

## Lending Is Up While Margins Are Tight

If it feels like you are borrowing more money without making more money, you are not alone. The latest reports from the Federal Reserve and USDA tell an ag finance story with two sides. Credit is still moving, in some places fast. But that does not mean the farm economy is strong. It often means many operations are leaning harder on borrowed dollars while their cash cushion gets thinner.

### The Big Picture: Lending Up, Working Capital Down

The Kansas City Fed's recent update shows non-real estate farm loan volume at commercial banks rose nearly 50% from a year ago, led by large operating loans and feeder livestock loans. Average loan sizes kept climbing, and the share of new operating loans over \$500,000 hit a record high. Interest rates on the largest loans were about flat from the previous quarter, while rates on smaller loans slipped a bit lower.

Here is the catch. USDA forecasts 2026 net farm income at \$153.4 billion, down slightly from 2025, while total farm sector debt is expected to rise 5.2% to \$624.7 billion, and working capital is projected to fall 9.2%. Put those numbers together and the picture is clear: more debt but less cash on hand. Strong loan activity is not the same thing as a strong business. Sometimes it can mean an operation is growing. In 2026, it more likely means carrying more inputs, livestock, or unpaid bills on credit.

### How the Fed Districts Stack Up

The regional Fed banks track agricultural conditions in different ways, and the latest reports still show real variation across the country.

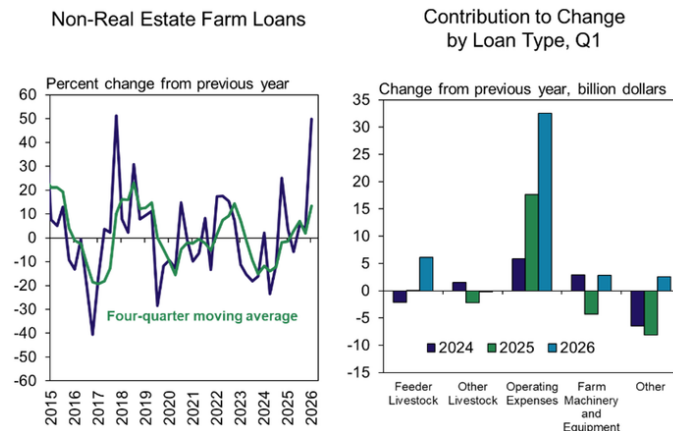
*District 7 – Chicago (IA, IL, IN, MI, WI).* Farmland values finished 2025 up 6%, but credit conditions weakened. About 5.6% of loans had major or severe repayment problems, the highest since mid-2020, and roughly 30% of surveyed banks tightened credit standards.

*District 8 – St. Louis (AR, IL, IN, KY, MS, MO, TN).* The St. Louis *Ag Finance Monitor* has been discontinued, but recent Beige Book reports describe ag conditions as unchanged on the surface, with rising input costs and weather uncertainty making crop loans harder to secure. Rice farmers are under strain, and some producers are asking for higher credit lines to cover income pressure.

*District 9 – Minneapolis (MN, MT, ND, SD, MI UP, northern WI).* Even with strong 2025 harvests, farm incomes fell. Operating and machinery loan rates dropped at the



**Chart 1: Volume of Non-Real Estate Farm Loans**



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

How Much Risk is Right for You?

end of 2025, but 44% of lenders reported lower repayment rates, and 64% expect farm income to fall further in the first quarter of 2026. One Montana banker called the 2026–2027 outlook scary, given low commodity prices.

*District 10 – Kansas City (CO, KS, NE, OK, WY, western MO, northern NM).* This is where the split shows up clearest. Cattle strength is lifting revenues, and recent Farmer Bridge Assistance (FBA) program payments are expected to offer modest support to farm income and credit conditions. Cropland values are about flat, while ranchland values continue to firm.

*District 11 – Dallas (TX, northern LA, southern NM).* Drought is the big story. Cattle prices remain very high, but ranching uncertainty is building and credit tightening is picking up. Low commodity prices are squeezing rice and cotton producers hardest and interest rates declined across all loan types.

