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The Rise in Implement Dealer Financing

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Farmers rely on external debt capital to finance their capital base, to conduct marketing and production activities, and to provide a valuable source of liquidity in responding to risk. Farmers obtain debt capital from a variety of lenders, including commercial banks, the Farm Credit System, other cooperative lenders, and a variety of public programs, such as Farm Service Agency (FSA) direct loans. With the recent declines in farm profitability and reductions in working capital reserves, farmers' demand for external debt capital has increased, yet the same forces also signal increases in repayment risk. As a result, farmers may seek debt capital from additional sources, such as individual investors, input suppliers, or implement dealers. There is currently very limited information on the volume and type of debt held by these lenders. This article examines the current level of debt capital provided by these lenders and how the share of debt provided by these lenders has evolved over time.

Sources for Detailed Farm Loan Data

While many lenders, such as commercial banks or the Farm Credit System, report aggregate lending to farmers, it is difficult to measure other lending relationships, such as borrowing from individuals. For these types of lending relationships, economists typically rely on surveys of farm operators. The best source for national-level aggregate farm debt is the Agricultural Resource Management Survey (ARMS) jointly produced by USDA Economic Research Service and National Agricultural Statistics Service.

Farmers Seek Loans from a Variety of Lenders

The annual ARMS survey includes a series of questions that provide detailed information on the terms, age, interest rate, and lender type for (up to five) outstanding loans. Table 1 below presents the aggregate loan volume by lender type from the most recent ARMS, 2016, for real estate and non-real estate loans. The data indicate that the Farm Credit System and commercial banks supply the majority of debt to farm operators.

Table 1. Aggregate Farm Operator Debt by Lender Type, $ Billions, 2016			
	Real Estate Debt	Non-Real Estate Debt	
		Short Term	Long Term
Farm Credit System	43.64	12.91	6.49
Commercial banks	65.22	29.58	16.51
Credit unions	2.06	0.26	0.64
FSA	4.01	2.38	1.11
Implement dealer	0.2	0.29	10.72
Life insurance	1.26	0.08	0.03
Input suppliers		0.11	
Cooperatives		0.11	
Individuals	8.14	0.42	3.12
Credit cards		0.04	
Farmer Mac	0.11		0.05
All others	2.55	1.16	0.7

Note: **The actual number may be different, depending on how operators perceive and report this type of credit.**

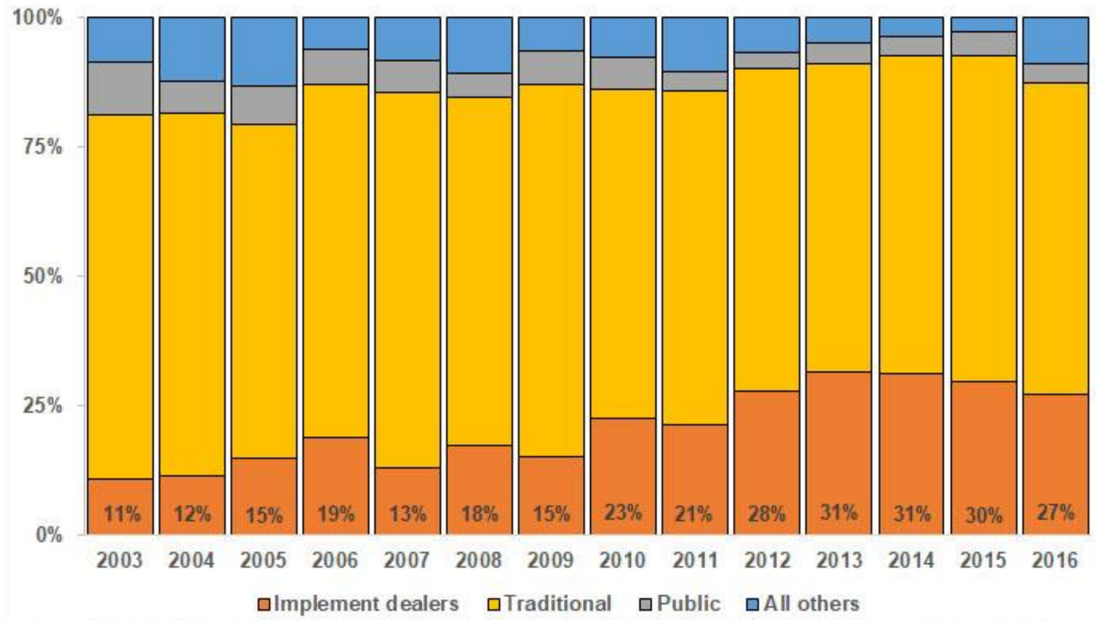
Source: USDA ERS/NASS Agricultural Resource Management Survey 2016, authors' calculations

The ARMS survey suggests that implement dealers provided a total of $11.2 billion in debt capital to farm operations in 2016. The majority (96%) of debt issued by implement dealers is concentrated in long term non-real estate debt, which largely consists of machinery and equipment loans. These data indicate that implement dealers provide 27% of the sector's long term non-real estate debt in 2016.

Implement Dealers' Increasing Market Share in Long Term Non-Real Estate Debt

The graph below shows the share of long term non-real estate debt by lender type. The yellow bars represent the market share by traditional lenders, including commercial banks, credit unions, the Farm Credit System, and Farmer Mac. The grey bars represent the market share of public lenders, including direct loans made by the Farm Service Agency (FSA), Small Business Administration (SBA), and other public programs. The orange bars represent the market share of implement dealers, and the remaining lenders are represented by the blue bars. The figure demonstrates the increasing role of implement dealer financing. Implement dealers' market share increased from 11% in 2003 to a high of 31% in 2013 and 2014.

Figure 1. Share of Long Term Non-Real Estate Debt by Lender Type, 2003–2016



Note: Prior to 2012, missing survey responses were excluded rather than imputed. While this change may affect aggregate debt level (Morehart et al 2014), relative shares between lender types are likely not affected.

Source: USDA ERS/NASS Agricultural Resource Management Survey 2003-2016, authors' calculations

Conclusions

With the recent downturn in the agricultural economy, many industry observers have noted the increased role of implement dealer financing (Wall Street Journal, July 18, 2017). However, there is little information on debt supplied by implement dealers. This article uses USDA farmer survey data to highlight the volume and share of debt supplied by implement dealers. We find that implement dealers have an increasing share of long-term non-real estate lending. In a future article, we will explore this type of lending in more detail.

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