SERVICE IN ACTION
COLORADO STATE UNIVERSITY EXTENSION SERVICE

A financial picture of Colorado agriculture

Part II

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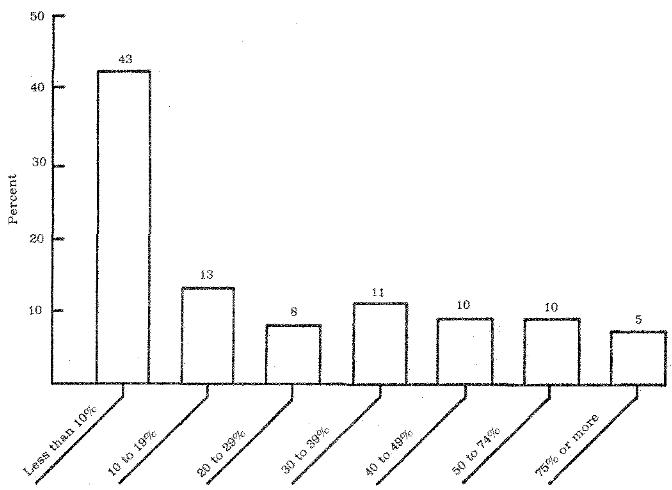
Part I of this report focused on the level of gross farm sales and family income of Colorado farm operators for the past several years. Part II looks at the level of farm indebtedness and the borrowing/credit record of Colorado farmers.

Farm operators were asked, "What percentage of your gross farm assets (value) is your present level of farm indebtedness?" Figure 1 shows that the majority of farms had a gross debt of less than 20 percent of their gross assets (value). On the other hand, approximately 25 percent of the farmers surveyed had debts that exceed 40 percent of their gross assets. This indicates that some farmers are experiencing financial difficulty.

Figure 1: Farm indebtedness.



Colorado farm operators were then asked to describe "the average amount of short-term (one year or less) and long-term indebtedness for their farm over the last three years." Figure 2 shows that one-third of the operators claimed less than $2,000 short-term indebtedness. About one-half had short-term indebtedness of less than $10,000. On the other hand, 25 percent had short-term indebtedness exceeding $50,000. Purchases that normally require short-term borrowing include seeds, fertilizer, pesticides and feed or livestock.

Fewer than half of the farms had long-term indebtedness under $50,000. Another quarter of the farms had long-term indebtedness between $50,000 and $150,000. Expenses typically covered by long-term borrowing include land, equipment and buildings.

Figure 2: Short-term indebtedness.

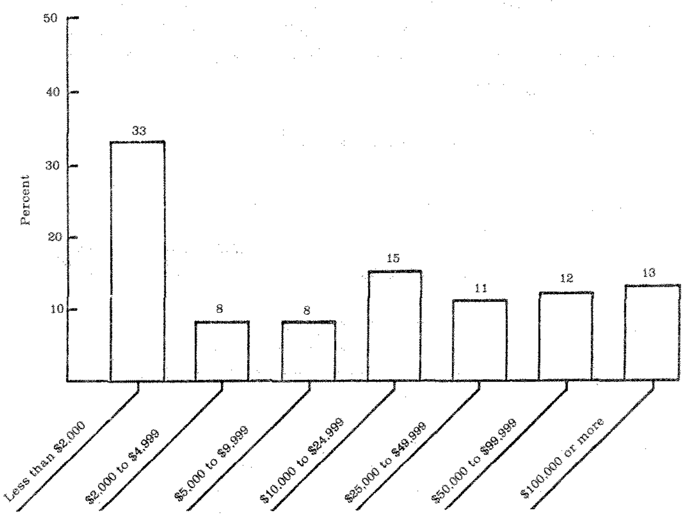
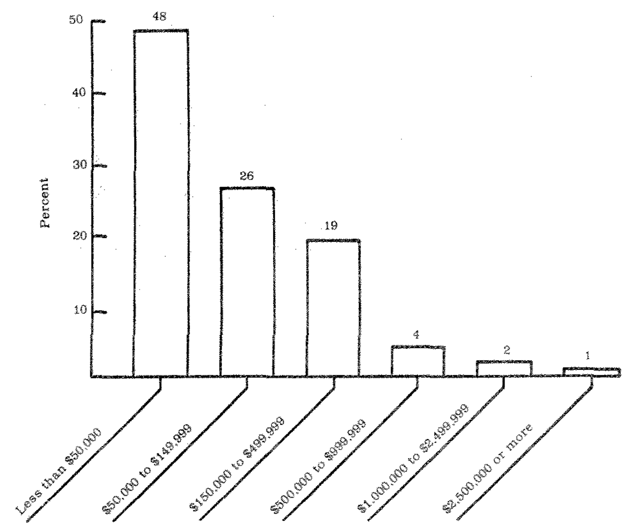


