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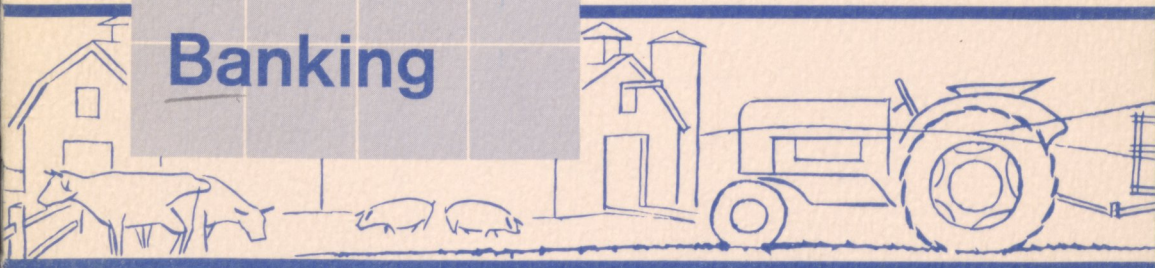
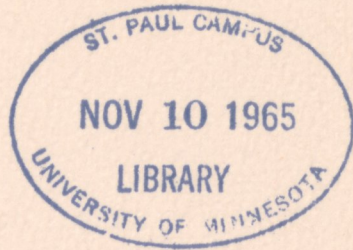
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3- Trends

in

Agricultural

Banking



Report of Midyear 1965  
Agricultural Credit Situation Survey

2  
AGRICULTURAL COMMITTEE  
THE AMERICAN BANKERS ASSOCIATION

**Trends**

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**Report of Midyear 1965  
Agricultural Credit Situation Survey**

**AGRICULTURAL COMMITTEE  
THE AMERICAN BANKERS ASSOCIATION**

## ACKNOWLEDGMENT

The Agricultural Committee of The American Bankers Association gratefully acknowledges and extends its appreciation to the 798 banks that participated in the 1965 Midyear Agricultural Credit Situation Survey.

Such cooperation enables the banking industry to stay abreast of developments in this important field and to provide useful data not otherwise available on agricultural credit and related matters.

The Agricultural Committee takes this opportunity to express its appreciation to the "official family" as well as to the A.B.A. Marketing Research staff specialists for their valuable technical assistance and guidance with respect to all facets of the survey.

AGRICULTURAL COMMITTEE  
THE AMERICAN BANKERS ASSOCIATION

This study reports the results of a survey. It is not intended as a substitute for individual analysis by each bank of its own practices, costs, charges, and policies. As for these, each bank — exercising independent judgment — should make its own determinations.

## INTRODUCTION

For many years the Agricultural Committee of The American Bankers Association has conducted surveys to obtain views of agricultural bankers on matters of current interest. Since 1962 the surveys have been designed to get information suitable for presentation as a national report on banks extending agricultural credit and as a foundation for observing significant trends. Most importantly, it is intended that the findings serve as a guide to individual banks in developing sound and profitable services for their farm customers.

The following profile and trend analysis highlight findings of the Midyear 1965 Agricultural Credit Situation Survey. Those interested in a fuller report of agricultural banking are urged to obtain a copy of the original, comprehensive publication, **REPORT OF MIDYEAR 1962 AGRICULTURAL CREDIT SITUATION SURVEY**, by writing The American Bankers Association, Department of Printing, 90 Park Avenue, New York, New York 10016. Please address any comments or suggestions regarding agricultural surveys to the Agricultural Committee. Additional copies of this year's report are available.

Turn to the statistical appendix for details regarding the panel of agricultural banks surveyed, the response, and the boundaries of agricultural regions.

