Annual Report to Congress
Regarding
Term Limits on Direct Operating Loans
As
Required by
Section 5104 of the Agricultural Act of 2014

February 2023

USDA/Farm Production and Conservation Business Center,
Economic and Policy Analysis Division
in collaboration with the Farm Service Agency

Foreword

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Term limits impose a statutory maximum on the number of years a producer may receive Farm Service Agency (FSA) direct farm ownership and operating loans. The initial statutory language and its subsequent revisions reflect the intent of Congress for FSA to serve as a temporary source of credit for producers unable to secure commercial credit "sufficient to meet their actual needs, at reasonable rates and terms..." However, term limits may have instead further supported barriers to, or resulted in adverse impacts on, small and mid-sized farms, producers of certain commodities, and those in certain geographic regions.

Originally implemented with the enactment of the Agricultural Credit Improvement Act of 1992, and linked to a requirement that the Secretary establish a plan to encourage direct and guaranteed borrowers to graduate to commercial credit, Congress has amended the statute on multiple occasions. When initially enacted, the statute generally prohibited FSA from making operating loans to a borrower after the tenth year in which they received a loan, or after the 15th year in which a loan was made or guaranteed.

The Federal Agricultural Improvement and Reform Act of 1996 provided additional updates as it revised operating term limits to generally limit loans to producers who received a previous direct operating loan in 6 or fewer years. The 1996 Act also established term limits for direct farm ownership loans, generally limiting loans to producers who had received a direct farm ownership loan not more than 10 years before the new loan is made. The 1996 Act also retained guaranteed operating loan term limits established in the 1992 Act with certain exceptions.

The Agricultural Act of 2014 subsequently established the requirement for this annual report to Congress and eliminated term limits for guaranteed operating loans.

As reflected by this report, time has shown that term limits are not needed to effectively manage a direct borrower's transition to commercial credit as most borrowers do not reach term limits. Indeed, an important data point is the financial strength of borrowers that take full advantage of FSA loan programs. An even longer loan period would increase producer benefits. Those reaching term limits, on average, have larger total assets, higher gross and net income levels, and higher net worth; in other words, borrowers better able to weather economic uncertainty on their own terms.

Term limits are disproportionately borne by certain segments of the industry. Only 9,934 of the 117,867 borrowers who have received a direct operating loan have met the term limit since its inception in 1993. While the overall impact has been minimal, the impact on certain categories of producers has been more significant. Sixty-eight percent of operating loan borrowers who reach the term limit operate small- or medium-sized farms. Moreover, 40 percent of term-limited borrowers reside in six states and just 10 of the 435 Congressional Districts account one-third of term-limited borrowers. About 40 percent of term-limited borrowers specialize in row crops in 2021 and rely on annual operating loans to maintain their operations.

It is clear that the FSA portfolio serves those that are "too risky" for commercial credit. FSA further succeeds in growing generations of borrowers through the largest capital acquisitions they will ever make—real estate and production assets. As this report is reviewed to consider how can we support and strengthen agriculture, the data show that only 3.8 percent of non-beginning farmers (and 2.8 percent of beginning farmers) graduate to commercial credit each year. USDA hopes this report will provide the necessary information for Congress to consider regarding term limits in future farm bills.

Executive Summary

Background

Term limits impose a statutory maximum on the number of years a farmer may receive a FSA direct operating loan (DOL). The statute addressing term limits stipulates that a borrower is only *eligible* to receive a DOL if they have received a DOL in 6 or fewer calendar years. The years need not be consecutive and multiple loans received during the year count only against 1 year of loan eligibility. In practice, the eligible applicant has the flexibility to receive additional DOL funding in the 7th year (see handbook 3-FLP). The limitation does not apply to beginning farmers through their first 10 years of farming. Waivers that allow an additional 2 years of eligibility may be provided to non-beginning farmers on a case-by-case basis if the borrowers continue to meet all eligibility criteria. Youth loans and microloans to beginning farmers and veterans are exempt and do not count against the limitation.

Overall Impacts

DOL borrowers largely do not reach term limits, in part because DOLs are a temporary credit source. Further, term limits had a small impact on producers within the 2020 and 2021 calendar years. In 2021, the rebounding farm economy, increased USDA and other federal support to assist producers, and rising commodity prices led to a greater availability of credit, allowing many producers to be more reliant on commercial credit or finance operations through other means. This resulted in an overall decline in the demand for direct and guaranteed farm loans, with the exception of direct farm ownership (DFO) loans. Loan balances and default rates have also fallen for DOLs.

While representing 19 percent of FSA borrowers, socially disadvantaged (race and ethnicity only) borrowers represent 13.4 percent of those reaching the term limit (and who thus confront higher interest rates once they are no longer in the DOL program). Those reaching term limits, on average, have larger total assets, higher gross and net income levels, and higher net worths than those who do not reach term limits. While the greater net worth and higher net incomes of term-limited borrowers may infer that DOLs help build financial stability, alternatively, larger producers appear more likely to take advantage of the program. More research is needed to identify the specific factors underlying borrowers' long-term dependence on DOLs and the contribution of DOLs to borrower wealth.

For 2020 and 2021, key findings are:

In calendar years 2020 and 2021, an additional 1,492 farm businesses reached the DOL term limit. This includes 814 farm businesses in 2020 and 678 in 2021 and brings the total number of farm borrowers reaching term limits since their inception in 1993 to 9,934.

Term-limited borrowers represented a small portion of total DOL borrowers. Through the end of 2021, a total of 117,867 borrowers had received a DOL loan that was subject to term limits. Only 8.4 percent of these borrowers had reached the maximum number of borrowing years by the end of 2021. Most borrowers used less than three years of their eligibility: 48 percent

received a DOL in only 1 year and over 80 percent were recipients of DOLs for 3 or fewer years. In contrast, less than 9 percent of DOL borrowers used more than 6 years of DOL loan eligibility.

While term limited borrowers may not have exited farming, they still may have suffered from a lack of access to credit. Seventy-nine percent of all farm borrowers and over 85 percent of living farm borrowers who have reached term limits since their implementation in 1993[1] were still active in farming in 2021, as indicated by eligibility to vote in the most recent county office committee elections. Further, only 8.4 percent of the 117,867 borrowers who have received a direct operating loan have met the term limit since 1993.

Borrowers reaching the term limit have a slightly higher average net income in 2021 than other DOL borrowers. The average net income for term limited DOL borrowers is $88,696, compared with $84,790 for all DOL borrowers obtaining a new loan in 2021—a 4.6 percent difference. Debt-to-asset ratios and liquidity ratios were well within the acceptable ranges for both sets of borrowers. Further, borrowers reaching term limits tended to operate farms that are larger in terms of asset levels and annual sales than the average DOL borrower.

Term limits have traditionally had a greater impact on crop farms and a smaller impact on poultry, beef cattle, and other livestock farms. While 24 percent of DOL borrowers were row and specialty crop farms, they were 44 percent of all term-limited farms. On the other hand, only 11 percent of term limited farms were poultry and other livestock or beef cattle, compared to 29 percent of all DOL borrowers.