*District 12 – San Francisco (AK, AZ, CA, HI, ID, NV, OR, UT, WA).* Agriculture remained stable but subdued. Weak international demand and oversupply pressured prices for some agricultural products, while demand for poultry and pork stayed strong and cattle prices remained elevated.

### Livestock: Riding High, but Watch Your Footing

The cattle sector continues to carry the day. Feeder livestock loan sizes and volumes grew at about 15% and 25% per year, respectively, as cattle prices reached record highs.

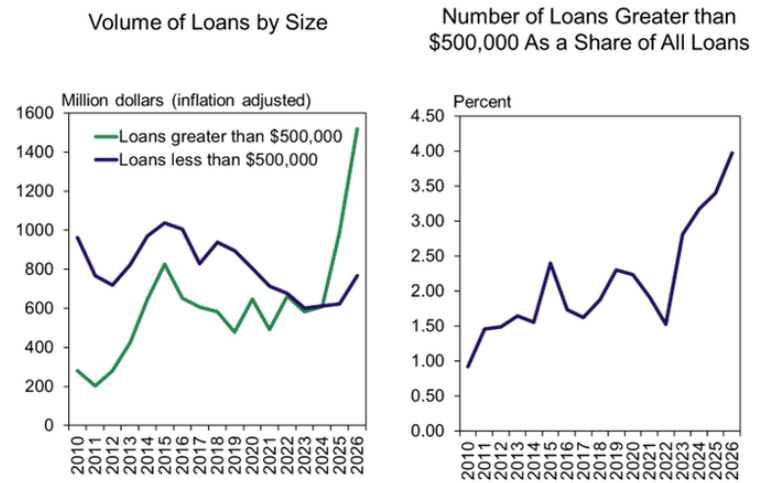
That is good news but high prices cut both ways. More money is tied up per head, replacement costs are steep, and the hit from a market swing would be bigger than it was a few years ago. This is a good time to look at Livestock Risk Protection (LRP), forward contracts, or forward pricing arrangements to lock in some of that margin before the market begins to move.

### Crops: Margins Still Tight

For row-crop producers, the picture is not as bright. Profit opportunities remain limited, and a surge in fertilizer and fuel prices is raising cost concerns heading into the 2026 growing season. Carryover debt is showing up more often on Midwest balance sheets and some producers may rely more heavily on FBA payments and crop insurance to support cash flow.

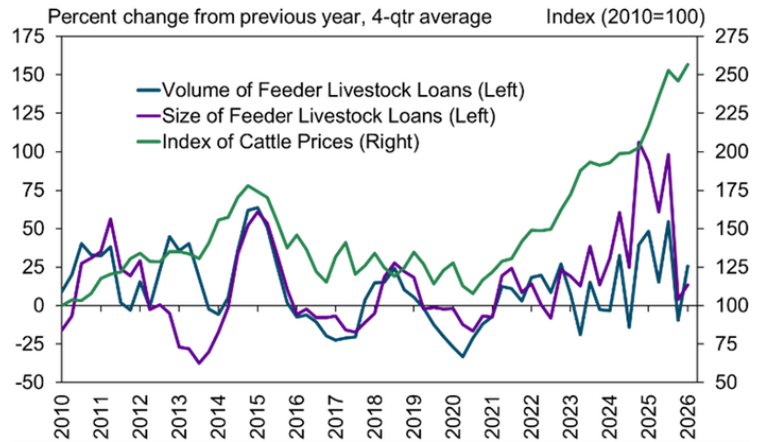
If that is you, now is the time to sharpen your cost-of-production numbers per acre, talk early with your lender about renewal terms, and build

