

# Recent Trends in Nontraditional Lending

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## Outline

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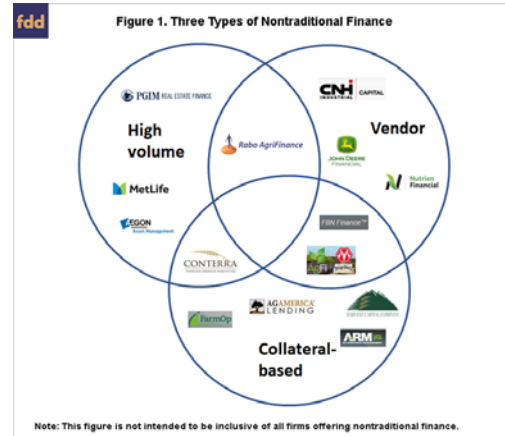
- Nontraditional lending review
  - <https://agmanager.info/events/risk-and-profit-conference/previous-conference-proceedings/2020-risk-and-profit-conference-8>
- U.S. and Kansas equipment lending trends
- KFMA – recent trends



# Review: what is nontraditional lending?

"Nontraditional credit suppliers or lenders...are those whose primary contacts with producers historically have been for goods and services other than credit" (Sherrick, Sonka, & Monke, 1994)

**Another definition:** Lending that is originated outside of the "traditional" local branch-loan officer model



## Other important categories



**Farm Service Agency**



# Many factors drive the growth in sources of credit for agriculture

## Supply side factors

- Outside capital
- Innovation
- Lending standards
- Some commercial banks are pulling out of ag lending

## Demand factors

- Diverse U.S. farm business
  - Large and small
  - Complex
  - Fast-growing
  - High share of rented land
  - Increased appetite for risk?
- Financial stress



# Some nontraditional lenders rival largest Farm Credit lenders

- Farm Credit Services of America: **\$29.7** billion loan volume in 2019
- Metlife: **\$21.0** billion agricultural loan portfolio (as of March 31, 2020)
- John Deere Capital Corporation: **\$17.8** billion in "loans to finance agricultural production" reported March 31, 2021
- Rabo Agrifinance: **\$15** billion loan volume reported in 2019 (not based on regulatory reports)
- American AgCredit: **\$11.8** billion loan volume in 2019
- Conterra: **\$4** billion in loan assets across portfolios in 2020
- Frontier Farm Credit: **\$2.0** billion loan volume in 2019
- Farm loans holdings of the **largest 30** U.S. banks declined **17.5%** between Dec 2015 and March 2019 (**\$18.3** billion held in March 2019)
- 2020 USDA farm sector debt forecast: **\$442** billion (Feb 2021 forecast)

<https://www.fcsamerica.com/about/newsroom/financial-reports>  
<https://investments.metlife.com/financing-solutions/agricultural-finance/>  
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<https://www.reuters.com/article/us-usa-farmers-lending-insight/wall-street-banks-bailing-on-troubled-us-farm-sector-idUSKCN1L618E>  
<https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/highlights-from-the-farm-income-forecast/>

# How big is nontraditional finance?

## Short answer

We don't know, anything up to 25% of farm lending nationally would be a reasonable guess

## Longer answer

- Estimate/educated guess by lending category
  - High-volume, branchless: 8-10%
  - Vendor: 10-12%
  - Collateral based: 1-2%.
- Comparison: FCS 43%, Banks 40%, FSA 3% (ERS 2019)
  - **Note: percentages will not total 100**

## Recent research findings

- More leveraged KS farms more likely to use multiple sources of credit including nontraditional sources (Brewer et al 2019)
- Implement dealer financing with ARMS (Ifft, Kuethe and Patrick 2017)
  - No correlation with financial status and implement dealer financing
  - Implement dealer-loans have lower interest rates for small and midsize farms
- Vendor credit for seed corn is effectively more expensive than standard operating loans (Fiechter and Ifft 2019)
- Trade credit offered by dairy feed manufacturers (Fiechter and Ifft 2020)
  - Countercyclical, used by more leveraged farms
  - Credit provided by feed manufacturers is larger than any regional bank in NE
- Equipment financing (~13% of farm debt based on ARMS) is dominated by nontraditional lenders (largely JDF and CHN), who likely control over 80% of this market (Byers, Ifft and Miller 2021)

