

## Liquidity, Leverage, and Livestock: A Practical Guide to Today's Ag Finance

**F**arm and ranch finances in late 2025 really are a tale of two sectors. Many cattle operations are enjoying some of the best prices in memory, while nearby grain farms struggle to cover costs at today's crop prices. Both walk into the same bank, but with very different balance sheets and risk. We offer a short "financial checkup" for U.S. agriculture and ideas you can use to manage risk on your own place in the months ahead.

### The big picture: strong assets, rising debt

Nationally, the financial system looks stable but not stress free. The Federal Reserve's November 2025 Financial Stability Report says business and household debt is moderate relative to the economy, while asset values, including farmland, are still high.

Within agriculture, Kansas City Fed *Ag Finance Updates* show farm debt at commercial agricultural banks continuing to grow to record levels for both real-estate and non-real-estate loans. Delinquency rates have only inched up and remain low, so most borrowers are still making payments even as leverage rises.

USDA's *Farm Sector Income Forecast* adds another layer. Net farm income for 2025 is projected near 180 billion dollars, about 40 percent higher than 2024. Most of that jump is tied to direct government payments and crop insurance indemnities rather than stronger commodity prices, so government support and insurance are doing much of the work holding up sector-wide income. Lenders in the Tenth District report a similar pattern, with farm income indexes still positive but edging lower, Chart 1.

Farmland values are part of the cushion. Chicago Fed data show Seventh District farmland values about 3 percent higher than a year ago and flat from the second quarter, while many Plains states report steady cropland values and modest gains for pasture and ranchland supported by strong cattle prices.

### Livestock sector: strong incomes, bigger notes

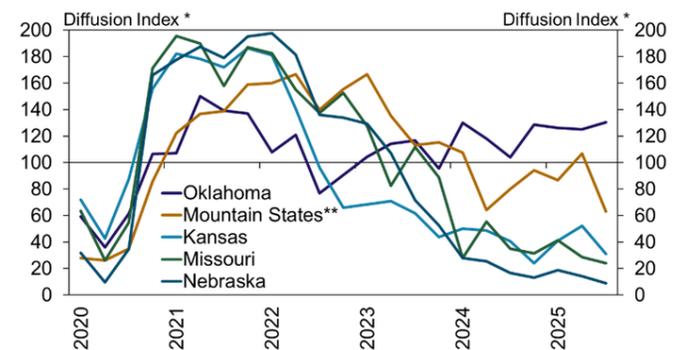
On the livestock side, conditions are favorable. The Kansas City Fed's *Ag Credit Survey* reports that strength in the cattle sector has improved farm finances in many parts of the Tenth District, even as credit conditions in crop-heavy areas continue to deteriorate. Lenders expect repayment rates for cow-calf and feedlot operations to improve, while repayment for grain farms is expected to weaken further.

An October *Ag Finance Update* notes that steady demand for operating and feeder livestock loans boosted farm lending in the third quarter, with average operating loan sizes and feeder livestock loans higher than a year ago. Interest rates on farm loans have dipped slightly from their recent peak but remain well above pre-2020 levels.

The main risk for livestock operations is leverage. Bigger notes tied to high cattle values can work well in good times, but they also mean more exposure if cattle prices slip, feed



Chart 1: Tenth District Farm Income



\*The index numbers are computed by subtracting the percentage of respondents who responded "lower" from the percentage who responded "higher" and adding 100.  
\*\* Mountain States include Colorado, northern New Mexico and Wyoming.

How Much Risk is Right for You?

costs rise, or consumer demand softens. This is a good time to use tools like Livestock Risk Protection (LRP), futures, or options to lock in at least part of today's strong margins.

### Crop sector: weak margins, growing stress

Conditions look very different for crop producers. The *Ag Finance Update* "Weakness in Crop Sector Weighs Further on Farm Finances" reports that farm income and credit conditions across much of the Midwest and Plains deteriorated through mid-2025 as profit opportunities in the crop sector stayed weak. Repayment rates have declined, and lenders expect repayment to remain under pressure in the months ahead, Chart 2.

The Purdue/CME *Ag Economy Barometer* tells the same story. Overall sentiment has softened, but the most pessimistic responses come from crop producers who report several years of tight or negative margins, while livestock producers report stronger current conditions.