# PROFILE

AGRICULTURAL BANKS—June 30, 1965

ITEM	ALL REGIONS	REGIONS				
		East	Corn Belt	South	Plains	West
Per cent of Banks GENERAL (Per Bank in Thousands of Dollars)	100	22.0	25.2	18.6	23.0	11.2
Total Deposits: Median <sup>1</sup>	\$8,222	\$8,956	\$8,001	\$8,242	\$6,083	\$12,848
Farm Real Estate Loans: Median	223	243	255	391	100	179
Other Farm Loans: Median	817	601	817	553	1,120	1,755
Total	\$1,040	\$844	\$1,072	\$944	\$1,220	\$1,934
<b>RATIO</b>						
Total Farm Loans to Total Assets: Median	13.1	9.0	13.6	10.1	20.1	11.5

<sup>1</sup> Median represents the middle point in the series arrayed from low to high; thus, half of the banks are below it and half above.

## TRENDS

(Period Ending June 30, 1965)

### FARM LOAN VOLUME

Midyear total farm loan volume per bank reflected a 13.2 per cent increase above a year ago and a 38 per cent advance over the outstanding volume held by agricultural banks in mid-1962. The expansion in volume this past year was least evident throughout the Corn Belt and East, where total farm loan volume per bank was up only 3.5 per cent and 4.0 per cent respectively. However, the expansion of the past three years has occurred in all regions, ranging from the smallest gain of 23 per cent in the East to the highest of 66 per cent in the West.

The farm real estate loan volume of agricultural banks continued to climb at a rate somewhat faster than other loans to farmers. Farm real estate volume per bank was up 16.1 per cent during the past 12 months, with a 12.4 per cent gain in the nonreal estate volume. Since mid-1962, farm real estate volume per agricultural bank is up 62 per cent, with other loan-to-farmer volume up 33 per cent.

*Demand For Credit*—Six out of ten bankers reported that the demand for credit during the first six months of 1965 was above that experienced during the same period last year. Nearly 8 per cent of the bankers said that the increase was substantial. The

greater demand was most pronounced in the Plains and West, where 77 per cent and 74 per cent respectively of the bankers reported the increased requests for farm loans.

Poor crop production, particularly in the East; higher operating costs; and increased size of farm operations were mentioned in that order of importance as reasons for the increased demand for farm credit. Other bankers, who cited a decrease in loan demand, indicated that favorable commodity prices, loss of available farm land, good crops, unacceptability of farm loan requests, and competition from Government agencies in that order of importance were reasons for a drop-off of demand for such credit in their banking territories.

*Renewals* — Forty per cent of the bankers noted that the volume of renewals during the first half of 1965 was above the amount renewed during the same period last year. Most of these, however, felt that the increase was only slight. The proportion of banks experiencing increased renewals was greatest in the West and Plains areas. These are the same sections of the country where the demand for credit was strongest. The South was the only region where as many as 25 per cent of the bankers reported some decrease in renewals.

## DEPOSITS

Total deposits per agricultural bank increased 13.3 per cent since mid-1964. This change paralleled the rate of expansion in total farm loans by these banks. This did not hold true for two regions, the Plains and South, however, where the growth rate in farm loans has exceeded that of deposits during both the past year and the three-year period beginning in mid-1962. For instance, in the South total farm loans per bank have increased 64 per cent during the past three years, with total deposits of these banks up only 24 per cent. During this same period, farm loans in the Plains were up 46 per cent, with deposits up 29 per cent.

GROWTH IN TOTAL DEPOSITS AND TOTAL FARM LOANS  
PER AGRICULTURAL BANK<sup>1</sup> — MIDYEAR 1962 TO MIDYEAR 1965

ITEM	ALL REGIONS	East	REGIONS			
			Corn Belt	South	Plains	West
			Per cent increase			
Total Deposits .....	33	22	39	24	29	65
Total Farm Loans .....	38	23	37	64	46	66

<sup>1</sup> Based on median.

## LOAN-TO-DEPOSIT RATIO

Loans in relation to deposits in agricultural banks at midyear have shown a steady increase since 1962. At mid-1965 approximately 41 per cent of the banks had ratios of 60 per cent or above. This is up from 34 per cent last year and 25 per cent in 1962. Since 1962 the proportion of banks having less than 50 per cent of their deposits in loans has dropped from 41 per cent to 27 per cent.

