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Agriculture

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FARM FINANCE

Financial Condition of American Agriculture As of December 31, 1987



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The Honorable Patrick J. Leahy
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

This report is the fourth in a series of GAO reports covering the financial condition of American agriculture.¹ We stated in our previous reports that we would continue to monitor and report on the agricultural situation during the recent period of financial stress. Our previous reports presented data that was, for the most part, current through the end of calendar years 1984, 1985, and 1986. At the request of your Committees, this briefing report presents information on the financial condition of American agriculture as of December 31, 1987.

Our analysis of numerous key economic and financial indicators shows that the overall financial condition of the nation's farmers and their lenders improved in 1987 from the financial stress experienced in the previous years. For example, agricultural exports increased, farm income reached record high levels, and nonperforming farm loans decreased. However, federal outlays to support the nation's agricultural sector continued at a very high level during this period. In addition, the overall improvement in 1987 must be tempered somewhat because the severe drought during 1988 has had a serious effect on certain segments of agriculture and it may prolong financial stress for many farmers.

This briefing report follows the format of our last two reports. It is divided into five sections. The first provides an overall summary on the financial condition of American agriculture following 1987 operations. The second contains information on the economic environment facing

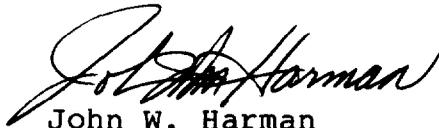
¹Our three previous reports are listed in "Related GAO Products" in this report.

agriculture. The third and fourth contain information on the farm sector and the farm finance sector, respectively. The last section describes our objectives, scope, and methodology in conducting this review and preparing this briefing report. Our study began in March 1988 and was conducted by gathering and analyzing numerous data from public and private sources, including the U.S. Department of Agriculture and its Economic Research Service and Farmers Home Administration, the Federal Deposit Insurance Corporation, the Federal Reserve System, the Farm Credit Administration, and the Farm Credit System.

Portions of this briefing report have been discussed with officials of the Economic Research Service, the Farmers Home Administration, the Federal Deposit Insurance Corporation, and the Farm Credit Administration. Their comments have been incorporated where appropriate. However, we did not obtain official agency comments on this report because of its informational nature.

Copies of this briefing report are being sent to the Chairmen of the Senate Committee on Banking, Housing and Urban Affairs and Senate Committee on the Budget, and to the Chairmen of the House Committee on Banking, Finance and Urban Affairs and House Committee on the Budget. In addition, copies are being sent to the Secretary of Agriculture; the Director, Office of Management and Budget; the Chairman, Board of Directors of the Federal Deposit Insurance Corporation; the Comptroller of the Currency; the Chairman, Board of Governors of the Federal Reserve System; the Chairman, Farm Credit Administration Board; and other interested parties. Copies will be available to others upon request. If we can be of further assistance, please contact me at (202) 275-5138.

Major contributors to this briefing report are listed in appendix I.



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ABBREVIATIONS

CCC	Commodity Credit Corporation
ERS	Economic Research Service
FCA	Farm Credit Administration
FCS	Farm Credit System
FDIC	Federal Deposit Insurance Corporation
FLB	Federal Land Bank
FRB	Board of Governors of the Federal Reserve System
FmHA	Farmers Home Administration
GAO	General Accounting Office
PCA	Production Credit Association
USDA	U.S. Department of Agriculture

SECTION 1
REPORT SUMMARY

Previously, we reported that American agriculture experienced a boom during the 1970s with rapid expansion and growth.¹ However, the economic forces that led to that growth reversed in the 1980s, and through 1986 American farmers and their lenders experienced adverse economic and financial conditions.

The overall financial condition of the nation's farmers and their lenders generally improved in 1987 from the financial stress experienced in the previous years. Most economic and financial indicators were positive following 1987 operations. However, federal outlays to support the nation's agricultural sector continued at a very high level during this period. In addition, the severe drought during 1988 has had a serious, adverse effect on certain segments of agriculture and may prolong the financial stress for many farmers.

In this follow-up briefing report on the financial condition of American agriculture as a result of 1987 operations,² we report that

- the economic environment surrounding the farm sector generally improved,
- the financial position of the farm sector improved, and
- the financial stress of the farm finance sector lessened.

This section of the briefing report provides summary information covering each of these topics; sections 2, 3, and 4 provide detailed information. In addition, information is provided in this section on the potential impacts the 1988 drought may have on the financial condition of agriculture in 1988.

THE ECONOMIC ENVIRONMENT:
CONDITIONS IMPROVED IN 1987

The economic environment surrounding the farm sector generally improved during 1987 compared with the previous few years. While American agriculture continued to produce a substantial surplus of many key farm commodities, total production decreased in market year 1987. Consumption of many key farm commodities increased in market year 1987, continuing a generally increasing trend that has

¹Our previous reports on the financial condition of American agriculture are listed in "Related GAO Products" in this report.

²Unless otherwise noted, yearly information presented in this report is as of December 31, and all values are in current dollars. In addition, the sources listed for the figures in sections 2, 3, and 4 apply to the tables on the pages opposite those figures.

been underway for many years. For example, total coarse grain, wheat, and soybean production declined by almost 9 percent while consumption rose by more than 8 percent in 1987 compared with 1986. (See pp. 24-25.)

Year-end stocks of soybeans and wheat decreased in market year 1987 from the levels in market year 1986, but coarse grain stocks increased. However, the 1987 increase in coarse grain stocks was considerably less than the increase in previous years. High levels of stocks, among other things, have a depressing effect on the prices farmers receive for their products. In 1987, the price of corn, wheat, and soybeans declined by 33 percent, 21 percent, and 5 percent, respectively. (See pp. 24-25.)

On the basis of U.S. domestic average consumption rates, the number of months of wheat and soybean stocks on hand at the end of market year 1987 decreased compared with market year 1986. However, the number of months of coarse grain stocks increased and continued to exceed the quantity that was on hand at the end of market year 1983, which subsequently was followed by the U.S. Department of Agriculture's (USDA) payment-in-kind program. (See pp. 26-27.)

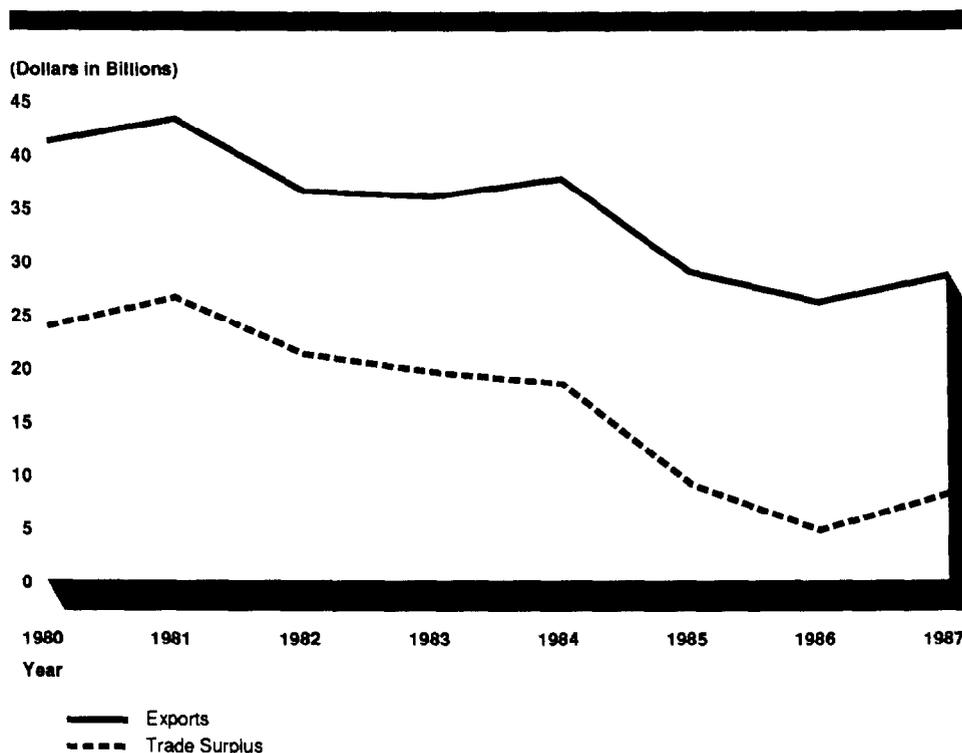
U.S. exports of agricultural products increased in both value and volume in 1987 compared with 1986. The value of agricultural exports increased by more than 9 percent from slightly over \$26 billion to slightly less than \$29 billion. The volume increased by more than 22 percent from 109 million metric tons to 133 million metric tons. Coarse grains and wheat accounted for 22 million metric tons, or 92 percent, of the 1987 increase in export volume. In addition, U.S. imports of agricultural products declined by about 5 percent in value from \$21 billion to \$20 billion in 1987. As a result, the U.S. agricultural trade surplus increased 71 percent to slightly over \$8 billion. Figure 1.1 shows the trend in the value of agricultural exports and trade surplus since 1980. (See pp. 28-29.)

U.S. agricultural exports increased in 1987 for various reasons, including lower prices for U.S. agricultural products because of the decline in the value of the dollar, decreased supply from some competitor countries primarily caused by the effect of adverse weather on production, and federal export programs, such as USDA's Export Enhancement Program and its export credit guarantee programs. (See pp. 28-29.)

The trade-weighted value of the dollar fell about 14 percent in 1987 compared with 1986. The decline occurred primarily in relation to other heavily traded industrialized countries' currencies. This contributed to a more than 7-percent increase in the value of exports to developed countries in 1987. Economic difficulties in some developing countries, such as weak economies and large debt burdens, resulted in currency devaluations that

paralleled the decline in the dollar's value. Subsidies offered under federal export programs, however, made U.S. products more competitive in developing countries and contributed to a more than 7-percent increase in exports in 1987. (See pp. 32-33.)

Figure 1.1
U.S. Agricultural Exports and Trade Surplus, 1980-87



Source: USDA.

Federal outlays to support the nation's agricultural sector continued at a high level in fiscal year 1987 and totaled \$27.4 billion. Commodity price and farm income support programs, such as nonrecourse commodity loans and cash deficiency payments, accounted for \$22.5 billion of the fiscal year 1987 outlays; other farm income stabilization programs and agricultural research and services accounted for the almost \$5 billion balance. Since fiscal year 1980, federal agricultural outlays have totaled \$157 billion. (See pp. 34-35.)

THE FARM SECTOR: FINANCIAL POSITION IMPROVED IN 1987

The financial condition of the nation's farm sector improved in 1987 compared with the previous years. For example, some farm sector balance sheet and income statement indicators that had been

negative during the past few years turned positive in 1987; other indicators that had been positive improved further.

The value of total farm assets increased 2.5 percent in 1987 compared with 1986. This was the first increase in the value of farm assets since 1981. The increase in total asset values is primarily attributable to an increase in real estate values. The national average value of farmland--the main farm asset--increased by 3.1 percent from February 1987 to February 1988. Thirty-three of the 48 contiguous states had increases in farmland values; the states with the greatest percentage increases are located in the northeastern part of the country (Rhode Island had the greatest increase--48 percent) and the Corn Belt and Northern Plains. Farmland values increased for various reasons, including the expected economic returns from farming as a result of the general improvement in the farm sector and alternate uses of farmland. However, 13 states continued to have decreases in farmland values; most are located in the western and southwestern parts of the country, with Arizona experiencing the greatest decline (12 percent). Two states--Alabama and Colorado--had no change in farmland values. (See pp. 38-39.)

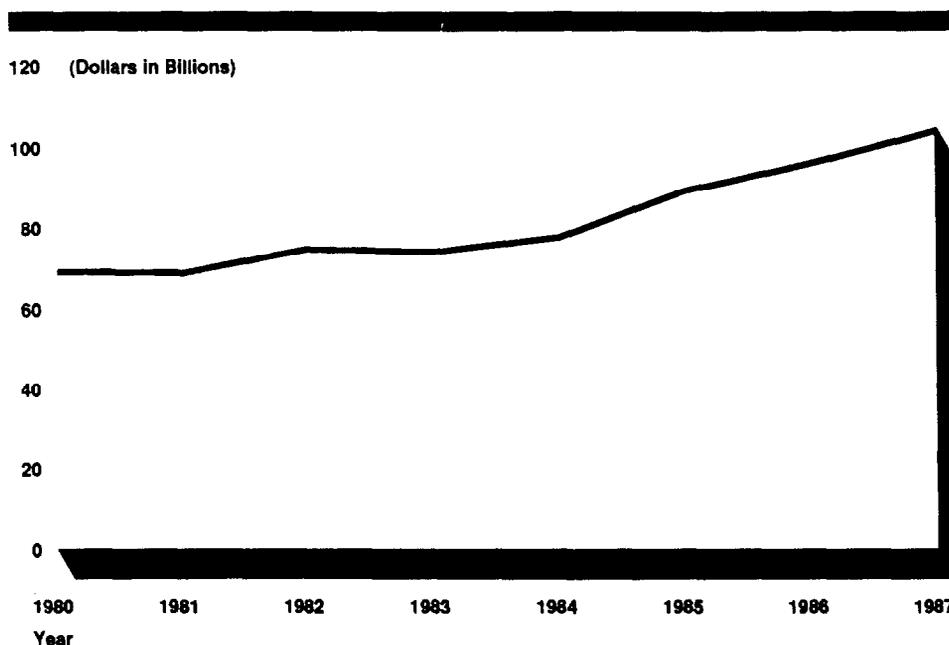
Farmers also had positive rates of return on assets and on equity in 1987. These were the first positive returns since 1980. The rate of return on assets was positive as farmers had a high income return, which offset a slightly negative capital gains return on assets. The rate of return on equity was positive as farmers had a positive income return along with a slightly positive capital gains return on equity. In the past few years, positive income returns had been offset by capital losses. (See pp. 40-41.)

Farmers' gross farm income increased by more than 6 percent in 1987, total production expenses increased 1 percent, and as a result, net farm income increased to a record \$46 billion, or 23.5 percent more than the 1986 level. The increase in gross farm income is primarily attributable to an increase in gross farm cash income, which mainly occurred as a result of increases in livestock cash receipts and direct government payments. This increase more than offset reductions in crop cash receipts and nonmoney income. Net farm income rose as the large increase in gross farm income offset the smaller increase in total production expenses. (See pp. 42-43.)

In terms of cash income, gross farm cash income increased 5.5 percent in 1987, cash expenses increased about 3 percent, and as a result, net farm cash income increased to a record \$57 billion, or slightly over 11 percent more than the 1986 level. The increase in net farm cash income, coupled with an increase in farmers' cash income from off-farm sources, which was about \$47 billion, resulted in a record \$104 billion in farmers' total cash income in 1987, or

over 8 percent more than the 1986 level. Figure 1.2 shows the increasing level of farmers' total cash income since 1980. (See pp. 44-47.)

Figure 1.2
Farmers' Total Cash Income, 1980-87

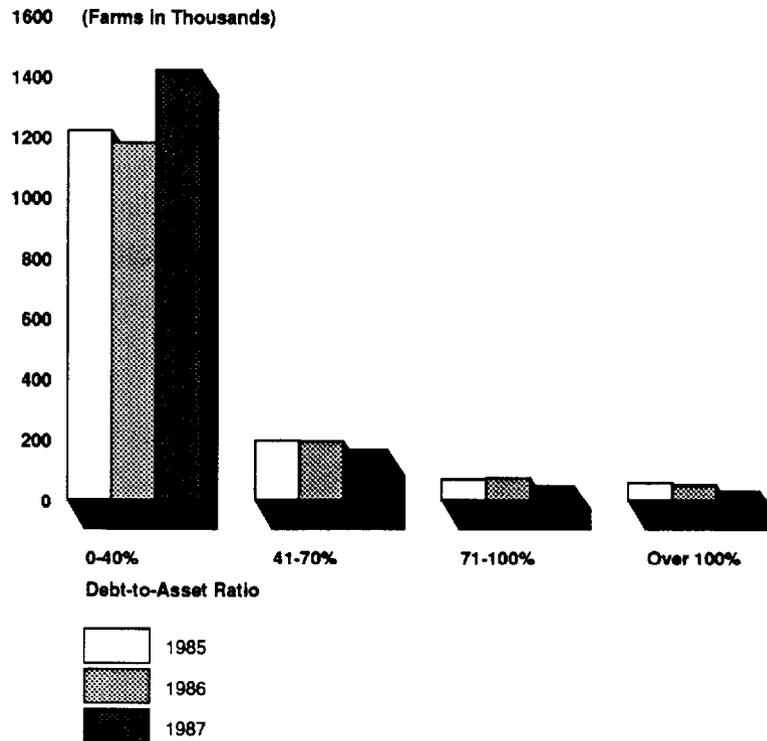


Source: USDA.

According to USDA's Economic Research Service (ERS), most farmers had a low debt-to-asset ratio of 40 percent or less following 1987 operations; however, some were in financial difficulty with a high debt-to-asset ratio of 71 percent or more.³ Slightly over 1.4 million farms, or 85 percent of all farms, had a debt-to-asset ratio of 40 percent or less; they held slightly over 45 percent of the 1987 farm debt. On the other hand, 83,000 farms, or 5 percent of all farms, had a debt-to-asset ratio of 71 percent or more; they held 23.5 percent of the 1987 farm debt. Figure 1.3 shows the number of farms in 1985 through 1987 by debt-to-asset ratio category. (See pp. 52-53.)

³See the note in fig. 3.8 for an explanation of debt-to-asset ratio categories.

Figure 1.3
Number of Farms by Debt-to-Asset Ratio, 1985-87



Note: 1987 data are not directly comparable with 1985-86 data because ERS changed its methodology for compiling the 1987 information.

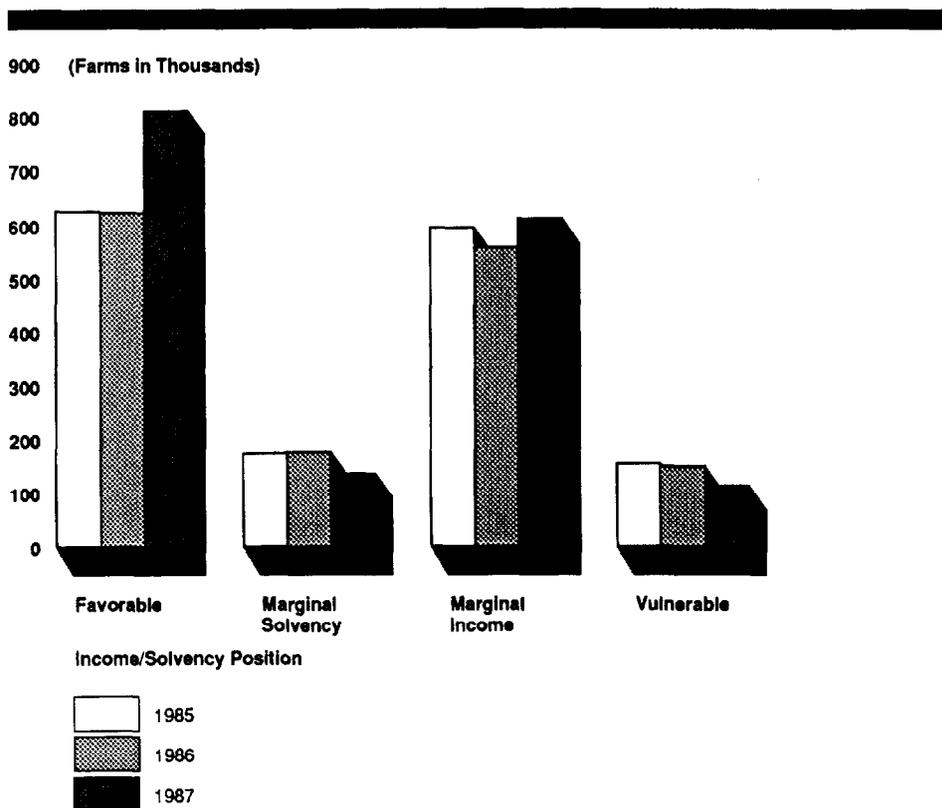
Source: USDA.

According to ERS, many farmers had favorable income and debt levels in 1987 (positive net farm cash income and a debt-to-asset ratio of 40 percent or less); however, the majority had earnings and/or solvency problems (negative net farm cash income and/or a debt-to-asset ratio exceeding 40 percent).⁴ For example, 811,000 farms, or 48.5 percent of all farms, were in a sound financial position with positive net farm cash income and a debt-to-asset ratio of 40 percent or less; they held about 30 percent of the 1987 farm debt. On the other hand, 747,000 farms, or 44.8 percent of all farms, were in a marginal position with either (1) positive net farm cash income but a debt-to-asset ratio exceeding 40 percent or (2) a debt-to-asset ratio of 40 percent or less but negative net

⁴See the note in fig. 3.9 for an explanation of income/solvency position categories.

farm cash income. These marginal farms held about 51 percent of the 1987 farm debt. In addition, 113,000 farms, or 6.8 percent of all farms, were in a vulnerable position as viable business operations because they had negative net farm cash income and a debt-to-asset ratio exceeding 40 percent; they held about 20 percent of the 1987 farm debt. Figure 1.4 shows the number of farms in 1985 through 1987 by income/solvency position. (See pp. 54-55.)

Figure 1.4
Number of Farms by Income/Solvency Position, 1985-87



Note: 1987 data are not directly comparable with 1985-86 data because ERS changed its methodology for compiling the 1987 information.

