# Oregon Agriculture's Financial Situation

*A Survey of Lenders*

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# OREGON AGRICULTURE'S FINANCIAL SITUATION:

# A SURVEY OF LENDERS

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## Introduction

The current financial situation of farmers and ranchers is one of the important issues affecting Oregon's agricultural industry. Specific information, however, about the magnitude and extent of financial stress in Oregon agriculture is lacking. Such information would be valuable to those involved with farmers, ranchers, and the agricultural industry. For this reason, a survey of agricultural lenders in Oregon was conducted to obtain their opinions about the financial situation in agriculture.

## Objectives

Oregon's agricultural sector is a composite of very diverse climates, commodities, markets, farm sizes, and financing arrangements. As a result, financial stress is expected to affect some farms more than others. The objective of this study is to assess the extent of the problem. How many Oregon farmers are experiencing financial difficulties? The survey compares the incidence of farm and ranch financial problems in the fall of 1986 to a time period of relative economic stability, 1978-81. Comparisons are made through a series of indicators: loan delinquencies, financing discontinued, portfolio quality, new loans accepted, changes in farmer debt, and farmers leaving agriculture.

In addition, the survey sought to identify regions of the state with the highest incidence of problems and the farm types having greatest difficulty. Strategies used by farmers in response to financial stress were identified. Respondents also were asked to estimate changes in agricultural land values. Responses were sought regarding non-real estate credit only. Including real estate credit would have required a more extensive survey. Because non-real estate loans are typically repaid over a much shorter time period than real estate loans, it was felt that surveying just the non-real estate credit situation would provide an adequate indication of current financial conditions.

## Survey Procedure

During September 1986, questionnaire were sent to 99 agricultural lenders representing commercial banks, the Farm Credit Service, and the

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Farmers Home Administration in Oregon. Three follow-up letters were sent. From the three categories of lenders who provide most of the non-real estate credit (Table 1), total of sixty usable responses were received (Table 2). Respondents were asked to identify where among five regions in Oregon (Figure 1) they are involved in making non-real estate loans.

**Results**

The survey results suggest that Oregon farmers and ranchers have not escaped financial hardship. Financial conditions have deteriorated significantly over the past six years.

The current economic condition is characterized by increased loan delinquency and tightened credit (Table 3). Delinquent interest and/or principal payments (past due 30 days or more) as a percentage of total outstanding loan balances is more than twice the "normal" percentage identified for 1978-81. This disparity is most prevalent in the SC and E regions (southcentral and eastern Oregon).

Another indicator of financial distress is the percentage of 1985 agricultural borrowers who did not qualify for 1986 financing. This percentage was up for 1986, compared to 1978-81: 6.1 percent compared with the "normal" rate of 2.3 percent.

The quality of the loan portfolios for the responding lenders also showed general decline over the past twelve months (Table 3). The decline was felt most severely in the SW and SC regions, where 92.3 percent and 82.3 percent of the weighted responses, respectively, experienced declines. In the NW region, however, nearly 80 percent were improved or remained the same.

Lenders were asked to identify the types of farms having the most difficulty repaying non-real estate debt. Although varying widely among regions, responses corresponded with the prevalent farm types in each region. Beef, grain, and dairy farms were most often identified. Poultry and other livestock, fruit and nuts, and forage crop farms were identified least often (Table 3).

The percentage of new loans accepted declined from a statewide average of 52.8 percent in 1978-81 to 39.3 percent (Table 4). There is, however, a difference in the acceptance rate for new loans from region to region. For instance, the SW region experienced an increase in the percentage of new loans accepted from 59.3 percent to 69.3 percent. In the E region, conversely, the acceptance rate dropped from 44.1 percent to 15.3 percent.

Agricultural producers have either increased or experienced little change in their total debt during the past year, with fewer than a quarter decreasing their debt (Table 4). Again, this condition varied among regions. Farmers in the three eastern Oregon regions (NC, SC, and E) were more likely to have increased their debt. Nearly three of five borrowers did so in the E region.

Table 1. Non-real Estate Debt Outstanding, Oregon, January 1, 1986

| | Debt | Share |
|---|---|---|
| | ($ million) | (%) |
| Banks | 370 | 36 |
| PCAs | 190 | 18 |
| FmHA | 144 | 14 |
| CCC | 162 | 16 |
| Other | 175 | 17 |
| | 1,040 | 100 |

Source: USDA Economic Research Service, Economic Indicators of the Farm Sector: State Financial Summary, 1985, ECIFS5-3, January 1987.