### DISTRIBUTION OF AGRICULTURAL BANKS BY LOAN-TO-DEPOSIT RATIO MIDYEAR 1962 — MIDYEAR 1965

RATIO	MIDYEAR 1962 — MIDYEAR 1965			
	Midyear 1962	Midyear 1963	Midyear 1964	Midyear 1965
Total	100.0	100.0	100.0	100.0
Under 50% .....	40.8	38.2	31.3	26.6
50 to 59.9% .....	33.9	33.3	35.0	32.5
60% and above .....	25.3	28.5	33.7	40.9

All regions reflected the same general upward trend since 1962. However, during the past year the proportion of Corn Belt banks with loan-to-deposit ratios of 60 per cent or above remained unchanged at approximately 30 per cent. In fact, some increase occurred in the proportion of the banks within the Corn Belt with loan-to-deposit ratios of under 50 per cent. Since mid-1964 substantial changes occurred in the Plains and West, with the proportion of banks having loan-to-deposit ratios of 60 per cent and above increasing from 23 per cent to 38 per cent in the Plains and from 45 per cent to 62 per cent in the West.

### DISTRIBUTION OF AGRICULTURAL BANKS BY LOAN-TO-DEPOSIT RATIO MIDYEAR 1965

RATIO	ALL REGIONS	REGIONS				
		East	Corn Belt	South	Plains	West
Total	100.0	100.0	100.0	100.0	100.0	100.0
Under 50% .....	26.6	21.3	34.0	23.4	33.9	10.1
50 to 59.9% .....	32.5	30.7	36.5	37.0	28.3	28.1
60% and above .....	40.9	48.0	29.5	39.6	37.8	61.8

Two-thirds of the banks desired to maintain their loan-to-deposit ratios at the current levels. Only 10 per cent hoped to decrease their loan-to-deposit ratios. It was quite evident, however, that in the Plains, where the loan-to-deposit ratios were up sharply



this past year, a much higher proportion, 18 per cent, of the banks hoped to lower the ratio by decreasing loans. One-half of the banks having current ratios of under 50 per cent are willing to increase their ratios by expanding loan volume.

### DELINQUENCIES

Both farm real estate and nonreal estate delinquencies reported at mid-1965 continued to remain at a low level.

Seventeen per cent of the banks, somewhat fewer than a year ago, reported one or more delinquent real estate loans outstanding at midyear, with the dollar amount being 0.7 per cent of the total volume of such loans held. A higher proportion — 40 per cent — of the banks (similar to the number a year ago) reported one or more delinquent nonreal estate loans on the books, with the delinquent volume being 0.8 per cent of the total amount held. The proportion of dollar volume reported as delinquent for both real estate and nonreal estate was below the level reported a year ago.

### INTEREST RATES

Agricultural bankers reported that interest rates charged on farm real estate loans remained unchanged from a year ago. A similar pattern existed regionally except in the East where rates were reported to be down by .05 per cent.

Interest rates for general operating (nonreal estate) and cattle loans showed some evidence of softening since mid-1964, with rates on general loans down .05 per cent and those on cattle paper down .03 per cent. The most significant decrease was in the Western region, where rates generally are higher and fluctuate more widely than in other sections of the country. Very little change occurred in the Corn Belt, Plains, and Southern areas.

FARM LOAN INTEREST RATES<sup>1</sup> — MIDYEAR 1965  
(WITH CHANGES FROM MIDYEAR 1964)

Types & Sizes of Loans	REGIONS					
	ALL REGIONS	East	Corn Belt	South	Plains	West
Real Estate .....\$10,000	6.19	6.08	6.03	6.22	6.29	6.51
Change	( 0 )	(-.05)	(-.01)	( 0 )	(-.01)	(+.01)
Nonreal Estate ....\$ 2,500	6.70	6.53	6.36	6.62	7.10	7.16
Change	(-.05)	(-.07)	(-.04)	(-.02)	(-.02)	(-.14)
Cattle .....\$ 5,000	6.39	6.30	6.14	6.36	6.59	6.73
Change	(-.03)	(-.08)	(-.02)	(-.01)	(-.01)	(-.07)

<sup>1</sup> The rates indicated represent the mean for each classification. The mean shown is the arithmetical average of all rates reported, calculated from 10 groups.