Term limits have the greatest impact on medium- and small-sized farms. Sixty-eight percent of term limited borrowers operated small- or medium-sized farms, compared to 46 percent of all DOL borrowers.

Term limits have the greatest impact in the Northern Plains, Appalachia, Corn Belt and Lake States regions. Combined, these regions represented 49 percent of all DOL borrowers and 60 percent of all term-limited borrowers at the end of 2021.

Socially Disadvantaged (SDA) and other underserved producers are less likely to take full advantage of the term limit. Those that reach the term limit typically identify as non-veteran, white, and solo male operator.

Moving Forward

Changing farm economic conditions are likely to influence DOL demand. Rising input costs and supply chain disruptions may lead to tighter profit margins in the upcoming years. These factors, in addition to rising land rental rates and the potential for a reduction in the past year's level of government payments, may reduce working capital levels and lead farmers to rely more heavily on credit to finance annual production expenditures. Higher interest rates for commercial loans may also increase the demand for FSA loans. These factors may reduce the

[1] Since 1993, slightly less than 8 percent of term limited borrowers were deceased.

ability of borrowers to have their actual needs met from commercial credit sources and increase demand for DOLs.

Policy Considerations

The U.S. Department of Agriculture (USDA) plans to continue analyzing the farm loan portfolio with an eye towards the "actual needs" of borrowers and providing reasonable rates and terms. USDA plans to focus on the demand for, and access to, DOLs for mid-sized farms, crop farms, and those located in credit deserts, in light of constantly changing farm economic and financial conditions. In the meantime, this report provides the data and information for review and analysis of term limit requirements, which stakeholders and decision makers alike are encouraged to use when considering policy alternatives to the current requirement. Note that the Administration is requesting elimination of the cap on the number of times that a borrower can get a direct operating loan in the Explanatory Notes to the FY 2024 President's Budget.

Introduction

Section 5104 of the Agricultural Act of 2014 amended Section 311 of the Consolidated Farm and Rural Development Act (ConAct) to require an annual report on term limits for direct operating loans. As directed by the statute, this annual report estimates the number and location of current and past direct borrowers who have reached their term limits, and their structural, demographic, and financial characteristics. Economic impacts on farm borrowers who have reached their term limits are also examined, as well as potential impacts on future borrowers. The report also addresses how expected farm economic conditions may affect the future demand and role of FSA direct loan programs.

Term limits impose a statutory limit on the number of years that a farm borrower may receive loan funds through programs administered by USDA.[2] DOLs were established under Section 311 l(c)(2) of the ConAct for qualified farmers. Term limits of 7 years were initially enacted for both direct and guaranteed FO and OL programs by the Agricultural Credit Improvement Act of 1992.[3] Term limits have never applied to emergency loan (EM) borrowers.

The 2014 farm bill exempted all guaranteed loans from any term limits. DOL microloans made to veterans and beginning farmers are also exempt from term limits. Further, the limitation does not apply if the borrower's farm is subject to the jurisdiction of an Indian tribe. FSA can obligate, in certain circumstances, DOLs to borrowers beyond their term limit. For example, waivers are granted to qualified beginning farmers through their 10th year of farming. Non-beginning farmers who have reached the term limit may receive a 2-year waiver, provided the operation is viable, the borrower has or will complete financial training, and commercial credit is unavailable.

Term limits were enacted to ensure FSA's role as a temporary credit source during a period when community banks and relational lending was the norm. By limiting the total years of DOL eligibility, borrowers are pushed to pursue credit from commercial lenders after year seven at terms that are less favorable than they receive under the DOL program. There are concerns, however, about possible adverse impacts that term limits may have on credit availability. Specifically, term limits could adversely affect the Government's ability to serve as a safety net should large numbers of farmers become ineligible for assistance as a result of worsening farm financial conditions. Adverse impacts could also arise if specific groups and/or regions depend on FSA credit. For example, FSA tends to be more important as a source of credit in regions more economically distressed such as Appalachia or in credit deserts characterized by a lack of commercial lenders. Further, FSA credit programs tend to be more important among groups considered socially disadvantaged and among mid-size family farms.[4]

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[2] A farm borrower may be an individual, partnership, or legal entity. Term limits apply to both the entity and underlying individuals who are obligated as co-borrowers. This includes the spouse of married borrowers as well as legal partners. FSA uses the term 'borrower' to refer to the borrowing individual or entity listed on the promissory note. The numbers in this analysis focus on the borrowing entity only.

[3] The ConAct states that an applicant is eligible for a direct operating loan if the applicant received a DOL in 6 or fewer years. The regulations (7 CFR 764.252), implemented in 1993, state that an applicant is not eligible if the applicant has closed a DOL in 7 or more years. This report considers the term limit to have been reached at the end of 6 full years of receiving a DOL. This means that a borrower is *at* the term limit at the end of the 6th year but exceeds it with receipt of any additional DOL

[4] See USDA ERS, Hoppe and MacDonald, April 2013 for a discussion of the Economic Research Service's farm typology classification of family farms.

One rationale for term limits is that long-term dependence on FSA credit can lead to economic inefficiencies. However, the opposite could be inferred in the data. Another argument is that long-term borrowers might monopolize benefits at the expense of young and beginning farmers. Specifically, the favorable terms available through FSA direct loans may encourage more established borrowers to continue to pursue credit through FSA even though they may qualify for commercial credit. However, there are already provisions requiring that applicants be unable to obtain commercial credit, and borrowers considered viable for commercial credit to refinance, or graduate, their direct loans with a commercial lender. Direct borrowers are expected to transition, or graduate, to private sources of credit over time (Section 345 of the ConAct; 7 CFR 765.101).[5] Having more financially stable borrowers in the FSA portfolio for a longer period mitigates potential losses and reduces subsidy rates, thereby leveraging annual appropriations.

Data Sources and Methodology

Data for this report were drawn from FSA farm loan program databases. Current-year loan and borrower data were obtained from the Obligation Finder (OBFN) database. Since the data were reported at the borrower level, a single term-limited borrower may either be an individual, a group of individuals, or an organization. Hence, the total number of individuals affected may be larger than the number of term-limited borrowers listed.

Information on overall loan history, balances, and debt settlements was merged from the Program Loan Accounting System (PLAS) and the Debt Settlement System databases. In this analysis, monthly rather than calendar-year ending PLAS data was used, enabling recognition of borrowers who may have paid off their operating loans before the end of the year. Information on guaranteed loans and eligibility to vote in county elections was obtained from the Guaranteed Loan System (GLS) and County Office Committee (COC) databases. Data enabling examination of results across key demographics were obtained and merged from the Service Center Information Management System (SCIMS)/ Business Partner databases.