Table 2. Number of Lenders Responding to Survey Institution and Region

| | FmHA | FCS[a] | Banks | Total |
|---|---|---|---|---|
| Region 1 - NW | 5 | 4 | 10 | 19 |
| Region 2 - SW | 2 | 2 | 2 | 6 |
| Region 3 - NC | 2 | 2 | 9 | 13 |
| Region 4 - SC | 4 | 1 | 9 | 14 |
| Region 5 - E | 2 | 3 | 3 | 8 |
| Statewide | 15 | 12 | 33 | 60 |

a/ Farm Credit Services.

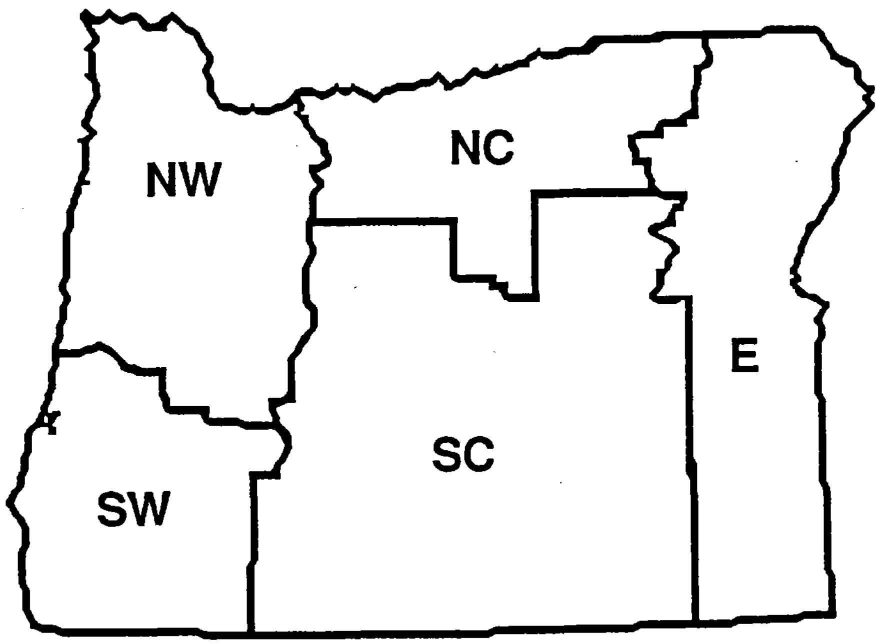


Figure 1. Regions Used for Organizing Agricultural Lender Survey Results.

Table 3. Survey Results--Loan Delinquencies, Financing Discontinued, Agricultural Loan, Portfolio Quality, and Farms Experiencing Repayment Difficulties, September 1986.

| | Regions | | | | | |
|---|---|---|---|---|---|---|
| | 1 NW | 2 SW | 3 NC | 4 SC | 5 E | State-Wide |
| | percent | | | | | |
| Delinquent loan balance: | | | | | | |
| - September 1986 | 8.7 | 7.4 | 3.3 | 24.2 | 9.9 | 9.4 |
| - 1978-81 | 4.8 | 3.0 | 2.0 | 8.7 | 0.8 | 4.0 |
| Financing discontinued: | | | | | | |
| - 1986 | 6.5 | 8.1 | 5.5 | 7.7 | 3.8 | 6.1 |
| - 1978-81 | 3.3 | 2.6 | 0.9 | 1.8 | 1.9 | 2.3 |
| Portfolio quality (last 12 months): | | | | | | |
| - improved | 30.8 | 0.0 | 21.8 | 9.8 | 16.5 | 22.2 |
| - declined | 20.8 | 92.3 | 76.2 | 82.3 | 76.7 | 54.4 |
| - remained the same | 48.4 | 7.7 | 2.0 | 7.9 | 6.8 | 23.4 |
| Farms have most trouble repaying non-real estate debt: | | | | | | |
| Dairy | | | | 40.7 | | |
| Beef | | | | 59.5 | | |
| Other livestock and poultry | | | | 8.7 | | |
| Grains | | | | 60.0 | | |
| Grass seeds | | | | 32.5 | | |
| Row and field crops | | | | 41.7 | | |
| Fruits and nuts | | | | 7.7 | | |
| Forage crops | | | | 5.1 | | |
| Nursery, greenhouse, and Christmas trees | | | | 16.7 | | |