Most bankers expect rates to remain unchanged during the next six months — the only noticeable variation being in the Plains, where nearly 10 per cent of the bankers look for general operating and cattle loan rates to increase before the end of 1965.

### LENDING LIMITATION

Legal lending limits of agricultural banks have shown a steady increase since 1962. At mid-1965, 31 per cent of the agricultural banks responding to the survey reported their individual legal loan limit to be under \$50,000. The proportion of banks reporting these lower limits has steadily declined from 43 per cent in 1962. During the first two of the past three years, the proportion of banks capable of loaning in excess of \$150,000 to individual customers remained at about 25 per cent. However, in 1965 this increased to 27 per cent of the banks.

Regionally, 42 per cent of the banks throughout the Plains, highest for all regions, must look to outside assistance if they are to handle loan requests which exceed \$50,000. This is down from 51 per cent in 1962. A significant change occurred in the Corn Belt, as 10 per cent fewer banks this year compared to a year ago are restricted to the loan limit of under \$50,000.

DISTRIBUTION OF AGRICULTURAL BANKS BY LEGAL LOAN LIMIT  
MIDYEAR 1965

Legal Loan Limit	ALL REGIONS	REGIONS				
		East	Corn Belt	South	Plains	West
Total	100.0	100.0	100.0	100.0	100.0	100.0
Under \$50,000 .....	31.3	34.0	32.5	22.5	42.0	15.9
\$50,000 to \$149,999 .....	41.7	38.4	44.2	45.8	40.3	38.6
\$150,000 and above .....	27.0	27.6	23.3	31.7	17.7	45.5

### EXCESS LOAN APPLICATIONS

Twenty-six per cent of the agricultural banks reported receiving farm loan applications which exceeded their individual lending limit. This was less than the 34 per cent reported during the same period last year. It was somewhat above the proportion of banks reporting such loan applications in 1962, however.

The decrease occurred in all regions, even though it was very slight in the West and South. The proportion of banks receiving applications exceeding their individual lending was highest in the Plains, with 39 per cent, followed closely by the West, with 37.5 per cent. Seventy per cent of the total \$76.2-million of excess applications was reported by banks within the Plains and Western areas.

**PROPORTION OF AGRICULTURAL BANKS REPORTING  
EXCESS FARM LOAN APPLICATIONS WITH DISPOSITION  
DURING FIRST SIX MONTHS OF 1965**

Excess Loan Applications	REGIONS					
	ALL REGIONS	East	Corn Belt	South	Plains	West
Per cent of banks reporting one or more applications ....	26.2	14.9	27.1	15.4	39.0	37.5
Disposition of excess loan applications (per cent of dollar volume) Total	100.0	100.0	100.0	100.0	100.0	100.0
Shared on Participation Basis:						
Originating Bank Share ....	48.8	58.2	46.9	58.5	40.7	50.8
Correspondent Bank Share	41.1	30.8	40.5	34.9	37.0	45.8
Correspondent Only .....	7.0	2.6	8.1	2.2	21.1	0.4
Lost to Other Lenders .....	3.1	8.4	4.5	4.4	1.2	3.0

Ninety-seven per cent, slightly higher than last year, of the dollar amount of these requests was handled within the banking system. The bulk of the dollar amount, 90 per cent, was carried on a participation basis, with the originating bank retaining about 49 per cent of the volume and the balance going to city correspondents. Seven per cent, down from 13 per cent a year ago, of the dollar volume of the excess credit applications was referred entirely to city correspondents. City correspondents, therefore, handled approximately one-half of the total volume of excess loan applications. In the Plains, where a significant amount of the excess loan applications occurred, the proportion handled by city correspondent banks rose 10 per cent above a year ago, with a comparable decline in the amount retained by the originating bank.