Borrowers were considered term limited if they received a DOL in 6 or more calendar years. Multiple loans received in a single year were only counted as one year of term limitedness. Likewise, the years did not have to be consecutive, as years of eligibility only included years where loans were received. Beginning farmers were identified in the data and not counted as term limited until they exceeded their tenth year of farming. Additional categories labeled in the data or non-beginning farmers with loans received for more than 7 years indicate waivers and other exemptions granted. Socially Disadvantaged borrowers (SDAs) may apply for, and be granted, a waiver of up to two years. Youth loans and microloans to veterans and beginning farmers are exempt.[6]

[5] The process for evaluating a borrower's potential for graduation to commercial credit is described in Section 4 of 4-FLP Direct Loan Servicing.

[6] Waivers and exemptions are treated differently. Under a waiver, FSA postpones enforcement of eligibility criteria for borrowers who may have reached the term limit. Waivers are not in effect until the borrower has reached the term limit. The receipt of a DOL while a borrower is under a waiver is still counted toward the total years of eligibility resulting in some borrowers receiving a DOL for 8 or more years. An exemption, on the other hand, excludes these associated loans from counting against years of eligibility. The key difference between waivers and exemptions is that upon expiration of the waiver, a borrower would be ineligible for further assistance. In contrast, exemptions do not expire and have no impact on years of remaining eligibility.

The data used in this report span the 1993 to 2021 time period. All borrowers using more than three years of eligibility as of April 4, 1996, were counted as only using four years of eligibility due to statutory timing.[7]

Economic Environment

Current Farm Economic Conditions Started Improving in mid-2020

Farm income levels began rising in the summer of 2020 after the COVID-19 pandemic effects squeezed the ag sector in the spring, remaining strong through the end of 2020 and the first part of 2021. USDA's ERS forecasts of net farm income increased by $16.3 billion (20.6 percent) in 2020, following a decline in 2019.[8] This is largely attributed to a large increase in government payments (from the Coronavirus Food Assistance Program (CFAP) and the Paycheck Protection Program (PPP)) and higher crop prices, mostly driven by a recovery in trade as China aggressively purchased U.S. farm goods. Government payments in 2020 were the highest since 2005 and the third highest ever.

Total farm sector assets increased by $99.5 billion (3.2 percent) in 2020. The largest increases were financial assets (5.2 percent) and real estate (3.7 percent).[9] Increases in farm real estate values mainly drove the increases in financial assets, rising $20.7 billion (7.7 percent). The portion of farm sector asset value held in farm real estate—including land and structures—grew 0.4 percent to comprise 83.2 percent of the value of total assets at the end of 2020. Total farm sector debt rose $21.6 billion (5.1 percent). [10]

Overall Farm Economic Outlook Remained Robust Through 2021

Net farm income remained strong in 2021 at $119.1 billion, an increase of 25 percent from 2020, even though government payments fell by 41 percent. Net farm income in 2021 was 51 percent higher than its $79.1 billion 2015-2020 average.[11] Strong net farm income in 2021 reflected higher commodity prices and generally favorable growing conditions in the Midwest. Cash receipts increased $68.8 billion in 2021, with crop receipts increasing $37.9 billion and animal/livestock product receipts increasing $30.9 billion.[12] The greatest increases were for farm businesses specializing in hogs, poultry and eggs, and corn, while farm businesses

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[7] Until 1994, USDA farm lending was undertaken through the Farmers Home Administration (FmHA) which also made loans for rural housing, businesses, and cooperatives. The Department of Agriculture Reorganization Act of 1994 eliminated FmHA and created the Consolidated Farm Service Agency in October 1994 (later, the Farm Service Agency) to whom all farm lending authority was transferred. By 1993, the Federal Credit Reform Act of 1990 had been fully enacted requiring Federal credit agencies to collect and retain data on all loans obligated. As a result, farm loan data was incomplete prior to 1994. Some borrowers may have had a complete accounting of their loans received prior to 1994 while others did not. Hence, in enacting term limits, Congress established that anyone using over 3 years of eligibility through April 4, 1996, only be counted as 4 years.

[8] Forecasts are from the ERS Farm Sector Income Forecast as of February 2022. Additional detail and calculations made using the data on the U.S. Farm Sector Financial Indicators table link from this site.

[9] Forecasts are from the ERS Assets, Debts, and Wealth Forecast as of February 2022. Additional detail and calculations made using the data on the U.S. Farm Sector Financial Indicators table link from this site.

[10] ERS Assets, Debts, and Wealth.

[11] ERS Farm Sector Income Forecast.

[12] ERS Farm Sector Income Forecast.

specializing in cotton, food grains, and feed crops, as well as specialty crops such as fruit and vegetables, saw declines in average net farm income in 2021.[13]

Farm capital investment remained strong in 2021. Farm real estate debts were forecast to rise 4.5 percent in 2021, while nonreal estate debt was expected to have remained constant, resulting in a $13.1 billion (3.0 percent) increase in total farm debt. [14] Assets were forecast to increase 3.0 percent, leading to a 3.0 percent increase in farm equity levels in 2021, slightly higher than the 2.9 percent increase in farm equity in 2020.[15] High farm incomes and rising land values contributed to strong loan repayment rates and lower loan demand on the part of operators owning the majority of their operated acres.

Farm sector financial measures—including solvency, liquidity, and profitability—rose in 2021. In particular, farms saw significant increases in earnings, net farm income, operating profit margin ratios, and nominal rates of return on farm assets. Measures indicating the ability to pay debt and interest expenses from current receipts overall increased in 2021. Working capital, the amount of cash and convertible assets less short-term debts due to creditors within 12 months, reached an estimated $92.2 billion in 2021, a 13.5 percent increase from 2020. [16] On the other hand, rising input costs, interest payments, and debt levels put downward pressure on operating expense ratios, debt service ratios, and real rates of return on assets.

This situation positively impacted farmers' financial conditions and agricultural credit markets. The Federal Reserve Banks of Kansas City and of Chicago both reported that, through the end of 2021, farm loan delinquency rates and renewals and extensions of farm real estate loans were lower and loan repayment rates were higher than in previous years. For producers in the Chicago Federal Reserve Bank District, loans with "major" or "severe" repayment problems as of June 2021 (for the second quarter) were at levels not seen since 2014.[17] In the Kansas City, Chicago, Minneapolis, and Dallas Federal Reserve Districts, lenders reported loan repayment rates to be at 10-year highs.

Farm loan demand at agricultural lending banks fell in the first three quarters of 2021 due to higher cash farm receipts and continued large government payments. Agricultural loan demand at Chicago Federal Reserve District banks in the second quarter of 2021 fell to the lowest level recorded since the fourth quarter of 1986.[18] Lower loan demand and greater repayment rates led to shrinking farm debt bank balances. For example, Kansas City Federal Reserve District banks reported that non-real estate and farm debt decreased by 10 percent and 3 percent from 2020.[19] Agricultural lending banks reported a slight uptick in loan demand in the fourth quarter of 2021 as rising input prices put pressure on producer margins.

