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America's Largest Ag Lender: A Primer on the Farm Credit System

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Since its chartering in 1916, the Farm Credit System (FCS) has provided financing to American farmers. This brief describes how FCS functions and where it is situated in the agricultural lending landscape. It is part of a series detailing financing sources available to American farmers.

Key Takeaways

- Farm Credit finances the largest share of farm debt in the nation. Commercial banks continue to hold the largest share of non-real estate debt, but the gap between them and Farm Credit has narrowed.
- The Farm Credit System has independently operated institutions. Each serves a defined geographic area that rarely overlaps with other system institutions' footprints.
- Because Farm Credit is a government-sponsored enterprise, it receives certain tax benefits and exemptions unavailable to other lenders, but it is obligated to serve specific agricultural and rural borrowers.

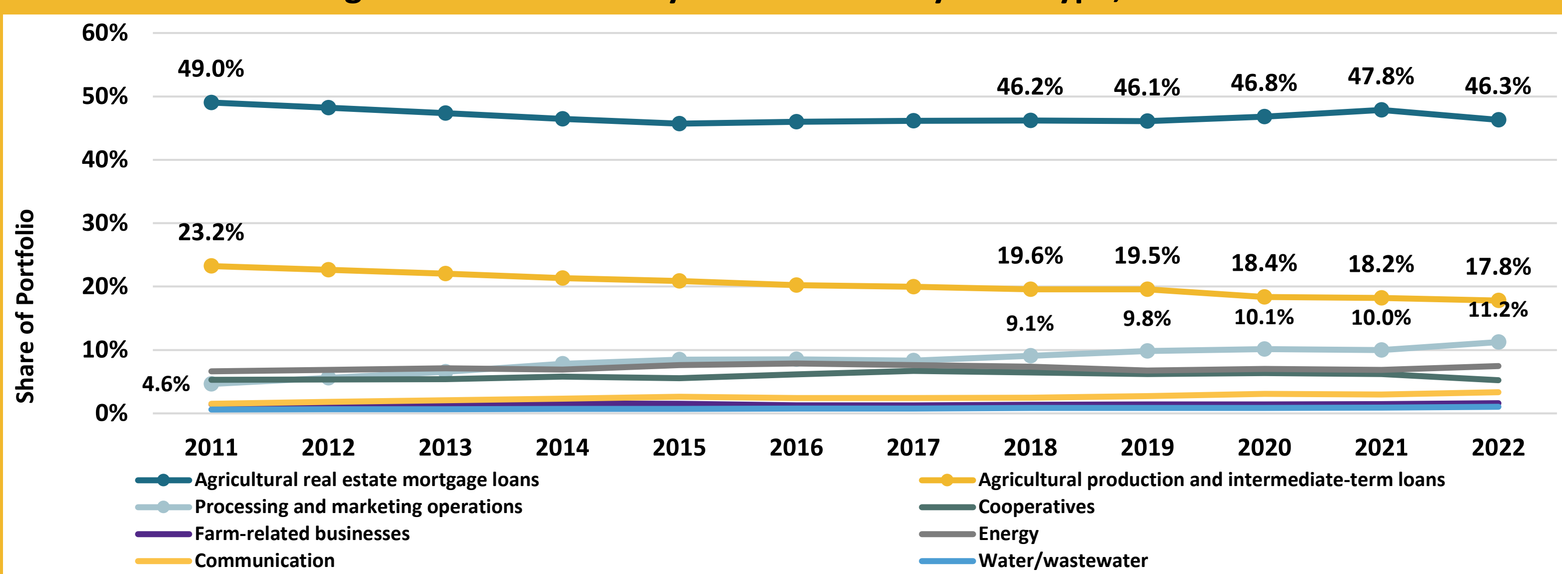
Farm Credit System leads in farm debt market share

According to USDA Economic Research Service data, Farm Credit associations collectively held 45.9% of all farm debt in 2022, making FCS the largest U.S. agricultural lender. Commercial banks held the second-largest share (35.2%). Note the disparity in share of loans between real estate and non-real estate debt:

- In 2022, Farm Credit lenders collectively held 49.2% of real estate farm debt, and commercial banks held 31.9%. Real estate debt accounts for slightly more than two-thirds of all farm debt. In the early 2000s, Farm Credit lenders and commercial banks had similar proportions of farm real estate debt. Since then, Farm Credit's share has grown as shares captured by other financing sources, such as individuals and others, have declined.
- Commercial banks held a larger share of non-real estate farm debt (42%) than Farm Credit lenders (39.1%) in 2022. Farm Credit's share of non-real estate debt has grown steadily since the late 1980s.

