

Office of Advocacy

U.S. Small Business Administration

Small Farm Lending in the United States

A Directory of Small Farm Lending by
Commercial Banks Reported in June 1998

February 1999

This report contains research prepared by the Office of Advocacy, U.S. Small Business Administration. The opinions and recommendations do not necessarily reflect official policies of the U.S. Small Business Administration or any agency of the U.S. government. For further information, contact the Office of Advocacy, U.S. Small Business Administration, Mail Code 3112, Washington, DC 20416. The complete study is available on the Internet's World Wide Web at <http://www.sba.gov/ADVO/stats/> or on paper or microfiche from the National Technical Information Service, Springfield, VA 22161, tel. (703) 605-6000.

Foreword

The U.S. Small Business Administration's Office of Advocacy is pleased to release the second study of small farm lending by banks in the United States.

The Office of Advocacy has followed small business lending in banks in the states since 1994 and has reviewed how the mergers of banks affect the availability of credit to small firms.

This study again extends coverage to highlight lending to the small farm. It provides information not otherwise available and helps small farmers identify banks in each state that are "small-farm-friendly" in terms of their lending in amounts under \$250,000. Small farms are important to small business in rural America, and this study helps explain the changes occurring in this sector of the economy.

The 1997 information was first made available in *Small-Farm-Friendly Banks in the United States*, published by the Office of Advocacy in July 1998. That report marked other firsts:

- The first time data from the call reports on agricultural lending were made available to the public, farmers and the banks that serve them.
- The first time data on farm lending were available on a state-by-state basis.
- The first time farm lending was analyzed by loan size.

This edition provides information for 1998 and for the first time ranks all banks in every state. As the U.S. Department of

Agriculture's 1997 report, *Credit in Rural America*, acknowledges, "not all markets and market segments are well served." *Small Farm Lending in the United States* provides the data to help family farm owners find the bank most likely to meet their needs. It further raises concerns about the supply of credit to small farms, given the decline in the number of banks in the United States.

The following statistics illustrate the Office of Advocacy's concerns:

- The smallest banks (those with less than \$100 million in assets) have the largest average share of small farm loan dollars as a percentage of total assets (9.9 percent). Meanwhile, the largest banks (those with more than \$10 billion in assets) have a small farm loan share of total assets some 100 times smaller (0.1 percent).
- The smallest banks made small farm loans valued at 51.1 percent of the value of all small farm loans, although they own about 6 percent of total bank assets. The largest banks made small farms loans valued at only 5.1 percent of the total, although they own some 57 percent of bank assets.
- Banks with less than \$500 million in assets made small farm loans worth 83 percent of the total value of such loans, although they hold only 18 percent of total bank assets.

As this is the second study on farm lending, the question arises: how have the figures changed since 1997? Are the supplies of bank credit for the small family farm growing or declining?

Among the highlights of the study are the following:

- The stock of small farm loans was valued at \$50.3 billion in 1998, an increase of 3.9 percent from 1997. But the number of loans outstanding (1.6 million) declined by 4.6 percent. Either the average loan size is increasing or many small loans have been paid off.
- Total farm loans were valued at \$74.5 billion in 1998, an increase of 8.6 percent from 1997. The total value of large farm loans (those valued at more than \$1 million) has increased by 25 percent—or more than six times the 3.9 percent increase in small farm loans under \$250,000. Thus one must ask whether small farmers are receiving an adequate supply of credit.

Advocacy's studies of banks' small business friendliness in 1997 (published in 1998)—and updated versions soon to be released—include three companion reports: *Small Business Lending in the United States*, *The Bank Holding Company Study*, and *Micro-Business-Friendly Banks in the United States*.

The first study rank ordered (within each state) all 9,293 U.S. banks that submitted call reports in June 1997 in terms of their small business lending. The second listed bank holding companies that were top lenders to small business. In both studies, a small business loan is defined as a loan of less than \$250,000. The third study rank-ordered banks but used a \$100,000 loan size.