With record low agricultural loan interest rates and high farm income levels, total farm capital spending rose through 2021 reaching levels not seen since 2011, despite falling farm operating and real estate loans at District Banks. More producers appear to have purchased items on a cash

[13] ERS Farm Sector Income Forecast.
[14] ERS Farm Sector Income Forecast.
[15] ERS Farm Sector Income Forecast.
[16] ERS Farm Sector Income Forecast.
[17] Federal Reserve Bank of Chicago. Ag Letter, August 2021.
[18] Federal Reserve Bank of Chicago. Ag Letter, August 2021.
[19] Federal Reserve Bank of Kansas City. Commercial Bank Call Report. June 23,2021.

basis or used alternative sources funding, with the Farm Credit System, merchants, dealers, and other input suppliers reported making more loans in the first six months of 2021.[20]

Rising land values, cash rents, and input costs negatively impacted producers in 2021

The cattle and livestock sector was negatively affected in 2021 by major drought and windstorms, higher feed costs, a cyberattack on meatpacker JBS, and changing weather and consumer preferences.[21,22] Lower milk receipts as well as higher feed prices and other input costs negatively impacted milk producers, although Dairy Margin Coverage program payments rose $0.9 billion in 2021 to help offset losses.[23] In addition, many dairy and cattle producers received CFAP2 payments in 2021. Finally, additional disaster assistance available via the Livestock Indemnity Program (LIP), the Livestock Forage Disaster Program (LFP), and the Emergency Assistance to Livestock, Honeybees and Farm-Raised Fish Producers (ELAP) program helped cushion some of the negative impact of the drought. Spending for these programs was $346 million in 2021, up $65 million from 2020.[24]

The Chicago, Minnesota, and Kansas City Federal Reserve Districts saw large overall increases in land values across most land types.[25] [26] [27] Producers in the 2020 Purdue Land Values and Cash Rent Survey and the Iowa State University Farmland Values Survey cited lower farmland supply due to both conversion of agricultural land to other uses and fewer producers selling as causes for unexpectedly high farmland values in 2020.[28,29] For 2021, the Federal Reserve Bank of Chicago stated that land values in the second quarter rose 14 percent from the prior year, the largest increase since the third quarter of 2013. All five states in this district—Illinois, Indiana, Iowa, Michigan, and Wisconsin—reported double digit gains.[30] For all of 2021, farmland values in the Chicago and Kansas City Federal Reserve districts were reported up 22 percent and 20 percent, respectively, relative to a year earlier, while farmland values in the Minneapolis Federal Reserve District rose 22 percent between the third and fourth quarter of 2021.[31] [32] [33] The largest year over year reported increases were for farmland in Kansas (32 percent), Iowa (30 percent for irrigated farmland), and Nebraska (31 percent for non-irrigated farmland).

Cash rents also rose. Cash rents rose 12 percent in the Minneapolis Federal Reserve district and 10 percent in the Kansas Federal Reserve district, reaching levels only 15 percent below their

[20] Federal Reserve Bank of Chicago. Ag Letter, August 2021.
[21] Federal Reserve Bank of Kansas City. Ag Bulletin. Second Quarter 2021.
[22] Federal Reserve Bank of Kansas City. Economic Review. December 2021.
[23] ERS Farm Sector Income Forecast.
[24] USDA FY2022 Budget Summary.
[25] Federal Reserve Bank of Kansas City. Ag Credit Survey. February 2022.
[26] Federal Reserve Bank of Minneapolis. Agricultural Credit Condition Survey, November 2021.
[27] Federal Reserve Bank of Chicago. Ag Letter. February 2022.
[28] Purdue Agricultural Economics Report, 2020.
[29] Iowa State University, 2020.
[30] Federal Reserve Bank of Chicago. Ag Letter, August 2021.
[31] Federal Reserve Bank of Kansas City. Ag Credit Survey. February 2022.
[32] Federal Reserve Bank of Minneapolis. Agricultural Credit Condition Survey, November 2021.
[33] Federal Reserve Bank of Chicago. Ag Letter. February 2022.

historic highs of 2012.[34] [35] Most experts expect land values and cash rental rates to continue to rise in 2022, putting downward pressure on farmer margins.

Continued input price increases negatively impacted producers in 2021. ERS estimated that farm sector production expenses increased $27.6 billion (11.6 percent) in 2021.[36] The largest increases were in fuel and oil expenses (32.2 percent), livestock and poultry purchases (16.4 percent), and feed expenses (14.2 percent). As noted by agricultural lenders in northeast Nebraska participating in the Kansas City Federal Reserve's August 2021 Agricultural Credit Survey, increasing costs add constraints to farmer's working capital and may contribute to slowing capital expenditures in 2022.[37]

The price of farm equipment rose significantly in 2021 due to supply chain issues, chip shortages, and rising steel costs. According to the Chicago Federal Reserve, the cost of a tractor in June 2021 was 3 percent higher than in June 2020 and 25 percent higher than in June 2019. [38] Similarly, the average cost of a combine in June 2021 was 4 percent higher than in June 2020 and 41 percent higher than in June 2019. Nevertheless, cumulative tractor sales from January through December were up over 10 percent and combine sales were up more than 24 percent from 2020.[39] Other input costs, such as repair and maintenance, machine hire and custom work, real estate property taxes and fees, net rent to operator landlords, and interest expenses also increased more than 6 percent in 2021. [40] These shortages, the rising costs of outlays and inputs, and the associated impacts on depreciable expense levels add to the high level of uncertainty, further fueled by expectations of increasing inflation.

Farm income expected to be down in 2022 as higher receipts offset by higher costs[41]

Cash receipts are expected to continue to increase in 2022 for both crop and livestock producers. Crop receipts are forecast to increase $12.0 billion (5.1 percent) in 2022, driven by higher receipts for cotton, soybean, corn, and wheat.[42] Livestock product receipts are expected to increase $17.4 billion (8.9 percent), driven by higher receipts for dairy, cattle/calves, and broilers.[43] Cash receipts for producers focusing on specialty crops and hogs are expected to decline. Greater cash farm receipts will be offset by lower government payments and higher production expenses. Government payments are forecast to decline $15.5 billion (57 precent) from 2021 to $11.7 billion due to lower ad hoc payments, as well as lower Dairy Margin Coverage and ARC and PLC payments.[44] As a result, net farm income is forecast to decrease by

[34] Federal Reserve Bank of Minneapolis. Agricultural Credit Condition Survey. November 2021.
[35] Federal Reserve Bank of Kansas City. Ag Credit Survey. February 2022
[36] Forecasts from the ERS Farm Sector Income Forecast as of February 2022. Additional detail and calculations made using the data on the U.S. Farm Sector Production Expenses table link from this site.
[37] Federal Reserve Bank of Kansas City. Ag Credit Survey. August 2021.
[38] Federal Reserve Bank of Chicago. Ag Letter, August 2021. The average price for a combine in June 2021 was 4 percent higher than in June 2020 and 41 percent higher than in June 2019.
[39] Refers to number of tractors and combines, not value. Association of Equipment Manufacturers.
[40] ERS Farm Sector Income Forecast.
[41] As of the time of this report, there are unpresented risks surrounding the forecasts given the additional stress of the war in Ukraine. This conflict could potentially reduce global trade in wheat and other critical crops and lead to more price volatility while also reducing the already tight supply of fertilizer given Russia's major role as an exporter.
[42] ERS Farm Sector Income Forecast.
[43] ERS Farm Sector Income Forecast.
[44] ERS Farm Sector Income Forecast.