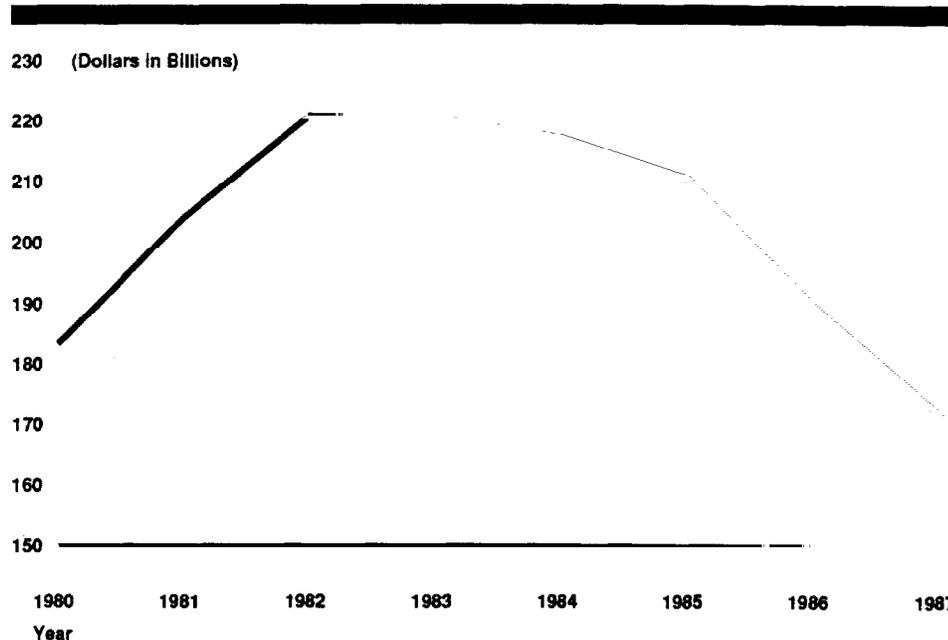
Source: USDA.

Farm employment increased by 1.4 percent in 1987 compared with 1986. This was the first increase in farm employment since 1982 and reflected the overall improvement in agriculture in 1987. However, according to the Bureau of the Census, the number of people living on farms decreased 4.6 percent in 1987. (See pp. 58-59.)

THE FINANCE SECTOR: FARM LENDERS'
FINANCIAL STRESS LESSENERD IN 1987

Total outstanding farm debt was about \$172 billion in 1987, or 9.5 percent less than the \$190 billion in 1986 total farm debt. The decrease in 1987 continues a downward trend that has been underway since 1982 when total farm debt peaked at \$221 billion. Most of the 1987 debt--\$140 billion--was held by five major institutional lenders: Federal Land Banks (FLBs) and Production Credit Associations (PCAs) in the Farm Credit System (FCS), commercial banks, the Farmers Home Administration (FmHA) and the Commodity Credit Corporation (CCC) in USDA, and life insurance companies. The balance was held by individuals, input suppliers, and others. Each lender held less debt in 1987 than in 1986. Figure 1.5 shows the trend in total farm debt since 1980. (See pp. 64-65.)

Figure 1.5
Total Outstanding Farm Debt, 1980-87

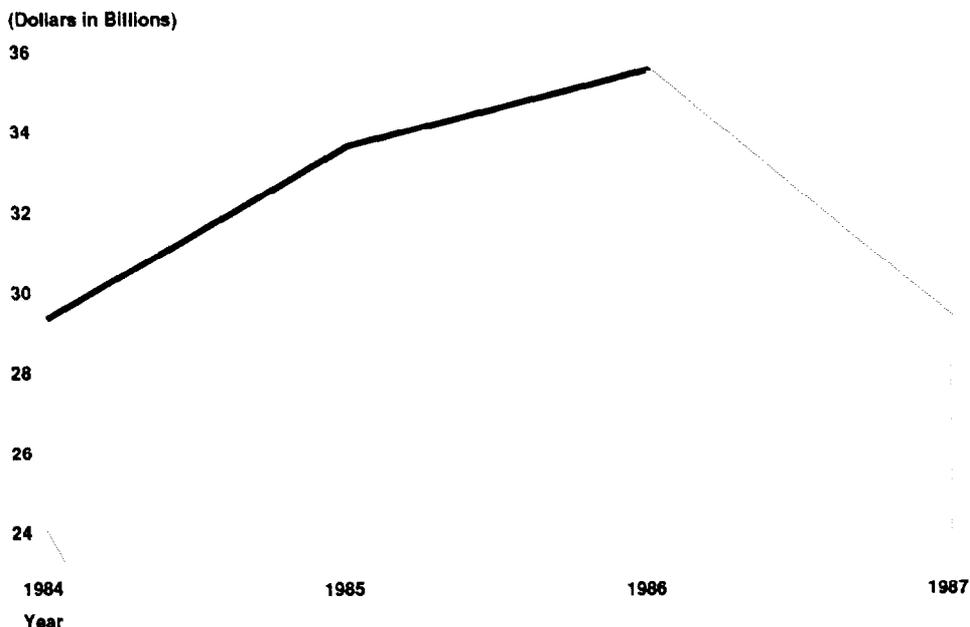


Source: GAO analysis of Farm Credit Administration (FCA), Board of Governors of the Federal Reserve System (FRB), FmHA, CCC, American Council of Life Insurance, and ERS data.

The quality of the major institutional lenders' farm loan portfolios reflects conditions in the farm sector. The lenders' portfolios generally improved in 1987 as the farm sector experienced improvement in its financial position. For example, the institutional lenders, excluding CCC, had \$29 billion in farm loans that were nonperforming and/or delinquent in 1987, or 27 percent of the total outstanding principal (\$108 billion). This

was over a \$6 billion, or 17-percent, decrease from 1986. Figure 1.6 shows the trend in total nonperforming and/or delinquent farm loans since 1984. (See pp. 66-67.)

Figure 1.6
Total Nonperforming and/or Delinquent Farm Loans
for Major Institutional Lenders, 1984-87



Source: GAO analysis of FCA, FRB, FmHA, and American Council of Life Insurance data.

The overall quality of these lenders' portfolios continued to be skewed by the poor condition of FmHA's portfolio. Excluding FmHA, the total nonperforming and/or delinquent loans held by the nonfederal lenders was \$13 billion at the end of 1987, or 16 percent of their outstanding debt, a decrease from the \$17 billion, or 19 percent of their outstanding debt, that was nonperforming and/or delinquent in 1986. (See pp. 66-67.)

Improvement in lenders' portfolios was also reflected in a reduction in farm loans written off as uncollectible by commercial banks, FLBs, and PCAs in 1987, and in the amount of nonaccrual loans at the end of 1987. These lenders wrote off about \$1.3 billion in 1987, or 55 percent less than the \$2.8 billion they wrote off in 1986. In addition, as of December 31, 1987, these lenders had more than \$6 billion in nonaccrual loans--the most severe category of nonperforming loans, which may indicate future write-offs--or 28 percent less than the almost \$9 billion they had at the end of 1986. (See pp. 68-69.)

FCS, which continued to be the largest lender to the nation's farmers, had a \$17 million net loss in 1987, its third consecutive annual loss. The 1987 loss, however, was substantially less than the \$2.7 billion and \$1.9 billion net losses incurred in 1985 and 1986, respectively. Operationally, FCS had 1987 net interest income of \$509 million; however, when accounting for other income and expenses, it had a \$213 million loss. A \$196 million reduction in its provision for loan losses improved FCS' earnings statement and resulted in the \$17 million net loss. (See pp. 70-71.)

The gross value of farm real estate property held by FLBs decreased in 1987, reversing the increasing trend that has existed since 1980. FLBs held \$830 million in property acquired through foreclosure or deed in lieu of foreclosure at the end of 1987, a 32-percent decrease compared with 1986. In addition, farm real estate acquired by life insurance companies through foreclosure totaled \$692 million in 1987, a 16-percent decrease compared with 1986. (See pp. 74-77.)

Financial stress also eased somewhat in 1987 for commercial banks that are heavily involved in agriculture. According to the Federal Deposit Insurance Corporation (FDIC), 58 agricultural banks failed in 1987, a slight decrease from the 59 that failed in 1986. The failure numbers include two agricultural banks in both 1986 and 1987 for which FDIC provided financial assistance to keep open banks from failing. In addition, 513 agricultural banks, from a total of 1,559 banks, were on the FDIC problem bank list, which classifies banks warranting more than normal supervision, at the end of 1987. A year earlier, 600 agricultural banks were on the FDIC problem bank list. Further, according to the FRB, 82 agricultural banks with above-average farm loan ratios were highly vulnerable to failure at the end of 1987 because their nonperforming loans exceeded their capital. A year earlier, 152 agricultural banks were identified by FRB as vulnerable. Many of the banks that failed in 1987, and many of those that were vulnerable to failure at the end of 1987, were located in the central part of the country covering Minnesota, Iowa, Nebraska, Kansas, Oklahoma, and Texas. (See pp. 78-83.)

FmHA services the weakest farm customers of any lender, and the condition of its portfolio continued to reflect its position as the federal lender of last resort. Loan payments that were overdue to FmHA increased in 1987; however, total outstanding principal on loans to delinquent borrowers decreased. As of December 31, 1987, delinquent FmHA borrowers were overdue on \$9.6 billion in principal and interest payments, a 14-percent increase compared with the \$8.5 billion that was overdue a year earlier. Almost \$7.9 billion, or 82 percent, of the 1987 overdue amount was 3 years or more late and \$9.1 billion, or 95 percent, was at least 1 year late. The total outstanding principal on FmHA loans to delinquent borrowers was slightly over \$16 billion at the end of 1987, a \$2 billion decrease from a year earlier. (See pp. 84-87.)

IMPACTS OF THE 1988 DROUGHT ON
THE FINANCIAL CONDITION OF AGRICULTURE

A severe drought during 1988 occurred in many major agricultural areas of the country including the Northern Plains, Corn Belt, Southeast, and Delta regions. Overall, the drought had a serious, adverse effect on certain segments of agriculture and may prolong the financial stress from which American agriculture had started to recover.

The major commodities affected by the drought included spring wheat, corn, soybeans, oats, barley, and, to a lesser extent, winter wheat. Table 1.1 shows USDA's August 1988 production projections for three of these key commodities in market years 1987 through 1989.

Table 1.1
U.S. Production of Corn, Wheat, and
Soybeans, Market Years 1987-89

<u>Commodity</u>	<u>1987</u>	<u>1988^a</u>	<u>1989^a</u>
	----- (bushels in millions) -----		
Corn	8,252	7,063	4,480
Wheat	2,091	2,105	1,822
Soybeans	1,940	1,903	1,473

^aThe 1988 and 1989 amounts are USDA's August 1988 estimates.

Source: USDA.

In addition, the drought adversely affected production of nonirrigated fruits and vegetables, such as dry edible beans, green peas, and snap beans, which are canned. Irrigated crops, including fruits and fresh vegetables, survived the drought relatively well.

USDA projected in August 1988 that the drought would have only limited impact on 1988 U.S. agricultural exports because much of the crop traded in 1988 had been harvested before the full impact of the drought occurred. In addition, while prices were higher, stock levels were being drawn down to maintain export volume. USDA projected that export value would increase by about \$6 billion and volume by 16 million tons from 1987.

Nationally, commodity prices moved higher in response to the drought. However, according to ERS, high year-end stock levels for most crops are sufficient to meet projected demand. This somewhat tempered current and future commodity price increases. Table 1.2 shows USDA's August 1988 average market price projections for three of the key commodities in market years 1987 through 1989.

Table 1.2
U.S. Average Market Price for Corn, Wheat, and
Soybeans, Market Years 1987-89

<u>Commodity</u>	<u>1987</u>	<u>1988^a</u>	<u>1989^a</u>
	----- (dollars per bushel) -----		
Corn	\$1.50	\$1.95	\$2.50
Wheat	2.42	2.57	3.70
Soybeans	4.78	6.15	8.50

^aThe 1988 and 1989 prices are USDA's August 1988 estimates.

Source: USDA.

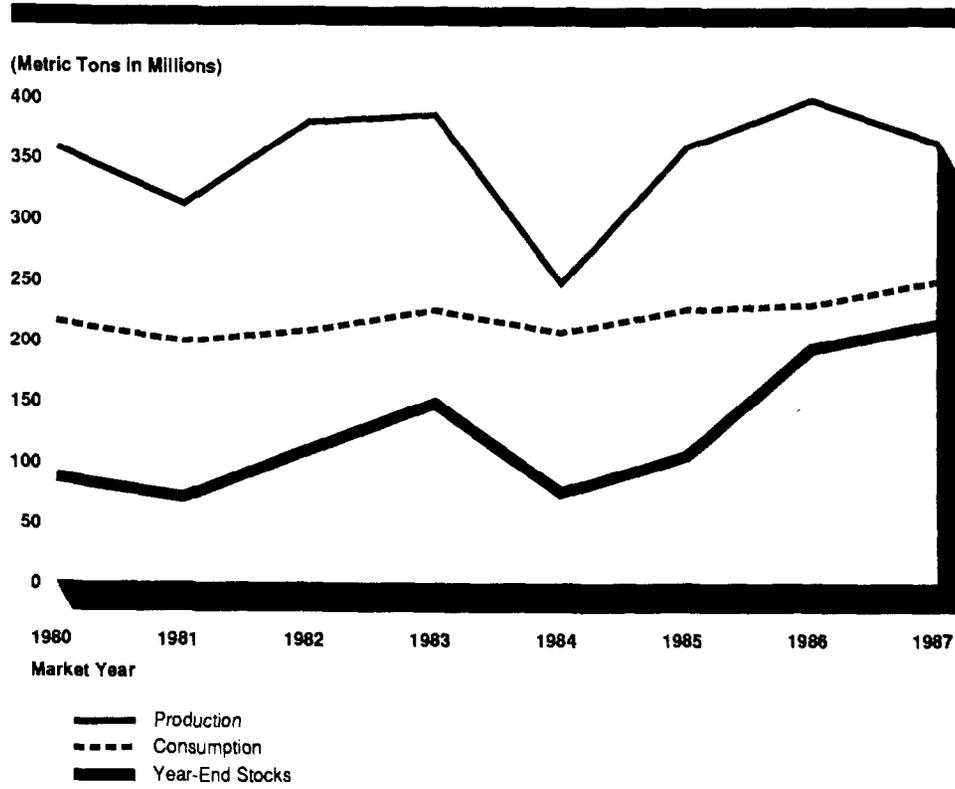
ERS also projected in September 1988 that net farm income in 1988 would decline by a range of \$3 billion to \$8 billion. In addition, ERS projected that net farm cash income in 1988 would approximately equal the 1987 level. According to ERS, regional disruptions in farm income will occur as farmers in drought-affected areas generally have reduced income resulting from decreased production while farmers not in drought-affected areas generally have increased income resulting from higher prices for their crops. In addition, farmers will receive smaller federal income support payments (deficiency payments) because of rising prices for crops. Further, according to USDA, livestock producers both in and outside the drought-affected areas will generally have decreased income because of higher feed prices coupled with reduced forage supplies and lower prices for livestock as they reduce herd size through distress sales of livestock.

The Disaster Assistance Act of 1988 (P.L. 100-387) was passed on August 11, 1988, to provide financial assistance to farmers, agribusinesses, and other persons adversely affected by the drought. The act provides disaster benefits to crop and livestock producers who suffered losses in 1988 due to the drought, including payments to producers of commercial crops who lost 35 percent of their 1988 crop and feed assistance to livestock producers. The act also requires FmHA to make operating loans available to agribusinesses adversely affected by the drought, to exercise forbearance on its loans to individual farmers, and to extend loan guarantees to producers who borrowed from FCS or other commercial lenders and are unable to repay all or part of their 1988 operating loans or their scheduled 1988 or 1989 farm ownership loan installments. The act contains certain limitations, including a maximum \$100,000 benefit for any aid recipient, and it prohibits any benefits to crop producers with more than \$2 million and to livestock producers with more than \$2.5 million in gross farm revenue.

SECTION 2

THE ECONOMIC ENVIRONMENT:
CONDITIONS IMPROVED

Figure 2.1
U.S. Production, Consumption, and Year-End Stocks for Key
Commodities, 1980-87



Source: USDA.

PRODUCTION OF SOME KEY FARM COMMODITIES DECREASED, CONSUMPTION AND TOTAL YEAR-END STOCKS INCREASED, AND FARM PRICES DECLINED

U.S. production of coarse grains--including corn, the primary coarse grain--soybeans, and wheat decreased by almost 9 percent in 1987 compared with 1986. U.S. consumption of these three key farm commodities increased over 8 percent in 1987. Year-end stocks of coarse grains increased in 1987 because of carryover from 1986, but stocks of soybeans and wheat decreased. The coarse grain stocks increase was greater than the soybean and wheat stocks decrease and, as a result, total year-end stock levels for these commodities rose about 11 percent in 1987 compared with 1986. In addition, prices for corn, soybeans, and wheat continued to decline in 1987.

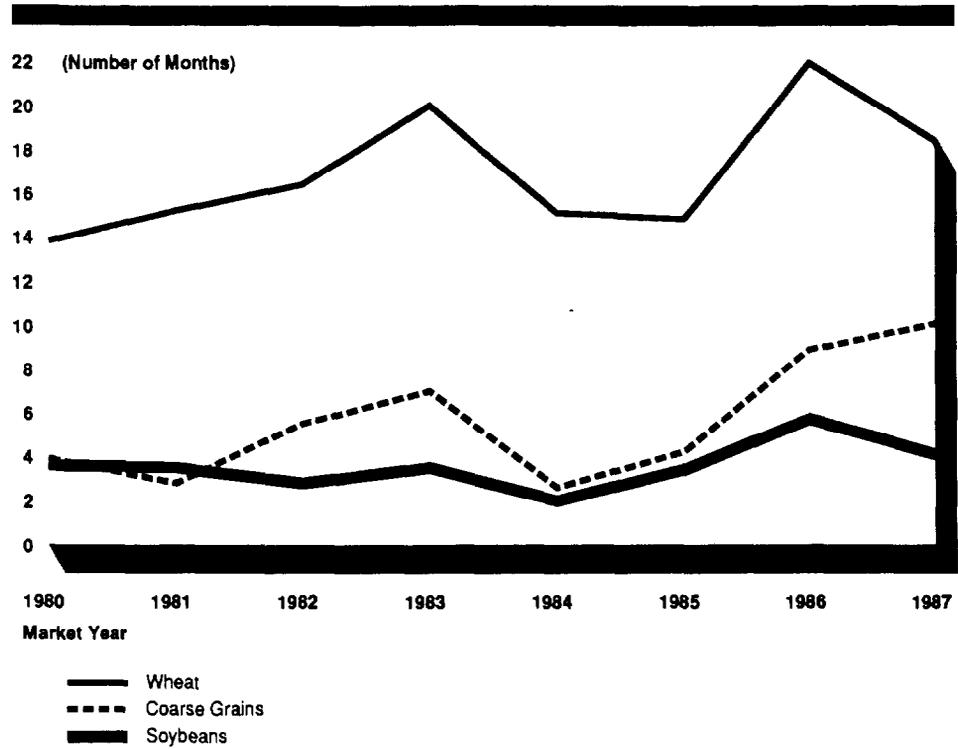
Table 2.1
U.S. Production, Consumption, Year-End Stocks, and
Market Prices for Key Commodities, 1986 and 1987

	<u>Market year^a</u>		<u>Percent change</u>
	<u>1986</u>	<u>1987</u>	
	(metric tons in millions)		
Production:			
All coarse grains	274.9	252.8	(8.0)
Corn only	225.5	209.6	(7.1)
Soybeans	57.1	52.8	(7.5)
Wheat	66.0	56.9	(13.8)
Consumption:			
All coarse grains	170.3	181.6	6.6
Corn only	133.5	150.0	12.4
Soybeans	31.0	34.9	12.6
Wheat	28.5	32.5	14.0
Year-end stocks:			
All coarse grains	126.9	152.6	20.3
Corn only	102.6	124.0	20.9
Soybeans	14.6	11.9	(18.5)
Wheat	51.9	49.6	(4.4)
Average market price:	(dollars per bushel)		
Corn	\$2.23	\$1.50	(32.7)
Soybeans	5.05	4.78	(5.3)
Wheat	3.08	2.42	(21.4)

^aThe market year varies by crop. For example, it begins September 1 for corn and soybeans, and June 1 for wheat. We use 1986 for USDA's 1985/86 market year and 1987 for the 1986/87 market year.

USDA estimated in August 1988 that U.S. production, consumption, and year-end stocks for these key commodities would decline in market years 1988 and 1989.

Figure 2.2
Supply of Key Commodity Stocks on Hand at Year-End,
by Number of Months, 1980-87



Source: GAO analysis of USDA data.

WHILE THE SUPPLY OF WHEAT AND SOYBEAN STOCKS ON HAND DECREASED, THE SUPPLY OF COARSE GRAIN STOCKS INCREASED

The supply of wheat and soybean stocks on hand at the end of the 1987 marketing year, on the basis of U.S. monthly average consumption rates, decreased compared with the 1986 marketing year. However, the supply of coarse grain stocks increased. For example, according to USDA, at the end of 1987, about 50 million metric tons of wheat were in U.S. stock. During 1987, U.S. wheat consumption averaged 2.7 million metric tons each month. On the basis of that consumption rate, 18 months of wheat supply were in stock at year-end. Previously, at the end of 1986, about 52 million metric tons of wheat were in stock and the average monthly consumption rate was 2.4 million metric tons. As a result, almost 22 months of wheat supply were in stock at the end of 1986. Similarly, the supply of soybean stocks decreased from 6 months to 4 months. However, the supply of coarse grain stocks increased from 9 months to 10 months because of the large 1987 production and high stock carry-over from 1986. High commodity stock levels have, among other things, contributed to low commodity prices and high federal outlays for agriculture.