The proportion of these acceptable applications which was lost to other lenders stood at 3 per cent, slightly lower than the 4.5 per cent reported last year.

#### **FARM REAL ESTATE LOANS**

Fifty-two per cent of the banks responding indicated that they made one or more direct real estate loans on farm property during the first half of 1965. Seventy per cent of these banks however made less than five such loans during this six-month period. Regionally, fewer loans per bank were made by those institutions located throughout the West and Plains than in other sections of the country.

Nationally, there was little change in size of loan, with the average face amount of new farm mortgages up only \$94 from a

year ago. Significant changes did occur in three regions, with the average-sized loan down \$7,470 and \$2,170 respectively in the West and Plains area and up \$1,600 in the Corn Belt.

Maturity periods were reported to average 8.9 years, slightly longer than the 8.6 reported a year ago. Decreases in length of maturities occurred this year in the Plains and West, the same regions in which average-sized loans declined.

PROFILE OF FARM MORTGAGE LOANS BY AGRICULTURAL BANKS<sup>1</sup>

Feature	REGIONS					
	ALL REGIONS	East	Corn Belt	South	Plains	West
Face Amount (dollars) .....	14,656	14,987	14,534	12,528	12,558	25,634
Mortgage Maturity (years)	8.9	11.9	9.7	5.9	6.8	8.4

<sup>1</sup> Averages based on 1,569 mortgages placed during the first six months of 1965.

*Loan Purposes* — Nationally, 48 per cent of the mortgaged funds placed by banks during the first six months of 1965 were used for real estate purchases. This is comparable to the 46.7 per cent reported for this purpose a year ago. Thirty per cent of the mortgaged funds were used for refinancing existing debts — unchanged from last year. The balance — totaling 22 per cent — was used for repairs and improvements, current operating expenses, and other. Two significant regional variations occurred. In the East a greater proportion of the funds this year, compared to last, were used for the purchase of real estate with an offsetting decrease in the amount of money used in refinancing. The opposite was true in the South where the proportion used for refinancing increased this year over last, with fewer funds going for the purchase of real estate.

PURPOSES OF FARM MORTGAGE LOANS MADE BY AGRICULTURAL BANKS<sup>1</sup>

Purpose	REGION					
	ALL REGIONS	East	Corn Belt	South	Plains	West
Total	100.0	100.0	100.0	100.0	100.0	100.0
Farm Real Estate Purchases ....	48.1	44.4	54.8	44.4	56.7	38.4
Refinancing .....	30.5	32.8	29.7	30.0	28.9	29.5
Mortgages held by reporting bank .....	12.9	12.0	13.2	11.2	13.4	16.2
Mortgages held by others .....	8.1	10.9	5.9	8.3	9.5	5.1
Other indebtedness .....	9.5	9.9	10.6	10.5	6.0	8.2
Repairs and Improvements ....	12.6	17.5	8.5	12.8	6.0	17.2
Current Operating Expenses ....	3.8	2.1	2.8	7.4	5.2	3.0
Other .....	5.0	3.2	4.2	5.4	3.2	11.9

<sup>1</sup> Purpose was given for 99.7 per cent of the \$23.0-million farm mortgage loan volume represented by the response.

*Loan-to-Value Ratio* — Bank farm mortgage loans reflect no appreciable change in loan-to-value ratio since a year ago. Nearly one-half (47.6 per cent) of the farm real estate mortgage funds placed during the first six months of 1965 had loan-to-value ratios ranging from 41 per cent to 60 per cent. Twenty-three per cent were in excess of this amount, however only 6 per cent of the loans had ratios of over 70 per cent. Loan-to-value ratios tend to be lowest in the Plains and West. In these areas four out of ten loans had ratios not exceeding 40 per cent.

