21 July 2025 – Laramie, WY

Growth in Farm Lending Activity Eases

Non-real estate farm lending at commercial banks declined slightly in the second quarter

Farm economic conditions declined over the past quarter. Persistently soft crop prices are squeezing margins, while rising input costs and thinner cash reserves have pushed borrowing needs sharply higher. In contrast, robust livestock revenues are shoring up balance sheets in some regions and recent ad-hoc government payments should offer a limited—but welcome—lifeline to certain producers.

Snapshot

Loan volume: New non-real-estate farm loans fell about 5 percent from Q2 2024 (Chart 1) — A cooling in credit demand after four quarters of rapid growth (KC Fed).

Operating loans: Down about 2 percent year-over-year (Chart 1). — A signal that producers are trimming short-term borrowing as working-capital pressures ease slightly (KC Fed).

Interest rates: Median rate on operating loans dipped just below 8 percent (Chart 3), still well above the USDA-FSA July direct operating-loan rate of 5.0 percent (FSA).

Rate structure: Variable-rate loans remained rare despite a slight uptick (Chart 4). — Producers continue to lock in fixed rates to shield themselves from future interest rate moves (KC Fed).

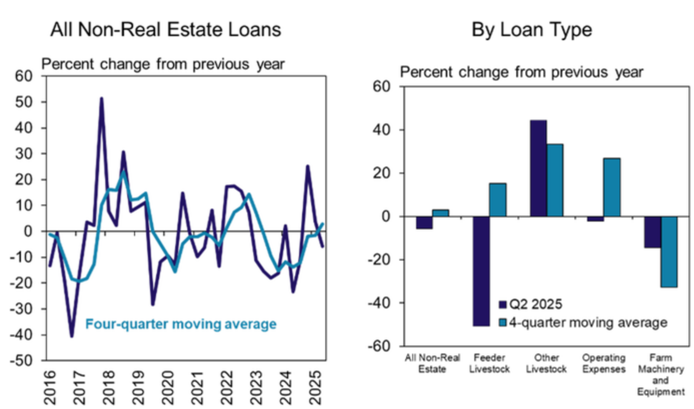
Maturities: Average terms stayed longer than the 20-year norm across most loan types (Chart 5). — Longer pay-off windows help borrowers manage higher rates but extend banks' exposure (KC Fed).

Lending Trends

Non-real-estate farm credit use backed off its break-neck pace. Operating-loan growth averaged roughly 25 percent over the previous four quarters, making this quarter's 2-percent decline (Chart 1) a notable pause. Feeder-livestock loans—traditionally volatile—also contracted sharply after averaging nearly 15 percent growth over the past year (KC Fed).

The pullback was concentrated at banks with smaller farm portfolios. Small and mid-size lenders saw volumes slide further, while large institutions reversed part of 2024's drop with a 22 percent jump and slightly larger average ticket sizes (Chart 2) (KC Fed).

Chart 1: Volume of Non-Real Estate Farm Loans



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

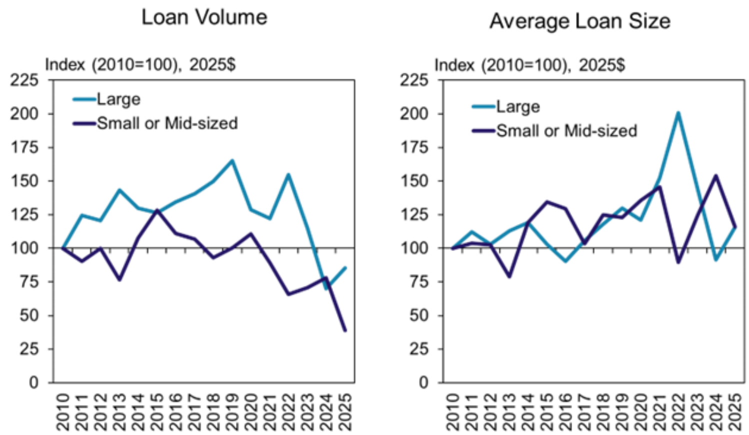
Cost of Credit

Rates: The inter-quartile range on operating notes ran from 6.5 percent to 9 percent (Chart 3). Although down modestly, rates remain elevated relative to government benchmarks and to the sub-5-percent levels seen as recently as 2021.

Fixed vs. variable: Only a small fraction of new loans carried floating rates (Chart 4). After 2024's rate hikes, borrowers appear reluctant to gamble on future decreases.