# Equipment Lending: motivation

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- Accurate measurement and public information on farm debt
- Growth of nontraditional lenders (Fiechter et al, 2020)
- Limited information on farm debt outside of (1) regulatory data, (2) USDA farm survey data, and (3) farm management data

# Equipment lending: objectives

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- Research:
  - Potential for future research
  - Use UCC data to assess the degree to which official statistics reflect (1) nontraditional lender market share and (2) growth in volume of lending from nontraditional lenders
- Outreach:
  - Growth of equipment lending
  - Lender choice

## UCC data 101 - a

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- Uniform commercial code (see paper for history)
- Most farm loans are secured by collateral
- Lenders file “liens” on any physical collateral\*
- Legal process with state government, public data
- Data has been compiled by firms that sell for market research purposes; we worked with Randall-Reilly EDA (Equipment Data Associates)

## UCC data 101 - b

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- Farm machinery is self-collateralized and uniquely identified by a serial number
- Filing of liens is universal
- Provides only known, publicly available data a specific population of farm loans outside of USDA data and regulatory reports

# Our dataset

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- 14 field crop-intensive states
- All field-crop relevant farm equipment over 100 horsepower
  - Increase likelihood for farm use of equipment
- These 14 states likely represent over 50% of farm equipment debt (and expenditure) in the U.S. (ARMS estimate)
- Farm equipment debt around 13% of total farm sector debt (ARMS estimate)

# Approach

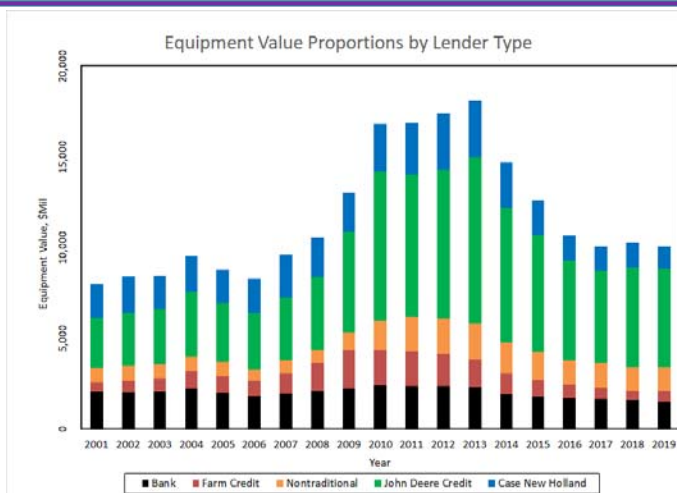
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- [Detailed description of UCC data and trends](#)
- Compare lender market shares implied by UCC to data:
  - USDA Farm Sector Debt Estimates
  - ARMS farm equipment debt estimates (for 14 UCC states)
    - From “loan table”
  - ARMS capital expenditure data

## (No) adjustment for LTV

- Assumption 1: Collateral value > (or equal to) loan value
- Assumption 2: Nontraditional LTV > Traditional LTV
  - Informal evidence
    - FCS lenders: 70% average; 80% max with wide range
    - Banks: up to 75% max
    - "Expert": implement dealers, 20% down payment or less
  - Less informal evidence
    - Many equipment manufacturers advertise 0-20% down payment for farm equipment online
- Assumption 3: Some traditional lenders file blanket liens
- Conclusion: our estimates **overstate** traditional market share

