, cash rents increased only 30 percent and 60 percent from 2020 and 2010, respectively.

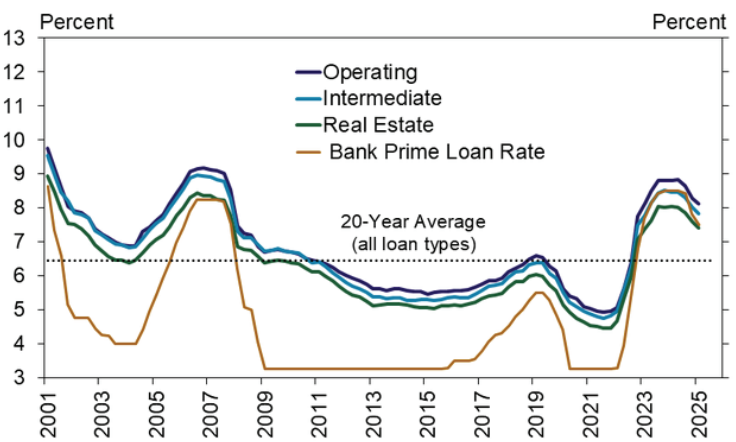
Chart 2: U.S. Net Farm Income and Tenth District Nonirrigated Farmland



Sources: USDA and author's calculations

Together with a weaker farm economy, elevated farm loan interest rates also contributed to cooler agricultural real estate markets. Interest rates on farm loans have dropped slightly over the past year alongside lower benchmark rates, but remained about 100 basis points above the average of the past 20 years (Chart 3). The average rate charged on all types of agricultural loans was about 20 basis points less than the previous quarter and about 60 basis points less than the same time a year ago.

Chart 3: Tenth District Average Interest Rates



Note: Average rates are calculated as the average of fixed and variable rates for each loan category.
Sources: Federal Reserve Board and Haver Analytics

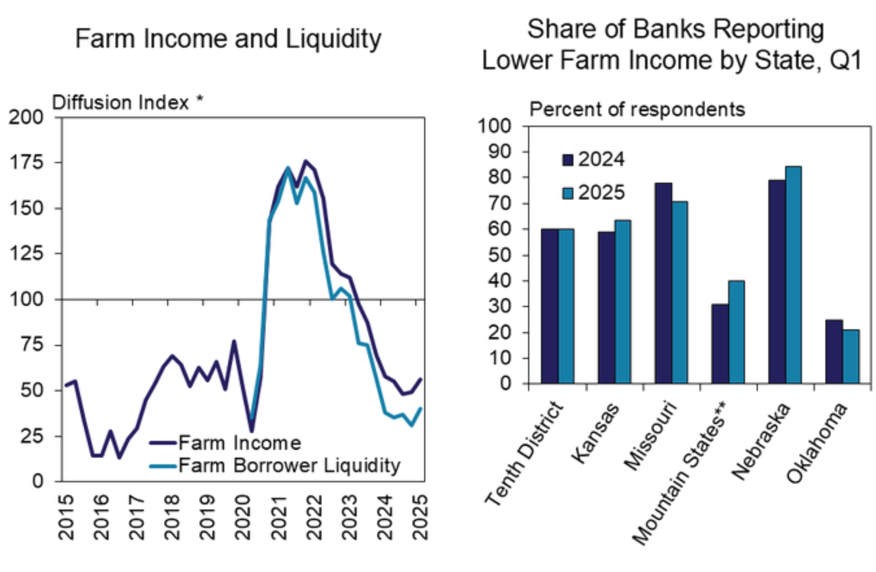
Farm Income and Credit Conditions

Farm financial conditions in the Tenth District continued to weaken gradually through the first quarter of 2025. According to survey respondents, the pace of decline in farm income and borrower liquidity remained similar to recent quarters (Chart 4). Around 60 percent of lenders reported that farm income was less than a year ago and the share was comparatively smaller in Oklahoma and the Mountain States, which rely more heavily on cattle revenues.

With gradual depletion of farm borrower liquidity, non-real estate farm loan demand continued to grow steadily. The pace of increase in loan demand was also similar to recent quarters (Chart 5). The share of lenders reporting that loan demand was higher than the previous year was comparable to last year in most states, but increased notably in Nebraska.