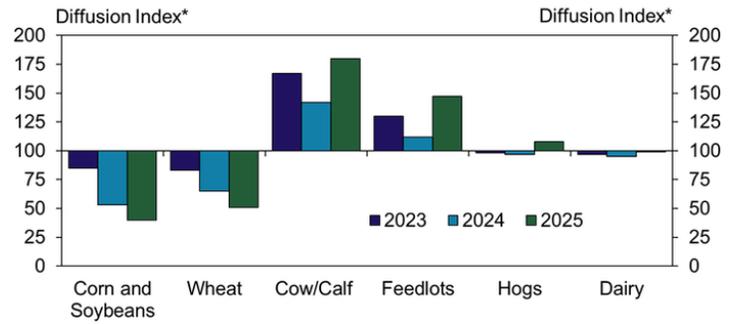
The *Ag Credit Survey* also shows stress building in some bank portfolios. In crop-dependent states such as Kansas, Nebraska, and Missouri, the share of farm loans on watch and classified lists has risen to about 9 and 4 percent, respectively, Chart 3. At the same time, considerably more lenders now say that between 5 and 10 percent of their farm borrowers plan to sell mid- to long-term assets before year-end to improve liquidity or make payments, Chart 4. Selling assets can help plug short-term holes but may also reduce future earning capacity.

### RightRisk-style steps to manage today's financial risks

In this mixed environment, the basics of sound financial management are your best tools.

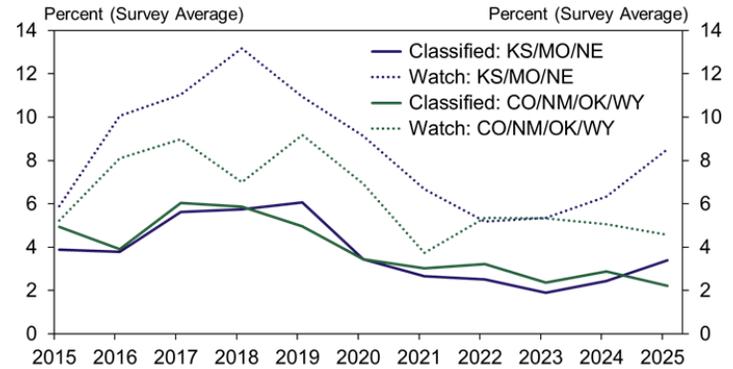
First, know your numbers — Update your balance sheet and a simple 12- to 18-month cash-flow plan, preferably month by month. Focus on three items: working capital (current assets minus

**Chart 2: Expected Loan Repayment Rates During Next Three Months, Q3**



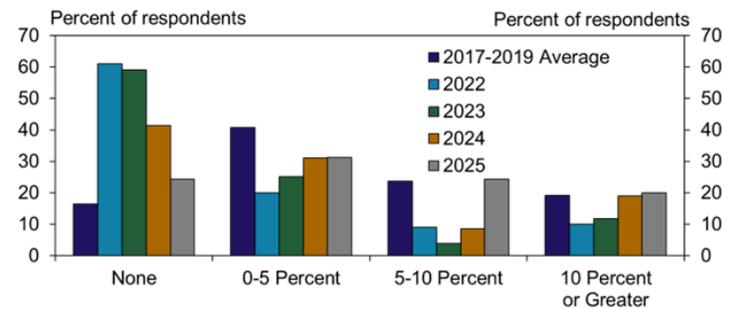
\*The index numbers are computed by subtracting the percentage of respondents who responded "lower" from the percentage who responded "higher" and adding 100. Note: Respondents answered the following question: For the following farm operations, how are loan repayment rates expected to change over the next three months?

**Chart 3: Share of Tenth District Farm Loans on Watch and Classification Lists, Q3**



Note: Respondents answered the following question: Please indicate the percentage of your farm loan portfolio currently the "Watch" and "Classified" Lists?

**Chart 4: Share of Borrowers Planning to Sell Mid-to Long-Term Assets, Q3**



% of borrowers planning to liquidate assets for payments or working capital

Note: Respondents answered the following question: What percent of your farm borrowers plan to sell mid-to-long term assets before the end of the year in an effort to improve available working capital or make loan payments?



current liabilities), your ability to cover principal and interest from cash flow, and how much of your debt is at variable rates.

