Federal Reserve Bank of Chicago - -

Agricultural Letter

March 19, 1965

Number 796

AGRICULTURAL LOANS outstanding at member banks in the Seventh Federal Reserve District increased further during the past year. Loans secured by farm real estate continued their sharp and persistent rise of recent years while non-real estate loans, made chiefly to finance crops and livestock production, showed a relatively small gain over the previous year. (See back of Letter.)

Non-real estate loans outstanding at District banks rose only 2.5 per cent during 1964 and nearly three-fourths of the rise occurred during the first half of the year. This relatively small increase in outstanding "short-term" loans is in marked contrast with the sharp gains in each of the two preceding 12-month periods. Furthermore, it was the smallest gain in this type of credit in four years.

The moderate increase in short-term loans to farmers reflects primarily the smaller credit needs to finance cattle feeding operations. Although the number of feeder cattle shipped to the Corn Belt states during the latter half of 1964 was greater than in the previous year, the total value of these cattle was somewhat less than in the year-earlier period. Feeder cattle averaged about $21.30 per hundredweight during the final six months of last year or nearly $4 per hundredweight below the year-ago period. This probably reduced the amount of financing needed per animal by about 10 to 15 per cent.

Extensions and renewals of maturing loans eased downward during the second half of 1964 as fed cattle prices and profit margins of cattle feeders improved. This also tended to hold down the total amount of non-real estate loans outstanding. During 1963 and the first part of last year, renewals and extensions of maturing loans rose sharply reflecting the adverse price situation for fed cattle.

Farm real estate loans outstanding at District banks continued their upward trend, registering substantial gains both from a year ago and from the last reporting date at midyear. Large increases in the amount of loans outstanding were general throughout all the District areas; each of the District states experienced gains of 10 per cent or more from the levels of the preceding year.

The increase of nearly 15 per cent in farm mortgage debt held by District banks during 1964 was slightly greater than that experienced during the previous year and the largest year-to-year gain recorded. Other farm mortgage lenders also experienced substantial growth in their farm real estate loan holdings during the past year. For example, the volume of farm real estate loans outstanding at life insurance companies rose more than 12 per cent during 1964. Similarly, the volume of mortgages held by Federal land banks was also up by about 12 per cent at year-end.

A number of factors continue to add impetus to the expansion in farm real estate loans. A large part is attributable to the steadily rising land prices. Also, the proportion of farmland transfers financed with borrowed funds has increased and a larger proportion of the purchase price is being borrowed.

During the past five years, the annual increase in land values has averaged more than 4 per cent. Moreover, from 1960 to 1963, the proportion of farm sales that involved financing rose from 67 to 73 per cent and the ratio of debt to the purchase price increased from 64 to 70 per cent.

Furthermore, the shift from small units to larger more mechanized farming operations has tended to boost the average size of farm real estate loans. A recent survey by the U. S. Department of Agriculture indicates that the average size of mortgage loans increased about 30 per cent from 1961 to 1963. Although banks typically make smaller loans than other lenders, their average size of loans rose from $6,630 to $8,790 over the same period—an increase of about one-third.

Lenders have also lengthened their terms of maturity on farm mortgage loans, apparently in part to accommodate the increasing size of individual loans. From 1961 to 1963, U. S. Department of Agriculture estimates indicate that the average maturity of farm real estate loans recorded by all lenders increased from 16.1 to 17 years. This has also served to increase the amount of loans outstanding at any given time.

The sharp increase in mortgage debt outstanding during the past two years apparently also reflects an increase in refinancing of short-term loans by the use of longer-term mortgage credit and the growing use of loans secured by farm mortgages for financing operating expenditures.

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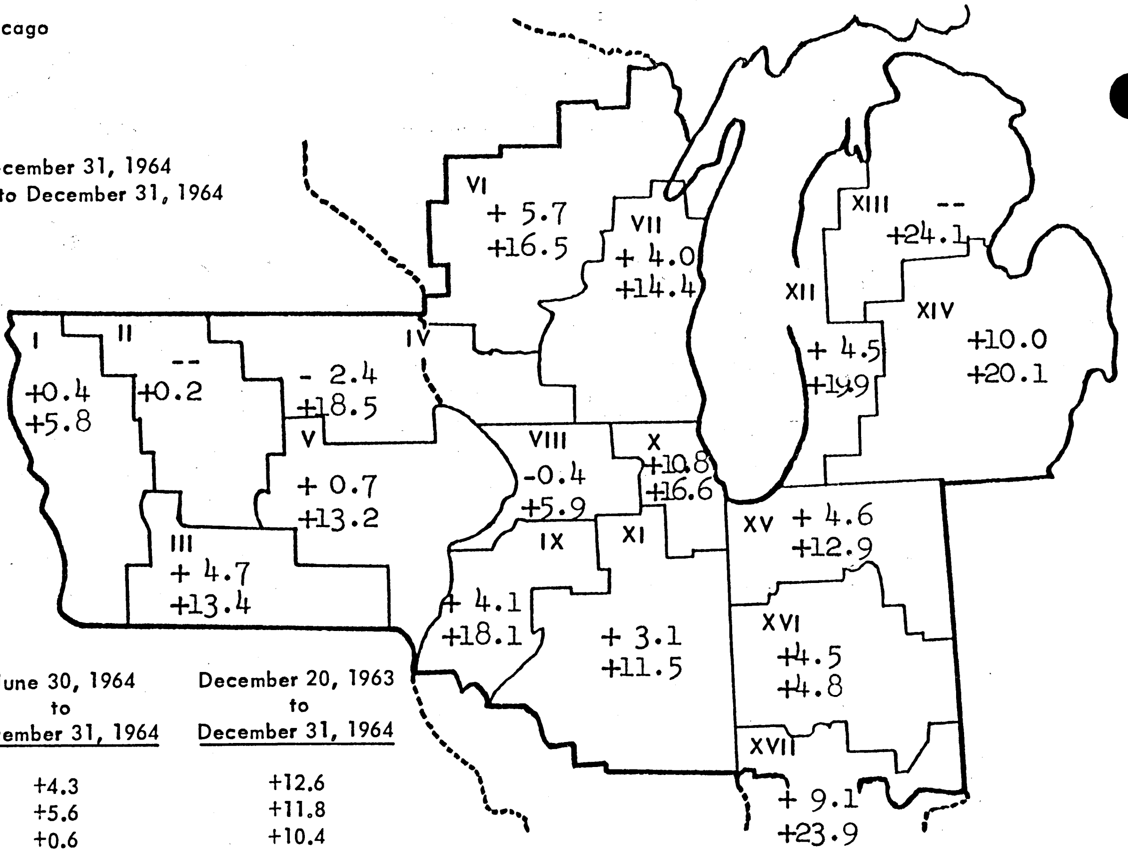
Farm real estate loans outstanding
District member banks outside Chicago

