

# Agriculture loan delinquencies rise in Q3'19, but some see signs of optimism

By Carolyn Duren and Ronamil Portes

Dec. 9, 2019

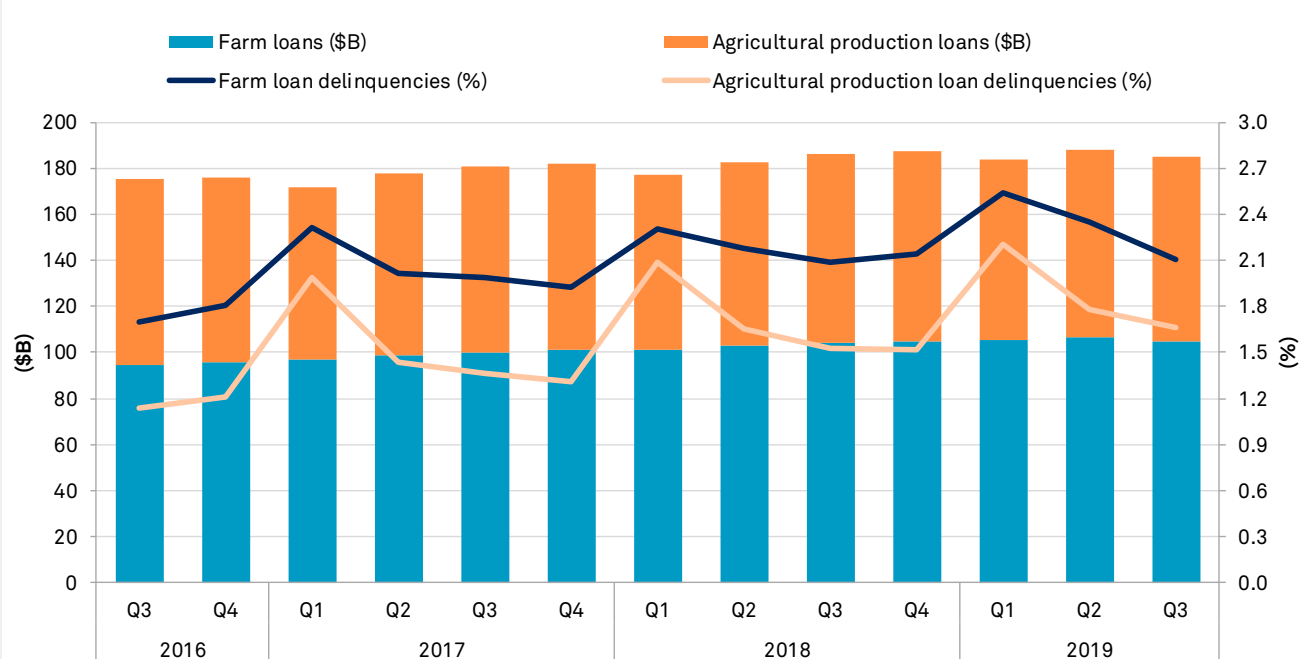
Agricultural loan delinquencies increased in the 2019 third quarter as the industry continues to struggle. In dairy, dozens of farms have filed for bankruptcy over the last year, but some experts are optimistic given recent price stabilization.

Farm loan delinquencies were up 2 basis points in the quarter to 2.11% of farm loans. Agricultural production loan delinquencies jumped 14 basis points to 1.66% of loans. Agriculture lending has suffered this year as tariffs, weather and low commodities prices have hurt farmers, driving late payments and raising the risk of losses for U.S. banks with significant exposure to the sector. The recent bankruptcy of a major fluid milk producer has highlighted woes in the dairy sector particularly, but milk prices were up in October from the beginning of 2019, giving some reason for positivity.

The recent bankruptcy filing by Horsham, Pa.-based Dean Foods Co. has put a spotlight on the struggling dairy industry, particularly on the fluid milk that Dean Foods processes. "That part of the industry has had a declining demand for quite a while," said David Coggins, chief banking officer at Manitowoc, Wis.-based Investors Community Bank which reported agriculture loan concentration of 62.2% in the third quarter. Coggins said more than 80% of the bank's agriculture loans are in dairy.

As dairy prices slumped in recent years, milk producers lowered output, said Ryan Yonkman, a risk management specialist with dairy consulting agency Rice Dairy LLC. Meanwhile, costs continued to rise.