$5.4 billion (4.5 percent) in 2022 to $113.7 billion.[45] This is still significantly above its 2019 and 2020 values, as well as above the 2001-2020 average.

However, there is considerable uncertainty in these forecasts. By the end of 2021 and the start of 2022, fertilizer prices began to spike along with rising natural gas prices. By December 2021, the average monthly spot price for natural gas was 45 percent higher than in December 2020, leading ERS to forecast annual increases of 235 percent for anhydrous ammonia, 192 percent for liquid nitrogen, and 142 percent for liquid nitrogen in 2022.[46] These estimated price stresses have worsened in the past few months with continued supply chain issues, the conflict in Ukraine, and tariffs and import bans disrupting the supply of key inputs.[47] A recent study by the Texas A&M University Agricultural and Food Policy Center estimated that fertilizer prices will increase in excess of 80 percent for the 2022 planting season (relative to 2021).[48]

ERS projects the value of farm assets to increase by $42.2 billion (1.3 percent), driven by increases in farm real estate values ($26.8 billion) as well as non-farm real estate assets ($15.4 billion).[49] The 1.3 percent increase in farm assets is slightly offset by a 2.9 percent increase in farm debt, resulting in an 0.22 increase in the debt-to-asset ratio in 2022, to 14.11 percent. Total farm sector equity is expected to increase 1.0 percent ($29.1 billion) in 2022.[50]

Growth in current debt, a decline in current assets, and rising interest rates is expected to cause farm sector measures of liquidity to fall in 2022. Working capital, or the amount available to fund operating expenses after paying debts, is expected to decrease by 3.3 percent in 2022.[51] The debt service ratio (the share of production needed to satisfy farm debt) is expected to increase by 0.01 to 0.24 in 2022.[52] Profitability measures are also expected to decline in 2022. The rate of return on farm assets is expected to decline from 5.2 percent in 2021 to 3.4 percent in 2022.[53]

Other trends impacting the farm economy in 2022

The ability of certain producers to obtain new loans or service existing loans may be more difficult in 2022, given higher input prices, supply shortages, and higher interest rates—as well as the potential for ongoing drought in the West and other areas. Potential fertilizer shortages in addition to high input prices could affect the majority of farmers. These factors could in particular affect the profit margins of financially vulnerable crop and livestock producers and increase the need for additional or new DOLs—as well as increase the percentage of borrowers reaching term limits in future years.

In the crop sector, multi-year high prices, including high revenue-insurance-projected price guarantees, should help support margins even with rising input costs. On the other hand, with

[45] ERS Farm Sector Income Forecast.
[46] ERS, February 2022.
[47] Campbell, March 2022, Tomson, January 2022.
[48] Texas A&M University, Agricultural and Food Policy Center, January 2022
[49] ERS Farm Sector Income Forecast.
[50] ERS Farm Sector Income Forecast.
[51] ERS Farm Sector Income Forecast.
[52] ERS Farm Sector Income Forecast.
[53] ERS Farm Sector Income Forecast.

drought and rising costs being a widespread concern in early 2022, those groups served by FSA loan programs may need closer monitoring.

Overall Demand for FSA Loans and Credit Quality

From 1993 through 2021, FSA provided 117,867 direct operating loans that were subject to term limits to farmers, a slight increase from 111,561 in 2020 (Table 1). Even though the increase in the number of borrowers subject to term limits was greater in 2021, total loan applications received and obligations were down.

Despite a slight uptick in 2020, loan applications and obligations have declined for all but direct farm ownership loans since 2016 (Figures 1 and 2). The increase in demand for farm ownership loans reflects increases in direct loan size limits, as authorized in the 2018 Farm Bill.[54] Rising land prices and higher net farm income levels in 2020 and 2021 also played a role in increasing loan demand. Increased direct farm ownership (DFO) demand has been contributing to a portfolio shift toward real estate lending in the direct program (Figure 3). Both the number of DFO borrowers and the average DFO balance per borrower has increased consistently since 2010 (Figures 4 and 5).

These trends are consistent with commercial bank reports in 2020 and 2021. The Kansas City Federal Reserve reported that, following an uptick in loan demand, nonreal estate agricultural loans at commercial banks fell 13 percent in the fourth quarter of 2021, dropping to the lowest level since 2012. This fall in loan demand was driven by a decline in the number of operating loans provided as well as a decline in the average loan amount for borrowers of all sizes. Overall, the average size of operating loans in 2021 decreased to its lowest level since 2016. This decrease in loan demand was most pronounced for large farms, with banks reporting that the volume of loans greater than $100,000 fell nearly 20 percent from a year earlier.[55]

A decline in seasonally adjusted guaranteed defaults per borrower since 2020 indicates a relatively healthy borrowing environment for farm lenders. Starting in March of 2020, the share of guaranteed borrowers in default declined through most of 2021, despite a slight uptick for guaranteed operating loan borrowers at the end of 2021 (Figure 6). In contrast, DOLs showed slight increases in seasonally adjusted borrower defaults through much of 2020 and the beginning part of 2021. Then, there was an increase in direct borrower defaults starting in March 2021 and continuing through the rest of the year[56] (Figure 7).

This trend is contrary to what was reported by commercial banks. Commercial banks reported that agricultural loan performance continued to improve in 2021. The Federal Reserve Bank of Kansas City reported a 30 percent and 40 percent decline in the volume of delinquent farm real

[54] The Agricultural Improvement Act of 2018 (the 2018 Farm Bill) increased direct farm ownership loan size limits from $300,000 to $600,000 and the direct operating loan size from $300,000 to $400,000.
[55] Federal Reserve Bank of Kansas City. Ag Finance Update. January 2022.
[56] The American Rescue Plan Act (ARPA) likely had a significant impact. Between June 2021 and October 2021, a total of 24,111 payments amounting to more than $118 million were reversed to calculate payoffs as of January 1, 2021. These payments were held in suspense and were reapplied between October 2021 and December 2021. Borrowers would likely have been reflected as delinquent in systems during the time payments were held in suspense.

estate loans and farm production loans, respectively,[57] as well as the highest increase in repayment rates reported since 2012.[58]

The increasing pattern of DOL and GOL delinquency rates, which does not match what is reported for commercial banks, illustrates the importance of monitoring the financial health of small- and mid-size family farms. Given rising economic uncertainty, these increases may indicate increasing financial vulnerability of these groups or changes in FSA's loan portfolio as a result of increases in loan limits or the impacts of debt relief proposed through the American Rescue Plan Act (ARPA).[59]

According to the Kansas City Federal Reserve, banks in 2021 saw an increase in loan demand by small- and mid-sized farms. The number of loans to farms with the smallest farm loan portfolios grew 35 percent from a year earlier, while the average size of loans was 30 percent lower.[60] Many small- and mid-sized family farms tend to be more reliant on FSA credit and are more susceptible to lower incomes and rising input costs. A combination of Agricultural Resource Management Survey and FSA loan data indicated that, as of December 2017, over 18 percent of all medium-sized farms had a direct or guaranteed loan.[61] Small and mid-sized farm borrowers are more likely to be impacted by term limits, comprising over two-thirds of term limited borrowers as well as those who are nearing term limits (Figure 8).