Also available is a completely new study, *Small Farm Lending by Bank Holding Companies*, which looks at small farm lending by the 57 largest BHCs.

Another report, *The Impact of Bank Mergers and Acquisitions on Small Business Lending: A Conference Report*, is an account of the proceedings of a conference the Office of Advocacy held October 9, 1997. At the conference, leading researchers spoke on the impacts on small business credit availability of mergers in the banking industry. This study is important because the number of reporting banks has declined by 327 since the last set of banking studies, and most of the banks that disappeared were the smallest banks—those that make the most small farm loans.

Our readers have made many helpful suggestions about the format of these reports, and a number of them have been incorporated in past editions to improve their usefulness while preserving comparability with earlier editions. Your comments and suggestions are welcome on this new effort.

For those with access to the Internet, the studies are available at <http://www.sba.gov/ADVO/lendinginus2.html>. Copies of all of the reports are also available by calling the National Technical Information Service at (703) 605-6000.



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Introduction

Small Farm Lending in the United States is the second year's study of small farm lending to be published by the Office of Advocacy. This edition differs from the first in that it identifies the small farm lending of every reporting bank in each state—hence the change in the title. Because small businesses have found Advocacy's state studies of the lending behavior of commercial banks to be useful, similar information is now being provided to small farmers to help them meet their credit needs. As in the 1997 report, this study continues to list the farm-friendly banks in the United States. This report is a companion to *Small Farm Lending by Bank Holding Companies*, which looks at the 57 largest BHCs' lending to small farms.

It is also a companion to the more comprehensive small business lending study, *Small Business Lending in the United States*, also known as the “small-business-friendly banks” study.¹ The latest (1998) edition of the small business lending study ranked 9,293 reporting commercial banks that provided small business lending data in their June 1997 “call reports” to federal banking regulators. Another study, *Micro-Business-Friendly Banks in the United States*, identifies the micro-

¹ U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States*, 1997 ed., report no. PB97-141410 (Springfield, Va.: National Technical Information Service, 1997).

business-friendly lenders—banks with significant lending activity in loans of less than \$100,000. *The Bank Holding Company Study* provides national data for multi-state bank holding companies. These studies are currently being updated with 1998 data.²

This report goes beyond the Department of Agriculture's study, *Credit In Rural America*,³ which covered aggregate data from the call reports and other data sources and concluded that “not all markets and market segments are well served” and there is a “lack of competition in some markets.”

This more detailed study should encourage more competition among the banks that do not find themselves highly ranked and will help farmers find banks that are interested in making small farm loans. The U.S. Small Business Administration's Office of Advocacy produces these reports in the belief that if small farms are more successful because more banks are competing to meet their credit needs, the small businesses in their communities will also be more successful.

² The computer analysis for all the banking studies was done by James W. Kolari, Department of Finance, Texas A&M University.

³ U.S. Department of Agriculture, *Credit in Rural America*, 1997, Agricultural Economic Report #749.

The 1998 Study

This study follows the format used in the Office of Advocacy's other banking studies—the use of four criteria to rank the small farm lending activities of banks. The four variables are (1) the ratio of small farm loans to total bank assets, (2) the ratio of small farm loans to total farm loans, (3) the dollar value of small farm loans, and (4) the number of small farm loans.

A bank's overall ranking is derived from its decile rankings in these four categories. Decile rankings range from 1 to 10. A ranking of 10 means the bank is in the top 10 percent of all banks in the state, and a 1 means the bank is in the lowest 10 percent.

The 1998 study includes major features of the comprehensive 1997 small business banking study, namely:

- Small farm loans (SFL) are defined as loans of less than \$250,000.
- All banks in each state are identified based on their total ranking (column 1 of Table 1). Small-farm-friendly banks in each size class are identified and listed in Table 2.
- Data are provided on a state-by-state basis—a format that is most relevant to those relying on local bank credit markets. The small-farm lending behavior of every reporting commercial bank in each state has been rank-ordered to help depositors and borrowers identify the small-farm-friendly banks in their respective states.