Figure 3: Long-term indebtedness.



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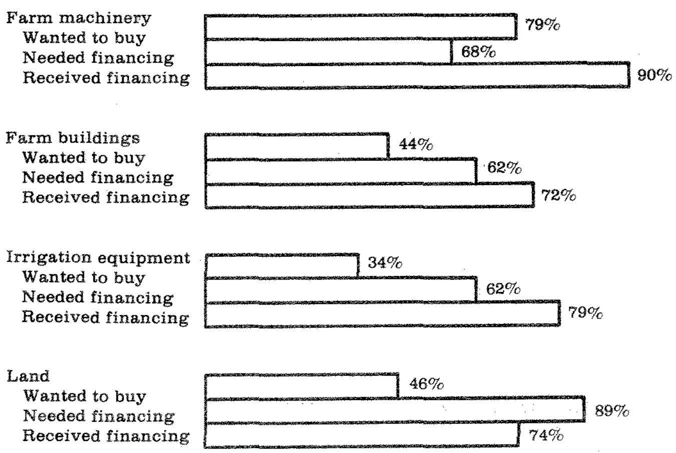
A large number of farm operators either made or wanted to make major purchases over the past five years. They were aksed, "In the past five years, have you either bought or wanted to buy farm machinery, buildings, irrigation equipment, or land? If you have, we would like to know if you needed financing and if you got it." Figure 4 shows that farm machinery was mentioned most often as an item that was purchased or was desired (80 percent). Irrigation equipment, probably because its use is limited to selected areas, was mentioned least (34 percent). Financing was sought most often for land (89 percent) and least often for buildings and irrigation equipment, 63 and 62 percent, respectively. The highest level of borrowing success occurred with farm machinery (90 percent), the least with farm buildings (72 percent).

Figure 4: Financing needs and success.



Commercial banks were used most often for financing machinery (63 percent), buildings (48 percent) and equipment (48 percent). The primary source of financing for land was the federal land bank (50 percent). Production credit associations were secondary providers for purchasing machinery (21 percent) and irrigation equipment (24 percent).

Level of indebtedness was related to several other variables. Both short- and long-term indebtedness were greater for larger farm operations. Likewise, the highest levels of short- and long-term indebtedness were reported among full-time, as opposed to both part-time and off-the-farm farm operators.

Although percent of total indebtedness was not associated with farm ownership, both short- and full-term indebtedness were. Corporate farms and partnerships reported the largest percentages of farms in the high debt category. In both cases, the percent was nearly twice as large as that for single-family farms.

Amount of indebtedness was strongly related with gross farm sales. Those with large farm sales reported the largest amount of indebtedness. The percent of high indebtedness among farms with sales of $50,000 or more was twice that among farms with sales of $10,000 or less.

The study showed that the percent of farm indebtedness was associated with percent of a family's total income derived from farming. Farms with higher levels of indebtedness were the ones that relied more on farming for a living. High indebtedness occurred more frequently among farmers with less than $15,000 total family income, the ones who could least afford it.

In summary, level of both short- and long-term indebtedness was greater for large farms, full-time farmers, and corporate farms and partnerships.

The Sample

Mail questionnaires were sent to 2,520 randomly selected Colorado farm operators. Of the 2,129 delivered questionnaires, 1,123 were returned for a response rate of about 53 percent. The study's margin of error is three percent.

More information on the methods and data from this study are available from the authors.