Another group to monitor in light of increasing DOL delinquency rates is livestock producers. They have been particularly hard hit by drought in the Mountain States, by supply chain issues impacting meat processing plants, and higher input costs. According to the Federal Reserve Bank of Kansas City, the demand for poultry and livestock loans nearly doubled in the third quarter of 2021 compared to the same quarter average over 2010-2019, driven largely by increasing average loan sizes.[62] In addition, while most producers reported improving financial conditions compared to the beginning of 2020 and had declining delinquency rates, livestock producers in this district reported no change in financial positions nor did their delinquency rates improve.[63] A significant number of cattle producers operate small family farms, which tend to be more dependent on FSA credit programs. Also, cattle operations tend to be located in the Great Plains and Corn Belt regions, where a greater share of term-limited DOL borrowers reside (Figure 9).

[57] Federal Reserve of Kansas City. Commercial Bank Call Report, December 2021.
[58] Federal Reserve Bank of Kansas City. Ag Credit Survey. May 2021.
[59] "In anticipation of debt forgiveness as authorized by ARPA, some borrowers allowed payments to lapse". This may have resulted in higher-than-average delinquency rates in 2021 for FSA borrowers than would be otherwise.
[60] Federal Reserve Bank of Kansas City. Ag Finance Update. January 2022.
[61] The most recent ARMS data available to make this calculation are from 2017. See Figure 7 in Ahrendsen, et al. (2022). https://doi.org/10.1108/AFR-05-2021-0060.
[62] Federal Reserve Bank of Kansas City. Ag Finance Update. October 2021.
[63] Federal Reserve Bank of Kansas City. Ag Credit Survey. May 2021.

DOL Term Limits Affect a Small Share of Borrowers

A borrower[64] was determined to have met the term limit at the end of the 6th year in which they received the DOL funds.[65] The year in which the term limit was reached was the last year in which DOL funds were received, except for beginning farmers who may receive loans while they are a beginning farmer or for any of the remaining 7 years when they no longer meet the definition of beginning farmer. While a borrower may reach term limits at 6 years, they will not exceed the term limit until they receive additional loans in the 7th year. [66] Also, through waivers, a borrower may have received DOLs in 8 or more years. A total of 814 borrowers reached their term limits in 2021 and 678 borrowers reached their term limits in 2020 (Table 2).

In 2021, term limited borrowers represented less than one percent of all borrowers with an outstanding direct loan balance and less than two percent of all borrowers (Table 1 and 2) with an outstanding DOL. These figures include 367 borrowers who were considered beginning farmers in 2021 (Table 2). Beginning farmers meeting all eligibility criteria receive a waiver of term limits and can receive a DOL through their first 10 years of farming. After 10 years of farming, they are no longer considered beginning farmers and therefore no longer qualify for this waiver.[67] Furthermore, microloans to beginning farmers and veterans as well as youth loans do not count against term limits. Microloans and their associated term-limit exemptions were implemented in 2014. Since then, about one-fourth of all non-youth DOL loans have fallen into this category.[68]

The total number of borrower cases reaching term limits is 9,934, or 8.4 percent of all existing and former borrowers receiving a DOL since 1993 that was subject to term limits (Tables 1 and 2). Of all borrowers with an outstanding direct loan balance in 2021, term limited borrowers comprise 4 percent of the current total direct caseload (excluding youth, boll weevil, and conservation loans, but including direct loans beyond DOLs) and 7 percent of the current DOL caseload (Table 1 and 3).

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[64] A borrower represents the entity which is obligating the loan. It can be an individual, partnership, family corporation, or LLC. It includes all co-borrowers who may also sign the promissory note.

[65] While a borrower may receive loans in the following (7th) year, only about half of those at the 6-year limit use their 7th year of eligibility. A likely explanation is that farmers may be saving their last DOL as a risk management tool. Considering term limits to have been met at 6 years was judged to provide the most accurate estimate of the number of farmers adversely affected.

[66] This procedure results in revisions to totals for the last year of eligibility when compared to reports in earlier years. For example, a borrower may have met the term limit in 2017 at 6 years and would have counted in the totals for that year. But, if they received an additional loan in 2020, estimates beginning with this report and forward will reflect this change.

[67] Estimates of the numbers of borrowers reaching term limits in previous years were adjusted to reflect waivers provided to beginning farmers. In earlier years' analysis, a beginning farmer was considered to have met the term limit in the last year a loan was received. For the 2021 analysis, beginning farmers were considered to have met the term limit at the maximum of the last year in which a DOL was received or their last year as a beginning farmer. For example, a farmer receiving a DOL in his or her 6th year in 2018 may still have been eligible as a beginning farmer through 2019. In this year's report, the borrower was considered to have met the term limits in 2019 rather than 2018—the last year they received funds.

[68] USDA OFBN database as of December 31, 2021.

Most Remain Active FSA Borrowers and in Farming after Reaching Term Limits

Despite being ineligible for further DOLs, the majority of term-limited borrowers participate in other FSA credit programs. Thirty-nine percent of borrowers reaching their term limits in 2021 were active borrowers with an outstanding direct operating, farm ownership, or emergency loan during 2021 (Table 3). In particular, 34.6 percent of borrowers reaching term limits through 2021 had an outstanding direct operating loan as of year-end (Table 3). Of those reaching their term limits since 2010, 6.6 percent received a farm ownership loan, 2.3 percent received an emergency loan and 13.9 percent received a guaranteed loan (Table 2; Table 4).

Borrowers with DOLs and reaching term limits have remained active in farming, with many continuing to be active in other FSA lending programs subsequent to reaching term limits. Seventy-nine percent of current and prior borrowers who reached term limits were still active in farming at the end of 2021, as indicated by eligibility to vote in county office committee elections (Table 5).[69] After adjusting for deceased borrowers, 5.4 percent of those that reached term limits through 2021 appeared to have exited farming through liquidation of assets—indicated through debt settlement, guaranteed loss claims, or bankruptcy (Tables 2 and 6). Of those reaching term limits between 2010 and 2021, on average, 36 percent paid off their loans by the end of 2021 and 49 percent remained active borrowers (with an outstanding balance) into 2021 (Table 2, Figure 10). As of 2021, 16.9 percent of borrowers had received a restructuring of their loan after reaching their term limits (Figure 11).

