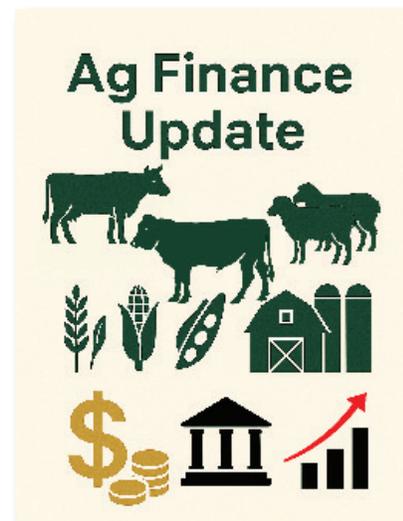


## High Equity, Tight Cash: A Regional Roundup of Ag Finance

The current mood in the U.S. farm economy can be described as a divided horizon. If you walk into a coffee shop in cattle country, the conversation is likely optimistic. But if you walk into a grain elevator in the Corn Belt, the tone is probably a lot more serious.

Right now, agricultural finance is a mixed bag. On paper, things look pretty good for many operations because land values, the biggest asset on most farm balance sheets, are holding strong. This keeps equity high. However, balance sheets don't pay the bills; cash does. That is where the struggle lies. We are seeing a significant squeeze on liquidity, or the cash available to pay for day-to-day operations, Chart 1.

For many managers, the challenge isn't that they don't own enough; it's that the cost of doing business has remained high while the price of what they sell (specifically crops) has come down.



### Regional Roundup: A Look Across the Federal Reserve Districts

To understand the financial picture, it helps to look at the different Federal Reserve Districts. The U.S. is divided into regions, and each Federal Reserve Bank releases data on how farms in their area are doing.

- *The Corn Belt & Upper Midwest (Districts 7, 8, 9):* In the heart of the country, covering states like Iowa, Illinois (District 7), parts of Missouri and Arkansas (District 8), and the Upper Midwest including Minnesota and the Dakotas (District 9), the financial stress is becoming more visible. These areas rely heavily on corn and soybeans.

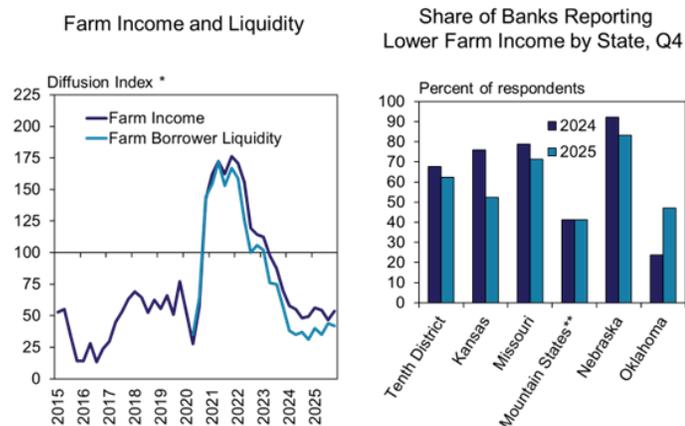
With crop prices hovering near or below the cost of production for many, working capital is burning up fast. Bankers here report that repayment rates on loans are slowing down, and more farmers are asking to renew or extend their operating loans.

- *The Plains & Mountain West (District 10):* District 10, covered by the Kansas City Fed, includes states like Kansas, Nebraska, Oklahoma, and Wyoming. This region is a perfect example of the split economy. While crop producers here are facing the same low prices as their neighbors to the east, the large cattle presence in this district provides a buffer.

High cattle prices are supporting farm income in areas with more grazing and livestock. Additionally, farmland values in District 10 have remained very firm, giving producers a strong collateral base to borrow against.

- *The South & West (Districts 11 & 12):* Heading south to Texas and its neighbors (District 11), the story is often about drought volatility, though the energy sector and cattle markets help support land values. Out West (District 12), covering California and the Pacific Northwest, producers face unique challenges with labor costs and water availability impacting

**Chart 1: Tenth District Farm Income and Borrower Liquidity**



\*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?

specialty crops (fruits, nuts, and vegetables). Financial stress here varies widely depending on the specific crop, but the trend of tighter credit is consistent.

Across many districts, one trend is the same: loan demand is up. Producers are borrowing more money just to put the crop in the ground or keep the lights on, Chart 2.

### The Livestock Sector: A Bright Spot with a Warning

If there is a silver lining in the current outlook, it is the livestock sector. Cattle prices have reached historic highs. This isn't just luck; it is basic supply and demand. Years of drought has forced many ranchers to sell off their herds, driving the U.S. cattle inventory to its lowest numbers in decades. With fewer calves hitting the ground, the supply of beef is tight, and packers are paying up for it.