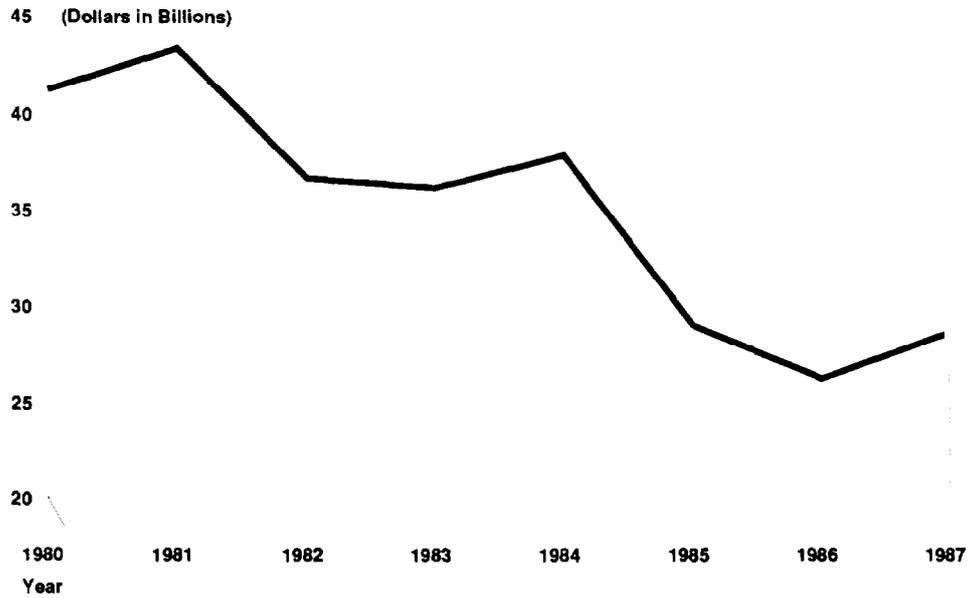
Table 2.2
Supply of Key Commodity Stocks on Hand at Year-End,
by Number of Months, 1986 and 1987

<u>Commodity</u>	<u>Market year</u>		<u>Percent change</u>
	<u>1986</u>	<u>1987</u>	
Wheat	21.9	18.4	(16.0)
Coarse grains	8.9	10.1	13.5
Soybeans	5.7	4.1	(28.1)

The supply of coarse grain stocks on hand at the end of the 1987 marketing year continued to exceed the level that existed at the end of the 1983 marketing year, which was followed by USDA's 1983/84 payment-in-kind program. There were 10 months of coarse grain stocks on hand at the end of 1987 compared with 7 months at the end of 1983.

However, on the basis of USDA's August 1988 estimates, the supply of wheat, coarse grain, and soybean stocks on hand at the end of the 1988 and 1989 marketing years are estimated to decline considerably from the levels at the end of 1987 because of production declines. For example, wheat, coarse grain, and soybean stocks are estimated at 7 months, 4 months, and 1 month, respectively, at the end of the 1989 marketing year.

Figure 2.3
U.S. Agricultural Exports, 1980-87



Source: USDA.

U.S. AGRICULTURAL EXPORTS INCREASED

The total value of U.S. agricultural exports in 1987 was \$28.6 billion, more than a 9-percent increase compared with 1986 exports. In addition, the total volume of U.S. agricultural exports in 1987 was almost 133 million metric tons, more than a 22-percent increase compared with 1986 exports. The 24-million metric ton increase in U.S. agricultural exports primarily involved coarse grains and wheat, which increased 16 million and 6 million metric tons, respectively. According to USDA, factors contributing to the increase in exports included lower prices for U.S. agricultural products because of the decline in the value of the dollar and decreased supply from some competitor countries primarily caused by the effect of adverse weather on production. Federal export programs, such as USDA's Export Enhancement Program and export credit guarantee programs, also contributed to the increase in exports. For example, according to USDA, the entire 6-million metric ton increase in wheat exports was attributable to its export programs.

Among key U.S. agricultural export commodities, coarse grains experienced almost a 26-percent increase in value and a 49-percent increase in volume in 1987 compared with 1986. Wheat exports increased about 1 percent in value and about 24 percent in volume. Soybeans and soybean products, on the other hand, had about a 1-percent decrease in both value and volume.

Table 2.3
U.S. Agricultural Export Statistics, 1986 and 1987

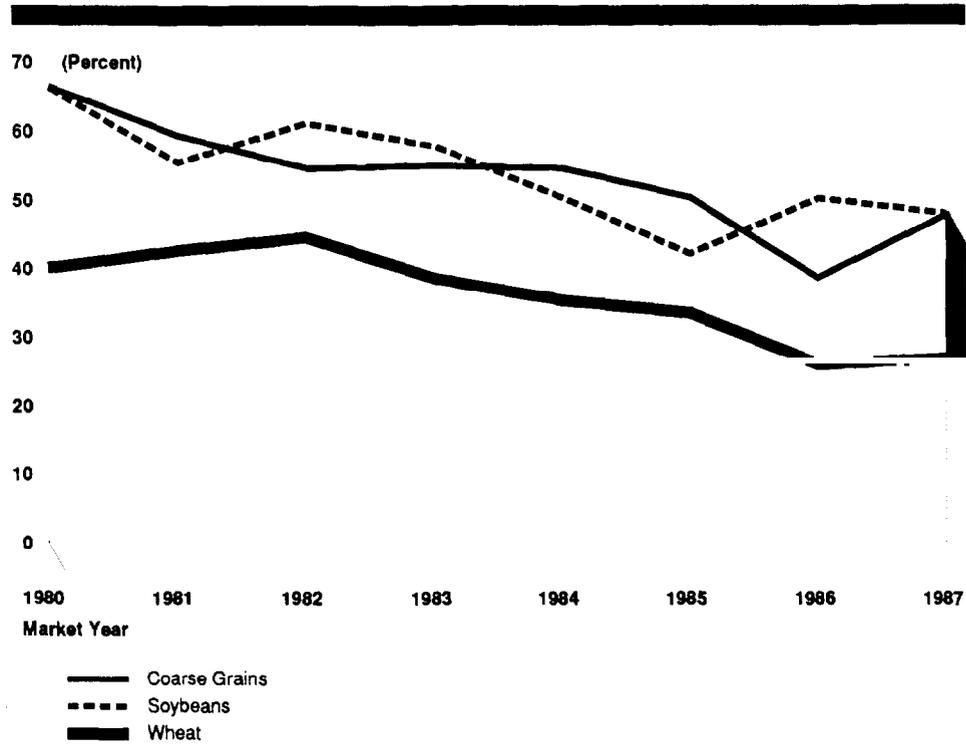
<u>U.S. exports</u>	<u>Value of exports</u>			<u>Volume of exports</u>		
	<u>1986</u>	<u>1987</u>	<u>Percent change</u>	<u>1986</u>	<u>1987</u>	<u>Percent change</u>
	<u>—(billions)—</u>			<u>(metric tons in millions)</u>		
Total	\$26.2	\$28.6	9.2	108.8	132.8	22.1
Key export crops:						
Coarse grains ^a	3.1	3.9	25.8	32.8	48.8	48.8
Soybeans and soybean products	5.8	5.8	(0.4) ^b	27.9	27.8	(0.4)
Wheat	3.2	3.2	0.8 ^b	25.8	31.9	23.6

^aIncludes corn, barley, oats, rye, and sorghum.

^bPercent changes do not compute because of rounding of the 1986 and 1987 values.

U.S. agricultural imports decreased in 1987 by \$1 billion to \$20.4 billion. As a result, the U.S. agricultural trade surplus increased to \$8.2 billion, a 71-percent increase compared with the 1986 surplus, and the first increase since 1981.

Figure 2.4
U.S. Share of World Market for Key Commodities,
1980-87



Source: GAO analysis of USDA data.

U.S. MARKET SHARE FOR SOME KEY FARM
COMMODITIES INCREASED

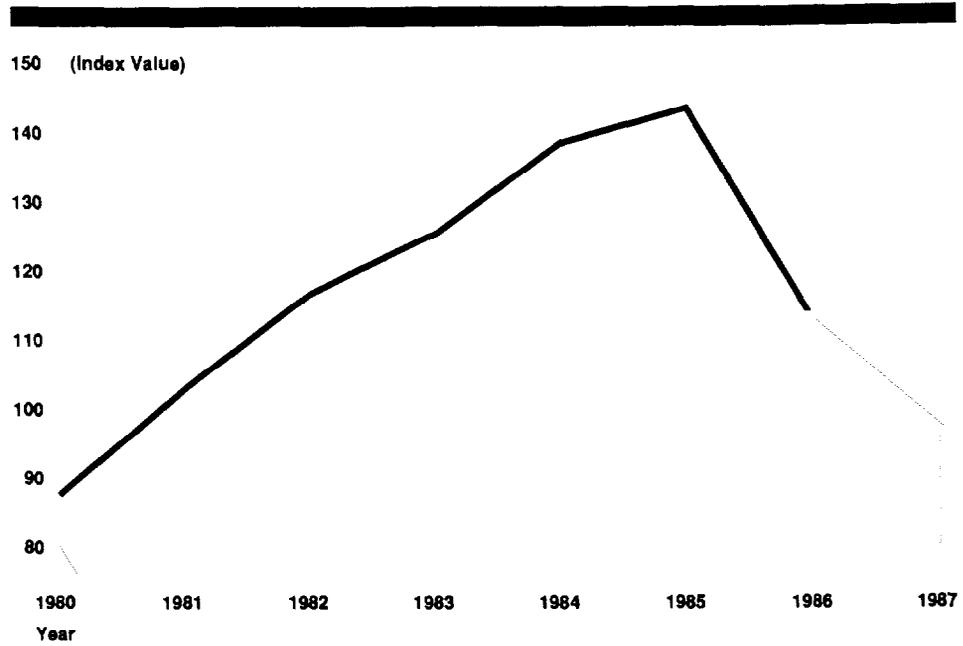
The U.S. share of the world market, on a volume basis, for two of the most heavily traded commodities--coarse grains and wheat--increased in 1987, the first increase for coarse grains since 1983 and the first increase for wheat since 1982. The market share for coarse grains rebounded to about 48 percent in 1987 from 38.5 percent in 1986. The market share for wheat also increased slightly to about 27 percent in 1987 from about 26 percent in 1986. On the other hand, the U.S. share of the world market for a third heavily traded commodity--soybeans and soybean products (meal and oil)--decreased to about 48 percent in 1987 from slightly over 50 percent in 1986.

Table 2.4
U.S. Market Share of Total World Trade for
Three Key Commodities, 1986 and 1987

<u>Commodity</u>	<u>Market year</u>		<u>Percent change</u>
	<u>1986</u>	<u>1987</u>	
	---(percent)----		
Coarse grains	38.5	47.7	23.9
Wheat	25.9	26.8	3.5
Soybeans and soybean products	50.1	47.9	(4.4)

However, on the basis of USDA's August 1988 estimates, the U.S. market share for these three key commodities is estimated to increase in market year 1988 and then decrease in market year 1989. Coarse grains were estimated to reach slightly over 55 percent in 1988 and about 49 percent in 1989; wheat was estimated to reach about 37 percent in 1988 and 36 percent in 1989; and soybeans and soybean products were estimated to reach slightly over 48 percent in 1988 and 36 percent in 1989. Decreased production caused by the 1988 drought could have a significant impact on the U.S. share of the world market for certain key commodities, such as soybeans and soybean products, as U.S. agricultural exports decline and other competitor countries' products replace U.S. products in foreign markets.

Figure 2.5
Yearly Average Index Value of the U.S. Dollar,
1980-87



Note: The index is based on a March 1973 value that equals 100.

Source: Economic Report of the President transmitted to the Congress in February 1988.

TRADE VALUE OF THE U.S. DOLLAR DECLINED

The yearly average multilateral trade-weighted value of the U.S. dollar declined in 1987, the second consecutive annual decline.¹ Compared with a 1973 base index of 100, the yearly average index of the dollar's nominal value measured almost 97 for 1987, about a 14-percent decline from the previous year's index value. On the basis of this index, the dollar's value has fallen by more than 32 percent in the past 2 years.

Table 2.5
Yearly Average Multilateral Trade-Weighted
Index Value of the U.S. Dollar, 1986 and 1987

<u>Value</u>	<u>1986</u>	<u>1987</u>	<u>Percent change</u>
Nominal	112.2	96.9	(13.6)
Real	103.3	90.6	(12.3)

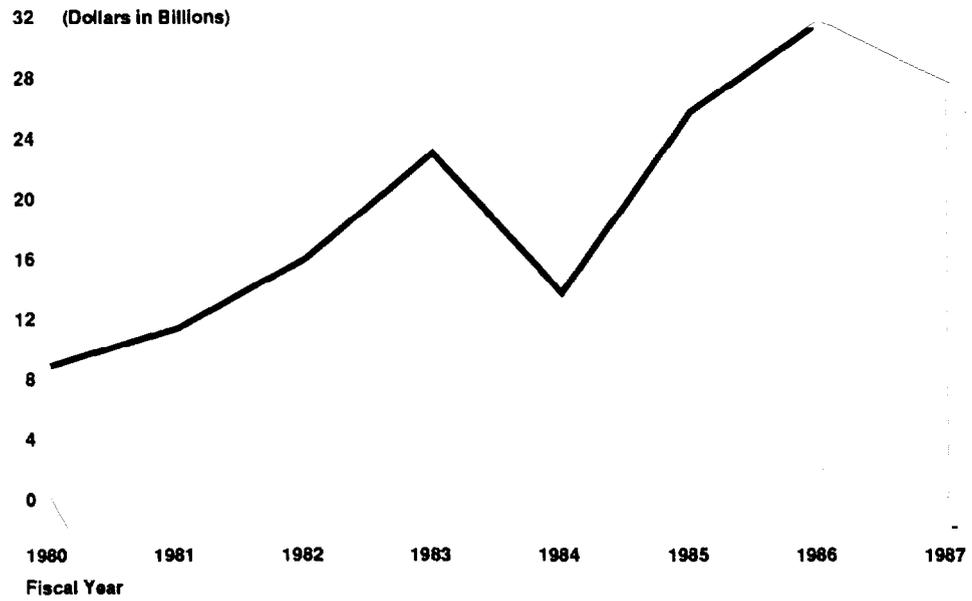
Note: The index is based on a March 1973 value that equals 100.

The dollar's decline in 1987 continued to be primarily in relation to heavily traded industrialized countries' currencies, such as the Japanese yen and the West German mark. According to USDA, increased demand as a result of the lower value of the dollar was one of the reasons U.S. agricultural exports to developed countries increased in value by 7.4 percent in 1987 compared with 1986. Two of the leading foreign markets for U.S. agricultural exports in 1987 were Japan and West Germany. Exports to Japan and West Germany increased by 11 percent and 22.5 percent, respectively, as the dollar declined by 14 percent against the yen and 17 percent against the mark.

The value of the dollar did not improve the price competitiveness of U.S. agricultural commodities in some developing countries. According to USDA, economic difficulties in some developing countries, such as weak economies and large debt burdens, resulted in currency devaluations that paralleled the decline in the dollar's value. As a result, the price of U.S. agricultural products to buyers in those countries did not change. Subsidies offered under federal export programs, however, made U.S. products more competitive in developing countries and contributed to a 7.2-percent increase in exports in 1987 compared with 1986.

¹The multilateral trade-weighted value of the dollar is a composite index showing the appreciation or depreciation of the dollar as measured against a number of major currencies, weighted by the respective countries' trade volume with the United States.

Figure 2.6
Federal Agricultural Outlays, Fiscal Years 1980-87



Source: Economic Report of the President transmitted to the Congress in February 1988.

FEDERAL OUTLAYS FOR AGRICULTURE DECREASED

According to the 1988 Economic Report of the President, federal agricultural outlays decreased to \$27 billion in fiscal year 1987, a 13-percent decrease from the previous year. Federal agricultural outlays totaled \$157 billion from 1980 through 1987.

Table 2.6
Federal Agricultural and Total Outlays, 1986 and 1987

<u>Outlays</u>	<u>Fiscal year</u>		<u>Percent change</u>
	<u>1986</u>	<u>1987</u>	
	---(billions)---		
Agricultural	\$ 31.4	\$ 27.4	(12.7)
Total federal	990.3	1,004.6	1.4
Agricultural as a percentage of total	3.2	2.7	(15.6)

Commodity price support programs accounted for \$22.5 billion of the fiscal year 1987 federal agricultural outlays; other farm income stabilization programs, such as FmHA loans and Federal Crop Insurance Corporation payments, accounted for \$3 billion; and agricultural research and services accounted for \$1.9 billion. Most of the commodity price support outlays applied to four CCC programs: nonrecourse commodity loans (net cash outlays of \$12.2 billion), direct cash deficiency payments (\$4.8 billion), storage of farm commodities and related activities (\$2.4 billion), and purchase of farm commodities (\$1.8 billion).

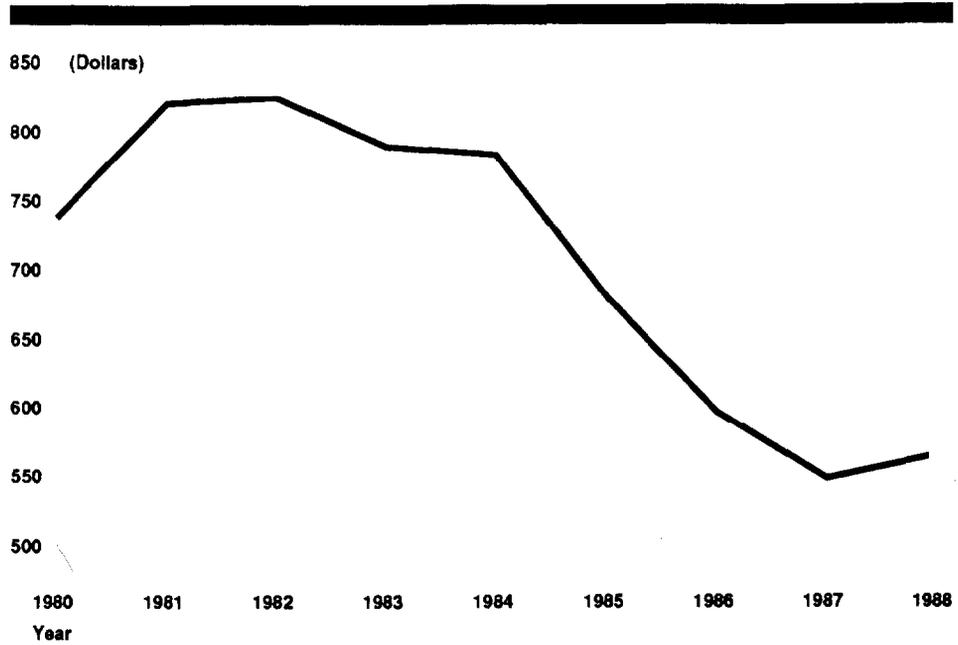
The President's February 1988 economic report also projected that fiscal year 1988 federal outlays will total slightly over \$22 billion, while fiscal year 1989 outlays will total slightly less than \$22 billion. Commodity price support programs were projected at \$17.7 billion and \$17.1 billion in fiscal years 1988 and 1989, respectively.² Actual fiscal year 1988 price support outlays were \$13 billion through August 31, 1988. The 1988 drought, which increased prices for many federally supported commodities, should result in an additional reduction in fiscal year 1989 price support outlays. That reduction, however, will be partially or fully offset by the cost of implementing the Disaster Assistance Act of 1988, which was estimated in August 1988 by the Congressional Budget Office at \$5.1 billion.

²Our April 1988 report entitled Farm Programs: Price and Income Support Programs for Fiscal Years 1987-89 (GAO/RCED-88-144FS, Apr. 22, 1988) provides detailed information on projected fiscal year 1988 and 1989 net cash outlays on commodity programs.

SECTION 3

THE FARM SECTOR:
FINANCIAL POSITION IMPROVED

Figure 3.1
Average Per-Acre Value of Farmland,
1980-88



Note: Values as of February 1, 1980 and 1981; April 1 for 1982 through 1985; and February 1 for 1986 through 1988.

Source: USDA.

FARMLAND VALUES INCREASED

ERS reported that the national average value of farmland increased from \$547 per acre on February 1, 1987, to \$564 per acre on February 1, 1988. This 3.1-percent increase was the first increase in farmland values since the 1982 peak of \$823 per acre.

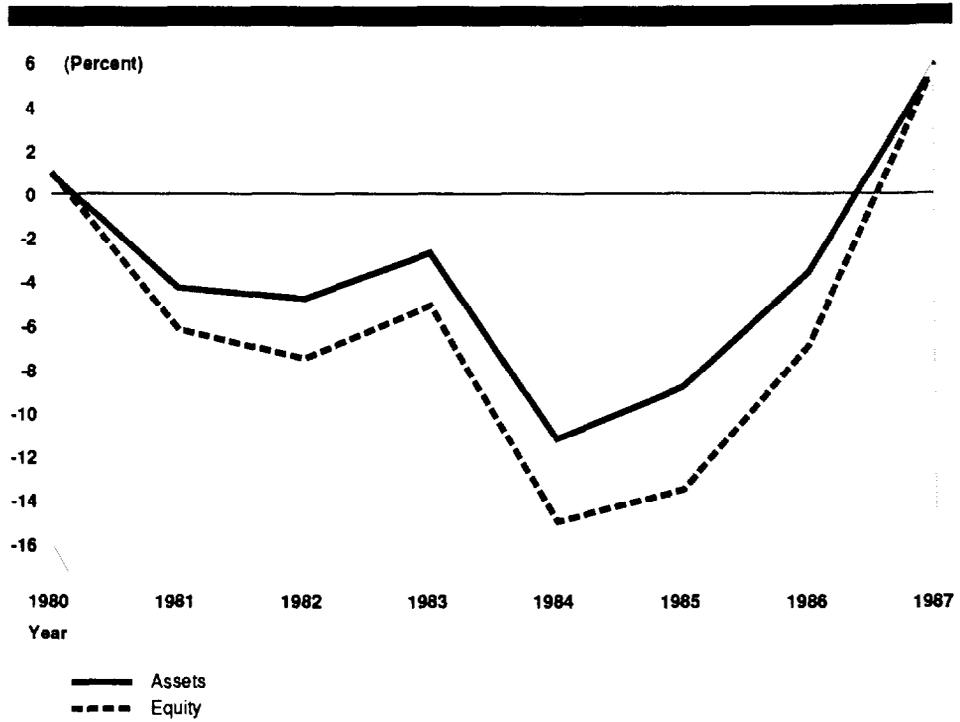
ERS also reported that total farm assets increased by 2.5 percent in 1987 compared with 1986. The increase in total farm assets was primarily due to the increase in farm real estate values. Farm real estate is the primary farm asset, accounting for about 74 percent of total farm assets in 1987.