**Agriculture loan delinquencies slightly up YOY in Q3'19**



Data compiled Nov. 25, 2019.  
 Analysis includes U.S. commercial banks, savings banks, and savings and loan associations. Foreign banking organizations and nondepository trusts are excluded.  
 Data based on regulatory filings.  
 Farm loans are secured by farmland and improvements thereon, as evidenced by mortgages or other liens.  
 Agricultural production loans are for the purpose of financing agricultural production, including crops and livestock.  
 Source: S&P Global Market Intelligence

“Profitability’s been hit hard, and a lot of equity has been burned across the producer level over the last four years, to the point where you’ve seen a lot of dairymen go out of business,” said Yonkman in an interview.

According to court filings, 48 farms in Wisconsin have filed for Chapter 12 bankruptcy in the 12-month period ended September 2019, the most of any state. However, Coggins said the bankruptcies are small relative to the total farms in Wisconsin. During a farm crisis in the mid-1980s, bankruptcies were “ten-fold what these numbers are,” he said.

Despite low profit margins, Yonkman said few dairy farmers have declared bankruptcy, instead choosing to sell or stop farming.

Coggins said other segments of dairy, including cheese and butter, have shown stronger growth than fluid milk. And milk prices have started to rebound. “Most people are suggesting the Dean Foods bankruptcy isn’t a bellwether of storm clouds in the dairy industry,” said Coggins.

Fluid milk prices have risen since the beginning of 2019. According to USDA data, milk prices were up 15.1% from January through October, with some regions seeing slightly higher increases. A reduction of supply can mostly be credited for the increase in price, Yonkman said.

Coggins sees “profit potential over the next 12 months,” particularly if prices for cheese and butter hold. “Most farms today have break-even ... prices that are below today’s current prices,” he said.

### Wisconsin banks with highest concentration of agriculture loans, Q3'19

Company (top-level ticker)	City, state	Total agriculture loans to total loans (%)	Agriculture loans			Total YOY growth (%)
			Total (\$M)	Agricultural production (\$M)	Farm (\$M)	
Farmers and Merchants Bank of Kendall	Kendall	74.3	49.1	17.7	31.4	-2.8
First National Bank at Darlington	Darlington	71.0	73.5	17.9	55.6	-0.6
Pioneer Bank	Auburndale	62.6	80.2	26.7	53.5	2.9
Investors Community Bank (ICBK)	Manitowoc	62.2	675.3	324.2	351.1	-7.2
Jackson County Bank	Black River Falls	60.7	60.9	16.0	44.8	-36.9
Citizens State Bank of Loyal	Loyal	56.0	73.7	17.9	55.8	8.9
Oakwood Bank	Pigeon Falls	55.6	38.3	15.8	22.5	19.4
Peoples State Bank	Prairie Du Chien	52.7	279.4	94.1	185.3	-2.9
Independence State Bank	Independence	47.5	22.9	13.4	9.5	5.5
Alliance Bank	Mondovi	45.2	60.8	15.7	45.0	4.5
Banner Banks	Birnamwood	44.3	16.2	2.2	14.1	-16.6
State Bank of Reeseville	Reeseville	43.0	19.8	6.8	13.0	7.0
Farmers & Merchants Union Bank	Columbus	41.5	140.1	61.1	79.1	-4.3
Bank of Brodhead	Brodhead	38.7	36.5	7.9	28.6	9.5
Bank of Ontario	Ontario	38.5	16.2	4.9	11.3	10.1
Peshtigo National Bank	Peshtigo	37.2	45.9	7.4	38.5	0.9
Bank of Cashton	Cashton	36.5	23.9	4.9	19.1	11.9
Bluff View Bank	Galesville	36.4	30.5	8.9	21.6	1.6
First Bank of Baldwin	Baldwin	35.9	41.5	18.5	23.0	33.4
Unity Bank	Augusta	35.6	154.2	66.4	87.9	178.4
<b>Wisconsin top-tier banks</b>			<b>4,967.2</b>	<b>1,583.2</b>	<b>3,384.0</b>	<b>4.1</b>

Data compiled Nov. 25, 2019.

Analysis limited to top-tier Wisconsin banks and thrifts by percentage of total agriculture loans to total loans at Sept. 30, 2019. Analysis excludes nondepository trusts, cooperative banks and industrial banks.



