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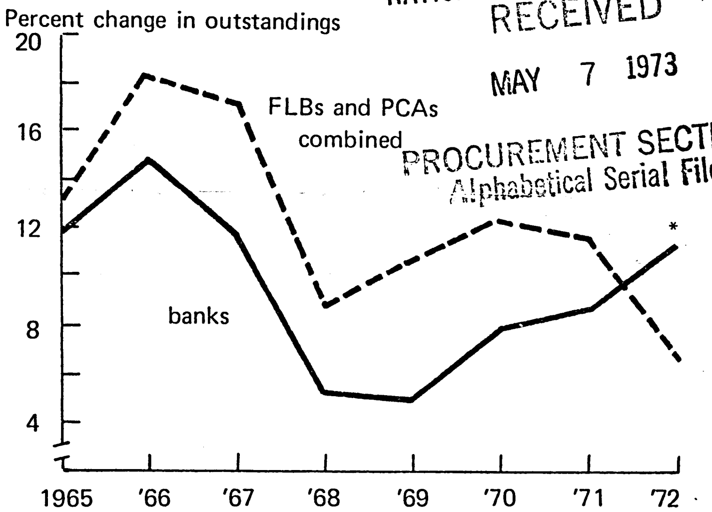
BANK LOANS TO FARMERS rose sharply in 1972, and the trend is likely to continue this year. Farm loans outstanding at member banks in the Seventh Federal Reserve District (except Chicago) totaled over $1.4 billion at the end of 1972, a 6 percent increase from the midyear level and an 11 percent rise from the year-earlier level.

Farm real estate loans rose nearly 17 percent to pace the overall increase in outstandings. The increase, however, varied widely between district states, ranging from a low of 10 percent in Michigan to a high of around 28 percent in Wisconsin. The gains in farm real estate lending largely reflected last year's big advance in land values, and the likelihood of some increase in the refinancing of earlier-negotiated short-term loans. Another factor was the decline in financing provided by individuals, the major source of lending for farm real estate mortgages.

Non-real estate farm loans outstanding at district member banks outside of Chicago rose nearly 10 percent during 1972. Among district states, the gain ranged from a low of 5 percent in Illinois to a high of 12 percent in both Iowa and Michigan. The most striking increase in non-real estate farm loans occurred among member banks in Chicago. Such loans at these banks more than doubled in 1972, probably reflecting increased fund availability for agriculture and an expansion in loans for cattle feeding. Typically, Chicago banks hold about one-tenth of the non-real estate farm loans held by all district member banks.

Bank Loans to Farmers in District States Up More than FLBs and PCAs in 1972



*Based on Seventh District member banks located outside Chicago.

Last year's growth in bank loans to farmers is particularly impressive when compared to the concurrent gains registered by the cooperatively-owned agencies within the Farm Credit System. Nationwide, the combined annual growth in outstandings at Production Credit Associations (PCAs) and Federal Land Banks (FLBs) has consistently exceeded that for banks for several years. It now appears that this trend was interrupted in 1972, at least in district states. Outstanding loans to farmers in district states held by PCAs rose only 2 percent during 1972, while outstanding farm real estate loans at FLBs rose 10 percent. In both instances, the gains were well below those registered by district member banks.

Bank loans to farmers during the current year are likely to post further substantial increases, reflecting a strong loan demand and a generally adequate supply of lendable funds at banks. Both crop and livestock producers are in the midst of expanding production and will have to increase their purchases of production inputs. Sharply higher prices paid for practically all inputs will add considerably to the overall financing needed to cover production expenses. Capital expenditures are also expected to be up sharply, continuing the trend set in 1972. Investment in farm equipment and structures rose 17 percent last year.

The availability of funds for lending at banks improved markedly last year and further improvement appears likely for the current year. The generally healthy condition of the farm sector appears to have carried over into the entire rural economy providing a base for deposit growth. Deposits of Seventh District member banks that are heavily committed to agriculture averaged 15 percent over year-earlier levels during the 12 months of last year. Gains of 20 percent have occurred in the first two months of this year. Although the year-to-year gains may slow somewhat during the remainder of this year, it is expected that deposit levels at most rural banks will continue to show marked growth. The recently approved "seasonal borrowing privilege" will also augment the availability of funds for lending at many rural banks.

The seasonal borrowing privilege represents a new lending arrangement between Federal Reserve banks and qualified member banks. The new arrangement will become effective on April 19, and will supplement existing arrangements through which member banks may borrow from Federal Reserve banks. Banks that lack reasonable access to national money markets and experience recurring, significant seasonal movements in deposits and loans would qualify for the seasonal borrowing privilege.

Many rural banks will be eligible as many of these banks experience divergent seasonal trends in loan demands and deposit growth, largely reflecting the seasonal nature of agricultural production. The availability of seasonal borrowing would enable rural banks to overcome a portion of this seasonal pattern and improve their ability to finance the credit needs of local customers.

Gary L. Benjamin
Agricultural Economist