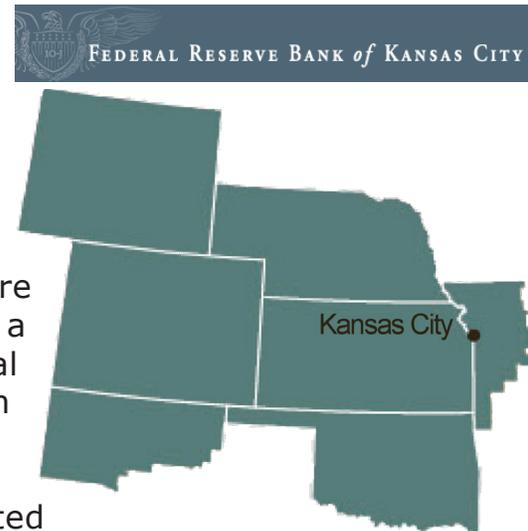


## GROWING FARM DEBT: What's Next for Agricultural Banks?

*Farm Debt Grows and Delinquencies Rise Modestly over the first quarter of 2025.*

As of the first quarter of 2025, farm debt at commercial agricultural banks continued to rise, and loan delinquency rates saw a modest increase. According to the latest Reports of Condition and Income, agricultural loan balances at commercial banks grew by 3 percent compared to a year ago. Agricultural banks, which are more focused on farm-related lending, experienced a notable 7 percent increase, driven by substantial growth in production loans and moderate expansion in farmland loans.



Demand for financing has grown alongside elevated production costs and reduced working capital for many producers. The outlook for the agricultural economy remained subdued as crop prices remained relatively weak and will likely continue weighing on farm finances and credit conditions in the coming months.

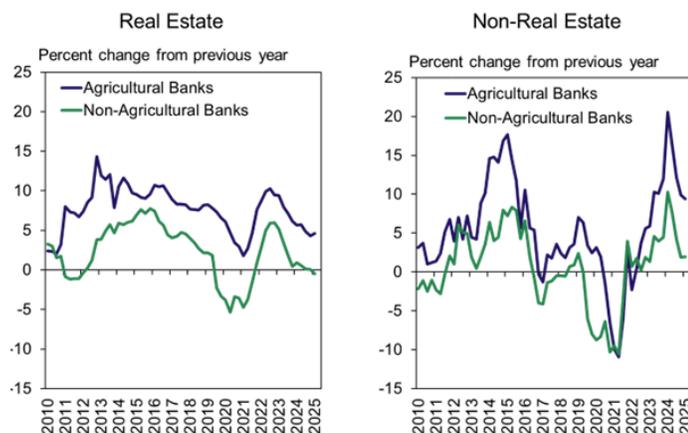
Despite this uptick in debt, delinquency rates for farm loans remain historically low, though they have edged up for the second consecutive year. While credit conditions have shown some signs of deterioration, agricultural banks have maintained solid financial performance, with strong earnings and capital positions.

### Farm Debt Growth Across Agricultural Banks

Farm debt continued to rise significantly in the first quarter of 2025. At agricultural banks, real estate and non-real estate farm debt increased by 5 percent and 9 percent, respectively, compared to the previous year, Chart 1. In contrast, at non-agricultural banks, growth in production loan balances was less pronounced, and farm real estate debt remained nearly unchanged.

Growth in farm debt was especially pronounced at banks with a higher concentration of agricultural lending. For example, agricultural banks with farm loans accounting for more than 300 percent of their capital saw an increase in total farm debt of more than 8 percent from the previous year, Chart 2. Banks with moderate agricultural

**Chart 1: Farm Debt Outstanding at Commercial Banks**



Note: Agricultural Banks are defined as banks with total agricultural loans comprising at least 25% of total loans. Figures above are calculated using the same group of 941 agricultural banks from Q1 2025 in every quarter.

Sources: Reports of Condition and Income and Federal Reserve Board of Governors

How Much Risk is Right for You?

loan concentrations experienced slightly lower growth, while those with less than 200 percent concentration saw the slowest increases.

### Impact of Loan Portfolio Size on Debt Growth

Debt growth was also more pronounced at smaller and mid-sized agricultural banks. Banks with farm loan portfolios under \$500 million experienced a 6 percent increase in total farm debt, which represented the majority of the additional debt at agricultural banks, Chart 3. Larger agricultural banks, while experiencing a slight slowdown, still saw debt growth, though at a lower rate.