Farm loan repayment also weakened further alongside subdued farm incomes. The pace of decline in farm loan repayment rates was faster than previous quarters as the share of banks reporting lower rates of repayment increased throughout the region (Chart 6). In nearly all states, the share

Chart 4: Tenth District Farm Income and Borrower Liquidity



*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
** Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

reporting that loan repayment rates were lower than a year ago was twice as high as this time last year. Similar to farm income, loan repayment rates deteriorated comparatively less in states with higher reliance on cattle production.

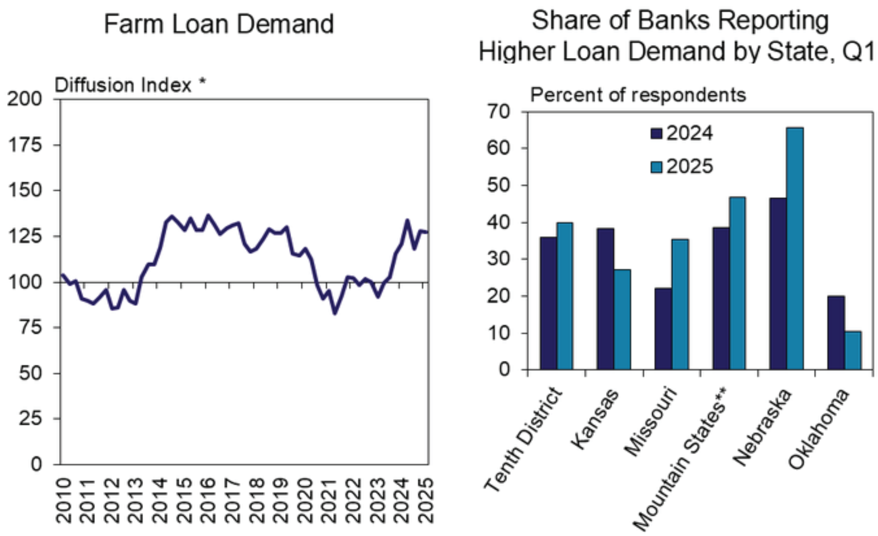
As repayment rates slowed, loan extensions increased, and some lenders tightened credit standards. The pace of increase in renewal and extension activity was similar to the previous quarter, continuing to rise steadily (Chart 7). Similar to loan repayment rates, the share of lenders reporting increased collateral requirements doubled throughout the District.

Instances of carryover debt rose modestly as many lenders entered loan renewal season. On average, about 20 percent of farm borrowers in the District had an increase in debt not covered by operating revenues from the past year (Chart 8). The rate of carryover was about 8 percentage points higher than the previous year and was similar across most states.

Cases of restructuring also increased alongside carryover debt, but loan denials remained limited for most lenders. The average share of farm loans in the region requiring restructuring to support liquidity needs increased to more than 10 percent from about 5 percent a year ago (Charts 9). Despite signs of tighter financial conditions, the average share of loans denied due to cash flow shortages or collateral shortfalls remained near 2 percent in all states except Missouri.

Most producers remained highly solvent, but a sizeable share of farm borrowers were also highly leveraged. According to respondents, about three quarters of all farm borrowers, on average, had debt-to-asset ratios below 0.40 and a quarter had ratios below 0.20 (Chart 10). Another quarter of borrowers, however, had ratios above 0.40 and are more exposed to financial stress and challenges with loan repayment.

