

Recent Trends in Nontraditional Lending

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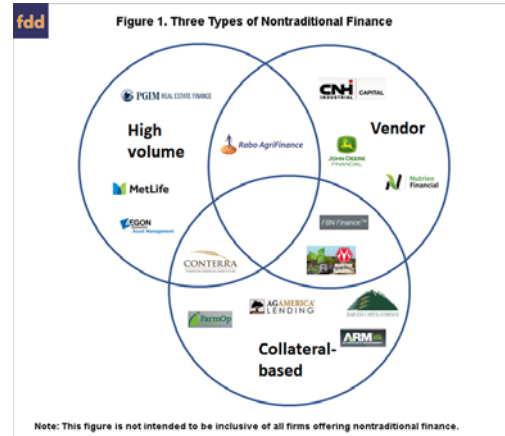
Outline

- 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/>
<https://www.bankingdive.com/news/abobank-us-agriculture-lending-gap/553142/>
<https://www.agloan.com/wp-content/uploads/2020/03/American-AgCredit-2019-Annual-Report.pdf>
<https://cd.fic.gov/public/>
<https://www.frontierfarmcredit.com/about/newsroom/financial-reports>
<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

- 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

- 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

- 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

- 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

- 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)

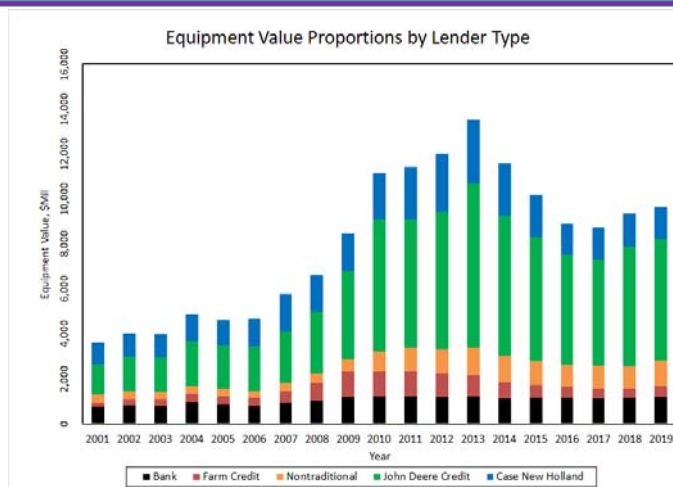
Approach

- [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

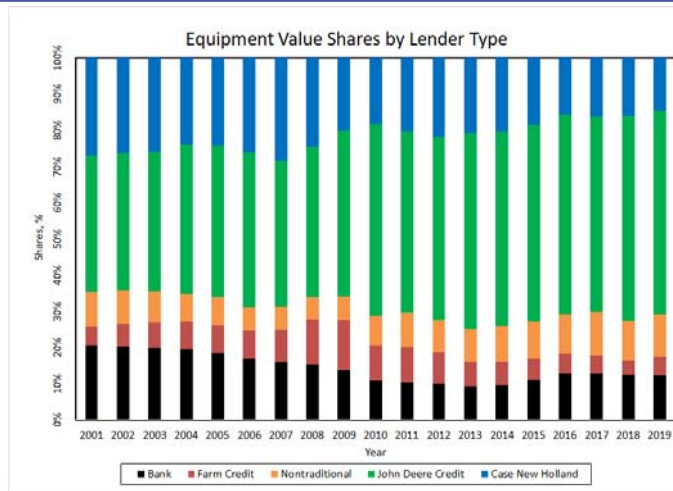
(No) adjustment for LTV

- 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

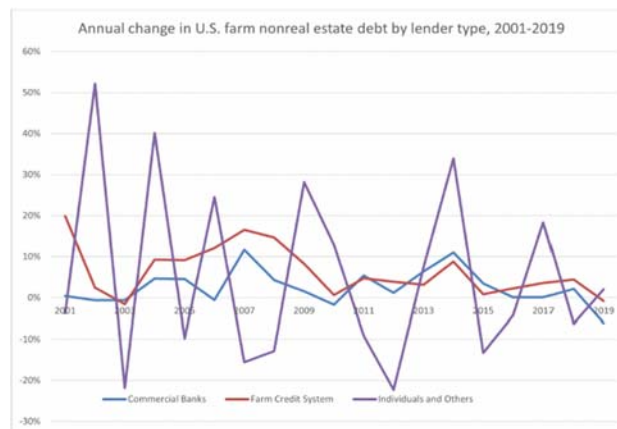