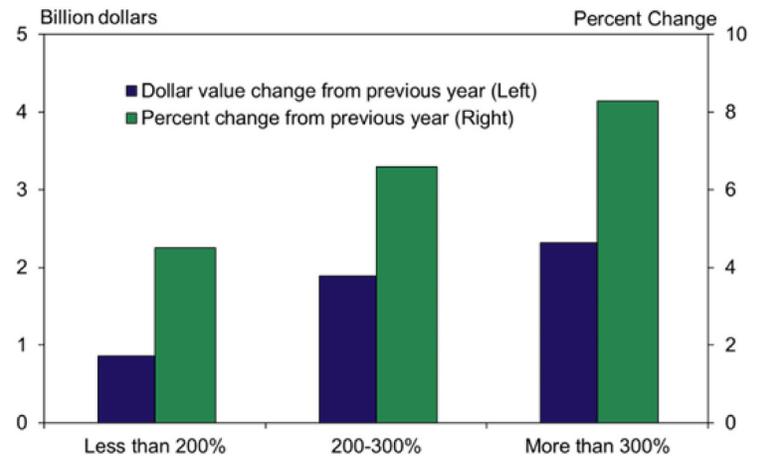
### Liquidity Concerns at Agricultural Banks

Liquidity concerns are beginning to emerge as a growing share of agricultural banks face tighter liquidity positions. Although the aggregate loan-to-deposit ratio for agricultural banks declined slightly in the first quarter of 2025, it remains close to the 20-year average, Chart 4. Approximately two-thirds of agricultural lenders reported loan-to-deposit ratios of less than 80 percent, but the percentage of banks with ratios above 80 percent increased compared to a year ago, signaling some tightening in liquidity.

### Delinquency Rates and Financial Performance

Despite rising delinquency rates, agricultural banks remain financially stable. The delinquency rates for both farmland and production loans increased modestly in the first quarter of 2025, continuing a trend of gradual deterioration

**Chart 2: Debt Changes at Agricultural Banks by Ag Loan Concentration\*, Q1 2025**

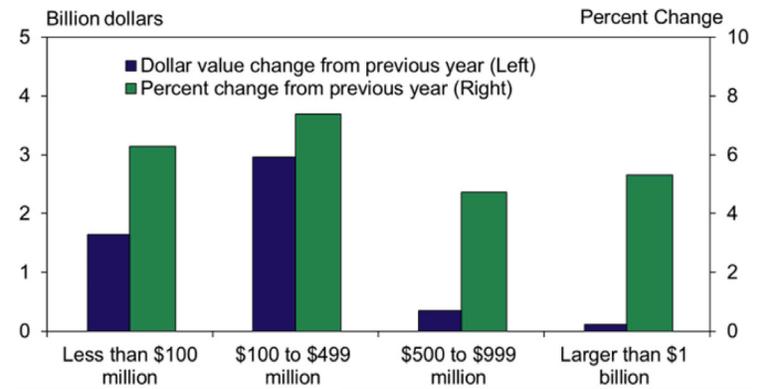


\*Ag Loans as a % of Tier 1 Capital + Allowance for Loan Losses

Note: Agricultural Banks are defined as banks with total agricultural loans comprising at least 25% of total loans.

Source: Reports of Condition and Income and Federal Reserve Board of Governors

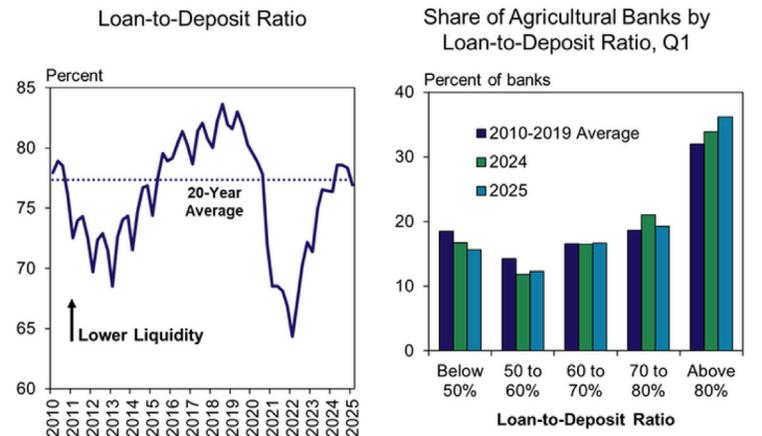
**Chart 3: Debt Changes at Agricultural Banks by Farm Loan Portfolio Size, Q1 2025**



Note: Agricultural Banks are defined as banks with total agricultural loans comprising at least 25% of total loans.