Of the 48 contiguous states, 33 had increases in farmland values in February 1988 compared with February 1987. States in the northeastern part of the country, along with those in the Corn Belt and the Northern Plains, generally had the greatest increases, led by Rhode Island (48 percent). Two states--Alabama and Colorado--had no change in farmland values. On the other hand, 13 states continued to experience decreases in farmland values. Those states generally are in the west and southwestern parts of the country. Arizona had the greatest decrease--about 12 percent.

Table 3.1
Average Per-Acre Farmland Values in States with the Greatest
Increases and Decreases, February 1, 1987, to February 1, 1988

<u>State</u>	<u>Per-acre value</u>		<u>Percent change</u>
	<u>February 1987</u>	<u>February 1988</u>	
Highest percent increases:			
Rhode Island	\$4,217	\$6,240	48.0
Connecticut	4,056	4,914	21.2
Iowa	748	890	19.0
Massachusetts	2,999	3,534	17.8
New Jersey	5,321	6,189	16.3
Maine	1,082	1,236	14.2
Minnesota	493	563	14.2
Highest percent decreases:			
Arizona	242	214	(11.6)
Nevada	211	193	(8.5)
Wyoming	151	140	(7.3)
Utah	454	428	(5.7)
Louisiana	734	708	(3.5)
Washington	723	699	(3.3)
Texas	482	466	(3.3)
National average for the 48 contiguous states	\$ 547	\$ 564	3.1

Figure 3.2
Rates of Return on Assets and on Equity,
1980-87



Source: USDA.

RATES OF RETURN ON ASSETS AND ON EQUITY
TURNUED POSITIVE

According to ERS data, farmers' total rates of return on assets and on equity continued to improve in 1987 and turned positive for the first time since 1980. The positive rate of return on assets resulted from a continued high income return, which offset a slightly negative capital gains return on assets. The positive rate of return on equity also resulted from a continued positive income return along with a slightly positive capital gains return on equity. Previously, positive income returns had been offset by much higher negative capital gains returns.

Table 3.2
Rates of Return on Assets and on Equity,
1986 and 1987

	<u>1986^a</u>	<u>1987</u>
	-----(percent)---	
Return on assets:		
Income ^b	5.0	6.0
Capital gains	(8.6)	(0.3)
Total	<u>(3.6)</u>	<u>5.7</u>
Return on equity:		
Income ^c	3.6	4.9
Capital gains	(10.5)	0.8
Total	<u>(6.9)</u>	<u>5.7</u>

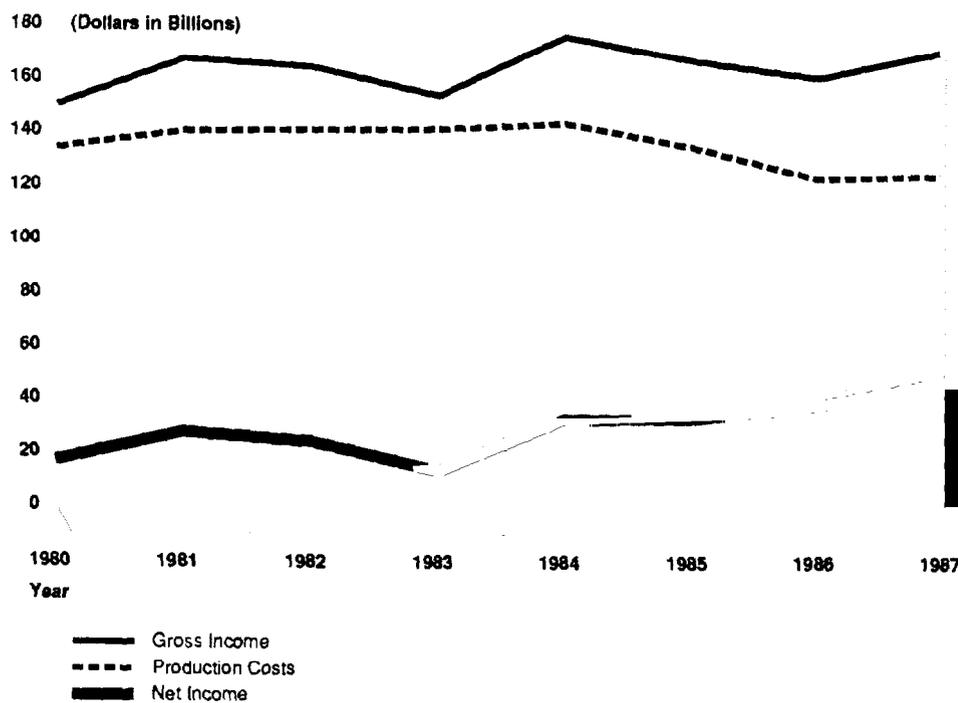
^aERS-revised 1986 percentages.

^bExcludes returns imputed to operator's labor and management.

^cExcludes returns imputed to operator's labor and management and interest on debt.

ERS projected in September 1988 that farmers' total rates of return on assets and on equity would continue to be positive in 1988. The total return on assets was projected to be in the 4-percent to 5-percent range and return on equity was projected to be in the 3-percent to 4-percent range.

Figure 3.3
Gross and Net Farm Income and Production Costs,
1980-87



Source: USDA.

FARMERS' GROSS AND NET FARM INCOME INCREASED

Farmers' gross farm income, excluding off-farm income and after adjusting for changes in the value of inventory, increased by more than 6 percent in 1987 from the 1986 level. According to ERS statistics, the 1987 increase in gross farm income is primarily attributable to a 5.5-percent increase in gross farm cash income, which occurred mainly as a result of increases in livestock cash receipts and direct government payments. This increase offset decreases in crop cash receipts and nonmoney income, such as the value of home consumption of farm products.

ERS also reported that total production expenses increased slightly in 1987 by 1 percent and that net farm income was a record high \$46.3 billion, a 23.5-percent increase compared with 1986.¹ The large increase in gross farm income offset the smaller increase in farm production expenses and resulted in the 1987 net farm income increase.

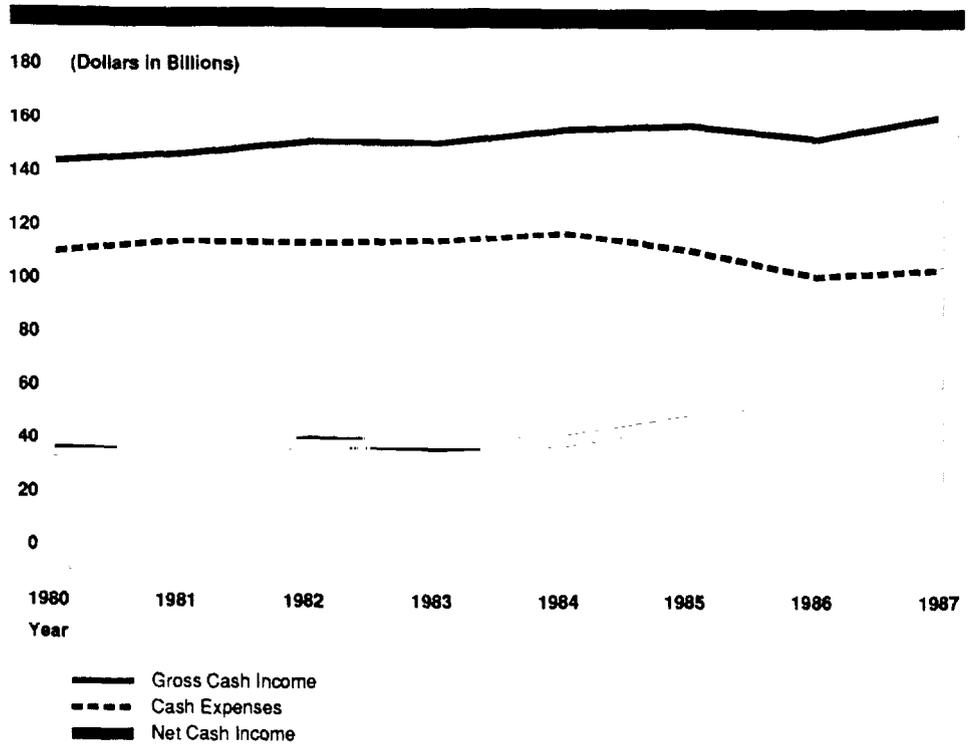
Table 3.3
Farmers' Gross and Net Farm Income and Total Production
Expenses, 1986 and 1987

	<u>1986^a</u> ---(billions)---	<u>1987</u>	<u>Percent</u> <u>change</u>
Gross farm cash income	\$152.0	\$160.4	5.5
Nonmoney income	10.6	10.0	(5.7)
Value of inventory change	<u>(2.8)</u>	<u>(0.6)</u>	78.6
Gross farm income	159.8	169.8	6.3
Total production expenses	<u>122.3</u>	<u>123.5</u>	1.0
Net farm income	\$ <u>37.5</u>	\$ <u>46.3</u>	23.5

^aERS-revised 1986 values.

¹Gross and net farm income measure the value of farm production during a year. Gross farm income includes the receipts from the sale of farm products, government payments, farm-related income, nonmoney income, and the value of inventory changes. Net farm income is gross income less total production expenses. Included are the income, except off-farm income, and expenses associated with operators' households.

Figure 3.4
Gross and Net Farm Cash Income and Cash Expenses,
1980-87



Source: USDA.

FARMERS' GROSS AND NET FARM CASH INCOME INCREASED

Farmers' gross farm cash income increased 5.5 percent in 1987 from the 1986 level. According to ERS statistics, the 1987 increase in gross farm cash income is attributable to an almost 7-percent increase in livestock cash receipts, a 41.5-percent increase in direct government payments, and an almost 10-percent increase in farm-related income, such as custom work and machine hire. These increases offset an almost 3-percent decrease in crop cash receipts.

ERS also reported that farm cash expenses increased in 1987 by about 3 percent and that farmers' net farm cash income was a record high \$57 billion, slightly over an 11-percent increase compared with 1986.² The large increase in gross farm cash income offset the smaller increase in farm cash expenses and resulted in the 1987 net farm cash income increase.

Table 3.4
Farmers' Gross and Net Farm Cash Income and Cash
Expenses, 1986 and 1987

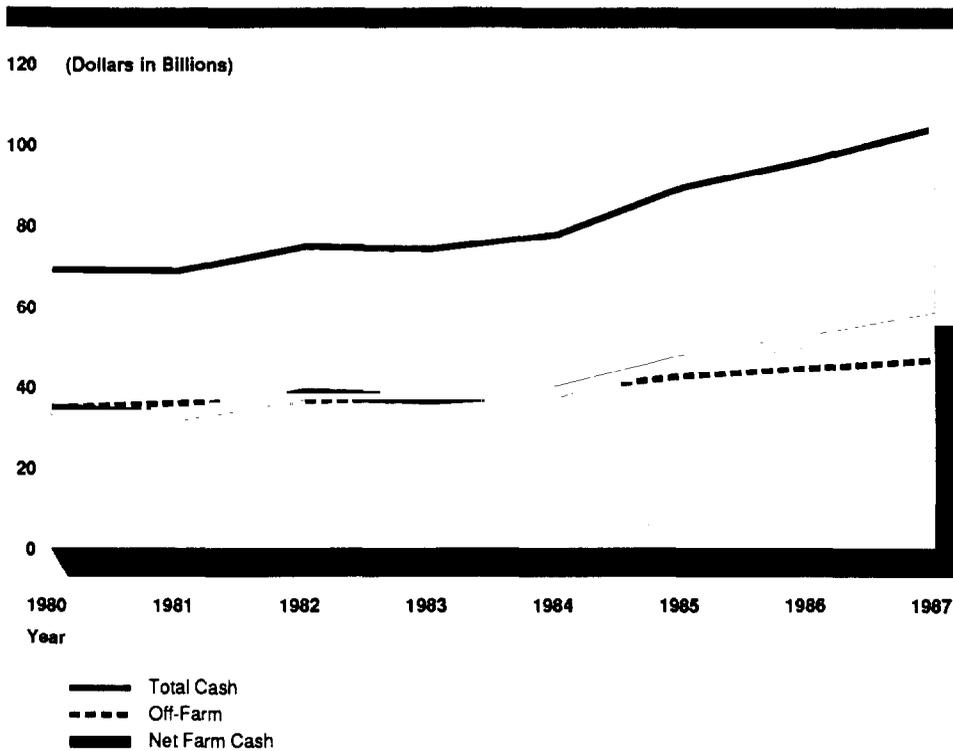
	<u>1986^a</u> ---(billions)---	<u>1987</u>	<u>Percent</u> <u>change</u>
Crop cash receipts ^b	\$ 63.6	\$ 61.9	(2.7)
Livestock cash receipts	71.5	76.2	6.6
Government payments	11.8	16.7	41.5
Farm-related income	<u>5.1</u>	<u>5.6</u>	9.8
Gross farm cash income	152.0	160.4	5.5
Farm cash expenses	<u>100.6</u>	<u>103.3</u>	2.7
Net farm cash income	\$ <u>51.4</u>	\$ <u>57.1</u>	11.1
Net farm cash income margin (percent)	33.8	35.6	5.3

^aERS-revised 1986 values.

^bIncludes net CCC loans.

²Gross and net farm cash income measure farm cash earnings regardless of when the commodities were produced. Gross farm cash income includes cash receipts from the sale of all farm products, government payments, and farm-related income. Net farm cash income is gross farm cash income less farm cash expenses. Excluded are the income and expenses associated with farm operators' households.

Figure 3.5
Farmers' Off-Farm, Net Farm Cash, and Total Cash Income,
1980-87



Source: USDA.

FARMERS' OFF-FARM INCOME INCREASED

Farmers' off-farm cash income³ increased to a record high \$47 billion in 1987, about a 5-percent increase compared with 1986, and continuing an increasing trend that has been underway for many years. According to ERS statistics, most off-farm income--approximately 80 percent in recent years--was received by noncommercial farms with annual sales of less than \$40,000. In addition, about 10 percent of the off-farm income was received by farms with annual sales in the \$40,000 to \$99,999 range. Off-farm income provides these farmers with a buffer against the financial risks of farming.

Farmers' total cash income⁴ continued to increase in 1987 and reached a record high \$104 billion. According to ERS, the high level of total cash income improved the liquidity of the farm sector and contributed to its increased debt service capability.

Table 3.5
Farmers' Off-Farm, Net Farm Cash, and Total
Cash Income, 1986 and 1987

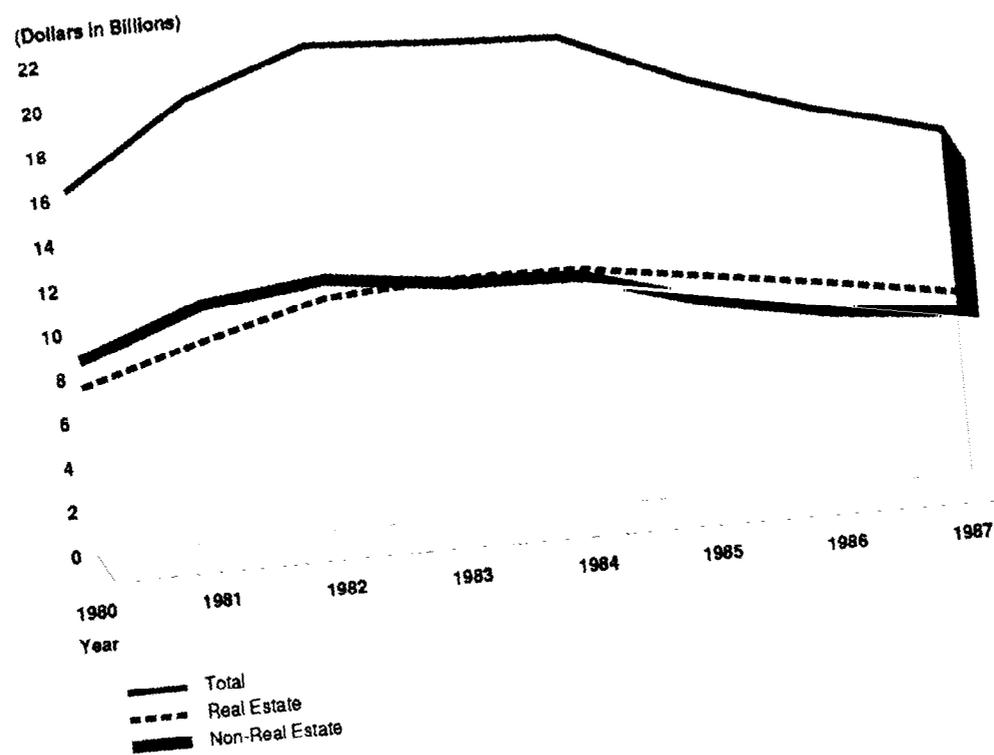
	1986 ^a	1987	Percent
	---(billions)---		<u>change</u>
Off-farm income	\$44.6	\$ 46.8	4.9
Net farm cash income	<u>51.4</u>	<u>57.1</u>	11.1
Total cash income of farm operators	<u>\$96.0</u>	<u>\$103.9</u>	8.2

^aERS-revised 1986 values.

³Off-farm income includes all cash income received by farm operators and members of their households from nonfarm employment, such as nonfarm wages and salaries and nonfarm business and professional income.

⁴Total farm cash income is a measure that combines net farm cash income and off-farm income, an all-cash measure.

Figure 3.6
Farm Real Estate, Non-Real Estate, and Total
Interest Expenses, 1980-87



Source: USDA.

WHILE FARMERS' TOTAL PRODUCTION EXPENSES
INCREASED, INTEREST PAYMENTS DECREASED

Total farm production expenses increased by about 1 percent in 1987 compared with 1986. However, farmers' interest payments decreased by \$1.4 billion, or over 8 percent, continuing a declining trend that has been underway since 1983. The other major farm production expense categories had mixed results in 1987 compared with 1986. For example, while manufactured inputs and overhead expenses decreased by \$1.2 billion, farm-origin inputs and other operating expenses increased by \$3.8 billion.

With lower interest rates and a substantial reduction in the amount of debt outstanding, ERS reported 1987 interest payments at \$15.5 billion. Real estate interest expenses were \$8.2 billion, or almost \$1 billion less than 1986. Non-real estate interest expenses were \$7.3 billion, or \$500 million less than 1986. However, the interest expense decline along with the declines in overhead and manufactured inputs, such as fertilizer and pesticides, were offset by the increases in farm-origin inputs, such as feed and seed, and other operating expenses.

Table 3.6
Farm Production Expenses, 1986 and 1987

<u>Farm production expense category</u>	<u>1986</u> ---(billions)---	<u>1987</u>	<u>Percent change</u>
Farm-origin inputs ^a	\$28.9	\$31.1	7.6
Manufactured inputs ^b	17.0	16.8	(1.2)
Interest payments	16.9	15.5	(8.3)
Other operating expenses ^c	29.8	31.4	5.4
Overhead expenses ^d	<u>29.7</u>	<u>28.7</u>	(3.4)
Total	<u>\$122.3</u>	<u>\$123.5</u>	1.0

^aIncludes feed, livestock, and seed.

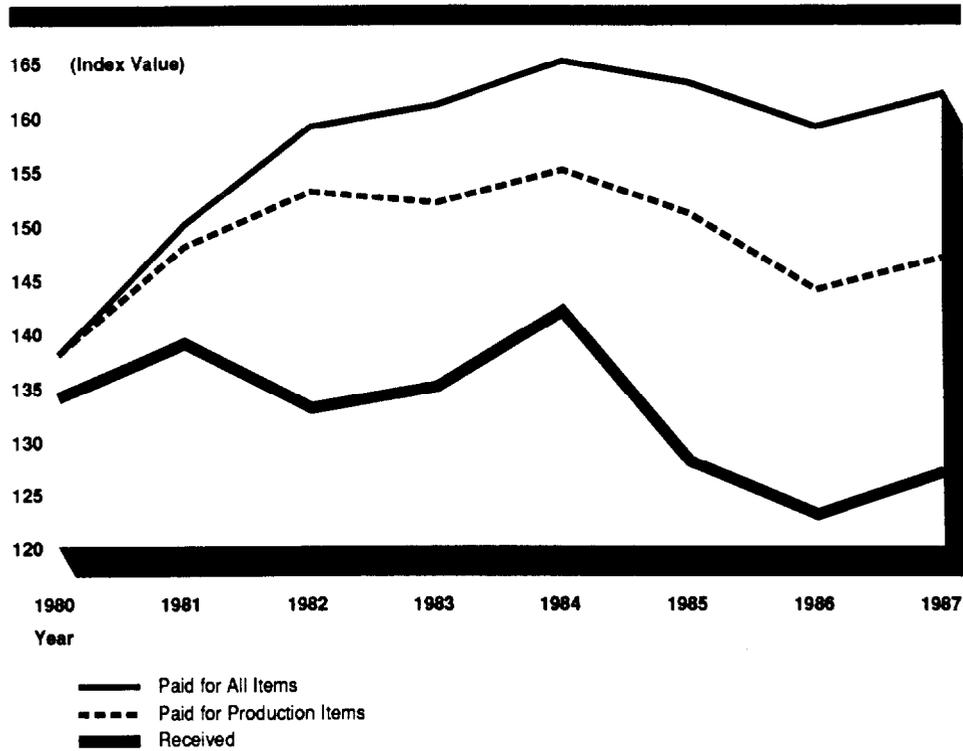
^bIncludes fertilizer, fuel, and pesticides.

^cIncludes repair and operation, hired labor, and machine hire.