Second, talk with your lender early — If your plan shows a possible shortfall, schedule a meeting before you are tight on cash. Ask about options to restructure loans, adjust payment schedules, or use government-backed programs where they fit. Lenders generally have more flexibility when customers show up early with good records, not after payments are already late.

Third, protect margins and rebuild “shock absorbers” — Use crop insurance, forward contracts, or options to put a floor under prices on part of expected production. Livestock producers can use LRP, futures, or options to lock in profitable margins on a share of expected sales. In good years, a simple order of priorities can help: rebuild working capital, pay down high-cost or variable-rate debt, and only then consider major expansion of land, facilities, or herd size.

Finally, use education and planning tools — Programs like RightRisk (RightRisk.org) offer worksheets, simulations, and examples to help you test “what-if” scenarios for prices, yields, and interest rates before making big decisions. Working through those scenarios with family, partners, or your lender can make weak spots and options much clearer.

### Take-home message

As 2025 winds down, the state of U.S. agricultural finance is mixed but not in crisis. The broader financial system looks resilient, and many farm and ranch balance sheets remain strong thanks to high land values and, in some regions, excellent livestock returns. At the same time, crop margins are tight, farm debt continues to build at agricultural banks, and credit conditions are slowly weakening in crop-dependent areas, Chart 5, Chart 6.

Operations that know their numbers, communicate early with lenders, and use basic risk-management tools will be in the best position to handle whatever the next year brings.

### References:

Board of Governors of the Federal Reserve System – *Financial Stability Report*, November 2025. <https://www.federalreserve.gov/publications/financial-stability-report.htm>

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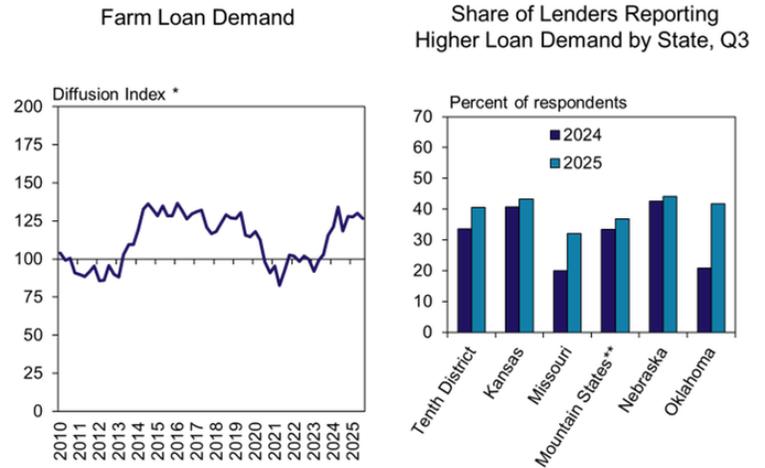
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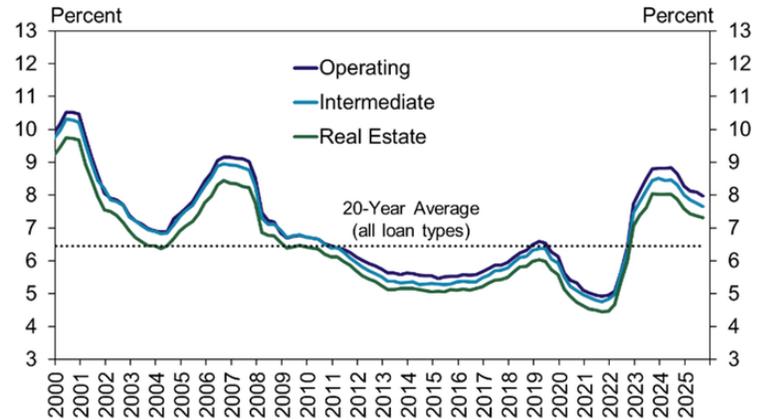
USDA Economic Research Service – *Farm Sector Income Forecast* (September 3, 2025) and related Charts of Note. <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/>

**Chart 5: Tenth District Farm Loan Demand**



\*The index numbers are computed by subtracting the percentage of respondents who responded “lower” from the percentage who responded “higher” and adding 100.  
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**Chart 6: Tenth District Average Interest Rates**



Note: Average rates are calculated as the average of fixed and variable rates for each loan category.