Ohio Farm Household
Longitudinal Study*

Department of Agricultural
Economics and Rural Sociology
The Ohio State University
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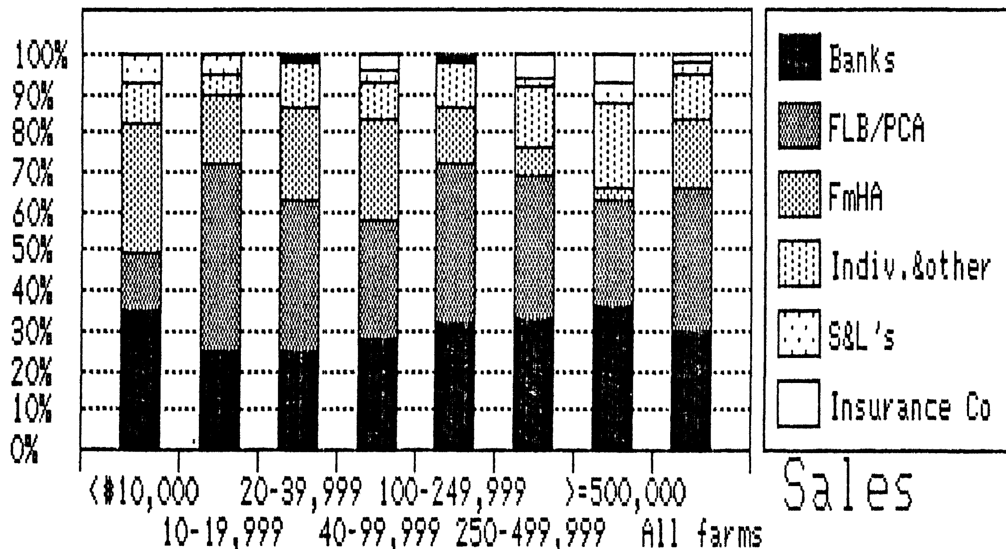
DISTRIBUTION OF OHIO FARM HOUSEHOLD DEBT
January 1, 1987

This is the seventh in a series of articles describing characteristics of nearly 1000 farm operator households surveyed by The Ohio State University in 1987. The last article summarized farm product sales from Ohio operations. This article will highlight the amount of business and household debt and sources of credit.

Fifty-eight percent of Ohio farmers use some debt to finance their operations (Figure 1). One of the measures of risk associated with the use of debt is the debt-to-asset ratio. Of course, this measure is not the only measure used in determining the fitness of a borrower. But, a general rule of thumb is that a debt-to-asset ratio of less than 0.40 indicates a well managed and reasonably profitable operation will continue to remain solvent and will at least in the short run improve its equity position. A debt-to-asset ratio of 0.40 or more indicates that the operation could be vulnerable if not well managed and profitable. Of course, these sweeping generalizations are used with caution when they are applied to any particular farm operation.

Averages could lead one to conclude that Ohio farmers don't have much debt. Less than one-fifth of Ohio farm households have debt-to-asset ratios of greater than 0.40, and the average debt-to-asset ratio is only 0.18, however, this low average debt load hides the fact that a large proportion of Ohio's commercial farms do, in fact, have large amounts of debt. About one-third of the larger farm operations ($100,000 or more in annual sales) have debt-to-asset ratios of 0.40 or more.

Figure 1.