For diversified operations those with both crops and cows, the cattle check is likely the lifeline keeping the operation in the black this year.

However, there is a risk. Because cattle prices are so high, it is incredibly expensive to get into the business or to expand. Buying replacement heifers right now takes a lot of cash. Managers need to be careful not to spend all their liquidity buying expensive animals if they don't have the grass or feed reserves to support them. Also, high income in the cattle sector brings tax consequences. Smart managers are using this time to fix fences, improve water systems, or pay down debt rather than just buying more high-priced animals. Even in strong cattle conditions, liquidity can tighten quickly when expansion requires expensive replacements.

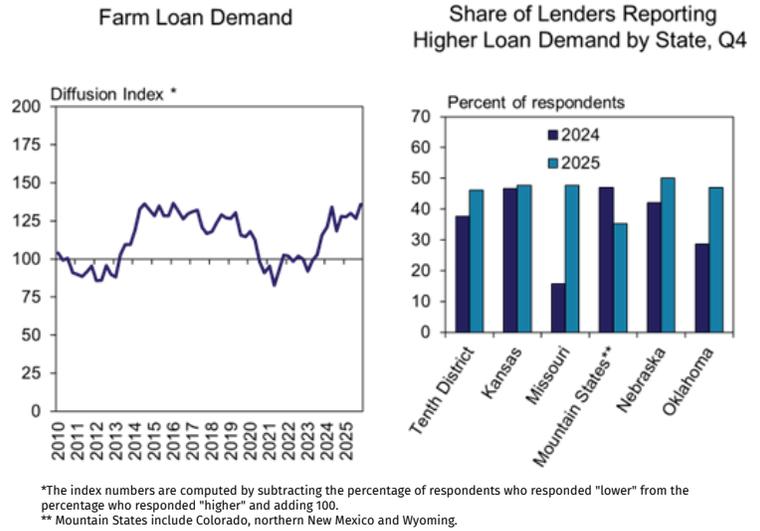
### The Crop Sector: Thinner Margins and Tighter Cash

The crop sector is facing a classic cost-price squeeze. During the boom years, grain prices were high, but so were the costs for fertilizer, fuel, seed, and machinery. The problem today is that while grain prices have dropped back, the input costs have been sticky, they haven't dropped nearly as fast.

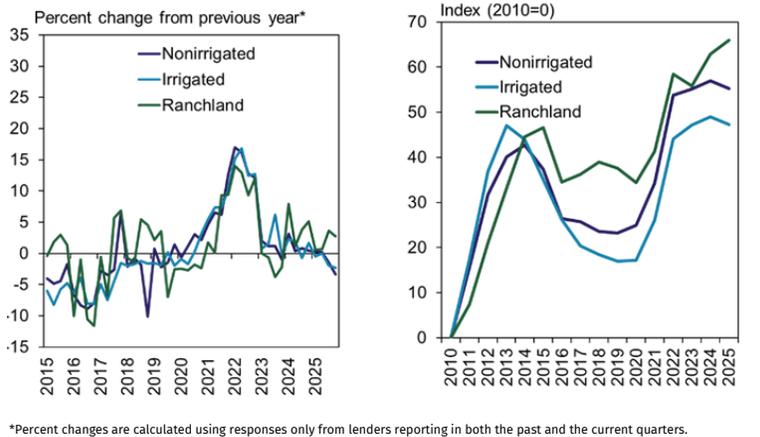
We are, however, seeing the first signs of adjustment in land costs. For the first time in several years, cash rents for cropland are softening slightly, decreasing about 2-3% for irrigated and non-irrigated land in the Tenth District. This provides minor relief, but it contrasts sharply with the cattle sector, where grazing rents have increased by roughly 3%, Chart 3.

Despite this slight dip in crop rents, margins remain very thin. Many managers are burning through the cash reserves they built up a few years ago. We are also seeing an increase in carryover debt. This happens when a farmer cannot pay off their operating line of credit at the end of the harvest season. That

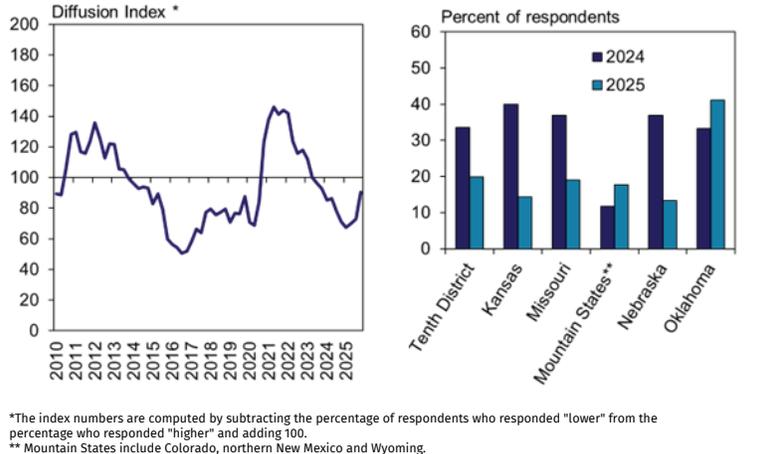
**Chart 2: Tenth District Farm Loan Demand**