DOLs Used Primarily as a Temporary Credit Source

A majority of DOL borrowers use FSA as a temporary source of credit. Forty-eight percent of non-exempt DOL borrowers since 1993 received DOL funds for only 1 year (Figure 12). About 20 percent of non-exempt borrowers received DOL funds in four or more years, while 5 percent of all former and current DOL borrowers received a further direct operating loan after year six.

The number of years in which a borrower relies on FSA direct loans varies by region and production specialization. Borrowers located in the Northern Plains had the highest average years of loan eligibility used (2.7 years on average), followed by those in the Corn Belt (2.5 years on average), the Lake States (2.4 years on average), and the Pacific (2.4 years on average) (Figure 13). This contrasts with those in the Delta region who used, on average, 2.0 years of loan eligibility and those in the Southern Plains, who used 2.2 years of loan eligibility (Figure 13).

These regional differences reflect difference in use of DOLs by production specialty. Borrowers specializing in row crops and specialty crops used a greater number of average years of loan eligibility, 3.0 and 2.8 years, respectively, when compared to those specializing in poultry and other livestock (1.9 years on average) and beef cattle (2.3 years on average) (Figure 14). This most likely reflects the greater usage among crop and specialty farms of one-year direct

[69] An eligible voter in an FSA county office committee election includes an individual or legal entity which participates or cooperates in any FSA program that is provided for by law. If the 7.8 percent of farm borrowers who died since reaching term limits in 1993 are removed from the calculation, the percent of active borrowers participating in county office committee elections in 2021 reaches over 85 percent.

operating loans. In addition, this result is most likely correlated with greater debt usage by farms in the Northern Plains and Corn Belt, where row crops and specialty crops predominate.

There are also differences in the use of years of eligibility based on farm size. Small farms used an average of 3.4 years of loan eligibility, followed by medium-sized farms, using on average 3.2 years of loan eligibility (Figure 15). In contrast, low sales and large farms used an average of 2.2 and 2.6 years of loan eligibility, respectively.[70] This reflects the greater reliance of small- and mid-sized farms on FSA direct loans compared to larger farms and low sales farming operations. These latter operators may have greater access to commercial credit, or higher incomes or outside incomes, allowing them greater usage of, and more rapid transition to, guaranteed loans.

Finally, there are slight differences based on demographics. Male borrowers operating as individuals and borrowers forming part of a borrowing entity used slightly more years of eligibility (2.5 and 2.2 years on average) than female borrowers (2.0 years on average) (Figure 16). Veteran borrowers used slightly more years (2.6 years on average) as compared to non-veteran borrowers (2.4 years on average) (Figure 17). A large part of this may be due to the fact that microloans to veterans do not count against term limits, encouraging a higher degree of usage. SDA borrowers used fewer years of loan eligibility than non-SDA borrowers (2.1 vs 2.4 years) (Figure 18). Borrowers identifying as White, American Indian, or Asian used more years of loan eligibility (2.4, 2.2, and 2.1 years on average) compared to borrowers reporting as Black or Hispanic (1.8 and 1.7 years on average) (Figure 19).

Characteristics of Borrowers Who Have Reached Term Limits

Term-limited borrowers are not necessarily less financially sound

Term-limited borrowers have, on average, larger asset and debt levels compared to non-term limited borrowers. [71] In 2021, term-limited borrowers had average assets of $1,073,917 and debts of $547,246, resulting in average net equity of $526,671 (Table 7). In contrast, non-term limited borrowers had, on average, assets of $791,365 and debts of $486,017, resulting in average equity of $305,347. Over the 2010-2021 period, term-limited borrowers had 1.2 times the level of total assets and 1.1 times the level of total debt compared to non-term limited borrowers. On average over that period, equity levels for term-limited borrowers were 1.3 times that of non-term limited borrowers.

Borrowers reaching their term-limits also have higher levels of net farm income. On average, borrowers receiving a DOL in 2021 earned $338,570 in gross farm revenues compared to $266,048 for non-term limited farmers. They also generated an average of $88,696 in net income compared $84,790 for non-term limited farmers receiving a loan in 2021 (Table 8). In general, this reflects the greater dependence of larger family farms on FSA loans.

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[70] For this report, farm size was based on the value of farm production: low-sales farms are less than or equal to $100,000 in farm production value; small farms are over $100,000 and less than or equal to $350,000 in farm production value; mid-sized farms are over $350,000 and to less than or equal to $1 million in farm production value; and large farms have more than $1 million in farm production value.

[71] While more term-limited borrowers operate farm in small- and medium-size classes (with sales from $100,000 up to $1 million) relative to all DOL borrowers, the average over all size classes shows slightly higher assets, debt, and gross income for term-limited farms.

Despite their larger farm size and income generating capacity, financial ratios were similar in a comparison of term-limited and non-term-limited borrowers. Both were within the acceptable level of 30 to 70 percent for debt-to-asset ratios and 1 to 1.5 for liquidity ratios (Table 7).[72] In general, term-limited borrowers were slightly less efficient in converting revenue to income, as evidenced by lower net income ratios. On average, their net income ratios were 0.02 points lower than non term limited borrowers over the 2010-2021 time period (Table 8). Regardless of this difference, both had net income ratios above the acceptable cut off of 20 percent.

Variation by region

Certain geographic locations have a greater density of term limited borrowers. By USDA production region, term-limited borrowers are largely concentrated in the Northern Plains, followed by the Corn Belt, Appalachia, and the Lake States (Figure 20). More specifically, term-limited borrowers are concentrated in the Red River Valley, eastern Nebraska and the Dakotas, the Texas High Plains, and Kentucky (Figure 9). Over 40 percent of term limited borrowers reside in 6 states: Nebraska (9.5 percent), Iowa (8.0 percent), Texas (6.8 percent), Minnesota (6.4 percent), Kentucky (5.6 percent), and South Dakota (4.5 percent) (Appendix 2). Just 10 of the 435 Congressional Districts accounted for one-third of all term-limited borrowers and 22 Congressional districts account for half of all term limited borrowers (Appendix 3).While the regional distribution of term limited borrowers largely reflects the distribution of all FSA loans, the Northern Plains, Corn Belt, Lake States, and Southeast had a relatively higher share of all U.S. term-limited DOL borrowers compared to the share of all U.S. DOL borrowers. While the Northern Plains represents 14.4 percent of all DOL borrowers, this region represented 20.5 of all term-limited borrowers at the end of 2021 (Figure 20). Although less extreme, the Corn Belt and Lake States had 22.3 percent of all DOL borrowers at the end of 2021 and 26.5 percent of term limited borrowers.

In contrast, a smaller share of term-limited borrowers are concentrated in the Delta, Pacific, Northeast, Mountain, and Southern Plains compared to their DOL borrower numbers. While the Delta region represents 8.7 percent of all DOL borrowers, it represents only 5.2 percent of all term limited borrowers at the end of 2021 (Figure 20). Similarly, the Southern Plains, Northeast and Mountain regions represent 29.8 percent of all DOL borrowers, they represent only 24.5 percent of all term-limited borrowers at the end of 2021 (Figure 20).