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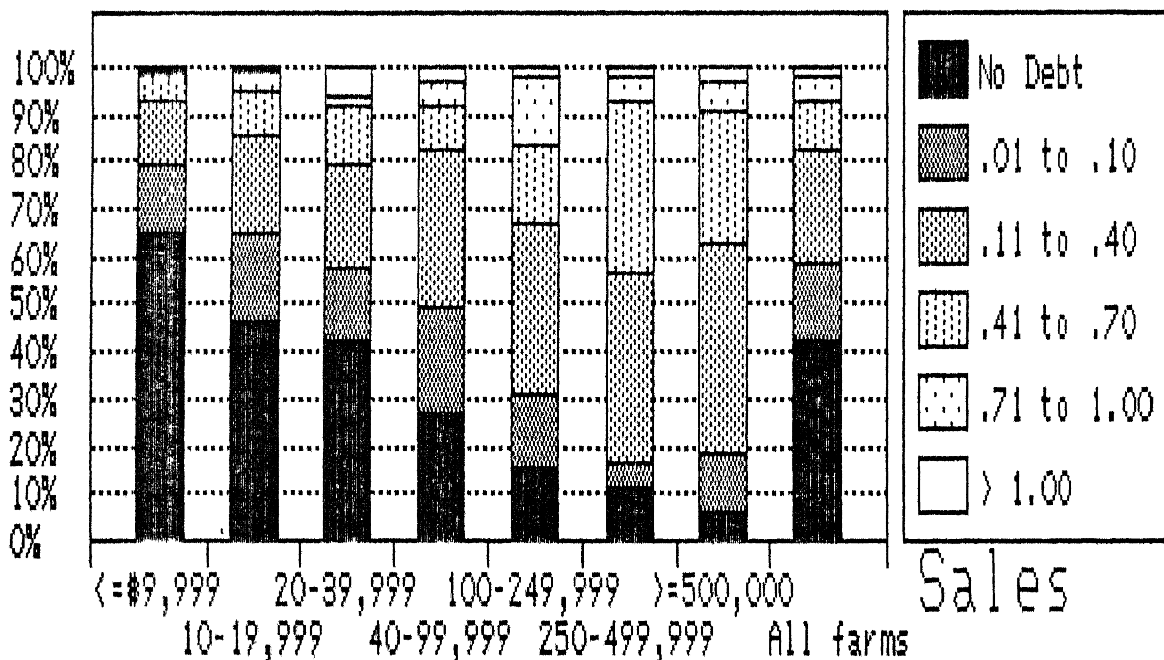
Ohio farmers identified six major lenders (Figure 2). The four largest lenders - commercial banks, Farm Credit System, Farmers Home Administration, and individuals and businesses - provide about 95 percent of the farm credit.

From a lenders perspective, two issues may be of special interest. First, how does lenders' market share vary by farm sales class? That is, who lends to larger farms and who to smaller ones. Second, how does lenders market share vary by debt-to-asset ratios. That is, who lends to the safest/riskiest farm operations.

Lenders' market share by sales class uncovers some interesting patterns (Figure 2). On average commercial banks lend about 30 percent of the farm credit, but they play an increasingly important role as farm size increases. The Farm Credit System (Production Credit and Federal Land Bank Associations) has the largest share of farm credit, about 35 percent. The Farm Credit System services a broad range of farm operations; however, their activity seems to be the least among the very smallest (less than $10,000 annual sales) and the very largest ($500,000 annual sales or more). Farmers Home Administration lends mostly to small and medium size farms (less than $100,000 annual sales), which is consistent with its legal mandate. Individuals and other, which includes farm supply businesses (such as equipment dealers), play an increasing role as farm size increases. On the largest farms ($500,000 or more in annual sales), over one-fifth of the debt is owed to individuals and others.

Lender market share varies by farmers' leverage as well as by farm size. Figure 3 illustrates that for farms with debt-to-asset ratios of less than 0.40, banks have about 35% of the business; Farm Credit System has about 35%; FmHA has about 8%; individuals have about 15%; and the remainder is distributed between savings and loans and insurance companies. Comparisons to farms with debt-to-asset ratios of 0.40 or more shows some interesting differences. Banks and individuals have much smaller market shares; Farmers Home Administration has a much larger one. Being the "lender of last resort" might also explain this increasing role of assuming the higher risk borrower. Of interest is the fact that Farm Credit System has about the same market share among highly leveraged borrowers as among those with less leverage.

Figure 2.