Source: Reports of Condition and Income and Federal Reserve Board of Governors

**Chart 4: Liquidity at Agricultural Banks**



Note: Agricultural Banks are defined as banks with total agricultural loans comprising at least 25% of total loans.

Source: Reports of Condition and Income and Federal Reserve Board of Governors

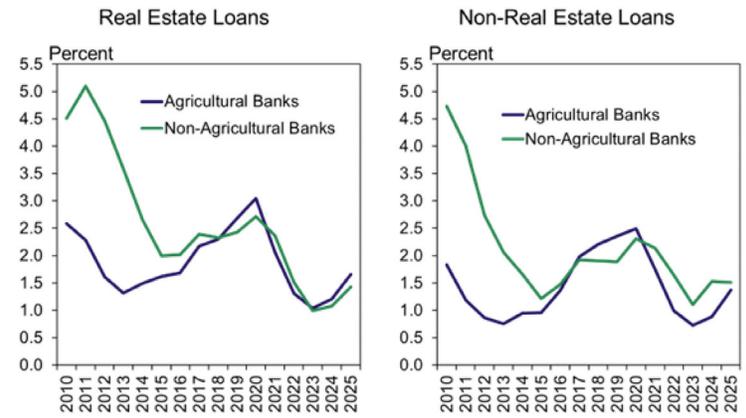
in farm financial conditions, Chart 5. Non-agricultural banks also saw a slight increase in delinquency rates for real estate loans, while delinquency rates for non-real estate loans leveled off.

However, despite the modest increase in delinquencies, agricultural banks' financial performance remains solid. Net interest margins, return on average assets, and Tier 1 leverage capital ratios all showed improvements compared to the previous year, suggesting that banks are managing credit risks effectively. While interest margins are still below historical averages, the overall financial strength of agricultural banks remains strong, with Tier 1 capital ratios well above the long-term average, Chart 6.

### Outlook for the Agricultural Economy

The outlook for the agricultural economy remains subdued, as crop prices remain relatively weak. These conditions are likely to continue putting pressure on farm finances and credit conditions in the coming months. Although agricultural banks remain financially stable, tighter liquidity and rising delinquency rates may signal ongoing challenges for the sector.

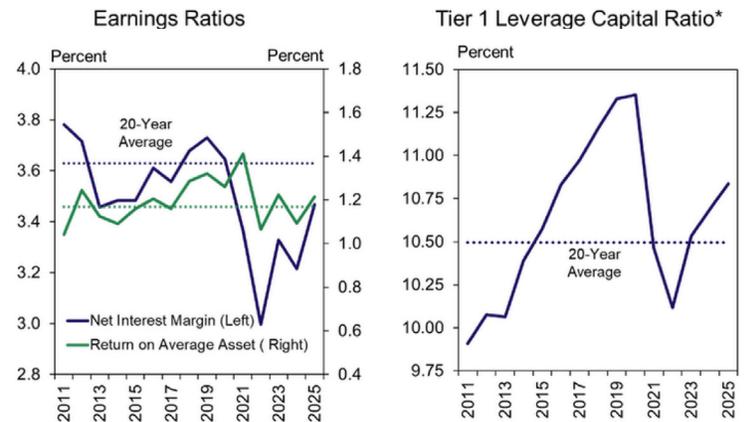
**Chart 5: Farm Loan Delinquency Rates, Q1**



Note: Delinquent farm loans include all agricultural loans past due 30 or more days or non-accruing. Agricultural banks include all banks with farm loans comprising at least 25% of total loans.

Sources: Reports of Condition and Income and Federal Reserve Board of Governors

**Chart 6: Earnings and Capital at Agricultural Banks, Q1**



\*This capital ratio excludes unrealized gains (losses) and is not reported in Ag Finance Update tables.

Note: Agricultural banks are defined as banks with total agricultural loans comprising at least 25% of total loans. Figures in the right panel are calculated using the same group of 941 agricultural banks from Q1 2025 in every quarter.

Sources: Reports of Condition and Income and Federal Reserve Board of Governors



**For more information:**

For more information on the Tenth District agricultural economy or to access the complete Ag Finance Update, see: <https://www.kansascityfed.org/agriculture/agfinance-updates/farm-debt-grows-and-delinquencies-rise-modestly>