Economic Research Service
U.S. DEPARTMENT OF AGRICULTURE

A report summary from the Economic Research Service *June 2024*

Debt Use by U.S. Farm Businesses, 2012–2021

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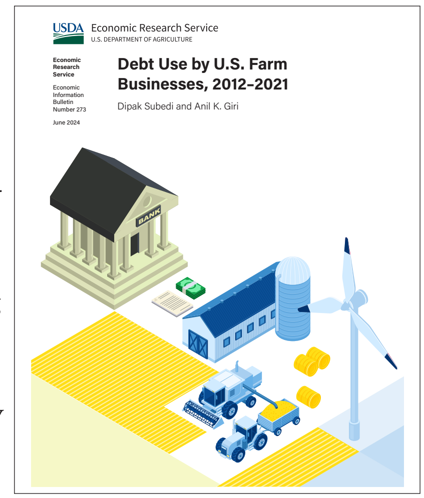
What Is the Issue?



Farm operators obtain loans to expand operations, cover day-to-day expenses, and survive a financial downturn. Farm debt can significantly impact the overall welfare of farm households and the financial health of farm operations. High farm debt relative to income hinders growth, as more income goes toward interest payments and can result in farm bankruptcy. In 2022, the U.S. Federal Reserve began quantitative tightening and rapidly increased the short-term Federal funds rate, so understanding the debt landscape of the farm sector is important. Higher interest rates can affect longer term debt and reduce profitability for many farm operations. The financial well-being of farm operations and farm households depends on the economic vitality and competitiveness of financial institutions as well. The existence of competitive credit sources is beneficial to farmers for multiple reasons, including possibly lower borrowing costs and the opportunity to choose from different lenders. This report examines farm debt by lenders from 2012 through 2021, as well as other attributes, such as loan type (real estate and non-real estate) among different types of farm businesses.

What Did the Study Find?

The total debt (the sum of real estate and non-real estate debt) held by the farm sector has been rising every year since 2012. In 2021, total farm sector debt was $504 billion, which is $128 billion (34 percent) higher than 2012 in inflation-adjusted 2022 dollars. Additional findings are as follows:

- Real estate farm debt increased more than non-real estate debt.
- Total debt as a percent of total cash receipts increased from 74 percent in 2012 to 109 percent in 2021.
- Of all farm businesses that owned some farmland, 19 percent had real estate debt. In 2021, farm real estate debt was $345 billion, which comprised more than two-thirds of total farm sector debt.
- In 2021, the Farm Credit System (FCS) provided the largest share (almost half) of farm real estate loans compared to other lenders.

- As the size of farm businesses increased, the share of total farm real estate debt the FCS provided also increased.
- Farm operators relied more on other individuals and other sources (such as credit cards) for non-real estate loans, compared with real estate loans.
- Both farm real estate and non-real estate interest rates had decreased in recent years and stood at 4.0 percent and 4.5 percent in 2021, respectively.
- Farm interest expenses were 5.5 percent of total cash expenses at the sector level in 2021 compared to less than 5 percent in 2012.
- The share of farm operations with some debt and average and median loan size for those with some debt increased with farm size.

How Was the Study Conducted?

This report used data for 2012 through 2021 from three sources: (1) USDA, Economic Research Service (ERS) Farm Income and Wealth Statistics, (2) USDA, ERS Agricultural Resource Management Survey (ARMS), and (3) U.S. Federal Reserve Bank of Chicago's 2022 AgLetter on Seventh District credit conditions. USDA, ARMS data from 2012 to 2021 were used to examine the type and sources of debt utilized by farm businesses. USDA, ARMS collects data from farm operators regarding the debt type and type of lender. The authors examined changes in the average debt level of different types of farm businesses over time (from 2012 to 2021). The debt-to-asset ratio was computed for different farm businesses, using the average amount of assets and debt, to compare the ratio with the sector's debt-to-asset ratio. USDA, ARMS data were used to examine two factors regarding lenders: (1) the types of lenders for different types of farm businesses and (2) the types of lenders used by borrowers with different debt levels. Data in the USDA, Farm Income and Wealth Statistics report as of December 1, 2022, were used to analyze the sector-level debt, both by type and lender. Interest rate data on operating loans, feeder cattle loans, and farm real estate loans were used to understand the relationship between farm debt and interest rates. The data were provided by the U.S. Federal Reserve Bank of Chicago's 2022 AgLetter on Seventh District credit conditions.