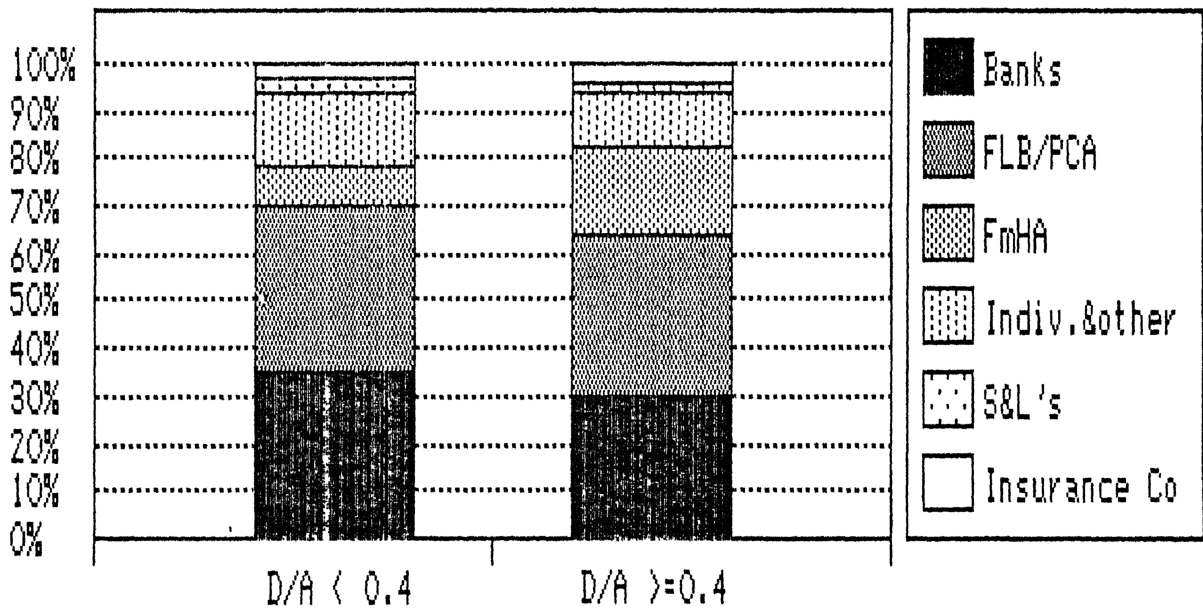


We asked three questions that attempt to give a better picture of the climate between lenders and farmers. The questions asked whether, in 1986, the operator was delinquent on a loan, had a loan restructured, or had a loan principal payment postponed. Of farms with debt-to-asset of 0.40 or less, only 2 percent were delinquent compared with 20 percent of farms with debt-to-asset of 0.40 or more. So, one out of five of the highly leveraged farm households were looking forward to some uncertain times. Being delinquent is not an easy status to overcome. To the restructuring question, nine percent of the farm households with a debt to-asset of 0.40 or less had been restructured. This could mean that the present lender accomplished the restructuring or that the farm household was refinanced elsewhere. Farmers with a debt-to-asset of 0.40 or more restructured at a higher rate; 19 percent in this category sought restructuring. Lastly, to the postponement question, on those farms with a debt-to-asset ratio of 0.40 or less, only two percent participated; on those farms with a debt to asset of 0.40 or more, only six and a half percent participated. This low postponement in the higher debt-to-asset ratio could be misleading. A respondent would rather admit to restructuring a loan over postponement of payment on principal.

For many Ohio farmers with small operations, there is little worry about debt. But for a significant proportion of larger commercial farms, farm debt is cumbersome. For lenders, being able to manage the loan portfolio so that the corporate or institutional objectives are realized while at the same time being able to service existing customers and attract new customers are primary objectives. Accurate perceptions of "what is" or "what might be" are critical in determining the proper future direction for farm households who are served by lenders.

The next report will describe soil conservation efforts on Ohio farm operations.

Figure 3.



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