- Additional information is again provided in Table 1 for two other loan sizes (microloans under \$100,000—SSFL—and larger loans under \$1 million—LSFL) to help users focus on their unique credit needs. Banks' total rankings for these two loan sizes are included in columns 10 and 11 of the state ranking table.

Overview of Small Farm Lending in 1998

Overall, small farm loans in U.S. banks increased by 3.9 percent, from \$48.4 billion in 1997 to \$50.3 billion in 1998 (Table A). Total farm lending in U.S. banks increased by 8.6 percent, from \$68.6 billion to \$74.5 billion. Thus, the value of large farm loans (those valued at more than \$1 million) increased by 25 percent (from \$12.4 billion to \$15.5 billion), more than six times the rate of increase in small farm loans. Moreover, the number of small farm loans actually declined by 4.6 percent, from 1.67 million to 1.59 million. Either the average new loan size is increasing or many older small loans have been paid off. The question arises: are small farmers receiving an adequate supply of credit?

The bank consolidation trend continues, with declines in the number of larger banks and the steepest drop in the number of the smallest banks (Table B).

What is happening to small farm credit in light of the continuing merger and acquisition trend? The dollar value of small farm loans as a percentage of both total assets and total farm loans decreases as bank size increases (Table C). More important, the value of small farm loans as a percentage of total

assets has declined across the board since the 1997 study. If there is good news, it is that the ratio of small farm loans to total farm loans is increasing in all except the largest banks.

The smallest banks dominate the small farm loan market despite their relatively small shares of both total bank assets and total farm loans (Table D). While holding only 6 percent of total assets, they provide half or more of both the value and number of

Table A Value of Farm Loans in U.S. Banks, June 1998 and June 1997 (Billions of Dollars)

Size of Farm Loan	1998	1997	Percent Change
Total	74.5	68.6	8.6
Micro (<\$100,000)	38.8	37.7	2.9
Small (<\$250,000)	50.3	48.4	3.9
Larger Small (<\$1 Million)	59.0	56.2	5.0
Large (>\$250,000)	15.5	12.4	25.0

Table B Distribution of U.S. Banks, June 1998 and June 1997

Bank Asset Size	All Banks 1998	All Banks 1997	Percent Change
Total	8,966	9,293	-3.5
< \$100 Million	5,644	6,047	-6.7
\$100–\$500 Million	2,656	2,590	+2.5
\$500 Million –\$1 Billion	303	292	+3.8
\$1–\$10 Billion	302	300	+0.7
> \$10 Billion	61	64	-4.7

small farm loans in nearly every loan size subcategory. Conversely, the largest banks, holding well more than half of total assets, provide less than 7 percent of the number and value of small farm loans in every size subcategory.

Table C Small Farm Loans as a Percentage of Total Assets and of Total Farm Loans by Bank Size, June 1998 and June 1997

Bank Asset Size	SFL/TA		SFL/TFL	
	1998	1997	1998	1997
<\$100 Million	9.9	11.5	87.9	79.4
\$100 - \$500 Million	3.0	3.2	73.8	61.9
\$500 Million-\$1 Billion	1.1	1.2	59.9	49.9
\$1-\$10 Billion	0.4	0.5	47.3	41.1
>\$10 Billion	0.1	0.1	21.9	29.6

Note: SFL = small farm loans; TA = total assets; TFL = total farm loans.