### GENERAL AGRICULTURAL CREDIT CONDITIONS

Bankers estimate that one-half of their farm loan volume is outstanding to farmers who have been operating for a period of over five years but who have made substantial adjustments — either enlargements or changes in the nature of the operation — during the past five years. Of the other one-half, 9 per cent is held by those who have started farming within the last five years. There were no regional variations.

*Financial Condition of Farmer-Borrowers* — According to reporting banks, seven out of ten farmers will have little trouble meeting their debt repayment commitments during the next 12 months. Another one-fourth will meet their credit obligations but only with considerable difficulty. Four per cent of the farmers, in the judgment of the bankers, will probably discontinue farming within the next year because of financial difficulties. The only significant regional variation was in the Corn Belt, where a larger proportion of the farmers (77 per cent instead of the 69 per cent nationally) are expected to have no financial problem during the next 12 months.

### AGRICULTURAL BANKERS' MIDYEAR 1965 ESTIMATES OF FARMER-BORROWER ABILITY TO MEET DEBT DURING THE FOLLOWING 12 MONTHS

Financial Outlook	REGIONS					
	ALL REGIONS	East	Corn Belt	South	Plains	West
Total	100	100	100	100	100	100
No financial problem .....	69	68	77	67	65	69
Will meet debt with difficulty .....	27	28	21	29	31	28
Probably unable to meet debt; therefore, will discontinue farming .....	4	4	2	4	4	3

Bankers estimated that of the 4 per cent of the farmers who are expected to discontinue operating during the next year, 74 per cent of them currently have gross incomes of under \$10,000. In contrast, only 29 per cent of the farmers who are expected to have no financial difficulties have incomes below \$10,000.

*Acceptability of Farm Loan Requests* — According to two-thirds of the bankers, there has been no change from a year ago in the general acceptability of farm loan requests. One-fourth felt, however, that there had been some increase in the number of unacceptable loan applications. The increase in such requests was particularly noticeable in the West and Plains where 41 per cent and 36 per cent respectively of the bankers indicated an increase in such requests. These areas are those where the demands for farm loans as well as renewals reflected an upward trend from a year ago.

*Loan Refusals* — Bankers ranked *lack of earning capacity* as the leading factor resulting in farm loan refusals during the first six months of 1965. Sixty-nine per cent of the bankers listed it as one of their three top choices. In fact, 28 per cent of these bankers listed it as the leading reason for turning down farm loans requested during this period. Lack of financial management ability was a close second choice followed by lack of farm management ability, inadequate net worth, insufficient net working capital, and unreliable character, in that order. Other factors, including unfavorable commodity price outlook and unsatisfactory family situations, were referred to by less than 10 per cent of the bankers. As a first choice, lack of farm management ability slipped somewhat in the ranking. Only 4 per cent said that they would have suggested a different order if the listing had been made a year ago.

RELATIVE IMPORTANCE OF CONSIDERATIONS LEADING TO  
LOAN REFUSALS ACCORDING TO AGRICULTURAL BANKERS  
AT MIDYEAR 1965

Considerations	Rank	
	Proportion of Bankers Reporting Among the Top 3 Reasons	First Reason
Lack of Earning Capacity .....	69%	28%
Lack of Financial Management Ability .....	66	22
Lack of Farm Management Ability .....	45	11
Inadequate Net Worth .....	43	15
Insufficient Net Working Capital .....	37	11
Unreliable Character .....	23	9

In all regions, the lack of earning capacity and lack of financial management ability were ranked first and second; unreliable character, last. In the Corn Belt, Plains, and South some shifting occurred in the ranking of the other three characteristics. For instance, in the Corn Belt lack of farm management ability was ranked below inadequate net worth and insufficient net working capital. In the Plains insufficient net working capital was moved up as the third most important weakness. In the South insufficient net working capital preceded inadequate net worth as a reason leading to loan refusals.

