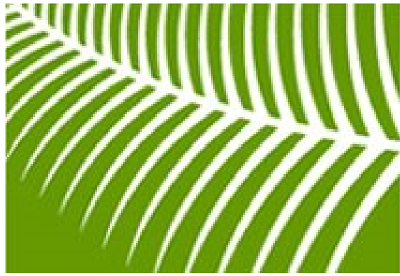

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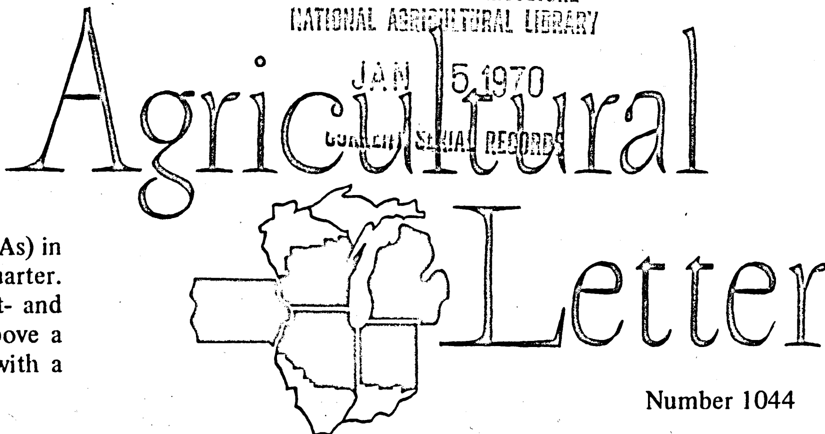


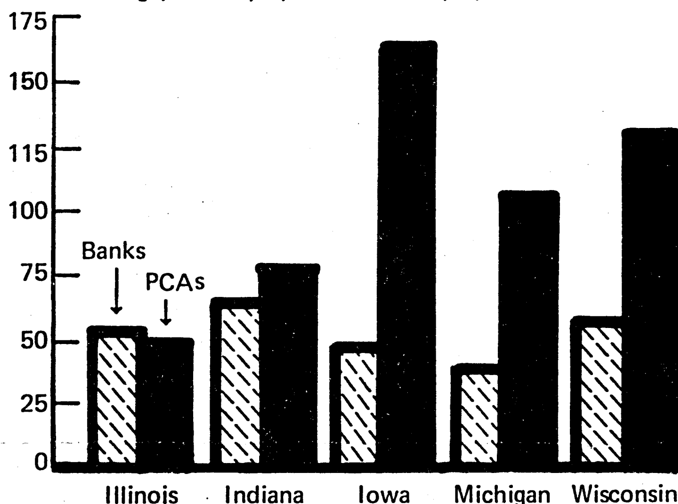
December 19, 1969

Number 1044

LENDING by Production Credit Associations (PCAs) in the Seventh District continued strong during the third quarter. As October began PCAs' loan level (PCAs make short- and intermediate-term loans to farmers) was 10 percent above a year ago in the five district states. This compares with a nationwide gain of 13 percent.

The increase in loans outstanding at PCAs probably indicates that the agencies enlarged their share of total non-real estate loans to farmers. At midyear, PCAs in the district states reported that loans outstanding were 11 percent above the year before. In contrast, district member banks reported an increase of less than 2 percent in short-term farm loans. However, some short-term bank loans may have been secured by farm real estate and thus classified as real estate loans. Even so, these banks reported that total farm loans were up only 4 percent at midyear and lending activity continued moderate through the third quarter.

Non-real Estate Loans at PCAs Increase Faster than at Banks in Most District States



Commercial banks, of course, hold a far greater share of the total non-real estate farm loans than do PCAs. At the beginning of the year, commercial banks held about 73 percent and PCAs about 23 percent of such loans outstanding at institutional lenders in the district states. Five years ago the proportion held by banks was about 77 percent; PCAs about 21 percent. During the five year period, banks increased their volume of non-real estate farm loans 51 percent while PCAs increased their volume 96 percent.

Some rural banks find it difficult to keep pace with the rapid growth in farm credit requirements and this probably is the single most important factor in the PCAs' relative gains. PCAs routinely tap the national money markets through the Federal Intermediate Credit Banks (FICBs) to obtain funds for loan operations. Rural banks typically limit their sources of funds to the local community and infrequently seek funds from correspondent banks or other sources outside the local area. In periods of tight credit, of course, outside funds are less available and command high rates.

In most rural areas, farm credit has increased more rapidly than deposits at agricultural banks. Total deposits at agricultural banks in the Seventh District increased about 52 percent from 1961 to 1968 while total farm loans increased over 70 percent.

The slow deposit growth partly reflects the decline in farm population as incomes and jobs in rural areas have failed to keep pace with urban regions of the country. The same forces that have increased farmers' credit requirements—mechanization and greater use of purchased materials and services—have reduced the number of persons needed on farms.

More recently, because of the sharp rise in interest rates, some banks' ability to attract and hold deposits may be hindered by the limitations on rates they are permitted to pay. However, a 1968 survey of Seventh District member banks indicated that two-fifths of the banks with under $10 million in deposits (agricultural banks comprised two-thirds of this group) were paying less than the maximum 4 percent rate on regular savings and fewer agricultural banks than other banks offered small certificates of deposit (maximum rate 5 percent).

In periods of tight credit, PCAs may also be restrained as to the amount of funds they can obtain. The Farm Credit Administration—the governing authority for the farm cooperative credit system which includes PCAs—in early 1967, for example, directed its agencies to practice selectivity in granting loans so as to limit the overall demand for funds and ease upward pressures on interest rates. Except for any effects of such restraints, the expansion of loan volume by PCAs is limited only by the rate borrowers are willing to pay and their ability to increase their capital. In general, rates charged PCA customers reflect the cost of money to the Federal Intermediate Credit Bank through which local PCAs obtain funds. A recent issue of FICB debentures carried an interest rate of over 8 percent.

A recent innovation by PCAs presents an additional competitive challenge to banks. Although PCAs have provided agricultural loan service for many years, not until this fall did they provide a direct means of obtaining funds from individuals in local communities. The high rates now being paid on issues of FICB debentures prompted the development of a plan to enable PCA members—present or past borrowers still holding stock in the association—to purchase FICB debentures in $5,000 denominations through local PCA offices. Other recent proposals such as expanding local associations' lending to include agribusiness firms and offering farm management and trust services, if adopted, would result in the broadening and sharpening of competition between rural banks and PCAs.

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