Table 4. Survey Results--New Loans Accepted Over Past Year, Changes in Debt Over Past Year, and Farmers Leaving Agriculture in Next Year Because of Financial Difficulties, September 1986.

| | Regions | | | | | |
|---|---|---|---|---|---|---|
| | 1 NW | 2 SW | 3 NC | 4 SC | 5 E | State-Wide |
| | percent | | | | | |
| New loans accepted: | | | | | | |
| - Sept. 1986 | 41.0 | 69.3 | 53.3 | 29.9 | 15.3 | 39.3 |
| - 1978-81 | 56.6 | 59.3 | 75.6 | 19.6 | 44.1 | 52.8 |
| Borrowers who: | | | | | | |
| - increased total debt | 24.8 | 15.3 | 55.7 | 41.8 | 59.6 | 39.0 |
| - decreased total debt | 32.2 | 21.7 | 18.8 | 20.2 | 14.7 | 23.9 |
| - no change in debt | 43.0 | 63.0 | 25.5 | 37.9 | 25.8 | 37.1 |
| Farmers expected to leave: | | | | | | |
| - Sept. 1986 | 6.5 | 6.2 | 8.6 | 13.4 | 12.2 | 8.9 |
| - 1978-81 | 3.5 | 0.4 | 4.1 | 2.8 | 2.6 | 3.1 |

This increase in debt may or may not indicate a problem; it depends on the reason for the increase. If debt is being increased to enhance the profitability of the business, there is no problem. On the other hand, if debt is increasing because of inadequate profitability, this does represent a potential problem.

The survey respondents were not optimistic about improvements in the financial condition of agriculture over the next year. Statewide, they expect nearly 9 percent of farmers to leave due to financial difficulties compared with the 1978-81 "normal" percentage of 3.1 percent.

No region was unaffected by a decline in farmland values over the past year (Table 5). Even in the NW and SW regions, which had the smallest rates of decrease, land value declines exceeded 10 percent. The greatest declines occurred in pasture/rangeland, and were more than 20 percent in the three eastern Oregon regions.

Finally, the lenders identified a variety of strategies which are being undertaken by farmers to address or alleviate financial pressures. The responses to this open question are listed in Table 6. Deferring of capital expenditures and controlling expenses were the most frequently suggested strategies. These strategies seem to indicate a willingness by farmers to "wait out the storm" for better economic conditions.

## Conclusions

Farmers and ranchers in Oregon are experiencing a significantly greater amount of financial stress than during 1978-81, a period of stronger economic conditions for agriculture. Although the general retraction of credit availability and incidence of problem loans do not appear likely to subside in the near future, the strategies farmers are using to cope suggest their optimism that conditions will eventually improve.

Table 5. Survey Results--Changes in Land Values over Past year for Irrigated Cropland, Nonirrigated Cropland, and Pasture/Rangeland, September 1986.

| | Regions 1 NW | 2 SW | 3 NC | 4 SC | 5 E | State-Wide |
|---|---|---|---|---|---|---|
| | percent | | | | | |
| Irrigated cropland | -11.5 | -13.2 | -16.6 | -18.0 | -1.83 | -14.7 |
| Nonirrigated cropland | -14.6 | -10.0 | -17.7 | -20.9 | -25.3 | -17.4 |
| Pasture/rangeland | -16.6 | -10.4 | -26.7 | -20.6 | -26.0 | -19.9 |

Table 6. Survey Results--Strategies Used to Cope With Weighted Frequency of Responses, September 1986.

| Strategies | Frequency |
|---|---|
| | percent |
| Deferring capital expenditures | 61.4 |
| Using expense control; bookkeeping | 31.2 |
| Living with reduced budgets | 16.4 |
| Changing crops | 14.8 |
| Reducing farm size or cattle herds | 13.1 |
| Outside income | 11.1 |
| Liquidating nonessential assets | 10.9 |
| Using government programs (especially CRP) | 8.4 |
| Using better marketing skills | 4.6 |
| Using own capital instead of borrowing | 2.2 |
| Other | 19.5 |

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