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DISCUSSION COMMENTS AT FARM INCOME AND CREDIT SESSION

(By John C. Moore, Farm Credit Administration)

I agree with Dean's comments that agricultural credit demand will grow in 1980. I'm not sure though that it will grow by more than in 1979 as he suggests. Certainly high production expenses combined with lower incomes will stimulate demand for production credit, and I agree that higher interest rates may not slow demand for short term credit. But I'm not sure the same can be said for real estate credit, a topic Dean did not directly address. I would expect continued increases in land values. The favorable longer term prospects for U.S. agriculture and the expectations of continued inflation should outweigh the short term adverse fluctuations in influencing land price increases in 1980. But high interest rates and poor cash flows in 1980 will probably reduce land transfer rates and keep percentage increases in real estate debt outstanding below those of 1979. Of course, increased need for refinancing of real estate loans to meet short term obligations may keep loans made gaining at a rapid pace.

1980 should be an interesting year to watch changes in market share. I agree with Dean in that Farm Credit System share of the net flow of debt will be high, though it may not be as high as in late 1979 and may be lower toward the end of 1980. Interest rates are expected to decline next year as slowed growth in the economy reduces upward pressure on loan demand. As Dean pointed out System rates typically move more slowly than rates of other lenders—giving the System its current competitive advantage but also giving an interest rate disadvantage depending on how fast rates decline. Of course, it's difficult to judge how much changing interest rates will affect System portfolio costs without also knowing the amount of new money demands placed on the System. One factor that may attract long-term borrowers to variable rate lenders in the very near future will be the good prospects for declines in interest rates later in 1980.

During 1979 the System increased its share of overall debt by picking up some borrowers other lenders could not serve. It will be interesting to see how many of these borrowers will eventually return to their former lenders as System rates become less competitive.

I'd like also to comment on Government lending activity. Almost all of the net increase in Government non-real-estate lending was through the FmHA. The major source was the economic emergency program, although I have never seen any figures showing how much of this credit is short versus long term. Credit through this program, now just a little over 1 year old, can be extended because of low commodity prices or a shortage of loan funds at reasonable rates from the borrower's current lender. I do not know whether FmHA has attempted to measure the extent of participation caused by farmer distress versus lender distress in 1979, but strong farm income, general lack of credit quality problems, and the surge in capital spending point to lender distress as the cause for participation in 1979. The interest rate differential has, of course, also been a factor and a strong inducement for the direct lending option in this program. The availability of over $3 billion of this credit during fiscal 1979 certainly must have helped alleviate the liquidity squeeze at commercial agricultural banks, it probably also helped these banks keep from losing borrowers to other commercial lenders such as the Farm Credit System, and it helped relieve the impact of rising rates. But the available EE money will soon be used up at existing rates of lending. What increases, if any, can we expect in authorizations for this program after May 1980—the program expiration date? The lower income prospects for 1980 make increases in authorizations a good possibility. But the prospect of stricter regulations and reduced interest rate differentials may change the use of this program considerably.

Another interesting trend to watch next year will be the response of merchants and dealers as well as private individuals in supplying credit during a period of high rates and tight commercial band liquidity.

If projected income is as low as USDA suggests, 1980 may be a difficult year for many farm borrowers. The Farm Credit System can readily supply the funds demanded, but cash flows available for repayment may be quite depressed, particularly among some livestock and soybean producers. Intermediate, and long-term borrowers who made capital purchases several years ago financed by variable rate loans have seen their repayment obligations increase considerably above levels originally planned. For many borrowers, nonfarm income will provide additional cash flow needed to meet obligations. I wonder though whether even nonfarm income might be slightly depressed as unemployment rates rise.