Chart 5: Tenth District Farm Loan Demand



*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
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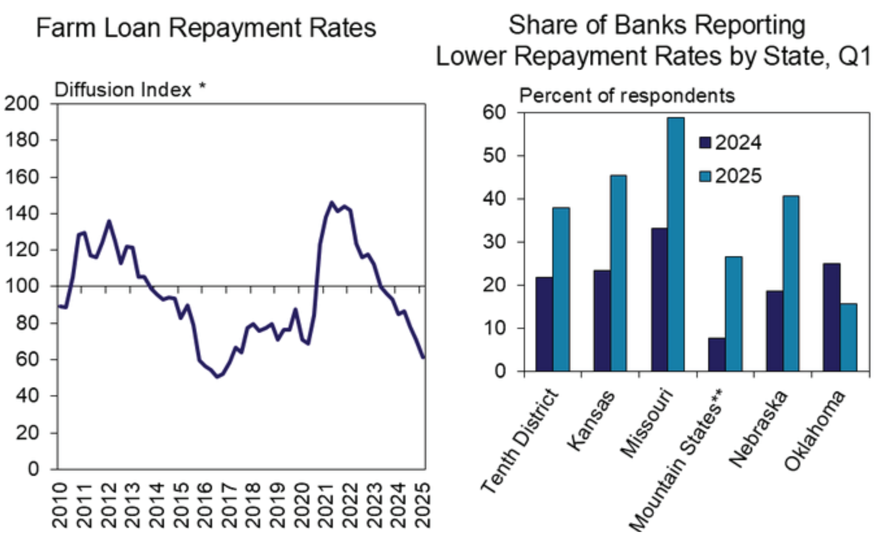
Chart 6: Tenth District Farm Loan Repayment Rates



*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
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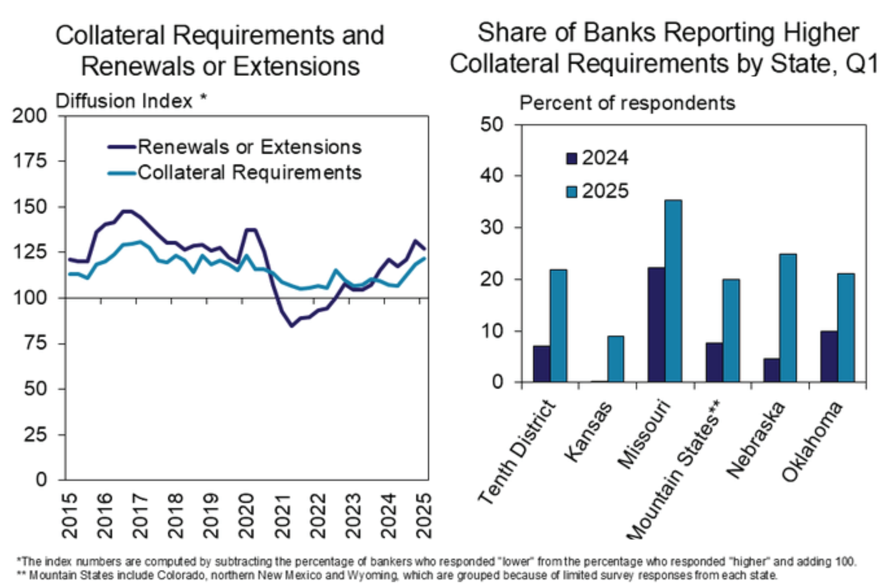
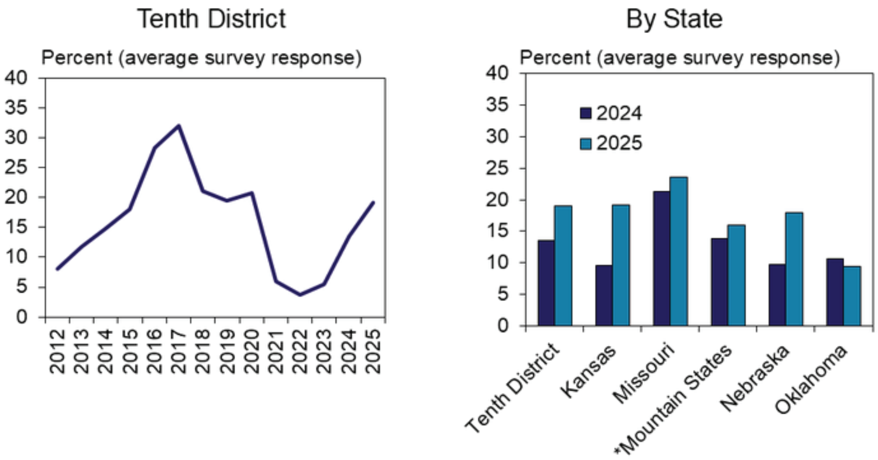
Chart 7: Select Tenth District Credit Conditions