Contributing to these strong market shares, Farm Credit lenders have collectively grown the size of their portfolios. Based on 2022 Farm Credit Administration data and 2023 Federal Farm Credit Banks Funding Corporation information statements, gross loan volume increased 3.2% systemwide from year-end 2022 to Sept. 30, 2023. It increased 91.6% between year-end 2013 and Sept. 30, 2023. At year-end 2022, long-term real estate loans represented the largest share of the FCS portfolio at 46.3% ($172.8 billion). Long-term real estate, production and intermediate-term, and processing and marketing loans collectively accounted for 75.3% of the portfolio. Figure 1 depicts changes in the system's portfolio composition from 2011 to 2022.

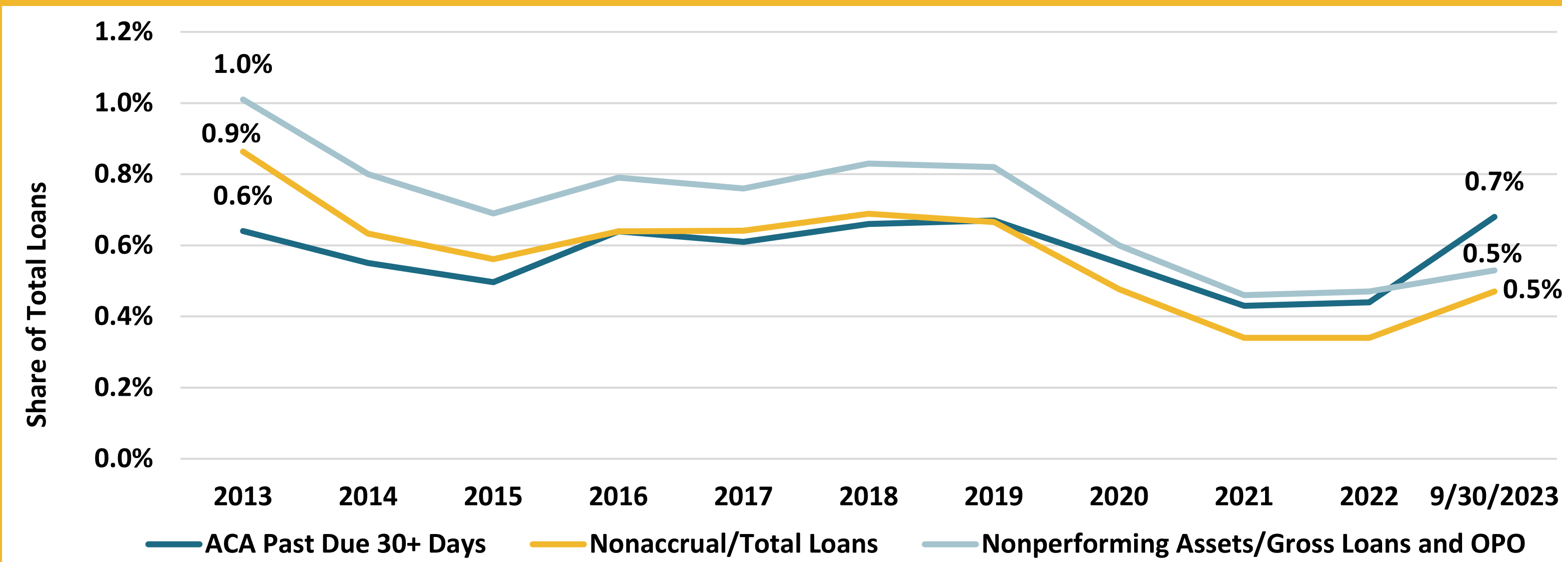
Figure 1. Farm Credit System Portfolio by Loan Type, 2011-22



Source: Rural and Farm Finance Policy Analysis Center graphic using data from Farm Credit annual reports.