**Chart 3: Tenth District Cash Rents**



**Chart 4: Tenth District Loan Repayment Rates**



unpaid balance gets rolled over into the next year's loan. This is a dangerous snowball because you end up paying interest on last year's costs while trying to finance this year's crop. Lenders are also reporting weaker repayment rates, Chart 4.

### Outlook for Coming Months: Navigating the Renewal Season

As we look toward the next production cycle, the lending environment is going to be stricter.

- **Loan Renewals:** Renewal season (when you go to the bank to set up next year's financing) might be tough. Bankers are shifting their focus. A few years ago, they might have looked at your high land values and felt safe lending you money. Now, they are looking closely at liquidity (working capital).
- **Interest Rates:** While there is talk that interest rates may have peaked, they are still much higher than they were five years ago. If you have a variable-rate loan, your interest costs are taking a big bite out of your profits, Chart 5.

### Actionable Advice:

1. *Get Your Records Ready:* Do not walk into the bank empty-handed. Have an up-to-date balance sheet and a cash flow budget. Show your lender you know your numbers.

2. *Monitor Your Liquidity:* Lenders are watching your Current Ratio (Current Assets divided by Current Liabilities). A ratio below 1.5 is a warning sign for many.

3. *Communicate Early:* If you think you might have trouble making a payment, talk to your lender now, not after the payment is past due.

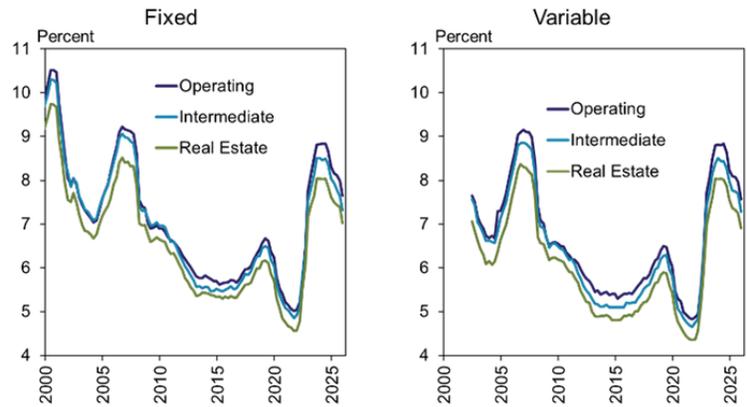
### Conclusion

The U.S. ag finance picture is challenging, especially for row crop producers dealing with high costs and lower prices. However, the industry has a strong anchor: land values are stable, providing equity that keeps most operations solvent.

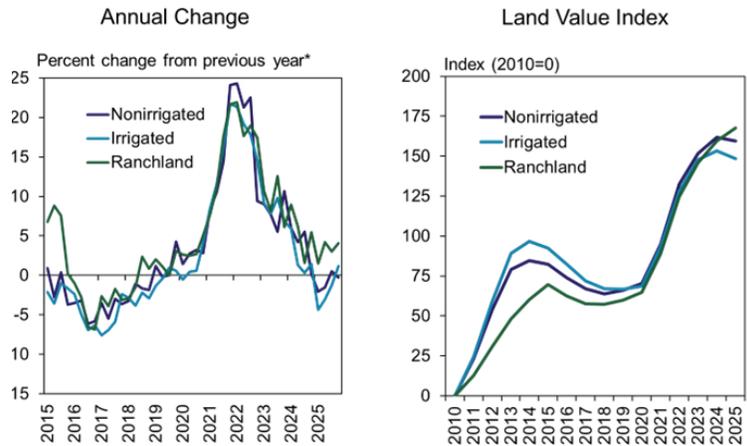
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**Chart 5: Tenth District Average Interest Rates**



**Chart 6: Tenth District Farmland Values**



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

The difference between success and failure in the coming months will likely come down to management. It is about controlling costs, preserving cash, and making smart decisions about debt. Now is the time to sharpen your pencil and treat your farm like the business it is.

For tools to help you budget, analyze lease rates, or evaluate risk management strategies, visit the analytics section at RightRisk.org.