Variation by farm type

About 40 percent of term-limited borrowers operated farms specializing in row crops in 2021, reflecting their greater reliance on annual operating loans (Figure 21). DOL borrowers are more likely to specialize in row crops, beef and dairy cattle, and poultry, other livestock and unknown; however, compared to all DOL borrowers, term-limited borrowers are more likely to specialize in row crops, followed by dairy cattle and specialty crops. While 32.5 percent of all DOL borrowers operate farms specializing in row crops, dairy cattle, or specialty crops, 53.0 percent of all term-limited borrowers operated farms of this type at the end of 2021 (Figure 21).

U.S. term-limited borrowers are more heavily concentrated in corn farming (16.3 percent of all term limited borrowers compared to 7.7 percent of all DOL borrowers at the end of 2021), cotton

[72] Acceptable levels for financial ratios are defined in the Borrower Account Classification System as outlined in 1-FLP (Part 8, Section 4).

farming (5.7 percent vs 2.5 percent of all DOL borrowers), vegetable and melon farming (4.2 percent vs 1.9 percent), and all other grain and oilseed farming (10.2 percent vs 5.7 percent) (Figure 22). They are less likely to specialize in dairy or livestock production.

Variation by farm size

Term-limited borrowers are more likely to operate small- or mid-sized farms and less likely to operate low sales farms, as indicated by the share of U.S. term-limited borrowers exceeding the share of all U.S. DOL borrowers (Figure 8).[73] More than two-thirds of all term-limited borrowers operated small- or mid-sized farms at the end of 2021 (Figure 8). In comparison, less than one half of all DOL borrowers operated small or mid-sized farms at the end of 2021 (Figure 8). In contrast, 50 percent of all DOL borrowers were low sales farms, but only 26 percent of term limited borrowers operated low sales farms at the end of 2021 (Figure 8).

Variation by demographic characteristics

Eighty percent of term limited DOL borrowers report as males operating as an individual male; 91 percent of term-limited DOL borrowers are non-veterans, and 86 percent are white (Figures 23-25). Only 13 percent of term limited borrowers are Socially Disadvantaged (Figure 26), despite that category making up nearly 20 percent of borrowers. This indicates that non-SDA borrowers are in the program longer.

There are a few minor demographic differences between term-limited borrowers and the overall DOL borrower population. The largest difference is that more males reap the benefits of a longer relationship with FSA (80.2 percent for term-limited borrowers vs. 65.3 percent of all DOL operators) (Figure 23). A slightly higher percentage report as veterans (9.4 percent for term-limited borrowers vs. 8.6 percent for all DOL borrowers) (Figure 24). They are less likely to be classified as SDA[74] compared to non-term-limited borrowers (13.4 percent of term-limited borrowers are SDA compared to 19.0 percent of all DOL borrowers) (Figure 26).

Characteristics of Active Borrowers who May Reach Term Limits in the Future

To examine the characteristics of borrowers who may become term limited in upcoming years, borrowers using 5 or more years of eligibility are analyzed. The characteristics of borrowers who may become term limited in the future largely follow trends previously noted for term-limited borrowers. DOL borrowers using 5 or more years of loan eligibility are located in the Northern Plains (19.7 percent), Corn Belt (13.5 percent), Appalachia (12.5 percent), and Lake States (12.3 percent) (Figure 20). While they traditionally have not comprised a large share of borrowers in the Delta, Mountain, Northeast, or Southern Plains regions, that share may soon grow (Figure 20).

Borrowers who may become term limited largely operate small farms (47.9 percent), low sales farms (28.3 percent), or medium-sized farms (20.8 percent) (Figure 8). A growing share of small

[73] Small farms are defined as having more than $100,000 to $350,000 in value of production, medium-sized farms as having more than $350,000 to $1,000,000 in value of production, and large-sized farms as having over $1,000,000 in value of production. Low sales farms are defined as earning less than or equal to $100,000 in value of production and represent operators for which farming is only a part time occupation. They most likely have off-farm sources of income.

[74] These groups consist of American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women as the primary borrower.

and low sales farms may soon reach term limits (Fig 8). Across all farm sizes, over 70 percent operate row crop (41.4 percent) or beef cattle operations (30.8 percent) (Figure 21). While traditionally comprising a smaller share of term limited borrowers, the share of dairy cattle and poultry and other livestock producers that may become term limited is growing (Figure 22). This trend may be cause for concern given the stressors impacting the livestock and cattle industry.

The majority of those likely to reach term limits in future years are white (92.8 percent), males operating as an individual (78.3 percent), and non-veterans (89.9 percent) (Figures 23-25). A growing share of borrowers who may soon become term limited include groups traditionally targeted by FSA. This includes veteran operators (10.1 percent compared to 9.4 percent of current term limited borrowers), women-operated and family farm operators (5.5 percent and 11.5 percent compared to 5.1 and 10.4 percent), and American Indian operators (6.9 percent compared to 6.5 percent of current term limited borrowers). (See Figures 23-25.)

Finally, difficulty in qualifying for commercial credit may increase the demand for DOL loans in the future, especially in areas traditionally classified as credit deserts or for groups that traditionally have had a more difficult time obtaining commercial credit.[75]

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Appendix 1. Text of Legislation from Section 5104 of the Agricultural Act of 2014

(5) ANNUAL REPORT ON TERM LIMITS ON DIRECT OPERATING LOANS.—

(A) IN GENERAL.—The Secretary shall prepare a report annually that describes—

(i) the status of the direct operating loan program of the Department of Agriculture; and

(ii) the impact of term limits on direct loan borrowers.

(B) DEMOGRAPHIC INFORMATION.—

(i) IN GENERAL.—The report shall provide a demographic breakdown, on a State-by-State basis, of—

(I) all direct loan borrowers; and

(II) borrowers that have reached the eligibility limit for direct lending programs during the previous calendar year.

(ii) DEMOGRAPHIC INFORMATION.—The available demographic information shall include, to the maximum extent practicable, a description of race or ethnicity, gender, age, type of farm or ranch, financial classification, number of years of indebtedness, veteran status, and other similar information, as determined by the Secretary.

(C) ADDITIONAL CONTENT.—In addition to information described in subparagraph (B), the report shall provide—

(i) a demographic analysis of the borrowers impacted by term limits;

(ii) information on the conditions impacting the direct lending portfolio of the Department of Agriculture, including impacts by region and agriculture sector, and credit availability within those regions and sectors;

information on the status of borrower operations impacted by term limits; and

(iv) recommendations, if appropriate, to address any identifiable unmet credit needs.

(D) SUBMISSION.—The Secretary shall—

(i) annually submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a copy of the report; and

(ii) make the report available to the public, including posting the report on the website of the Department of Agriculture.