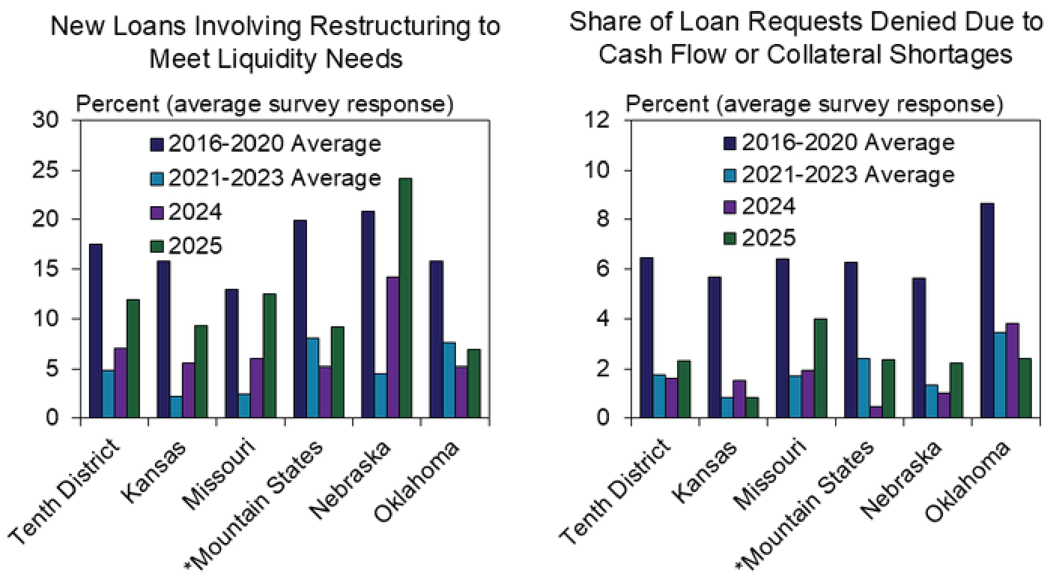
*The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
** Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

Chart 8: Farm Barrowers with an Increase in Carryover Debt, Q1



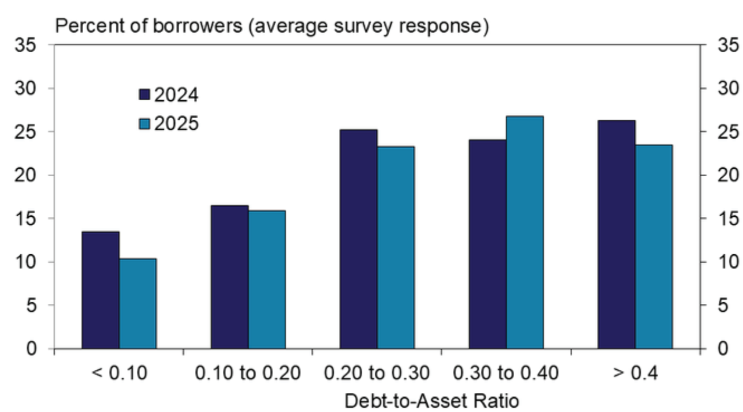
*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state
Note: Respondents answered the following question: What percent of your farm borrowers had an increase in carryover debt this year versus last year?

Chart 9: Loan Restructuring and Denials, Q1



*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.
Note: Respondents answered the following questions: In the last three months, what percent of agricultural loans originated or renewed have involved restructuring debt to meet short term liquidity needs? In the last three months, what percent of total farm loan requests were denied due to customer cash flow shortages or collateral shortfalls?

Chart 10: Debt-to-Asset Ratio Distribution of Tenth District Farm Borrowers



Note: Respondents answered the following question: What percentage of your farm borrowers have a debt-to-asset ratio within the following ranges?

For more information:

For more information on the Tenth District agricultural economy or to access the complete Ag Credit Survey, see: https://www.kansascityfed.org/agriculture/ag-credit-survey/subdued-farm-economy-weighs-on-land-values-and-credit-conditions