Per cent change:

TOP: June 30, 1964 to December 31, 1964
BOTTOM: December 20, 1963 to December 31, 1964

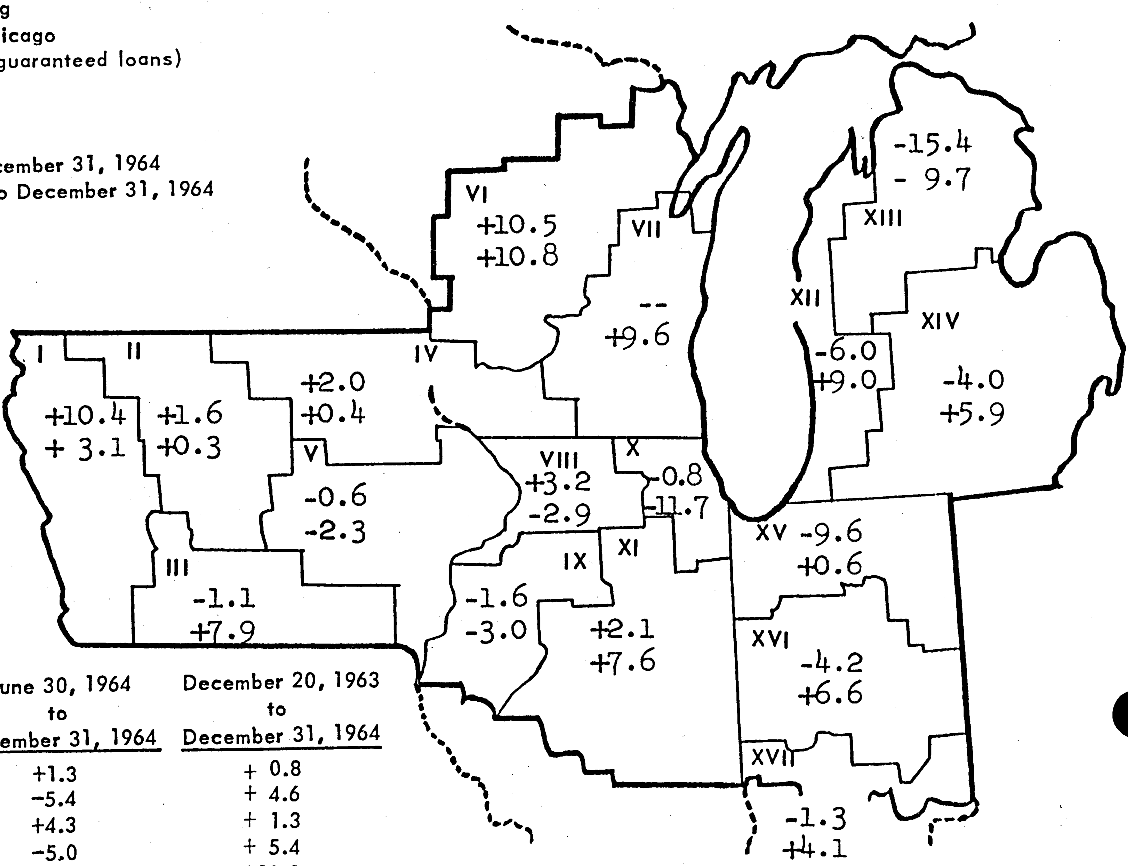


	June 30, 1964 to December 31, 1964	December 20, 1963 to December 31, 1964
Illinois	+4.3	+12.6
Indiana	+5.6	+11.8
Iowa	+0.6	+10.4
Michigan	+8.5	+20.3
Wisconsin	+4.2	+15.4
SEVENTH DISTRICT	+5.1	+14.6

"Short-term" farm loans outstanding
District member banks outside Chicago
(excludes real estate and CCC guaranteed loans)

Per cent change:

TOP: June 30, 1964 to December 31, 1964
BOTTOM: December 20, 1963 to December 31, 1964



	June 30, 1964 to December 31, 1964	December 20, 1963 to December 31, 1964
Illinois	+1.3	+ 0.8
Indiana	-5.4	+ 4.6
Iowa	+4.3	+ 1.3
Michigan	-5.0	+ 5.4
Wisconsin	+2.7	+10.1
SEVENTH DISTRICT	+0.6	+ 2.5