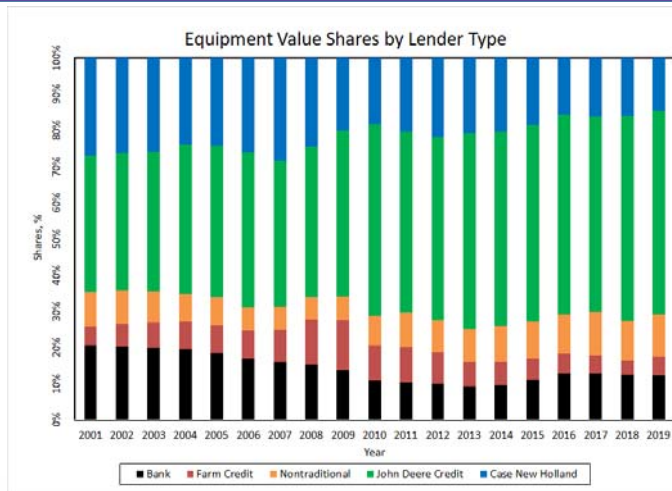
## Recent growth in equipment lending



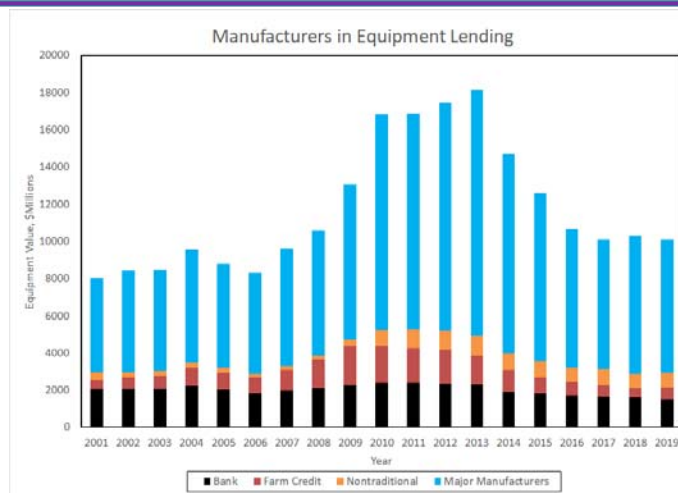
Source: EDA data for select equipment on 14 states, 2001-2019, inflation adjusted for 2019\$