Data based on regulatory filings.

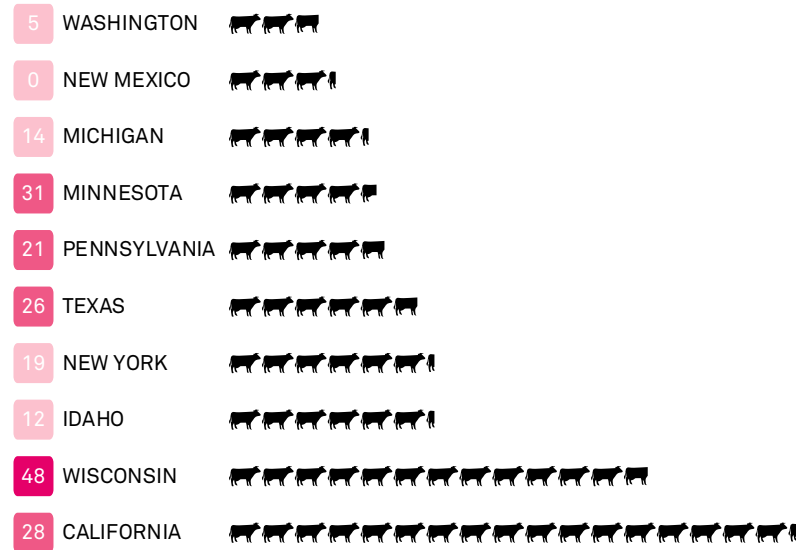
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Agricultural production loans are for the purpose of financing agricultural production, including crops and livestock.

Source: S&P Global Market Intelligence

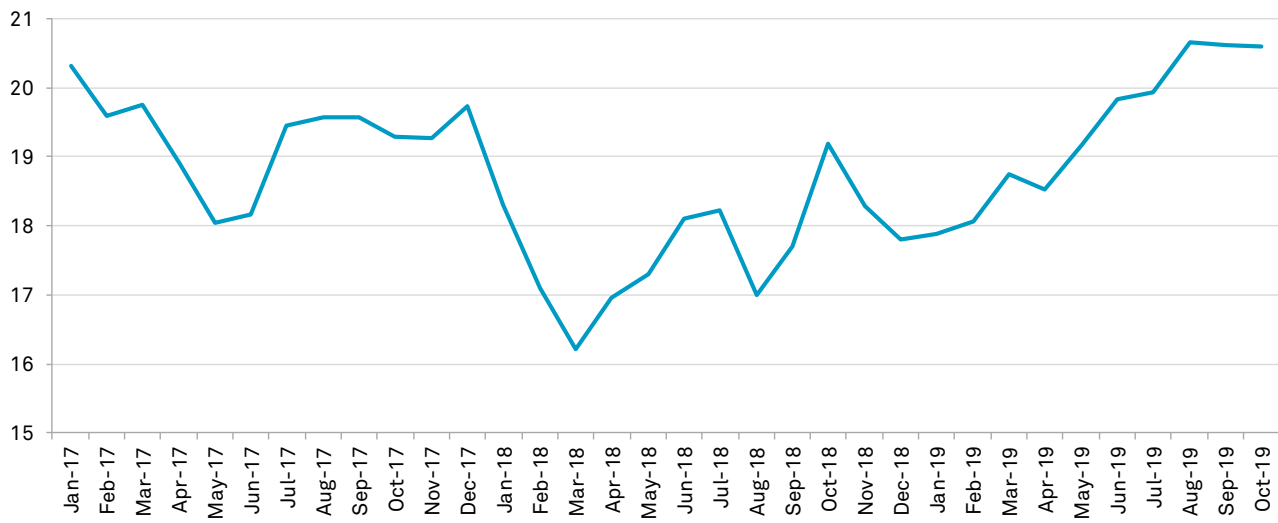
## Wisconsin has suffered the most farm bankruptcies

 Number of Chapter 12 bankruptcies\* filed for the 12 months ended Sept. 30, 2019  
 Number of milk cows at Sept. 30, 2019 (100,000)



Data compiled Nov. 27, 2019.  
 Analysis limited to top 10 U.S. states with the highest number of milk cows as of Sept. 30, 2019.  
 \* Chapter 12 bankruptcies are bankruptcies filed by family farmers or family fishermen with regular annual income.  
 Credit: Saddat Sarfraz  
 Sources: United States Department of Agriculture; United States Courts

