Summary: Special Issue of the *Agricultural Finance Review* on Nontraditional Credit in U.S. Agriculture

Jennifer Ifft (jifft@ksu.edu) – K-State Department of Agricultural Economics
Brady Brewer – Purdue *Department of Agricultural Economics*
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The options that farmers have for where and how to get credit have been increasing. Traditional lenders such as commercial banks and Farm Credit Systems continue to expand their offerings and nontraditional lenders (including vendor finance and collateral-based lenders) are playing a growing role in agricultural credit markets. While this competition can lower credit costs, it also makes financing decisions more complex. Further, limited information on the volume and risk associated with nontraditional finance can be found in publicly available data, which is a concern for policymakers and financial regulators. Most agricultural finance research still focuses on traditional agricultural lending relationships. The goal of the recent special issue of the *Agricultural Finance Review* on "Nontraditional Credit in U.S. Agriculture" was increase knowledge of nontraditional finance in US agriculture and lay a foundation for future research, while also providing insights for farm managers, industry and policymakers.

There are three key characteristics of nontraditional finance that are supported by the 11 studies in the special issue: (1) nontraditional finance has a substantial market share; (2) nontraditional lenders have expanded through offering convenience, serving underserved borrowers, and other innovations; and (3) a few types of nontraditional lending are more likely to server borrowers that have higher financial risk, but this relationship is not uniform across lender types.

Nontraditional lending has a substantial market share, although the exact share is hard to measure. Lyons and Takach found that nontraditional real estate lenders held over 1/3 of loan volume and over ¼ of loans in Farmer Mac's Farm and Ranch Portfolio. This market share has grown substantially since 2013. Nontraditional credit made up 17% of the total loans held by Wisconsin dairy farmers that participated in a case study by Stevens. Kuethe et al. find that perceived competition from nontraditional lenders is related to some commercial bank lending practices and outcomes, which implies that nontraditional lenders may have a significant market share. The editors of the special issue estimate that the total market share of nontraditional finance could be as high as 25%.

Nontraditional lenders have expanded by offering convenience, meeting the needs of underserved producers, or through other targeted strategies. The case studies conducted with multiple collateral-based lenders by Tetteh et al. provide a description of how these nontraditional lending strategies are developed and maintained. Lyons and Takach provide 3 classifications for nontraditional real estate lenders, which includes entities that are not lenders

(i.e. cooperatives) that provide real estate loans as an additional benefit for their customers, or to maintain or attract customers. Over half of the dairy farms participating in Steven's case study reported that non-traditional credit was more convenient, while some participants reported that they needed larger loans than a traditional lender could provide. Beginning farmers can find it more difficult to secure credit from some traditional lenders, because they are less likely to have established sales and collateral for secured loans. Thilmany et al. found that operations where all operators are beginning farmers generally rely more heavily on nontraditional lending sources than established operations or operations with some beginning farmers. The financing patterns imply that some beginning farms are highly dependent on personal relationships, input supplier and credit card financing and could benefit from financing options that are more flexible, easier to access, or require less collateral than traditional sources. Plakias et al. found that while growth of the California cannabis industry was associated with economic growth and financial activity, cannabis businesses had a limited access to even basic financial services.

While some borrowers that use nontraditional finance are credit constrained, this relationship is not observed for many types of nontraditional lenders. McDonald et al. found that the only farm characteristic that was associated with a higher probability for a socially disadvantaged farmer to use a non-traditional lender was lower assets. Nadonlyk and Hartarska found that the relationship between credit access and loan outcomes varied by beginning, female and non-beginning farmers. Rabinowitz and Secor examined Chapter 12 bankruptcy cases and found that traditional lenders with secured debt were able to recoup a greater portion of their loans, but that nontraditional lenders held a significantly smaller share of the bankrupt farmers' debt. Dodson et al. used data from Farm Service Agency borrowers and found that borrowers using short-term vendor financing have a 22–25% higher probability of default, compared to 9% higher for borrowers using intermediate vendor financing. FSA borrowers by design are more likely to have difficultly accessing traditional credit; nontraditional finance may be playing an important role serving such producers. While policymakers may be concerned with the financial risk associated with some types of nontraditional credit, the relationship is far from universal. Mashanga and Briggeman found that cooperatives have capacity to expand credit offerings, which suggests that any analysis that examines how non-traditional lenders change the risk profile of the agricultural credit markets must account for the additional capital they bring.

Nontraditional finance is an integral part of agricultural credit markets, that will likely continue to grow. Future research should focus on improvements in data and statistical methods, as well as analysis of nontraditional lenders in emerging trends in agricultural credit markets.

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