^dIncludes depreciation, taxes, and rent.

In addition, ERS has estimated that interest payments in 1988 will continue to decline as farmers continue to reduce their outstanding debt.

Figure 3.7
Indexes of Prices Received and Paid by Farmers,
1980-87



Note: The index is based on a 1977 value that equals 100.

Source: Economic Report of the President transmitted to the Congress in February 1988.

INDEXES OF PRICES RECEIVED AND
PAID BY FARMERS INCREASED

The index of prices received by farmers in 1987 for their products continued to be less than the index of prices they paid. The spread between the indexes, however, narrowed slightly in 1987. The last year that the index of prices received by farmers for their products exceeded the index of prices they paid was 1979.

Using 1977 as a base-year index value of 100, the index of prices received by farmers in 1987 for all farm products measured 127--a 3.3-percent increase from 1986. The 1987 index of prices paid by farmers for production items, such as fertilizer and fuel, measured 147--a 2.1-percent increase from 1986. The 1987 index of prices paid by farmers for all commodities, services, interest, taxes, and wages measured 162--a 1.9-percent increase from 1986.

Table 3.7
Indexes of Prices Received and Paid by Farmers, 1986 and 1987

<u>Index item</u>	<u>1986</u>	<u>1987</u>	<u>Percent change</u>
Prices received	123	127	3.3
Prices paid:			
Production items ^a	144	147	2.1
All items ^b	159	162	1.9
Prices received as a percentage of prices paid for			
production items ^a	85.4	86.4	1.2
all items ^b	77.4	78.4	1.3

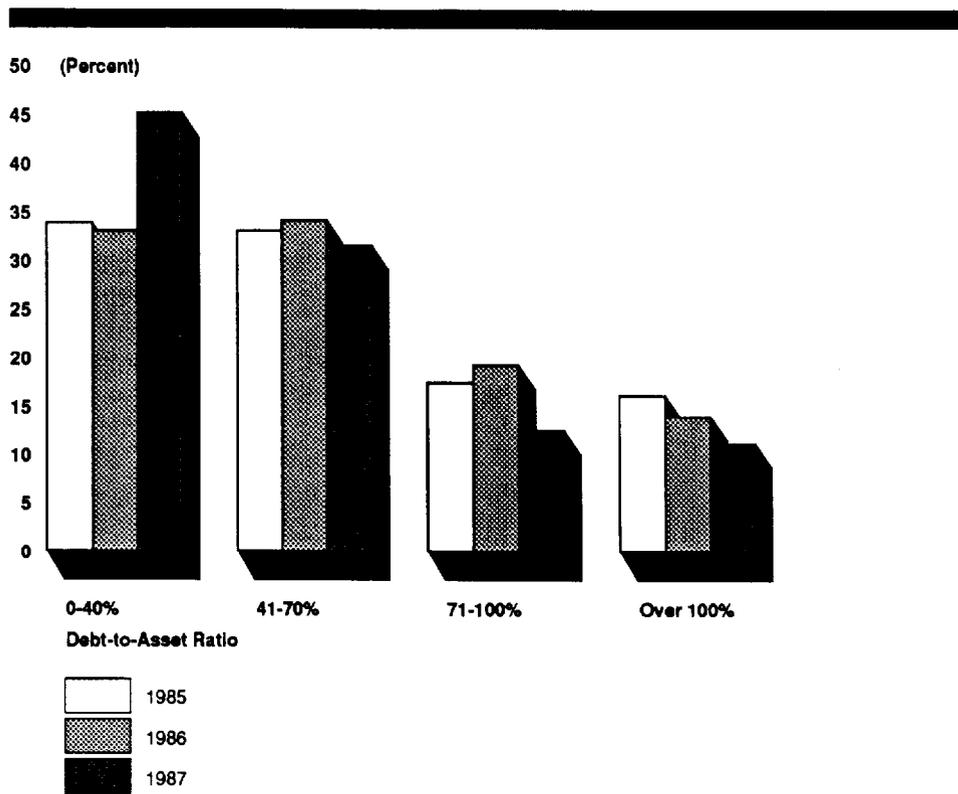
Note: The index is based on a 1977 value that equals 100.

^aIncludes equipment, fertilizer, and fuel.

^bIncludes commodities, services, interest, taxes, and wages, including items used for family living.

During the early part of 1988, the index values of prices farmers received and paid continued to increase. ERS reported that the index of prices received increased to 130 in April 1988 (a 4-percent increase compared with the April 1987 index of 125). However, the indexes of prices paid for production items increased to 155 and for all items to 168 in April 1988 (5.4-percent and 3.7-percent increases compared with April 1987 index values of 147 and 162, respectively).

Figure 3.8
Percent of Total Farm Debt by Debt-to-Asset Ratio,
1985-87



Note: The debt-to-asset ratio compares the value of assets to the amount of debt and is one indicator of financial soundness. According to ERS, farms with ratios of 40 percent or less are in the best position to withstand financial adversity. They can likely offset negative cash flows from farming operations by borrowing against or selling assets. Farms in the 41- to 70-percent category may be able to borrow to offset negative cash flows and meet all expenses. Farms in the 71- to 100-percent category are less likely to be able to offset negative cash flows through borrowing. Farms with a ratio over 100 percent have severe problems meeting principal and interest commitments and have a negative net worth. Farms in this category are technically insolvent and the sale of farm assets would be insufficient to retire their debts.

The 1987 data are not directly comparable with 1985-86 data because ERS changed its methodology for compiling the 1987 information.

Source: USDA.

MOST FARMERS HAD A FAVORABLE DEBT-TO-ASSET RATIO

According to ERS, 85 percent of all farmers had a debt-to-asset ratio of 40 percent or less following 1987 operations; they held 45.1 percent of the 1987 farm debt. Another 10 percent of all farmers were classified by ERS as having some debt repayment problems but an adequate net worth, with a debt-to-asset ratio of 41 through 70 percent; they held 31.4 percent of the farm debt. However, 5 percent of all farmers were in financial difficulty with a debt-to-asset ratio of 71 percent or more; they held 23.5 percent of the 1987 farm debt.

Table 3.8
Number of Farms and Amount of Farm Debt,
by Debt-to-Asset Ratio, 1986 and 1987

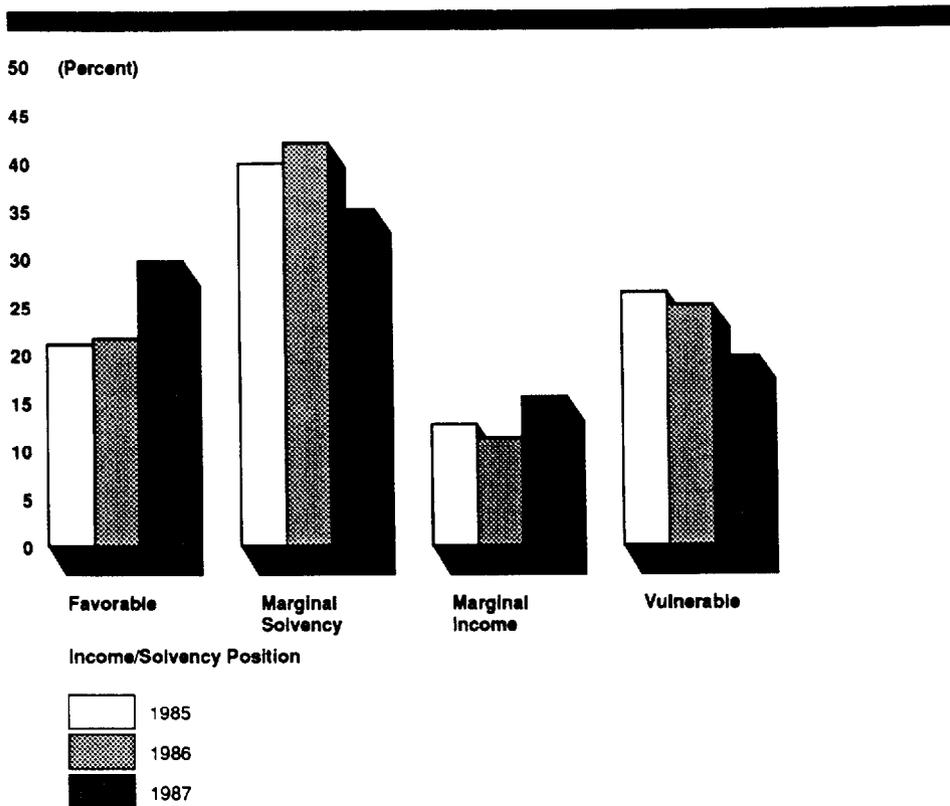
	Debt-to-asset ratio				Total
	0-40%	41-70%	71-100%	Over 100%	
Number of farms	----- (farms in thousands) -----				
1986	1,180	196	75	55	1,506
1987	1,422	167	50	33	1,672
Percent of farms					
1986	78.4	13.0	5.0	3.7	100.0 ^a
1987	85.0	10.0	3.0	2.0	100.0
Amount of debt ^b	----- (billions) -----				
1986	\$32.4	\$33.5	\$18.9	\$13.7	\$98.5
1987	39.9	27.8	10.9	9.8	88.4
Percent of debt					
1986	32.9	34.0	19.2	13.9	100.0
1987	45.1	31.4	12.4	11.1	100.0
Average ratio	----- (percent) -----				
1986	9.1	52.6	81.4	152.7	21.8
1987	7.8	51.3	80.3	144.3	15.1

Note: 1987 data are not directly comparable with 1986 data because ERS changed its methodology for compiling the 1987 information.

^aTotal does not add because of rounding.

^bERS gathers farm debt information through USDA's annual Farm Costs and Returns Survey. The 1986 survey showed 1986 farm debt of \$98.5 billion; the 1987 survey showed 1987 farm debt of \$88.4 billion. These figures differ from the \$190 billion and \$172 billion we report in table 4.1 for 1986 and 1987, respectively, because they are based on survey responses, only include farm operators' debt related to farming operations, and exclude operators' debt held for nonfarm purposes, farm debt held by individuals other than farm operators, CCC commodity loans, and some small-scale farmers. Our higher figures are based on information reported by institutional lenders to the farm sector and ERS' estimate of the farm debt held by other lenders.

Figure 3.9
Percent of Total Farm Debt by Income/Solvency Position,
1985-87



Note: Favorable farms have positive net farm cash income and favorable solvency--debt-to-asset ratio of 40 percent or less. These farms are in stable financial position. Marginal solvency farms have positive net farm cash income but high leverage--a debt-to-asset ratio over 40 percent. These farms, without current earnings problems, have high debt service requirements that could lead to future earnings problems. Marginal income farms have favorable solvency--a debt-to-asset ratio of 40 percent or less--but negative net farm cash income. These farms, without short-term debt problems, have current earnings problems that could lead to future solvency problems. Vulnerable farms have high leverage--a debt-to-asset ratio exceeding 40 percent--and negative net farm cash income. These farms, with high debt service requirements and earnings problems, are vulnerable as viable business operations.

The 1987 data are not directly comparable with 1985-86 data because ERS changed its methodology for compiling the 1987 information.

Source: USDA.

MANY FARMS HAD A FAVORABLE INCOME AND DEBT LEVEL, BUT MOST WERE IN A MARGINAL OR VULNERABLE POSITION

According to ERS, 811,000 farms, or 48.5 percent of all farms, in 1987 were in a sound financial position in terms of combined net farm cash income and debt-to-asset ratio. These sound farms held 29.7 percent of the 1987 farm debt; an increase from the 21.6 percent of the 1986 farm debt held by sound farms. However, the majority of farms continued to be in a marginal or vulnerable position. For example, 8.2 percent of all farms had positive net farm cash income but a high debt-to-asset ratio, and another 36.6 percent had a low debt-to-asset ratio but negative net farm cash income. In addition, 113,000 farms, or 6.8 percent of all farms, had both negative net farm cash income and a high debt-to-asset ratio, a combination that makes them vulnerable as viable business operations.

Table 3.9
Number of Farms and Amount of Farm Debt, by Net Farm
Cash Income and Solvency Position, 1986 and 1987

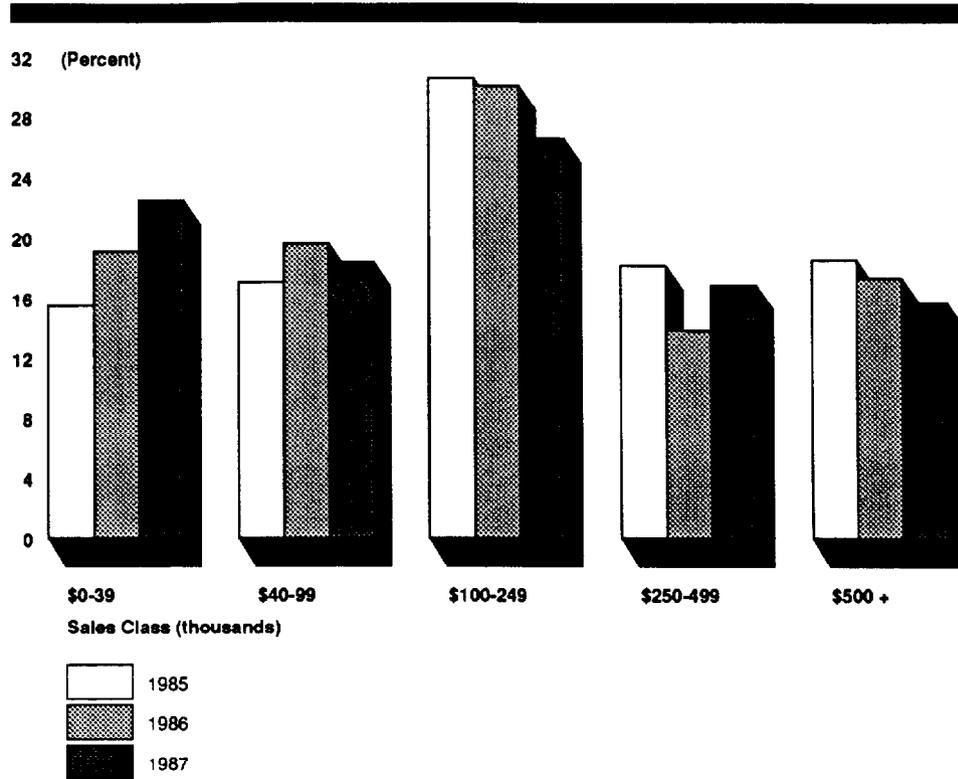
	<u>Farm income and solvency position</u>				<u>Total^a</u>
	<u>Favorable</u>	<u>Marginal solvency</u>	<u>Marginal income</u>	<u>Vulnerable</u>	
	<u>(farms in thousands)</u>				
Number of farms					
1986	623	177	557	150	1,506
1987	811	136	611	113	1,672
Percent of farms					
1986	41.4	11.7	37.0	10.0	100.0
1987	48.5	8.2	36.6	6.8	100.0
Amount of debt ^b	<u>(billions)</u>				
1986	\$21.3	\$41.4	\$11.1	\$24.7	\$98.5
1987	26.2	31.1	13.7	17.4	88.4
Percent of debt					
1986	21.6	42.0	11.3	25.1	100.0
1987	29.7	35.1	15.5	19.7	100.0
Average debt-to-asset ratio	<u>(percent)</u>				
1986	9.0	69.0	8.0	69.0	22.0
1987	7.9	64.7	7.7	65.8	15.1

Note: 1987 data are not directly comparable with 1986 data because ERS changed its methodology for compiling the 1987 information.

^aTotals may not add because of rounding.

^bSee note b in table 3.8 for an explanation of the difference in total debt listed here and in table 4.1.

Figure 3.10
Percent of Total Farm Debt by Farm Sales Class,
1985-87



Note: 1987 data are not directly comparable with 1985-86 data because ERS changed its methodology for compiling the 1987 information.

Source: USDA.

MOST FARM DEBT WAS HELD BY COMMERCIAL FARMS

According to ERS, commercial farms' share of total farm debt decreased in 1987 while noncommercial farms' share increased. Most 1987 farm debt, however, continued to be held by commercial farms, those having \$40,000 or more in sales. In 1987, commercial farms accounted for 32.8 percent of all farms and 77.5 percent of the farm debt. In 1986, commercial farms accounted for 36.3 percent of all farms and 80.9 percent of the debt.

The greatest share of 1987 farm debt, 26.6 percent, continued to be held by mid-size commercial farms--sales of \$100,000 to \$249,000. The largest farms--sales of \$500,000 or more--accounted for 1.7 percent of all farms and 15.7 percent of total farm debt. The smallest farms--sales of less than \$40,000--accounted for 67.2 percent of all farms and 22.5 percent of the debt.

Table 3.10
Number of Farms and Amount of Farm Debt,
by Farm Sales Class, 1986 and 1987

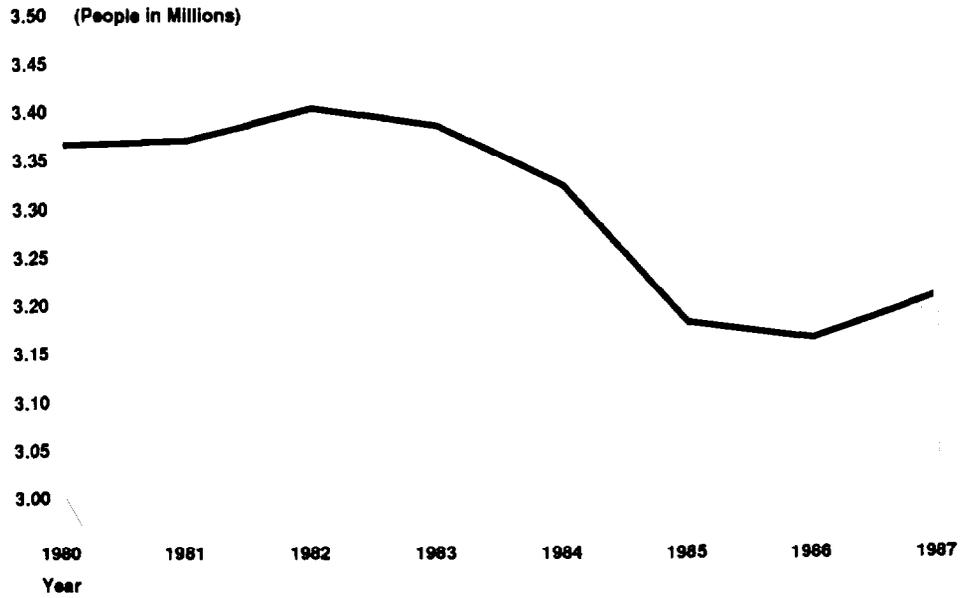
	Sales class (thousands)					<u>Total</u> ^a
	\$0 to <u>39</u>	\$40 to <u>99</u>	\$100 to <u>249</u>	\$250 to <u>499</u>	\$500 and <u>over</u>	
Number of farms	----- (farms in thousands) -----					
1986	959	255	212	52	28	1,506
1987	1,123	255	199	67	28	1,672
Percent of farms						
1986	63.7	16.9	14.1	3.5	1.9	100.0
1987	67.2	15.2	11.9	4.0	1.7	100.0
Amount of debt ^b	----- (billions) -----					
1986	\$18.8	\$19.3	\$29.6	\$13.7	\$17.1	\$98.5
1987	19.9	16.3	23.5	14.9	13.9	88.4
Percent of debt						
1986	19.1	19.6	30.1	13.9	17.4	100.0
1987	22.5	18.4	26.6	16.9	15.7	100.0
Average debt-to-asset ratio	----- (percent) -----					
1986	11.0	23.1	27.5	31.1	30.5	21.8
1987	8.1	16.8	20.2	22.4	23.2	15.1

Note: 1987 data are not directly comparable with 1986 data because ERS changed its methodology for compiling the 1987 information.

^aTotals may not add because of rounding.

^bSee note b in table 3.8 for an explanation of the difference in total debt listed here and in table 4.1.

Figure 3.11
Agricultural Employment, 1980-87



Source: Economic Report of the President transmitted to the Congress in February 1988.

FARM EMPLOYMENT INCREASED, BUT NOT
AS MUCH AS NONFARM EMPLOYMENT

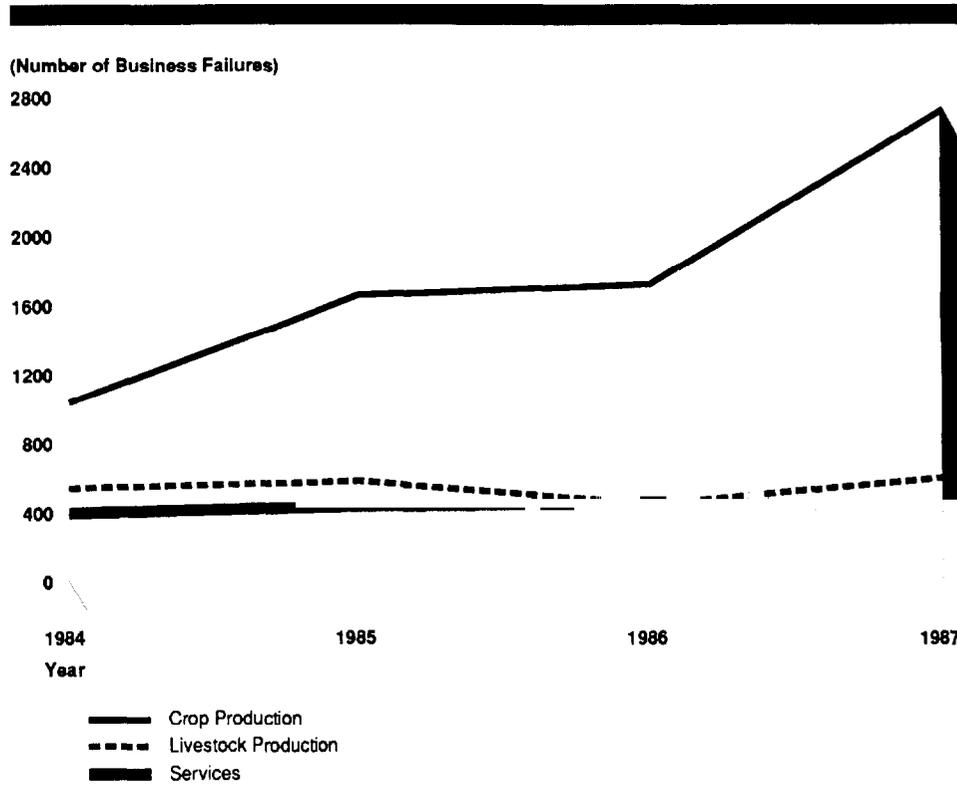
According to the Department of Labor's Bureau of Labor Statistics, farm employment increased by 1.4 percent in 1987 compared with 1986, reversing a 4-year decreasing trend. Nonfarm employment, however, increased by 2.6 percent in 1987. Farm employment increased to slightly more than 3.2 million people and comprised 2.9 percent of the civilian labor force during 1987. The increase in farm employment reflects the overall agriculture improvement in 1987.