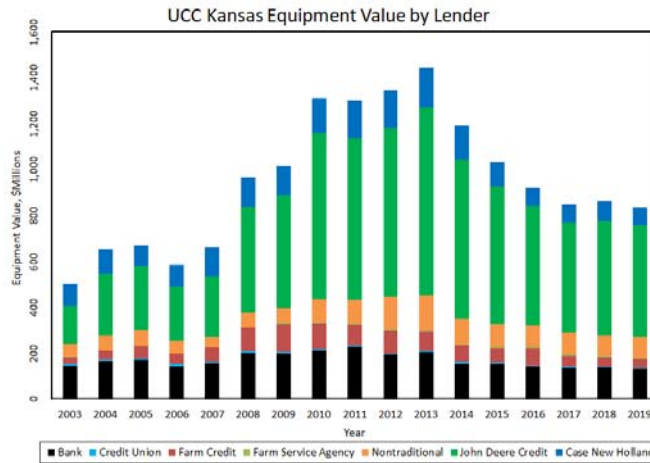
# Manufacturers are key lenders



# Manufacturers in Equipment Lending

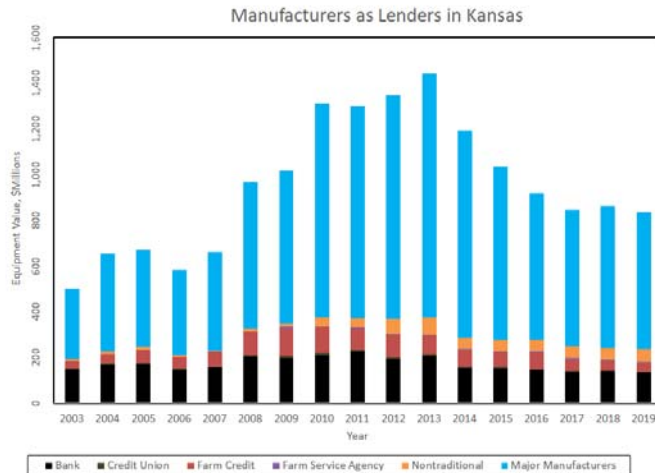


# UCC Kansas Equipment Value



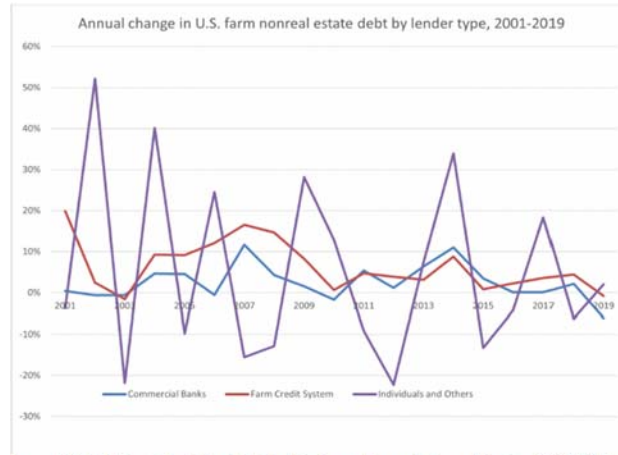
Source: EDA data for select equipment on 14 states, 2001-2019, inflation adjusted for 2019\$

# Manufacturers in KS Equipment Lending



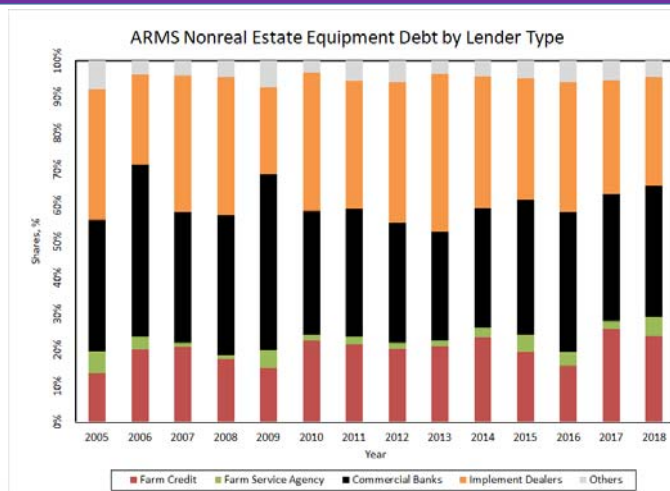
Source: EDA data for select equipment on 14 states, 2001-2019, inflation adjusted for 2019\$

# U.S. Farm sector non real estate debt trends



Source: USDA, National Agricultural Statistics Service and Economic Research Service, 2000-2019. Farm Income and Wealth Statistics Balance Sheets

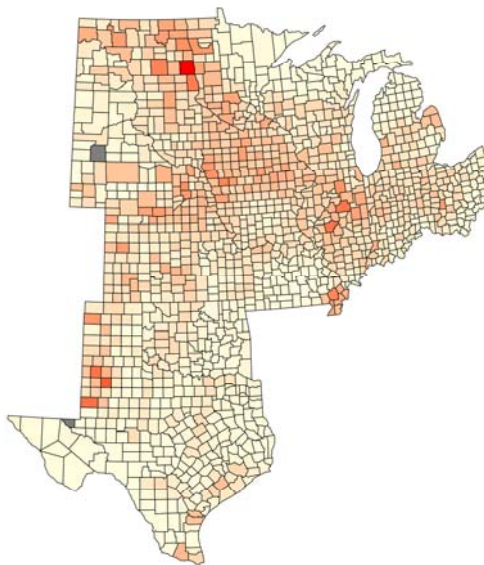
# USDA Farm Survey (ARMS) Market Share



Source: Ifft, Byers and Miller 2021: USDA, National Agricultural Statistics Service and Economic Research Service 2005-2018, Agricultural Resource Management Survey, nonreal estate long term debt data (equipment use only) from 14 states.