## Class I milk price trend (\$ per hundredweight)



Data compiled Nov. 27, 2019.  
 Class I = milk used for beverages including eggnog and ultra-high temperature (UHT) milk.  
 Analysis include prices for Class I milk price. The Class I Milk Price is the monthly milk price announced each month for all milk used to produce Class I Fluid Milk products.  
 Source: United States Department of Agriculture

But this increase in profitability for dairy farmers will probably not lead to expansion, Yonkman said. “Milk production doesn’t feel like something that’s going to just take off going forward,” he said. “A lot of dairymen are going to be in ‘pay-down-debt’ mode.” Farmers may also use the increased profits to build equity, Yonkman said.

Bankers likely will also not have the appetite for growth, Yonkman said. “Banks have probably strapped down a little bit and they’re not going to just lend more good money after bad,” he said. “The lending community is going to be slow to expansion as far as writing new loans to grow.”

When it comes to maintaining strong dairy accounts, Coggins said bankers have options to help, including working directly with farmers and their teams, as well as offering marketing or hedging help.

During good times, farmers need to lock in prices for a portion of their production, Coggins said. He is tentatively positive on the dairy market.

“It’s one thumb up,” Coggins said. “We’re not quite to two thumbs up yet.”

### Top US banks by agriculture loans, Q3'19

Company (top-level ticker)	City, state	Agriculture loans			Total YOY growth (%)	Total agriculture loans to total loans (%)
		Total (\$M)	Agricultural production (\$M)	Farm (\$M)		
John Deere Capital Corp. (DE)	Reno, NV	16,405.7	16,405.7	0.0	4.3	49.5
Wells Fargo & Co. (WFC)	San Francisco, CA	6,605.0	4,321.0	2,284.0	-3.9	0.7
BNP Paribas USA Inc. (BNP)	New York, NY	3,475.8	2,332.6	1,143.3	-6.7	5.2
Bank of America Corp. (BAC)	Charlotte, NC	2,577.0	566.0	2,011.0	2.1	0.3
Great Western Bancorp Inc. (GWB)	Sioux Falls, SD	2,006.5	1,050.9	955.6	-8.0	20.7
Pinnacle Bancorp Inc.	Omaha, NE	1,771.5	824.8	946.7	3.8	21.4
U.S. Bancorp (USB)	Minneapolis, MN	1,589.0	627.0	962.0	-7.7	0.5
BMO Financial Corp. (BMO)	Chicago, IL	1,391.1	564.6	826.5	-12.5	1.5
Bremer Financial Corp.	Saint Paul, MN	1,272.4	608.8	663.6	1.6	14.4
Dacotah Banks Inc. (DBIN)	Aberdeen, SD	962.8	381.0	581.8	1.2	45.3
Ida Grove Bancshares Inc.	Ida Grove, IA	945.2	390.7	554.5	NA	76.0
Farmers & Merchants Bancorp (FMCB)	Lodi, CA	908.9	292.0	616.9	7.7	34.7
Fulton Financial Corp. (FULT)	Lancaster, PA	898.2	187.1	711.1	0.9	5.4
BB&T Corp. (BBT)	Winston-Salem, NC	859.0	256.0	603.0	-2.8	0.6
Stockman Financial Corp.	Miles City, MT	852.9	371.2	481.7	4.8	32.0
JPMorgan Chase & Co. (JPM)	New York, NY	841.0	709.0	132.0	3.4	0.1
Citigroup Inc. (C)	New York, NY	822.0	744.0	78.0	-22.5	0.1
Arvest Bank Group Inc.	Bentonville, AR	789.2	165.3	623.9	6.0	6.1
Columbia Banking System Inc. (COLB)	Tacoma, WA	777.4	483.1	294.3	8.2	8.9
KeyCorp (KEY)	Cleveland, OH	755.7	623.7	132.0	-12.8	0.8
<b>Industry aggregate*</b>		<b>185,073.1</b>	<b>80,288.0</b>	<b>104,785.1</b>	<b>-0.8</b>	<b>1.8</b>

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Tickers based on top-level entities' home country stock exchange.

Source: S&P Global Market Intelligence