Table 3.11
Agricultural and Total Employment,
1986 and 1987

	<u>1986</u>	<u>1987</u>	<u>Percent</u>
	(people in thousands)		<u>change</u>
Agricultural employment	3,163	3,208	1.4
Nonagricultural employment	<u>106,434</u>	<u>109,232</u>	2.6
Total	<u>109,597</u>	<u>112,440</u>	2.6
Agricultural employment as a percent of total employment	2.9	2.9	0.0

In addition, according to the Department of Commerce's Bureau of the Census, the U.S. rural farm population decreased from slightly over 5.2 million people in 1986 to slightly less than 5 million people in 1987, or by 4.6 percent. States in the central and northcentral parts of the country accounted for over 50 percent of the total U.S. farm population. On the other hand, states in the northeastern part accounted for 6 percent of the farm population.

Figure 3.12
Agricultural Business Failures, 1984-87



Note: 1987 data are not directly comparable with 1984-86 data because firms were able to file for bankruptcy in 1987 under a provision of the bankruptcy code that was not available in 1984 through 1986.

Source: The Dun & Bradstreet Corporation.

AGRICULTURAL BUSINESS FAILURES INCREASED

According to preliminary information reported by the Dun & Bradstreet Corporation, more than 3,700 agricultural businesses failed in 1987, a 43-percent increase compared with 1986 failures.⁵ Crop production firms continued to account for most of the agricultural business failures, about 73 percent in 1987 and 66 percent in 1986. Livestock production and agricultural service firms accounted for the remaining failures in each year.

Dun & Bradstreet reported that the increase in agricultural business failures in 1987 was largely attributable to the addition of Chapter 12 to the bankruptcy code, which allows family farmers to remain in business while reorganizing their debts. Dun & Bradstreet's failure statistics include firms in bankruptcy. The significance of the 1987 increase in failures cannot be fully determined since the Chapter 12 provision did not exist in 1986.

Table 3.12
Number of Agricultural Businesses That Failed,
1986 and 1987

<u>Agricultural business</u>	<u>1986^a</u>	<u>1987^b</u>	<u>Percent change</u>
Crop production	1,717	2,714	58.1
Livestock production	<u>446</u>	<u>594</u>	33.2
Total	2,163	3,308	52.9
Agricultural services	<u>452</u>	<u>435</u>	(3.8)
Total	<u>2,615</u>	<u>3,743</u>	43.1

^aDun & Bradstreet-revised 1986 statistics.

^bThe 1987 data were reported as preliminary.

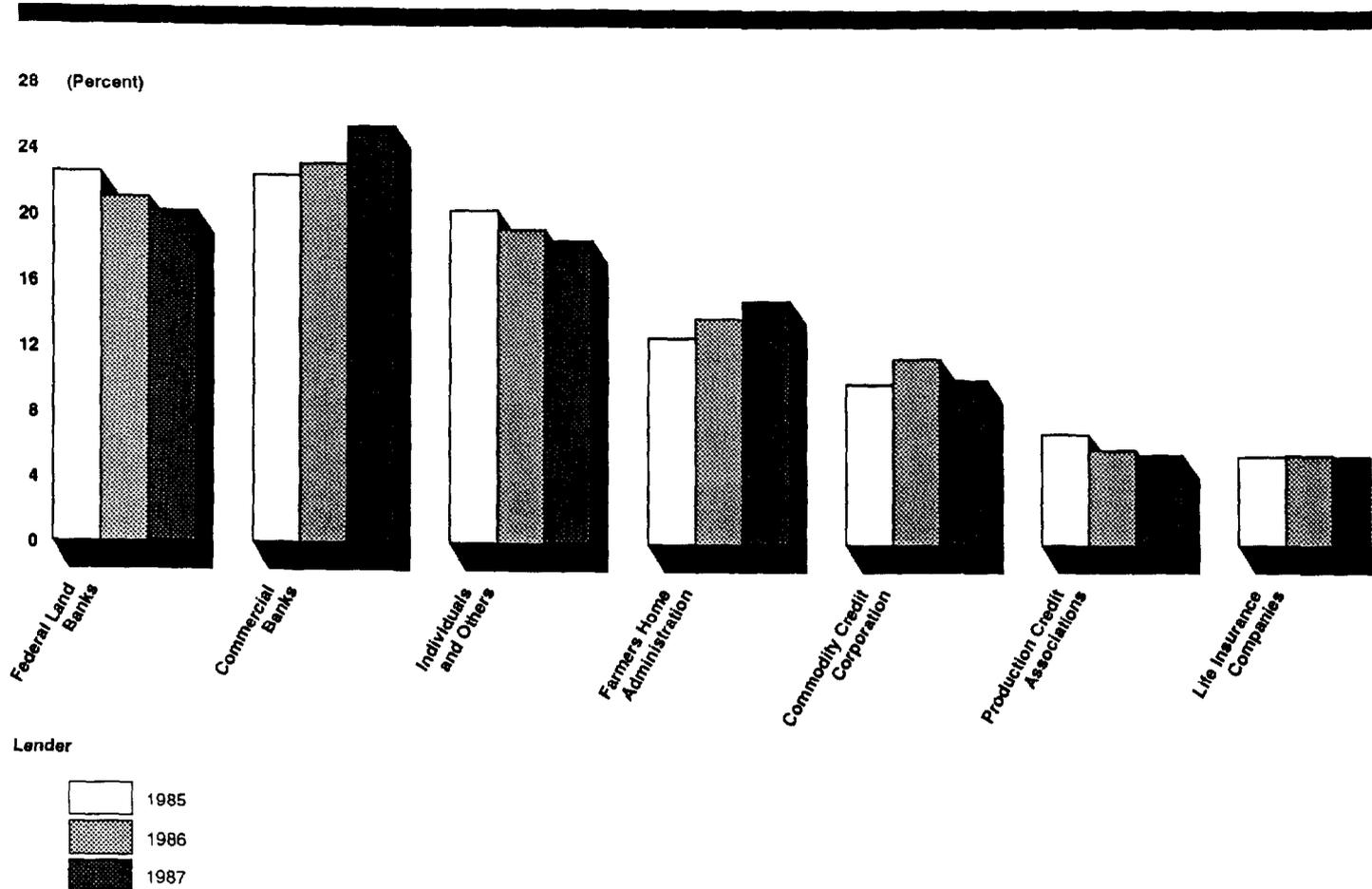
The average value of liabilities held by agricultural businesses that failed in 1987 decreased to \$362,000, or by more than 14 percent, from the \$423,000 average held by the 1986 failed agricultural businesses.

⁵Dun & Bradstreet Corporation produces and markets business information and related services. Its business failure statistics include businesses that ceased operations following assignment or bankruptcy, or after such actions as foreclosure or attachment; voluntarily withdrew leaving unpaid obligations; were involved in court actions such as receivership, reorganization, or arrangement; or voluntarily compromised with creditors.

SECTION 4

THE FINANCE SECTOR:
FARM LENDERS' FINANCIAL STRESS LESSENERD

Figure 4.1
Percent of Total Farm Debt Held by Lenders,
1985-87



Source: GAO analysis of FCA data for FLBs and PCAs, FRB data for commercial banks, ERS data for individuals and others, FmHA data, American Council of Life Insurance data for life insurance companies, and CCC data.

TOTAL FARM DEBT CONTINUED TO DECLINE

Total outstanding farm debt declined to about \$172 billion at the end of 1987, an \$18.1 billion, or 9.5-percent, decrease from the total outstanding debt at the end of 1986. The total outstanding debt of the nation's farmers has declined by almost \$50 billion since the 1982 peak of \$220.5 billion.

Five major institutional lenders continued to hold most of the outstanding loans to the nation's farmers. As of December 31, 1987, the outstanding debt held by these institutional lenders totaled almost \$140 billion. In addition, ERS has estimated that 1987 farm debt held by other lenders, such as individuals, totaled about \$32 billion.

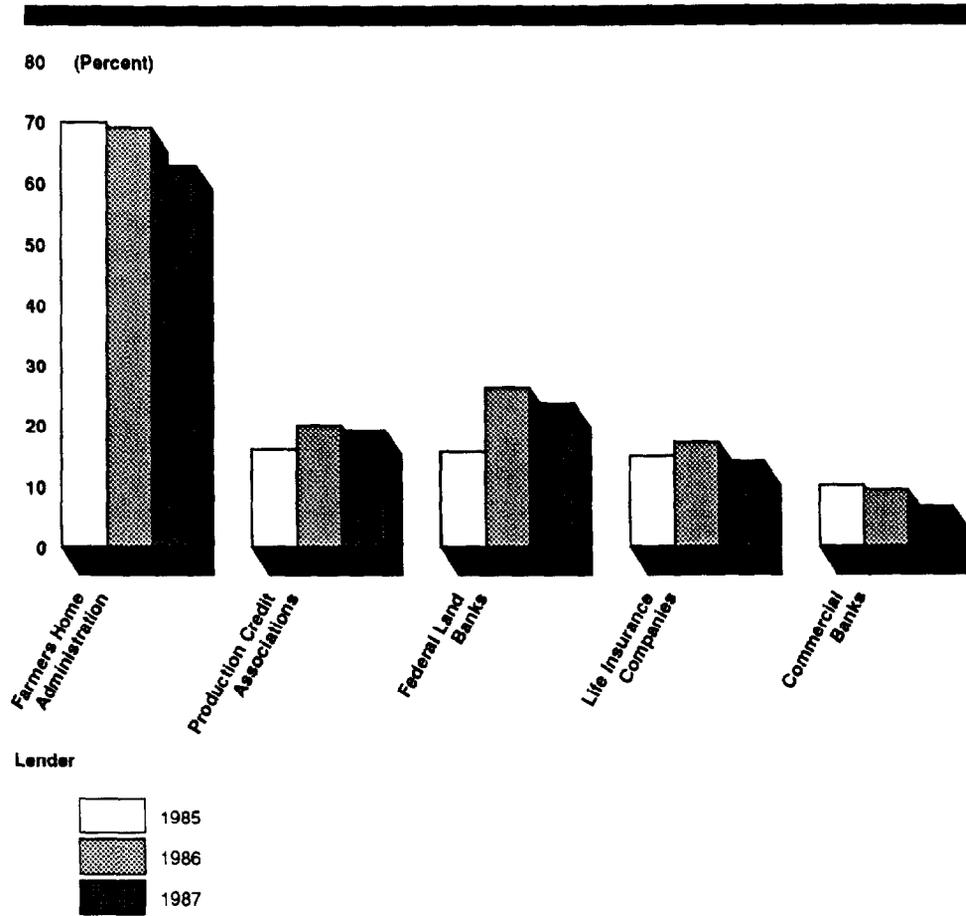
The outstanding farm debt held by all lenders declined in 1987 compared with 1986. FLBs had the greatest decline in farm debt, \$5.3 billion. CCC had the greatest percentage decline, almost 20 percent. The two federal lenders, FmHA and CCC, had \$4.3 billion and \$600 million less, respectively, outstanding farm debt at the end of 1987 than they had at the end of 1986.

Table 4.1
Total Farm Debt, 1986 and 1987

<u>Lender</u>	<u>1986</u>			<u>1987</u>		
	<u>Real estate</u>	<u>Non-real estate</u>	<u>Total</u>	<u>Real estate</u>	<u>Non-real estate</u>	<u>Total</u>
----- (billions) -----						
FCS:						
FLBs ^a	\$40.0	\$ 0.0	\$ 40.0	\$34.7	\$ 0.0	\$ 34.7
PCAs ^a	0.0	11.0	11.0	0.0	9.4	9.4
Commercial banks	12.7	31.2	43.9	14.5	29.1	43.6
FmHA	9.8	16.4	26.2	9.5	16.1	25.6
CCC	0.0	21.6	21.6	0.0	17.3	17.3
Life insurance companies	<u>10.5</u>	<u>0.0</u>	<u>10.5</u>	<u>9.3</u>	<u>0.0</u>	<u>9.3</u>
Total	\$73.0	\$80.2	\$153.2	\$68.0	\$71.9	\$139.9
Individuals and others	<u>24.1</u>	<u>12.4</u>	<u>36.5</u>	<u>20.6</u>	<u>11.1</u>	<u>31.7</u>
Total	<u>\$97.1</u>	<u>\$92.6</u>	<u>\$189.7</u>	<u>\$88.6</u>	<u>\$83.0</u>	<u>\$171.6</u>

^aAccording to FCA, the FLB and PCA loan totals include nonfarm loans of about 6 percent and 3 percent, respectively.

Figure 4.2
Major Institutional Lenders' Percent of Loan Portfolio
Nonperforming and/or Delinquent, 1985-87



Source: GAO analysis of FmHA data, FCA data for PCAs and FLBs, American Council of Life Insurance data for life insurance companies, and FRB data for commercial banks.

NONPERFORMING AND/OR DELINQUENT FARM DEBT DECREASED

The quality of the major institutional lenders' farm loan portfolios, which reflects conditions in the farm sector, improved in 1987. For example, total nonperforming and/or delinquent loans held by four of the institutional lenders totaled \$29.3 billion, or slightly over 27 percent of their outstanding principal (\$108 billion), a significant improvement from the \$35.5 billion, or almost 30 percent, that was nonperforming and/or delinquent a year earlier. The overall quality of these lenders' portfolios continued to be skewed by the poor condition of FmHA's portfolio. Excluding FmHA, the total nonperforming and/or delinquent loans held by the three nonfederal lenders at the end of 1987 was slightly over \$13 billion, or 16 percent of their outstanding debt--a considerable decrease from the more than \$17 billion, or about 19 percent of their outstanding debt, that was nonperforming and/or delinquent at the end of 1986.

Table 4.2
Nonperforming and/or Delinquent Farm Debt Held by
Major Institutional Lenders, 1986 and 1987

<u>Lenders</u>	<u>1986</u>		<u>1987</u>	
	<u>Amount</u> (billions)	<u>Percent of portfolio</u> <u>nonperforming and/or</u> <u>delinquent^a</u>	<u>Amount</u> (billions)	<u>Percent of portfolio</u> <u>nonperforming and/or</u> <u>delinquent^a</u>
FCS:				
FLBs	\$10.5	26.3	\$ 8.2	23.6
PCAs	2.2	20.0	1.8	19.1
Commercial banks ^b	2.9	9.3	1.9	6.5
FmHA ^c	18.1	69.1	16.1	62.9
Life insurance companies	<u>1.8</u>	17.1	<u>1.3</u>	14.0
Total	<u>\$35.5</u>	29.9	<u>\$29.3</u>	27.1

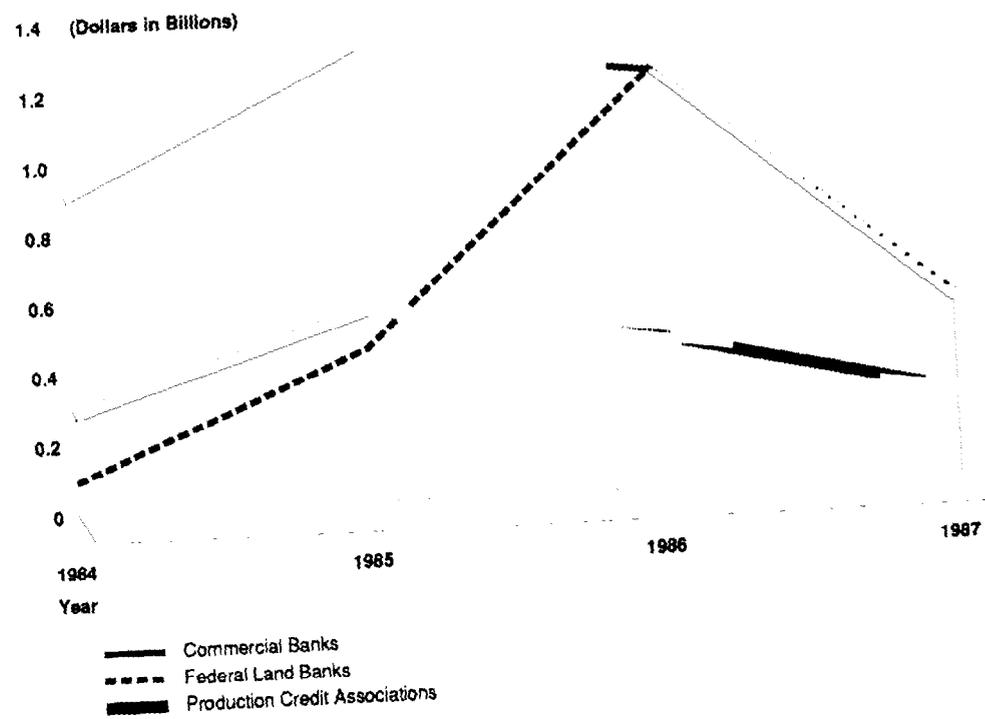
Note: Excludes CCC since borrowers can either repay the loan or forfeit the commodity to satisfy the loan. CCC acquired the collateral on loans totaling over \$5.6 billion and \$6.1 billion in fiscal years 1986 and 1987, respectively. Also excludes "individuals and others" since the quality of their portfolio is unknown.

^aDefinitions of nonperforming and/or delinquent farm loans vary somewhat by lender.

^bCommercial banks' data are incomplete because all banks are not required to report farm loan quality data; the data included here apply to non-real estate loans.

^cThe FmHA amount is the total unpaid principal outstanding for delinquent borrowers.

Figure 4.3
Farm Loan Net Charge-Offs by Commercial Banks,
FLBs, and PCAs, 1984-87



Source: FRB for commercial banks, and FCA for FLBs and PCAs.

TOTAL FARM LOAN NET CHARGE-OFFS
AND NONACCRUAL LOANS DECREASED

Commercial banks, FLBs, and PCAs charged off about \$1.3 billion in farm loans during 1987, a significant reduction from the more than \$2.8 billion they charged off the previous year. Charge-offs are loans written off by lenders as uncollectible. FLBs had the largest amount of 1987 charge-offs, \$523 million, or 57 percent, less than the previous year. Commercial banks had \$502 million in charge-offs, a 58-percent reduction. PCAs had the lowest amount of charge-offs, \$243 million, a 44-percent reduction.

These lenders had nonaccrual loans totaling over \$6.3 billion at the end of 1987. This was more than a \$2.4 billion, or 28-percent, decrease in the amount of nonaccruals at the end of 1986. Nonaccrual loans are loans for which the accrual of interest has been suspended because full collection of principal and interest is in doubt. They are highly significant because they are the most severe category of nonperforming loans and may indicate future loan charge-offs if high stress continues in agriculture. FLBs had the largest amount of nonaccrual loans, about \$4.4 billion, while PCAs had the lowest amount, \$766 million. Commercial banks had the greatest percentage reduction from 1986, more than 36 percent.

Table 4.3
Farm Loan Net Charge-Offs and Nonaccrual Loans for
Various Lenders, 1986 and 1987

<u>Lender</u>	<u>Net charge-offs^a</u>			<u>Nonaccrual loans^b</u>		
	<u>1986^c</u> <u>---(millions)---</u>	<u>1987</u>	<u>Percent</u> <u>change</u>	<u>1986^c</u> <u>---(millions)---</u>	<u>1987</u>	<u>Percent</u> <u>change</u>
FLBs ^d	\$1,202	\$ 523	(56.5)	\$5,853	\$4,367	(25.4)
PCAs	436	243	(44.3)	1,045	766	(26.7)
Commercial banks ^e	<u>1,200</u>	<u>502</u>	(58.2)	<u>1,900</u>	<u>1,210</u>	(36.3)
Total	<u>\$2,838</u>	<u>\$1,268</u>	(55.3)	<u>\$8,798</u>	<u>\$6,343</u>	(27.9)

^aFor the 12 months ending December 31 each year.

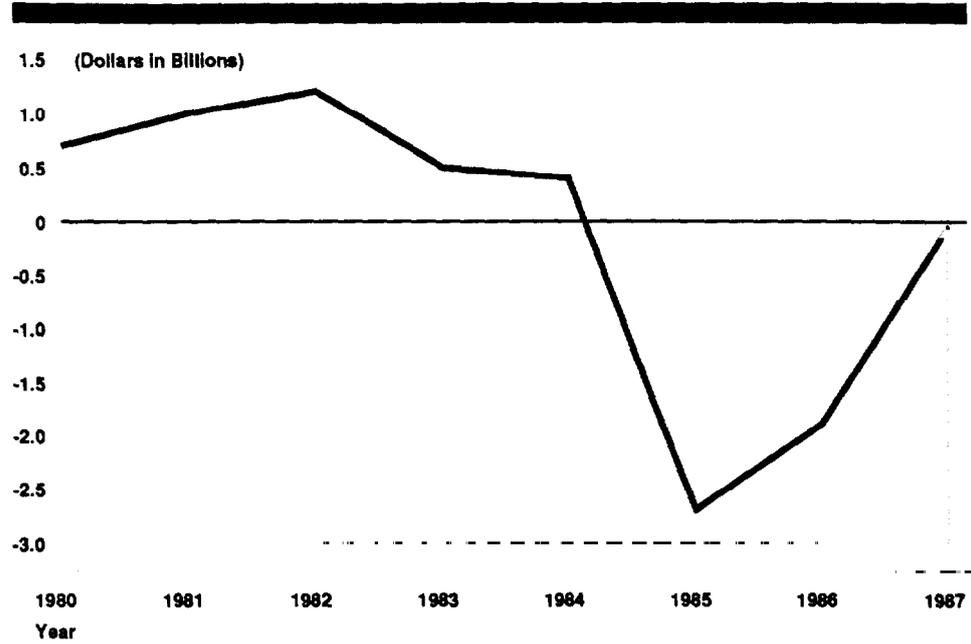
^bAs of December 31 each year.