# Equipment Value Across US Counties

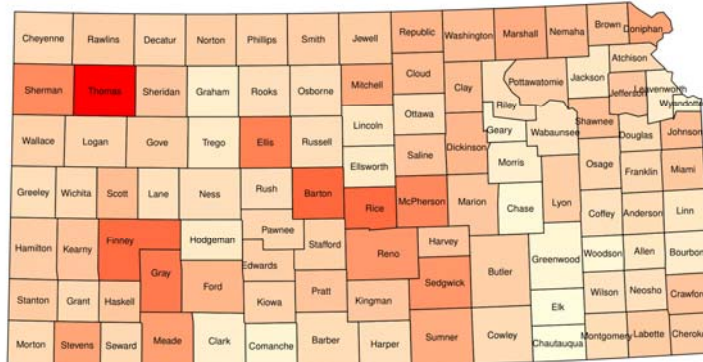
Collateral Equipment Value  
2000-2020



Source: EDA data for select equipment on 14 states, 2001-2019, inflation adjusted for 2019S

# Equipment Value Across Kansas Counties

Collateral Equipment Value  
Kansas, 2000-2020

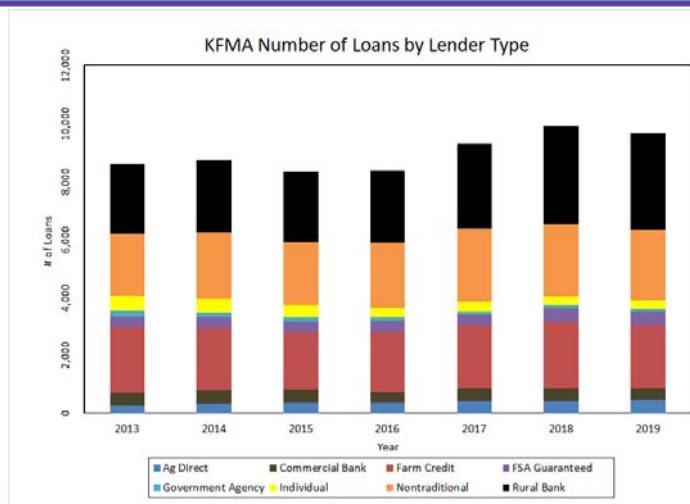


Source: EDA data for select equipment in Kansas, 2001-2019, inflation adjusted for 2019S

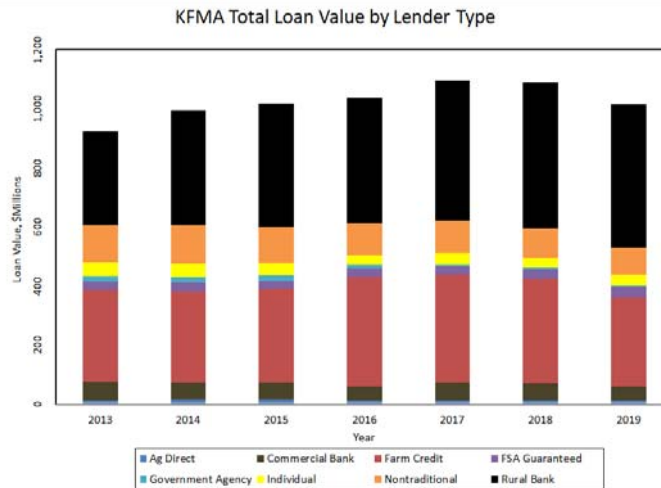
# KFMA analysis of lender type

- Classifying **all** loans from 2013-2020 by lender type
  - In progress, almost 70% have been classified
- Nontraditional includes:
  - CNH
  - JDF
  - Agco
  - Ford Credit
  - Diversified Financial Services
  - Mostly equipment, some input finance

## KFMA Loans by Lender (all loan types)



# KFMA Loan Value by Lender (all loan types)



Note: preliminary estimate

## Key findings

- Manufacturers and implement dealers dominate farm equipment lending
  - FCS and bank lenders likely have less than 20% of this market
  - This is not reflected in official farm sector debt estimates
- Kansas trends largely consistent with national
- What's the bottom line?
  - More options for farm managers
  - More difficult to measure and track farm debt quantity and performance
- Long term: track lender type using KFMA data to follow current trends, research on farm characteristics and lender choice

Questions?  
Comments?  
Thank you!

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