**Chart 2: Farm Operating Loans by Loan Size, Q1**



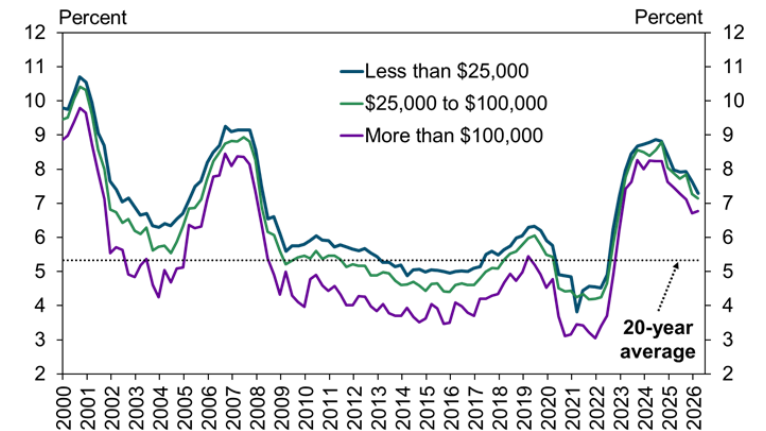
Sources: Survey of Terms of Lending to Farmers, and Federal Reserve Bank of Kansas City

**Chart 3: Cattle Prices and Feeder Livestock Lending**



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

**Chart 4: Average Interest Rate on Non-Real Estate Farm Loans by Loan Size**



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

a marketing plan that protects the downside. Do not assume a normal yield will solve a weak margin.

## Outlook for the Coming Months

The road ahead looks bumpy but not broken. This is not a crash story; it is a management story. Recent surveys suggest loan rates have eased slightly in some categories but borrowing costs remain above recent long-run averages. Credit will remain available for operations with good working capital and strong balance sheets but lenders are getting pickier with weaker ones. Farmland values are holding up, which gives most producers borrowing room on paper, even as month-to-month cash flow stays tight.

The best advice is the oldest advice. Know your numbers. Update your balance sheet before renewal season. Stay in front of your lender conversations. Lenders respond much better to a plan than to a surprise.

Stress-test your operation for lower prices, higher input costs, or a weather setback. Those are not worst-case fantasies right now; they are realistic planning assumptions. Producers who go into the rest of 2026 with a clear picture of cost of production, cash flow, and risk exposure will have the most options, no matter which side of the fence they are on.

For more on ag finance and risk management topics, see past issues of *RightRisk News* at [RightRisk.org/news](https://RightRisk.org/news).



## References:

- Federal Reserve Bank of Dallas. Agricultural Survey, First Quarter 2026. <https://www.dallasfed.org/research/surveys/agsurvey/2026/ag2601>.
- Federal Reserve Bank of San Francisco. Twelfth District Beige Book. February 2026. <https://www.frbsf.org/research-and-insights/publications/san-francisco-fed-twelfth-district-beige-book/2026/03/beige-book-february-2026>.
- Federal Reserve Board. Beige Book. St. Louis District. March 2026. <https://www.federalreserve.gov/monetarypolicy/beigebook202602-st-louis.htm>.
- Kreitman, Ty. Growth in Farm Lending Activity Persists. Federal Reserve Bank of Kansas City. Agricultural Finance Update. April 8, 2026. <https://www.kansascityfed.org/agriculture/agfinance-updates/growth-in-farm-lending-activity-persists>.
- Mahon, Joe. Strong Harvests Were Cold Comfort for District Farmers. Federal Reserve Bank of Minneapolis. Q4 2025 Ag Credit Survey. February 2026. <https://www.minneapolisfed.org/article/2026/strong-harvests-were-cold-comfort-for-district-farmers>
- Oppedahl, David, and Elizabeth Kepner. AgLetter No. 2011: Midwest Farmland Values Ended 2025 with Solid Growth. Federal Reserve Bank of Chicago. February 2026, <https://www.chicagofed.org/publications/agletter/2025-2029/february-2026>.
- USDA Economic Research Service. Farm Sector Income Forecast. <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast>.
- USDA Economic Research Service. Highlights from the Farm Income Forecast. <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/highlights-from-the-farm-income-forecast>.
- RightRisk News archive. <https://rightrisk.org/news/category/rightrisk-news>.