Recent growth in equipment lending



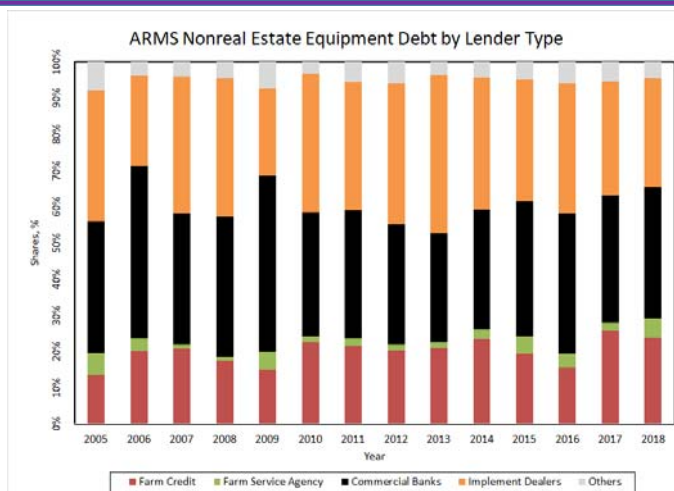
Manufacturers are key lenders



Farm sector non real estate debt trends

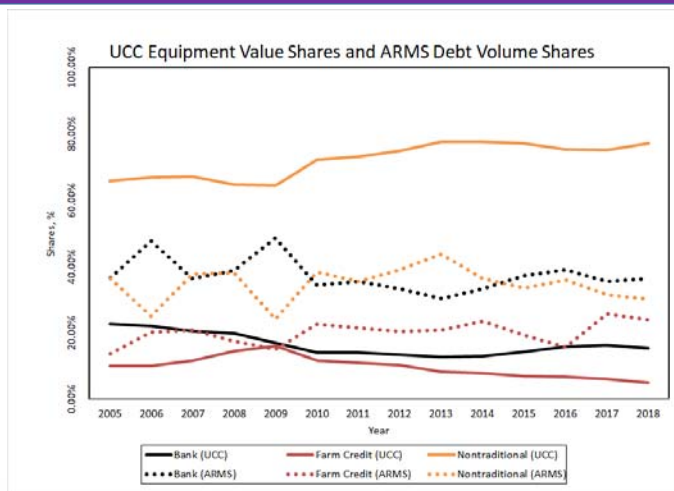


ARMS Market Share



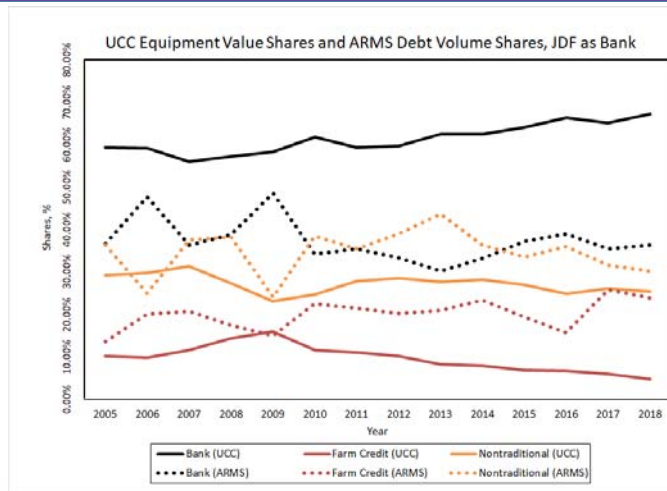
Source: USDA, National Agricultural Statistics Service and Economic Research Service 2005-2018, Agricultural Resource Management Survey, nonreal estate long term debt data (equipment use only) from 14 states.

Relative market shares: JDF as nontraditional



Source: EDA data and USDA, National Agricultural Statistics Service and Economic Research Service 2005-2018, Agricultural Resource Management Survey, data from 14 states.

Relative market shares: JDF as bank



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 farm sector debt estimates, but
- ARMS likely underestimates the volume of nontraditional lenders, but organization structure of manufacturer financing companies is a key consideration

Questions?
Comments?
Thank you!



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