Farm Credit institutions have historically had stable financial performance. Nonaccrual loans accounted for 0.5% of total loans as of Sept. 30 — a modest increase after three consecutive years of historically low nonaccrual and nonperforming asset rates, due in part to pandemic-related government payments. Figure 2 depicts ratios of nonaccrual loans to total loans and nonperforming assets to total loans. Nonperforming assets include nonaccrual loans, accrual loans 90 or more days past due, and (as of 2018) other property owned. Prior to the current expected credit losses (CECL) accounting methodology's adoption on Jan. 1, 2023, this figure also included accruing restructured loans.

Figure 2. Farm Credit System Distressed Loans as Share of Portfolio, 2013-23



Source: Rural and Farm Finance Policy Analysis Center graphic using data from Farm Credit annual reports and call data (Schedule RC-F).

For Farm Credit loans held by agricultural credit associations (ACAs), past due loan volume — an early indicator of impending financial trouble — exhibited stability throughout much of the 2010s. It then experienced a dip during the COVID-19 pandemic and an uptick in 2023. Loans past due by 30 or more days accounted for 0.7% of ACA loan volume as of Sept. 30, 2023, marking a return to pre-COVID levels.

Also of note, among total loans held by ACAs, 0.5% were classified as nonaccrual as of Sept. 30, 2023. However, for production and intermediate term loans, this figure was nearly 1%.

Systemwide, allowance for credit losses as of Sept. 30 was $1.67 billion or 0.4% of total loans. This share was similar in 2022 and 2021. Throughout the 2010s, it registered in the low-0.6% figures. In addition to improved credit quality, the recent reduction in allowances for credit losses can be attributed to the FCS adopting the CECL accounting method as of Jan. 1, 2023.

Farm Credit System has national coverage with localized decision-making

In the early 1900s, farmers experienced significant difficulty obtaining credit. These issues led Congress to establish an effort called the American Commission in 1913 to address the lack of rural credit availability. As part of its work, the commission studied existing government-sponsored cooperative farm finance models in several European countries. Ultimately, the U.S. formed the FCS to apply the commission's findings and respond to farm financing needs.

During the past century, several pieces of legislation, including the Farm Credit Acts of 1933 and 1971, modified the system's size, scope and lending abilities. More recently, Congress introduced reforms during the 1980s farm crisis. The Farm Credit Act Amendments of 1985 changed regulatory provisions for the system and introduced a financial assistance mechanism. The Agricultural Credit Act of 1987 provided further response to the crisis by forming an insurance corporation to function similarly to the Federal Deposit Insurance Corporation and a corporation to direct federal assistance to financially stressed FCS lenders.

FCS has a network of related but wholly independent institutions operating in all 50 states and Puerto Rico. Today, the system's structure includes the following entities, and each has a unique purpose:

- **The Farm Credit Administration (FCA)** operates as the regulatory body responsible for overseeing the system.
- **The Farm Credit Funding Corporation** serves as the system's source of loanable funds.
- **Farm credit banks (FCBs)** and an **agricultural credit bank (ACB)** provide services and funds to associations in their districts. Banks also buy loans from ACAs — known as participation loans or capital markets loans.
- **Agricultural credit associations (ACAs)** are direct lenders to agricultural producers and other borrowers. ACAs also purchase and sell participation loans to banks, other ACAs and some non-FCS lenders. Each ACA in the system formed as predecessor institutions — a federal land credit association (FLCA) or federal land bank association and a production credit association representing a particular area — merged.

As of October 2023, the FCS had 58 ACAs, one FLCA, three FCBs and one ACB. ACAs range widely in size. Some span multiple states, and others only operate within part of a state. Fewer FCS banks and associations operate today than decades ago.