^cFCA-revised 1986 charge-offs for FLBs and PCAs and nonaccrual loans for PCAs.

^dExcludes \$101 million and \$15 million in net charge-offs by Federal Land Bank Associations in 1986 and 1987, respectively.

^eThe amounts included here are those reported by FRB.

Figure 4.4
FCS Net Income, 1980-87



Source: FCS' Federal Farm Credit Banks Funding Corporation and FCA.

FCS' EARNINGS IMPROVED

FCS continued to have negative earnings in 1987; however, there was significant improvement compared with the previous 2 years. FCS experienced a \$17 million loss in 1987--its third consecutive loss. However, the 1987 loss was much less than the \$2.7 billion and \$1.9 billion losses experienced in 1985 and 1986, respectively. The 1985 and 1986 losses reflected increases in FCS' allowance for loan losses; the 1987 improvement reflected a reversal in that account.

FCS had 1987 net interest income--interest income less interest expense--that totaled \$509 million. When accounting for other income (\$97 million) and expenses (\$819 million), FCS had a \$213 million loss. The \$196 million reduction in FCS' provision for loan losses resulted in the \$17 million net loss.

All FCS lending components had a gain in 1987, except the FLBs. For example, the combined PCAs had a \$102 million gain. According to FCA, all FLBs, except the Omaha FLB, and the combined PCAs in all 12 FCS districts, had an improvement in 1987 earnings compared with 1986. Five FLBs and the combined PCAs in eight districts had a gain in 1987. On the other hand, seven FLBs and the combined PCAs in four districts continued to have a loss.

Table 4.4
Net Income for FLBs and PCAs, by FCS District, 1986 and 1987

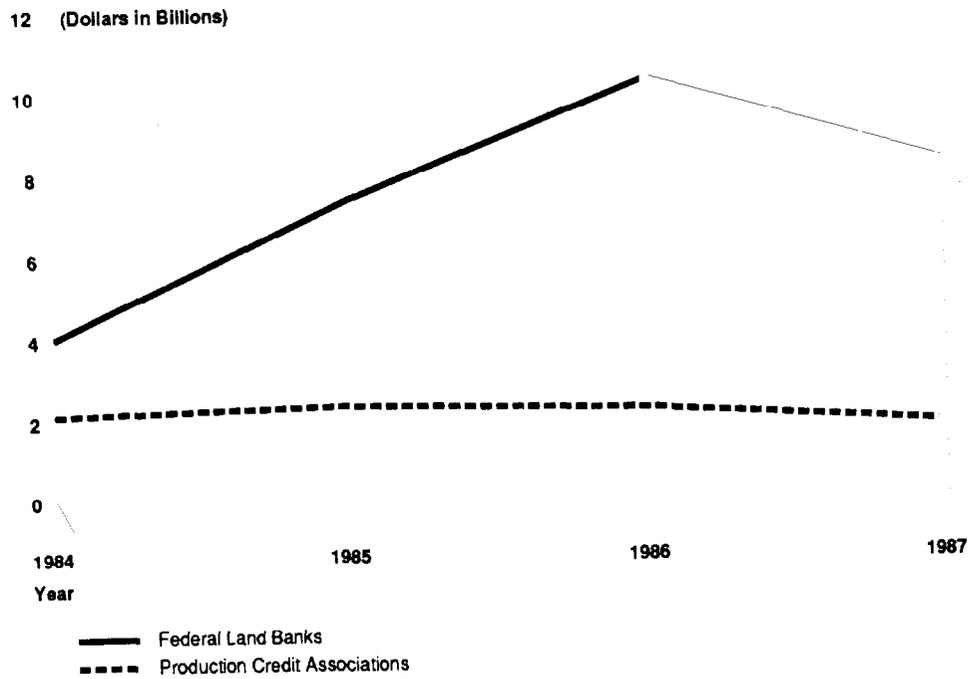
<u>FCS district</u>	<u>FLBs</u>			<u>PCAs^a</u>		
	<u>1986^b</u>	<u>1987</u>	<u>Change</u>	<u>1986^b</u>	<u>1987</u>	<u>Change</u>
	(millions)					
Columbia	(\$ 291.9)	\$ 53.8	\$ 345.7	(\$ 32.9)	\$ 38.3	\$ 71.2
St. Paul	(318.7)	(36.1)	282.6	(98.0)	48.6	146.6
Spokane	(219.4)	(50.4)	169.0	(18.4)	(2.5)	15.9
Texas	(88.5)	11.7	100.2	(7.3)	6.8	14.1
St. Louis	(88.0)	5.2	93.2	(5.1)	4.8	9.9
Sacramento	(113.0)	(53.5)	59.5	(67.3)	(4.0)	63.3
Baltimore	(66.4)	(6.3)	60.1	1.1	4.5	3.4
Jackson	(96.4)	(44.3)	52.1	0.3	1.1	0.8
Wichita	(11.7)	39.7	51.4	(22.6)	9.1	31.7
Springfield	(27.4)	2.4	29.8	(4.9)	(1.0)	3.9
Louisville	(56.6)	(29.7)	26.9	(17.3)	(5.0)	12.3
Omaha	<u>(39.4)</u>	<u>(109.6)</u>	<u>(70.2)</u>	<u>(16.6)</u>	<u>0.9</u>	<u>17.5</u>
Total ^c	<u>(\$1,417.5)</u>	<u>(\$217.2)</u>	<u>\$1,200.3</u>	<u>(\$289.0)</u>	<u>\$101.7</u>	<u>\$390.6</u>

^aIncludes distributions of Federal Intermediate Credit Banks' earnings to PCAs.

^bIncludes some FCA-revised 1986 values.

^cTotals may not add because of rounding.

Figure 4.5
Amount of FLB and PCA Nonperforming Loans,
1984-87



Source: FCA.

FLB AND PCA NONPERFORMING LOANS DECREASED

FLBs and PCAs had slightly over \$10 billion in nonperforming loans as of December 31, 1987, a \$2.5 billion decrease compared with 1986. Combined, these two FCS components had nearly 23 percent of their total outstanding loans that were nonperforming at the end of 1987. This compares with almost 25 percent that was nonperforming at the end of 1986. FLB and PCA nonperforming loans include loans that have been restructured; those 90 days or more past due but adequately secured by collateral; those considered vulnerable following a credit evaluation; those in the process of liquidation, bankruptcy, or foreclosure; and nonaccrual loans.

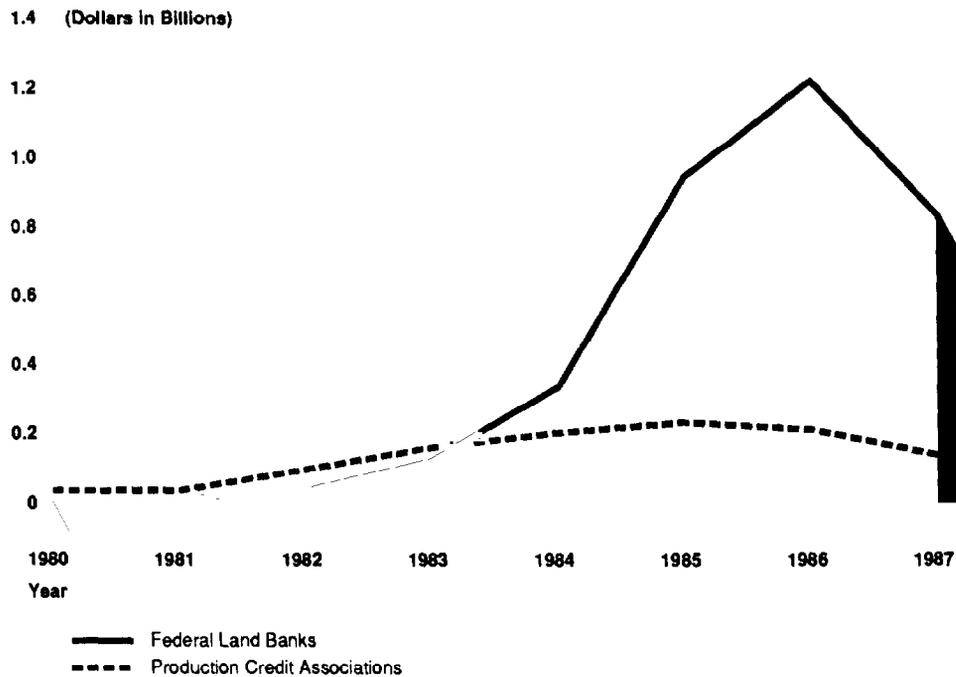
The extent of FLB and PCA nonperforming loans continued to vary widely between FCS districts in 1987. For example, four FLBs had nonperforming loan rates that exceeded 25 percent. Two FLBs (St. Paul and St. Louis) had more than \$1 billion in nonperforming loans. Among the PCAs, the St. Paul district had the highest nonperforming loan rate, 32 percent, and the highest nonperforming amount, \$640 million. On the other hand, the Springfield FLB and combined PCAs had 1987 nonperforming loan rates that were less than 5 percent. All FLBs, except the Texas FLB, and the combined PCAs in all districts, except Jackson and Wichita, had less value in nonperforming loans in 1987 than in 1986.

Table 4.5
FLB and PCA Nonperforming Loans: Amount and Percent of
Total Outstanding Loans, by FCS District, 1986 and 1987

FCS district	FLBs				PCAs			
	1986 ^a		1987		1986		1987	
	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent	Nonperforming (millions)	Percent
St. Paul	\$ 2,700.1	46.1	\$2,354.4	47.5	\$ 709.9	35.1	\$ 639.8	31.6
Jackson	787.9	40.2	680.3	41.7	59.6	12.7	62.2	13.2
St. Louis	1,193.1	30.5	1,013.7	31.0	128.3	20.0	87.3	13.6
Louisville	806.1	25.0	753.8	28.1	201.8	22.1	117.5	12.8
Omaha	1,421.9	32.3	907.2	24.8	146.2	25.4	83.0	14.4
Spokane	719.4	23.1	565.9	20.8	117.1	23.1	97.1	19.1
Sacramento	792.2	18.6	638.4	16.2	457.8	21.3	405.4	18.8
Wichita	999.0	25.3	487.4	14.6	69.3	11.4	76.3	12.6
Columbia	621.4	15.0	509.2	14.1	179.0	18.6	127.1	13.2
Texas	141.5	5.7	192.0	8.2	85.6	9.5	70.9	9.0
Baltimore	97.1	5.2	77.3	4.3	45.8	6.4	35.7	5.1
Springfield	36.3	4.3	24.4	3.1	22.0	3.9	7.6	1.3
Total	<u>\$10,316.0</u>	25.8	<u>\$8,204.0</u>	23.6	<u>\$2,222.4</u>	20.1	<u>\$1,809.9</u>	19.2

^aIncludes FCA-revised 1986 values.

Figure 4.6
FLB- and PCA-Acquired Property Holdings, 1980-87



Source: FCA.

FLB- AND PCA-ACQUIRED PROPERTY HOLDINGS DECREASED

The gross value of acquired property held by FLBs and PCAs totaled over \$960 million as of December 31, 1987, a \$456 million decrease compared with 1986. These two FCS elements acquire property through foreclosure or deed in lieu of foreclosure. The 1987 decrease reversed a 6-year increasing trend for FLBs and was the second consecutive decrease for PCAs.

At year-end 1987, FLBs had about \$830 million in the gross value of acquired property, nearly a 32-percent decrease from their year-end 1986 total. PCAs had about \$135 million in the gross value of acquired property, a 35-percent decrease from their year-end 1986 total.

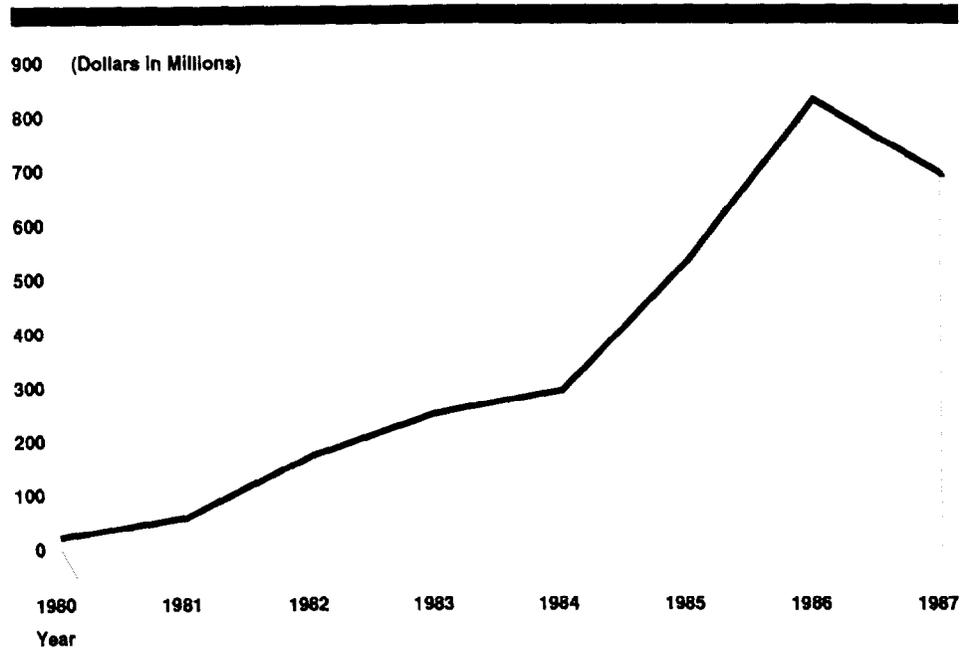
The extent of FLB- and PCA-acquired property holdings varied widely between FCS districts. For example, two FLBs (St. Paul and Omaha) had acquired property that exceeded \$100 million. Among the PCAs, the St. Paul district had the highest amount, about \$34 million. On the other hand, the Springfield and Baltimore FLBs had less than \$5 million in property, and the combined PCAs in the Springfield district had less than \$1 million in property. All FLBs, except the Texas FLB, and the combined PCAs in all districts had declines in the gross value of acquired property at year-end 1987 compared with year-end 1986.

Table 4.6
Gross Value of FLB- and PCA-Acquired Property,
by FCS District, 1986 and 1987

<u>FCS district</u>	<u>FLBs</u>			<u>PCAs</u>		
	<u>1986</u>	<u>1987</u>	<u>Percent change</u>	<u>1986^a</u>	<u>1987</u>	<u>Percent change</u>
	<u>—(millions)—</u>			<u>—(millions)—</u>		
St. Paul	\$ 262.3	\$247.0	(5.8)	\$ 59.7	\$ 33.7	(43.6)
Omaha	181.8	119.3	(34.4)	15.2	15.0	(1.3)
Jackson	170.5	92.6	(45.7)	4.7	3.3	(29.8)
St. Louis	120.9	90.3	(25.3)	13.0	7.5	(42.3)
Wichita	111.0	83.4	(24.9)	10.5	10.3	(1.9)
Sacramento	131.2	71.6	(45.4)	35.6	21.6	(39.3)
Spokane	108.6	46.3	(57.4)	13.4	7.7	(42.5)
Columbia	58.4	20.9	(64.2)	12.3	7.0	(43.1)
Louisville	46.5	35.0	(24.7)	18.2	8.9	(51.1)
Texas	12.3	17.0	38.2	20.6	16.4	(20.4)
Springfield	5.9	4.6	(22.0)	0.9	0.5	(44.4)
Baltimore	3.7	1.6	(56.8)	3.0	2.9	(3.3)
Total	\$<u>1,213.1</u>	\$<u>829.6</u>	(31.6)	\$<u>207.1</u>	\$<u>134.7</u>	(35.0)

^aIncludes some FCA-revised 1986 values.

Figure 4.7
Farm Loan Foreclosures by Life Insurance Companies,
1980-87



Source: American Council of Life Insurance.

FARM LOAN FORECLOSURES BY LIFE
INSURANCE COMPANIES DECREASED

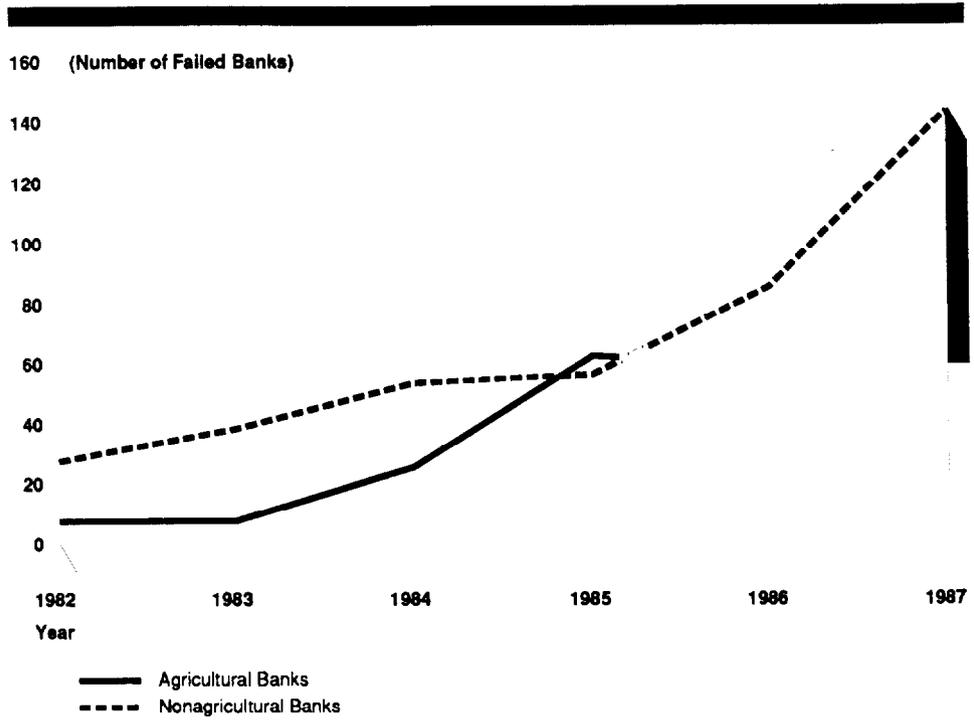
Farm loan foreclosures by life insurance companies decreased in 1987, reversing an increasing trend that has been underway since 1980, and paralleling the trend in FLB-acquired property. During 1987, life insurance companies foreclosed on 1,515 farm loans, a decrease of 139, or over 8 percent, compared with 1986. These 1,515 loans had a total value of slightly over \$690 million, a \$135 million decrease in value, or over 16 percent, compared with the value of 1986 foreclosures.

Additionally, the outlook for a continued reduction in foreclosures by life insurance companies existed at year-end 1987. For example, slightly over 3 percent of the farm loans held by life insurance companies were in the process of foreclosure at the end of 1987, compared with almost 4 percent at the end of 1986. Life insurance companies had 1,403 loans in the process of foreclosure as of December 31, 1987; these loans had a total value of about \$600 million. This was substantially less than the 2,030 loans valued at \$820 million that were in the process of foreclosure a year earlier.

Table 4.7
Life Insurance Companies' Farm Loan Foreclosure
Statistics, 1986 and 1987

<u>Farm loans</u>	<u>1986</u>	<u>1987</u>	<u>Percent change</u>
Foreclosed:			
Number	1,654	1,515	(8.4)
Value (millions)	\$827.5	\$691.9	(16.4)
In the process of foreclosure at year-end:			
Number	2,030	1,403	(30.9)
Value (millions)	\$820.5	\$597.2	(27.2)

Figure 4.8
Agricultural and Nonagricultural Failed Banks,
1982-87



Source: FDIC.

AGRICULTURAL BANK FAILURES DECREASED

Agricultural bank failures decreased slightly in 1987--the second consecutive annual decrease. According to FDIC, 58 agricultural banks failed in 1987--1 less than the 59 that failed in 1986 and 3 less than the 62 that failed in 1985.

Of the 58 agricultural banks that failed in 1987, 40 were located in 6 states: Minnesota (8), Kansas and Oklahoma (7 each), and Iowa, Nebraska, and Texas (6 each). Some failed agricultural banks, such as those in Texas and Oklahoma, have been adversely affected not only by problems in agriculture but also by the depressed condition of the energy industry in those states.

Agricultural banks represented about 25 percent of all banks in both 1986 and 1987. They accounted for 41 percent and 29 percent of the 1986 and 1987 failed banks, respectively.