Table D Distribution of U.S. Bank Assets and Farm Loans of Various Sizes by Bank Size, June 1998 (Percent)

Asset Size of Bank	Total Assets	TFL \$	SSFL \$	SSFL #	SFL \$	SFL #	LSFL \$	LSFL #
<\$100 M	5.86	39.26	56.51	56.69	51.09	55.15	47.63	53.80
\$100 M-\$500 M	11.85	28.78	30.31	28.67	31.46	29.06	32.02	29.40
\$500 M-\$1 B	4.73	5.02	3.87	3.51	4.46	3.70	4.73	3.87
\$1 B-\$10 B	20.87	11.31	6.16	7.18	7.92	7.61	8.94	8.00
>\$10 B	56.70	15.63	4.46	3.96	5.07	4.47	6.68	4.92
All Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: TFL = total farm loans; SSFL = smaller small farm loans or microloans (<\$100,000); LSFL = larger small farm loans (<\$1 million); LSFL = larger small farm loans (<\$1 million).

Another way of understanding how bank lending is changing is to look at the lending behavior of only the banks that survived over the entire 1997-1998 period, that is, leaving out the 327 banks that disappeared after 1997 (Table E). In the 8,966 surviving banks, the number of the smallest farm loans (loans under \$100,000) decreased by about 1 percent from 1997 to 1998. But the amount of these loans increased by 7.5 percent. Loans of less than \$250,000 increased more, by 9.6 percent, and loans of less than \$1 million increased by 11.3 percent. Again, changes in farm lending vary considerably by bank size.

Limitations of the Study

It is important to note that the call report data tell only part of the story about lending to small farms. Call reports do not reflect a major factor affecting a bank's ability to make loans to small farms: the demand or lack of demand for small farm loans. Banks in one area of a state may have strong demand, which increases their score in comparison with other banks in the state. Banks with a similar capacity to lend may have little or no demand for small farm loans, resulting in a lower ranking. In addition, some lending information may not be reported in call reports or may not be discernible as small farm lending, for example:

- Banks may issue consumer credit cards or other forms of consumer credit to small farm owners for business purposes.

These may be reported as consumer lines of credit or consumer loans by some banks.

Table E Change in the Number and Amount of Farm Loans by Loan Size and Asset Size of Banks that Survived over the Period, June 1997-June 1998 (Percent)

Asset Size of Bank	Total Dollars	SSFL Dollars	SSFL Number	SFL Dollars	SFL Number	LSFL Dollars	LSFL Number
All Banks	16.22	7.49	-0.71	9.59	0.12	11.26	0.86
<\$100 Million	10.97	8.30	-4.31	9.23	-3.83	10.11	-3.37
\$100 Million-\$500 Million	12.73	5.86	1.51	8.36	2.40	10.09	3.17
\$500 Million-\$1 Billion	20.26	10.29	5.87	13.13	7.27	14.81	8.40
\$1 Billion-\$10 Billion	17.60	9.13	15.27	13.71	14.34	15.32	13.61
>\$10 Billion	37.75	45.38	7.06	11.84	10.51	17.96	13.09

Notes: SSFL = smaller small farm loans or microloans (<\$100,000); SFL = small farm loans (<\$250,000); LSFL = larger small farm loans (<\$1 million).

- Large banks may make loans to small farm owners through their consumer loan divisions, thereby classifying the loans as consumer loans.
- Large banks may send the farmer to a subsidiary finance company.
- Lending statistics by state for multi-state banks may be less meaningful, as these banks may consolidate their accounting and reporting systems. For this reason, the Office of

Advocacy provides a nationwide study of bank holding company lending.

Despite these limitations, call report data provide sufficient information to present a reasonable picture of lending to small firms in the U.S. economy, and they are currently the only source of data on small farm lending for all commercial banks.

Bank Lending through SBA Loan Programs

If a bank participates in the U.S. Small Business Administration's loan programs and uses secondary markets extensively, the bank's ranking in this study may be artificially low. Banks participating in the SBA's Preferred or Certified Lender Programs should be considered small-farm-friendly.⁴

The Tables: Small Farm Lending in the United States

The 1998 state directories each contain three tables. Table 1, Small Farm Lending in the United States, June 1998, lists all the banks in the state and ranks their small farm lending activities.