Unlike commercial banks, Farm Credit institutions do not receive deposits. Rather, all loanable funds originate from systemwide debt securities, which the Farm Credit Funding Corporation sells to investors on the open market. The system's banks (the three FCBs and one ACB) then receive loanable funds from the Farm Credit Funding Corporation and direct these funds to associations within their respective districts.

Note, despite the interdependence between banks and associations, each operates as a fully independent entity with its own leadership, lending portfolio and board of directors. Furthermore, each ACA has a geographic territory where it is authorized to issue loans and provide other services, such as payroll processing, tax preparation and business consulting. Rarely, though occasionally, multiple ACAs have authorization to operate within the same jurisdiction. Known as overchartering, this occurs between ACAs from different districts.

Created by the Agricultural Credit Act of 1987, Farmer Mac is also under the FCA's regulatory authority, but it operates differently from other Farm Credit institutions. Farmer Mac provides a secondary market for agricultural credit and does not lend to farmers directly. As of year-end 2022, Farmer Mac held $25.9 billion in loan volume — a figure not included in the FCS combined system financial statements.

How Farm Credit differs from other lenders

Two features differentiate Farm Credit institutions from other agricultural lenders: a cooperative business model and status as a government-sponsored enterprise (GSE). As cooperatives, each ACA is owned by borrowers who receive dividends, known as patronage, each fiscal year.

Unlike privately held commercial banks and fully public entities such as the USDA Farm Service Agency (FSA), Farm Credit operates as a GSE. Although GSEs are private entities, they are chartered by Congress, which regulates the scope and nature of their business activities. Farm Credit institutions and the investors who purchase the securities that fund the system receive several tax benefits and exemptions. Ultimately, these benefits often allow associations to pass on lower interest rates to borrowers. Additionally, investors generally regard GSEs as being implicitly guaranteed by the federal government, which contributes to higher bond yields than if the system were not a GSE. This is a key point of differentiation between Farm Credit and the commercial banking industry.

Due to Farm Credit's status as a specialized lender, ACAs have some unique requirements that shape the types of loans they may make. Two important examples are as follows:

- **Eligibility:** The Code of Federal Regulations places guardrails on Farm Credit's lending abilities. Although the system's core business is extending credit to full-time producers, Farm Credit also lends to part-time farmers; rural homebuyers; and other entities such as farm-related businesses, processing and marketing operations, cooperatives and rural utilities. The types of borrowers eligible for Farm Credit financing have changed over time. Notably, the Farm Credit Act of 1971 expanded the system's lending authority to include commercial fishermen and allowed lending to rural homeowners who were not agricultural producers.

Each category of borrowers is subject to restrictions and limitations. For example, rural mortgages and processing and marketing loans each may not exceed 15% of an ACA's portfolio. Full-time farmers and part-time farmers can obtain loans for certain non-agricultural purposes such as family living expenses; however, credit generally is extended primarily for agricultural purposes. Eligibility determinations can reflect loan officer or credit committee discretion.

- **Specialized lending programs:** Along with USDA FSA, Farm Credit has committed to financing young, beginning and small (YBS) farmers. Each ACA must maintain a YBS lending program, which must include YBS lending targets and are subject to oversight from the respective FCB or ACB — a provision reinforced by a recently passed rule from the FCA.

  As of year-end 2022, 17.9% of Farm Credit loans were to young farmers 35 or younger (9.7% of loan volume), 25.1% of loans were to beginning farmers with no more than 10 years of farming experience (16%), and 41.2% of loans were to small farmers with less than $250,000 in annual sales (14.2%). Note, the aforementioned percentages cannot be added as borrowers may qualify for more than one YBS designation. The FCA reports new loans to YBS farmers decreased in 2022, most notably for beginning and small farmers, after several years of strong growth.

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The Rural and Farm Finance Policy Analysis Center (RaFF) at the University of Missouri aims to help policymakers and stakeholders understand rural economic and financial conditions and trends and explore how existing and proposed policies affect rural and farm finances.

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