Table 4.8
Failed Banks: Agricultural and Nonagricultural,
1986 and 1987

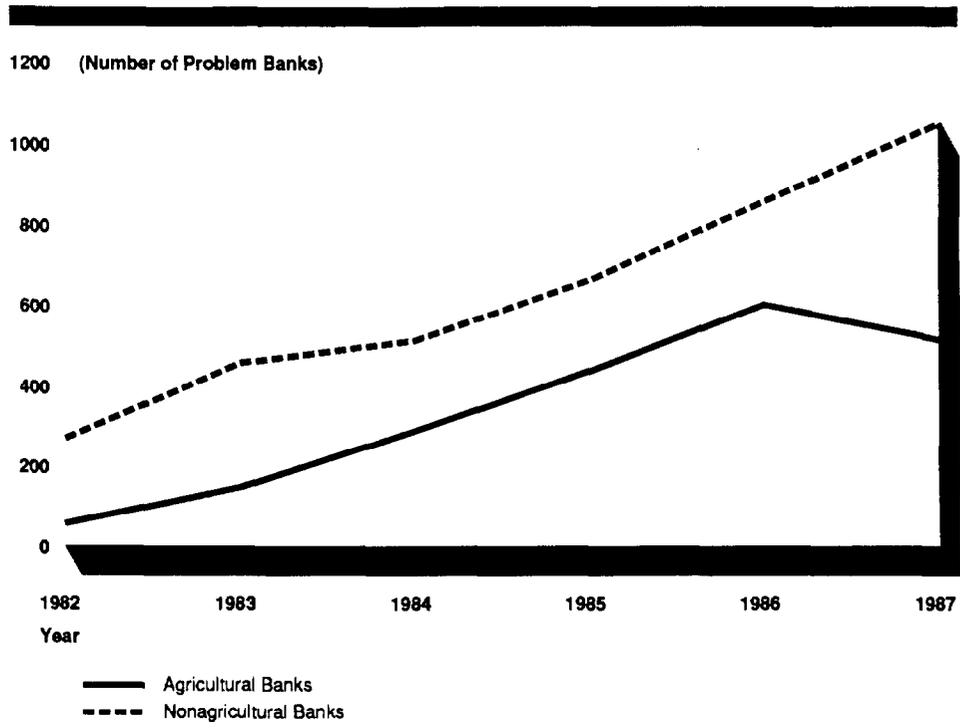
<u>Bank type</u>	<u>1986</u>		<u>1987</u>		<u>Percent change</u>
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
Agricultural	59	41.0	58	28.9	(1.7)
Nonagricultural	<u>85</u>	<u>59.0</u>	<u>143</u>	<u>71.1</u>	68.2
Total	<u>144</u>	<u>100.0</u>	<u>201</u>	<u>100.0</u>	39.6

Note: This table is based on FDIC's definition of an agricultural bank (25 percent or more of its portfolio in farm loans). In addition, the failure statistics include banks for which FDIC provided financial assistance to keep open banks from failing. FDIC provides such assistance when it costs less than what FDIC would incur if the banks actually failed.

The 1987 failed agricultural banks continued to be much smaller than the failed nonagricultural banks. According to FDIC, the 58 agricultural banks had \$16 million in assets on average compared with \$59 million for the nonagricultural banks. This compares with \$26 million and \$72 million in average assets for the 1986 failed agricultural and nonagricultural banks, respectively.

Most 1987 failed agricultural banks reopened following their failure, for example, as a branch of another bank, and banking operations continued with little interruption. According to FDIC, 43 of the 58 failed agricultural banks, or 74 percent, reopened. In 1986, 78 percent of the failed agricultural banks reopened.

Figure 4.9
Agricultural and Nonagricultural Problem Banks,
1982-87



Source: FDIC.

PROBLEM AGRICULTURAL BANKS DECREASED

The number of problem agricultural banks decreased by 14.5 percent in 1987 compared with 1986, following 4 consecutive years of increase.¹ FDIC reported that as of December 31, 1987, 513 agricultural banks were classified as problem banks--87 fewer than the 600 agricultural banks classified as problem banks a year earlier. Slightly over 15 percent of all agricultural banks were classified as problem banks at the end of 1987. A year earlier, almost 17 percent of all agricultural banks were problem banks.

In addition, the total number of agricultural banks declined by over 5 percent in 1987 compared with 1986. While agricultural banks represented about 25 percent of all banks in both 1986 and 1987, they accounted for slightly over 41 percent of the 1986 problem banks and almost 33 percent of the 1987 problem banks.

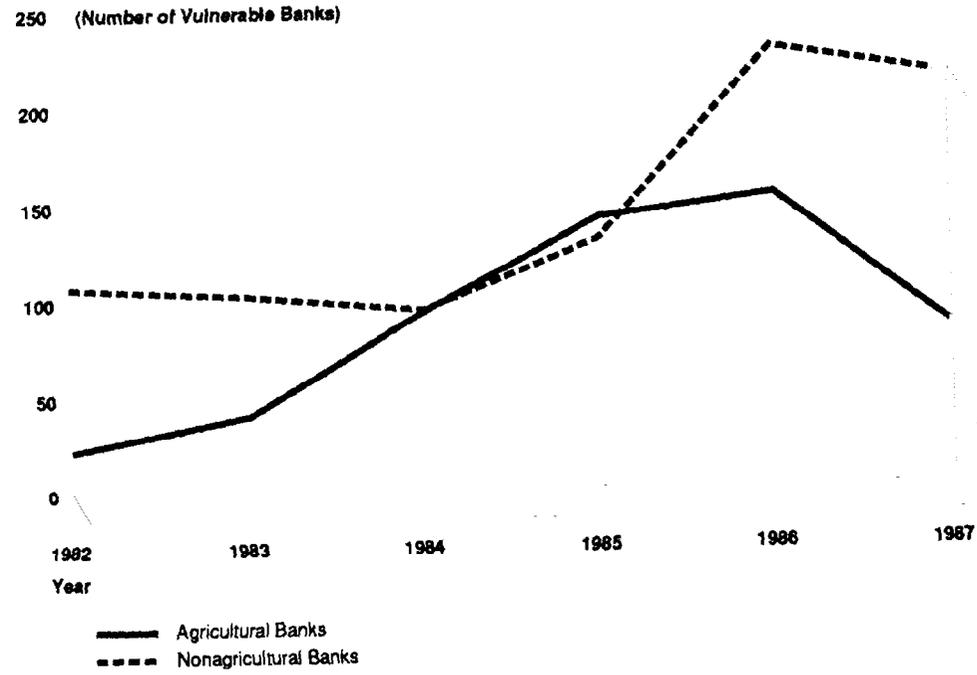
Table 4.9
Problem Banks: Agricultural and Nonagricultural,
1986 and 1987

<u>Banks</u>	<u>1986</u>		<u>1987</u>		<u>Percent change</u>
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
Problem banks:					
Agricultural	600	41.2	513	32.9	(14.5)
Nonagricultural	<u>857</u>	<u>58.8</u>	<u>1,046</u>	<u>67.1</u>	22.1
Total	<u>1,457</u>	<u>100.0</u>	<u>1,559</u>	<u>100.0</u>	7.0
Total banks:					
Agricultural	3,553	25.0	3,364	24.6	(5.3)
Nonagricultural	<u>10,635</u>	<u>75.0</u>	<u>10,335</u>	<u>75.4</u>	(2.8)
Total	<u>14,188</u>	<u>100.0</u>	<u>13,699</u>	<u>100.0</u>	(3.4)

Note: This table is based on FDIC's definition of an agricultural bank (25 percent or more of its portfolio in farm loans).

¹"Problem bank" is the term used by FDIC to classify any bank that warrants more than normal supervision because of financial and/or other weaknesses, which, if left uncorrected, could eventually impair the bank's future viability. Such a bank, therefore, has a greater than normal potential for failure.

Figure 4.10
Agricultural and Nonagricultural Vulnerable Banks,
1982-87



Source: FRB.

AGRICULTURAL BANKS VULNERABLE
TO FAILURE DECREASED

The number of agricultural banks that are particularly vulnerable to failure decreased in 1987 compared with 1986, following 4 consecutive years of increase. According to FRB, agricultural banks that are vulnerable to failure declined by slightly over 46 percent in 1987 compared with 1986. FRB identifies a bank as being particularly vulnerable to failure when the bank has nonperforming loans exceeding capital.² Many of the banks that failed in recent years met this condition shortly before their failure.

As of December 31, 1987, FRB identified 82 agricultural banks as vulnerable to failure--70 fewer than the 152 categorized as vulnerable a year earlier. Of the 82 vulnerable agricultural banks, 57 were located in 5 states: Texas (15), Kansas (14), Minnesota (13), Nebraska (9), and Oklahoma (6). As with the failed agricultural banks, some vulnerable banks, such as those in Texas and Oklahoma, have been adversely affected not only by the problems in agriculture but also by the depressed condition of the energy industry in those states.

FRB-defined agricultural banks accounted for about 28 percent of all 1987 vulnerable banks. A year earlier, FRB-defined agricultural banks accounted for slightly over 40 percent of all vulnerable banks.

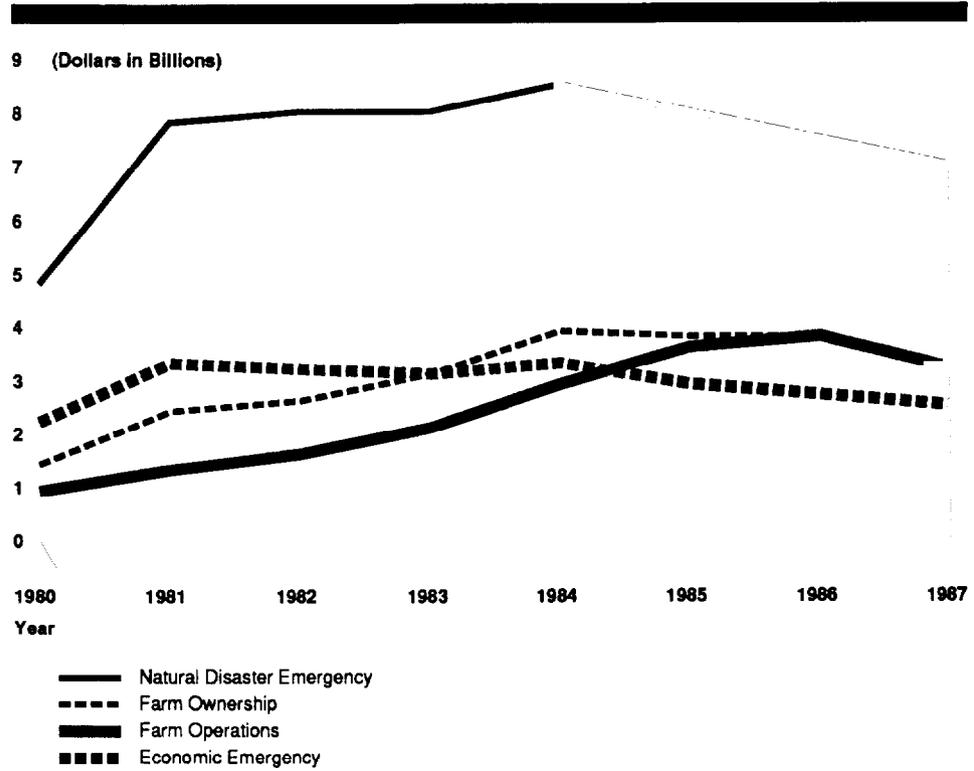
Table 4.10
Vulnerable Banks: Agricultural and Nonagricultural,
1986 and 1987

<u>Banks</u>	<u>1986</u>		<u>1987</u>		<u>Percent change</u>
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
Agricultural	152	40.1	82	27.9	(46.1)
Nonagricultural	<u>227</u>	<u>59.9</u>	<u>212</u>	<u>72.1</u>	(6.6)
Total	<u>379</u>	<u>100.0</u>	<u>294</u>	<u>100.0</u>	(22.4)

Note: This table is based on FRB's definition of an agricultural bank: a bank with a farm loan ratio that is above the national average of farm loan ratios at all banks (slightly less than 16 percent in 1987).

²Nonperforming loans are loans 90 days or more past due and still accruing interest, and nonaccrual loans; excluded are renegotiated loans. Capital is equity capital plus loan-loss reserves.

Figure 4.11
FmHA Loans by Program: Amount Owed by Delinquent Borrowers,
1980-87



Note: This figure excludes FmHA's soil and water, recreation, and economic opportunity programs.

Source: FmHA.

FmHA CONTINUED TO HAVE AN EXTREMELY
HIGH AMOUNT OF DELINQUENT LOANS

As of December 31, 1987, FmHA had about \$25.6 billion in outstanding individual loans to farmers, a \$600 million decrease from a year earlier. As the federal "lender of last resort" to the nation's farmers, FmHA's portfolio continues to contain an extremely high amount of delinquent loans. At the end of 1987, FmHA borrowers were past due on \$9.6 billion in principal and interest payments, more than a \$1.1 billion increase from 1986. The outstanding balance on loans to delinquent borrowers totaled \$16.1 billion at the end of 1987, a \$2 billion decrease from 1986.

The total outstanding principal held by delinquent borrowers on all of FmHA's farm loan programs decreased in 1987 compared with 1986; operation and ownership loan programs had the greatest decreases, more than \$600 million each.

Table 4.11
FmHA Outstanding Principal and Delinquent Loans,
by Program, 1986 and 1987

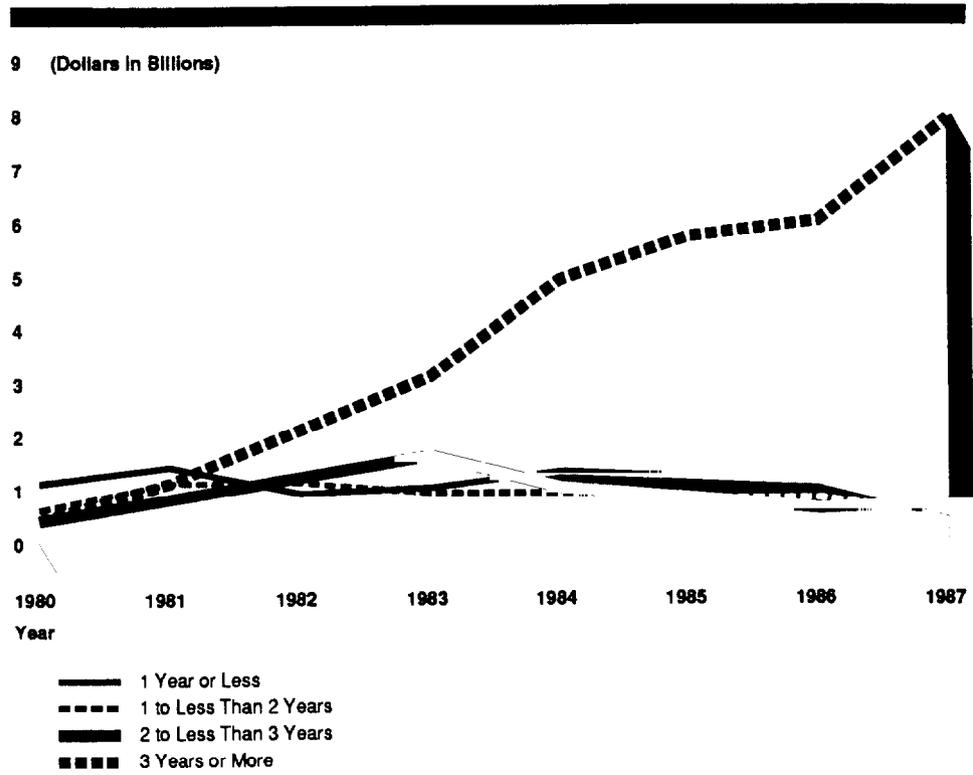
FmHA loan program	1986				1987			
	Total principal outstanding	Amount past due (billions)	Delinquent borrowers' principal	Percent of principal delinquent	Total principal outstanding	Amount past due (billions)	Delinquent borrowers' principal	Percent of principal delinquent
Disaster emergency	\$ 9.1	\$4.6	\$ 7.5	82.4	\$ 8.9	\$5.3	\$ 7.0	78.7
Farm ownership	7.6	0.6	3.8	50.0	7.4	0.7	3.2	43.2
Farm operations	5.5	1.9	3.8	69.1	5.4	1.9	3.2	59.3
Economic emergency	3.7	1.3	2.7	73.0	3.6	1.6	2.5	69.4
Other	<u>0.3</u>	<u>0.1</u>	<u>0.2</u>	66.7	<u>0.3</u>	<u>0.1</u>	<u>0.2</u>	66.7
Total	<u>\$26.2</u>	<u>\$8.5</u>	<u>\$18.1^a</u>	69.1	<u>\$25.6</u>	<u>\$9.6</u>	<u>\$16.1</u>	62.9

Note: FmHA recognizes loan delinquencies as only the total payments past due rather than the total principal on which payments are past due. This latter definition is used by the other major institutional lenders (as listed in table 4.2).

^aTotal does not add because of rounding.

FmHA's portfolio improved somewhat during 1988. For example, delinquent borrowers' had \$13.4 billion outstanding as of June 30, 1988, compared with the \$16.1 billion that was outstanding as of December 31, 1987.

Figure 4.12
Aging of FmHA's Past Due Amount, 1980-87



Source: FmHA.

PAST DUE LOAN PAYMENTS TO FmHA INCREASED

The duration of past due payments on FmHA's farmer program loans continues to be a significant problem for the agency.³ As of December 31, 1987, FmHA farmer program borrowers were past due on \$9.6 billion in payments, about a 14-percent increase compared with 1986. The amount and percent that had been past due for a lengthy time period continued to increase in 1987. Almost \$7.9 billion, or 82 percent, of FmHA's past due amount was at least 3 years overdue, a 32-percent increase compared with 1986. Over \$9 billion, or about 95 percent, of the past due amount was overdue for more than 1 year, a 24-percent increase compared with 1986.

Table 4.12
Aging of FmHA's Past Due Amount,
1986 and 1987

<u>Time past due</u>	<u>1986</u>		<u>1987</u>	
	<u>Amount</u> (billions)	<u>Percent^a</u>	<u>Amount</u> (billions)	<u>Percent^a</u>
1 year or less	\$1.1	13.3	\$0.5	5.3
1 to 2 years	0.8	8.9	0.5	5.5
2 to 3 years	0.6	7.3	0.7	7.3
3 years or more	<u>6.0</u>	<u>70.5</u>	<u>7.9</u>	<u>81.9</u>
Total	<u>\$8.5</u>	<u>100.0</u>	<u>\$9.6</u>	<u>100.0</u>

^aPercent of total amount past due by length of delinquency. Percent may not compute because of rounding.

Three states accounted for the highest amounts past due at the end of 1987: Georgia (\$940 million), Texas (\$926 million), and Mississippi (\$824 million). Two other states--Louisiana and California--each had about \$600 million past due.

About 197,000 FmHA farmer program borrowers were past due on payments at the end of 1987. Almost 80,000 of those borrowers were past due at least 3 years, and 131,000 were past due at least 1 year.

³Past due payment amounts are overdue principal and interest.

SECTION 5

OBJECTIVES, SCOPE, AND METHODOLOGY

In January 1988, the staff, Senate Committee on Agriculture, Nutrition, and Forestry, requested that we conduct a study of the financial condition of American agriculture as of December 31, 1987. The objective of the study was to determine what happened to American farmers and their lenders as a result of 1987 operations: Had their financial condition improved or deteriorated further from their position as we reported in our previous reports on this topic?¹

In August 1988, we orally briefed Senate and House agriculture committees' staff members on the results of that study, which was based primarily on preliminary and estimated 1987 data. Also in August 1988, staff from the Senate and House agriculture committees requested that we provide their committee chairmen with a written report on the financial condition of American agriculture as of December 31, 1987, based primarily on final 1987 data.

To determine the financial condition of American agriculture following 1987 operations, we gathered and analyzed a large amount of data from both public and private sources. We discussed various aspects of the financial condition of American agriculture with officials from a variety of offices including ERS, FDIC, and FRB. In addition, we reviewed literature, legislation, and publications concerning the financial condition of American agriculture, economic conditions, the farm sector, and the financial services industry that serves agriculture.

The data sources we used in this study included ERS, FmHA, and CCC within USDA; FCA; FCS; FDIC; FRB; the American Council of Life Insurance; and others. We did not independently verify the accuracy of the data obtained.

We used information from ERS to analyze the economic environment surrounding the farm sector, including data on production, consumption, and exports. We also used ERS balance sheet and income statement information to analyze the financial condition of the farm sector. Additionally, USDA's Farm Costs and Returns Survey was the source for some information contained in this report, such as the number of farms and the amount of debt by debt-to-asset ratio, income and solvency position, and sales class. In addition, other sources provided valuable information on the economic environment and the farm sector, including CCC information on federal payments and loans to the nation's farmers and the Economic Report of the President transmitted to the Congress in February 1988.

Information on the financial sector was compiled from a variety of sources, including FCA and the Federal Farm Credit Banks

¹Our three previous reports are listed in "Related GAO Products" in this report.

Funding Corporation for FCS information, FDIC and FRB for commercial bank information, FmHA and CCC for information on their loans, the American Council of Life Insurance for information on life insurance companies' loans, and ERS' estimate of the farm debt held by other lenders.

We used final 1987 data, except in table 3.12 where we used Dun & Bradstreet Corporation preliminary information on agriculture business failures because final information was not available at the time of our review. In addition, the 1987 data in tables 3.8, 3.9, and 3.10, which is based on USDA's Farm Costs and Returns Survey, is not directly comparable with previous data because of changes in the methodology to account for a greater number of smaller farms when compiling the 1987 information. Further, some 1986 amounts used in this report differ from the 1986 amounts reported in our October 20, 1987, report (GAO/RCED-88-26BR) because of subsequent revisions to source data. We have noted on the tables in this report where there have been significant revisions to the previously reported 1986 data.

In addition, we also obtained information from USDA on the 1988 drought and its potential impact on the financial condition of American agriculture.

Portions of this briefing report have been discussed with officials of ERS, FmHA, FDIC, and FCA, and their suggestions were incorporated where appropriate. We did not obtain formal agency comments on a draft of this report, however, because of its informational nature.

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RELATED GAO PRODUCTS

Farm Finance: Financial Condition of American Agriculture as of December 31, 1986 (GAO/RCED-88-26BR, Oct. 20, 1987)

Farm Finance: Financial Condition of American Agriculture as of December 31, 1985 (GAO/RCED-86-191BR, Sept. 3, 1986)

Financial Condition of American Agriculture (GAO/RCED-86-09, Oct. 10, 1985)

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