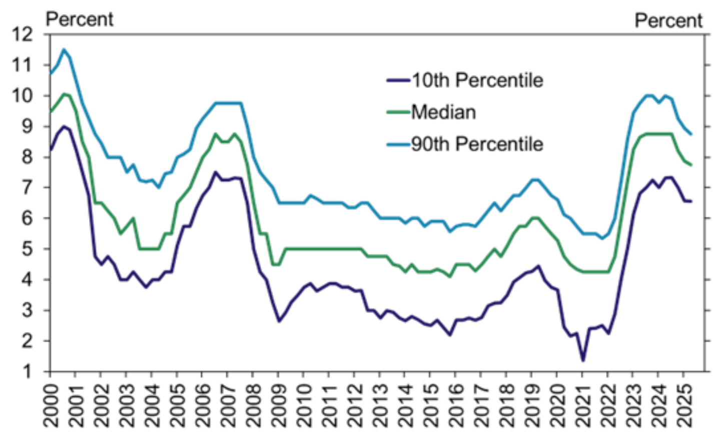
Terms: Average maturities for operating, machinery and "other livestock" loans extended further (Chart 5), while feeder-livestock terms shortened. Long amortizations—now typically 12½ years on real-estate backed loans—help soften the payment shock of higher rates (KC Fed).

Chart 2: Loan Volume and Size by Farm Loan Portfolio Size, Q2



Note: Large banks include banks with farm loan portfolios of more than $25 million. Small or mid-sized banks include banks with farm loan portfolios of $25 million or less.
Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

Chart 3: Range of Interest Rates on Non-Real Estate Farm Loans



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

Broader Farm-Sector Context

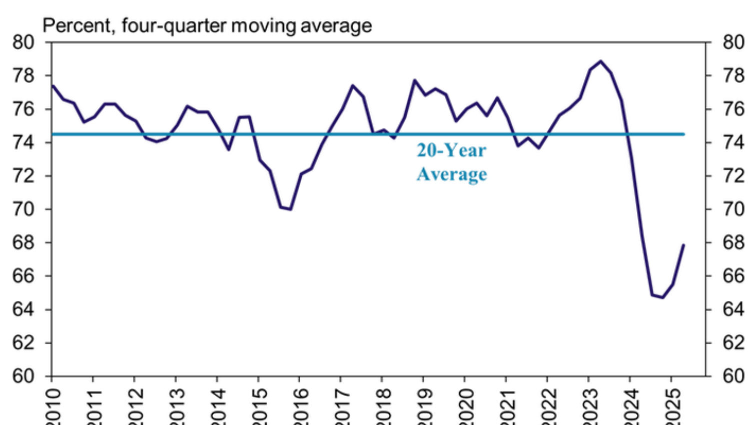
Profit squeeze from crop prices. USDA's 2025/26 outlook calls for season-average prices to decline modestly for corn, soybeans and wheat, reflecting record global supplies (USDA).

Analysts note that farmers are shifting acreage toward corn—viewed as the "least-bad" option—because soybeans and several other crops are pricing below break-even (Reuters).

Livestock strength offers an offset. USDA raised 2025 cattle-price forecasts in May, projecting new highs in 2026, while milk and poultry prices also trended up (ERS). Higher animal-product receipts are buoying balance sheets in regions with large livestock bases.

Government support and liquidity. Direct government payments are on pace to be the

Chart 4: Share of Non-Real Estate Farm Loans with a Variable Interest Rate

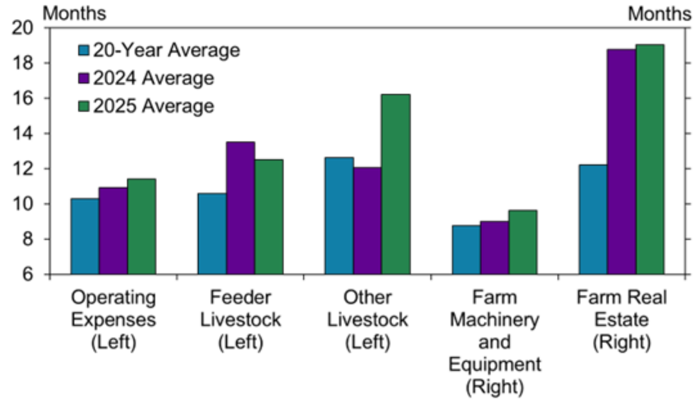


Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City second-largest ever in real terms, helping push 2025 projected net farm income to its third-highest level since 1960 despite weaker crop revenues (AgIS).

Outlook

Even with this quarter's cooling, credit needs are unlikely to retreat quickly. Persistent input-cost inflation, longer loan maturities and subdued crop margins suggest producers will keep leaning on operating lines through 2025. The sector's ability to navigate high—but easing—interest rates will depend on:

Chart 5: Farm Loan Delinquency Rates, Q1



Sources: Survey of Terms of Lending to Farmers and Federal Reserve Bank of Kansas City

1. Crop-price recovery heading into harvest.

2. Livestock profitability sustaining cash flow.

3. Policy developments—in particular, any follow-on ad-hoc assistance or changes in tariff policy influencing commodity prices.

Banks appear well positioned: large institutions have regained some ground, and smaller lenders continue to trim exposure proactively. For borrowers, the key decision remains whether to lock in today's still-lofty fixed rates—or gamble on future cuts.

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