⁴ "Preferred" lender status means that the bank has been given the full authority to guarantee SBA loans to qualified business owners without SBA review. Nearly 400 banks are preferred lenders. "Certified" lender status means that an SBA loan official will rely primarily on the bank's analysis. More than 1,000 banks have this status. To locate the nearest SBA preferred or certified lender, call the Small Business Answer Desk at 1-800-827-5722 or consult the SBA's home page at <http://www.sba.gov>.

Table 2, Small-Farm-Friendly Banks by Bank Size, June 1998, lists the small-farm-friendly banks in the state by bank asset size group. Included are banks that are among the top 10 banks or the top 10 percent of banks, whichever number is smaller,⁵ and the top banks in each asset size class (as reported in Table 1). Table 3 lists the number of banks in each size class in each state.

Explanation of Columns in the State Tables

1. Total Rank. The total represents the bank's overall farm lending score. The number is the sum of the four decile rankings found in columns 2 through 5. The best possible score is 40, which indicates that the bank is in the top decile—the top 10 percent—of all banks in the state in each of the four variable categories.

2. Rank of the Ratio of Small Farm Loans to Total Bank Assets (SFL/TA). The bank's decile ranking in the state for the ratio of the dollar amount of small farm loans to the dollar amount of total bank assets. A ranking of 10 in columns 2-5 means the bank is in the top decile of all banks in the state.

3. Rank of the Ratio of Small Farm Loans to Total Farm Loans (SFL/TFL). The bank's decile ranking for the ratio of the dollar amount of small farm loans to the dollar amount of total farm loans. A ranking of 10 means the bank is in the top decile.

⁵ Banks with tied scores that fall within these parameters are included.

4. Rank of the Total Dollar Amount of Small Farm Lending (SFL\$). The decile ranking of the bank's dollar value of small farm loans outstanding.

5. Rank of the Total Number of Small Farm Loans (SFL#). A bank's decile ranking for the total number of small farm loans.

6. Bank Asset Size Class (Bk Asset Sz). Here the asset size class of the bank is defined:

- Under \$100 million (<100M)
- \$100 million to under \$500 million (100M–500M)
- \$500 million to under \$1 billion (500M–1B)
- \$1 billion to under \$10 billion (1B–10B)
- \$10 billion and over (>10B)

7. Rank by Bank Asset Size Class (Rank by Bnk Sz). A ranking that displays how well a bank is doing in its respective asset size class based on the summary ranking in column 1. A 1 in this column means the bank ranks first in its size class.

8. Total Dollar Amount of Small Farm Loans Outstanding (SFL\$). The dollar value in thousands of dollars of small farm loans outstanding.

9. Total Number of Small Farm Loans Outstanding (SFL#). The bank's total number of small farm loans outstanding.

10. Total Rank for Smaller Small Farm Loans (SSFL).

Displayed here is the bank's total ranking for very small farm loans under \$100,000. A farmer looking for a microloan would want to contact a bank that ranks high in this column.

11. Total Rank for Larger Small Farm Loans (LSFL). The bank's total ranking for loans under \$1 million. A farmer looking for a loan larger than \$250,000 would select a bank that ranks high in this column.

Suggestions

Suggestions and comments may be addressed to Advocacy Chief Economist Dr. Robert Berney, telephone (202) 205-6875 or to Dr. Charles Ou, economist, telephone (202) 205-6966, or by e-mail to robert.berney@sba.gov or charles.ou@sba.gov. Mail written comments to: Office of Advocacy, U.S. Small Business Administration, Mail Code 3112, 409 Third Street S.W., Washington, DC 20416, or fax to (202) 205-6928.

Accessing the Study

This and the companion studies, *Small Farm Lending by Bank Holding Companies*, *Small Business Lending in the United States*, *The Bank Holding Company Study*, and *Micro-Business-Friendly Banks in the United States* may be found on the Internet at the Office of Advocacy's World Wide Web home page, <http://www.sba.gov/ADVO/lendinginus2.html>.

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