### FARM LENDING SINCE 1960

Bankers were asked to evaluate various characteristics of loans made to farmers today compared to 1960. It is interesting to note that of the 798 bankers responding to the survey 612, or 77 per cent, were personally involved in making bank loans to farmers five years ago. This suggests a relatively stable situation with respect to bank personnel dealing with farmer-customers.

*Debt Load* — Three-fourths of the bankers estimate that in general their farmer-borrowers have debt-to-worth ratios higher today than in 1960. The response was quite uniform in all regions, ranging from a low of 70 per cent in the South to a high of 79 per cent in the West. Somewhat fewer, two-thirds of the bankers, felt that farm debt in relation to gross income was also higher. Regionally, there was greater variation in opinion, ranging from slightly below 60 per cent in the Corn Belt and East to a high of 82 per cent in the West.

*Net Working Capital* — Nearly half of the bankers (48 per cent) felt that the net working capital position of farmers was lower now than five years ago. The significant regional variations were in the South, where only 35 per cent of the bankers felt this way, and in the West, where as many as 67 per cent felt this to be true.

#### AGRICULTURAL BANKERS' ESTIMATES OF FARMER-BORROWERS CHARACTERISTICS AT MIDYEAR 1965 COMPARED TO MIDYEAR 1960

Characteristics	Total	Higher	Unchanged	Lower
Debt in relation to equity .....	100	74	16	10
Debt in relation to gross income .....	100	67	20	13
Net working capital position .....	100	26	26	48

*Use and Marketability of Collateral* — Half of the bankers indicated that farm lending today versus 1960 requires a greater use of collateral. Somewhat more than half of the bankers in the West

and Corn Belt expressed this feeling. Less than 5 per cent felt that less collateral was being used. Thirty per cent of the bankers indicated that the collateral being used today has a greater marketability than it did five years ago. This opinion was particularly strong in the Corn Belt. Fifteen per cent of the bankers felt differently, suggesting that collateral today was less marketable. This opinion was most widely expressed in the Plains and West.

*Loan Maturities* — Forty-four per cent of the bankers indicated that maturities on farm loans generally are longer now than they were in 1960. In the Corn Belt over one-half (52 per cent) of the bankers felt that this was true. Nationally, less than 3 per cent stated that, in general, maturities are shorter now than they were five years ago.

*Lender Supervision* — Fifty-eight per cent of the bankers said that during the past five years they found it necessary to provide tighter lender supervision over their farm loan portfolios. A significantly higher proportion, 75 per cent, of the bankers in the West expressed this view. Nationally, less than 3 per cent suggested that they were using less supervision.

#### **SPECIAL FEATURES OF AGRICULTURAL BANKS**

Banks have modified their regular banking practices to accommodate the changing needs of agriculture. This is evidenced by the employment of agricultural specialists, preparation of farm loan policy statements, new credit analysis procedures, and the use of forms designed especially for agricultural lending. This study of special features of agricultural banks follows one made in 1963 and therefore, provides some indication of the rate by which bankers are adjusting their practices.

*Agricultural Specialists* — Nearly 49 per cent of the responding banks have such specialists, 45 per cent of whom function in this capacity on a full-time basis. This reflects a slight increase in the proportion of agricultural banks employing specialists since 1963, when 47 per cent of the responding banks had such men on their staffs with 41 per cent of them utilized full time for agricultural purposes. The proportion of banks with agricultural specialists is highest in the West, followed by the Plains and Corn Belt in that order. The increase during the past two years occurred primarily in the West and in the South. A high proportion, 82 per cent, of the banks under \$5-million in size which have agricultural specialists utilize them on agricultural business only part of the time.



**PROPORTION OF AGRICULTURAL BANKS WITH AGRICULTURAL  
SPECIALISTS AT MIDYEAR 1965**

Agricultural Specialists	REGIONS						Deposit Size (In millions)		
	ALL REGIONS	East	Corn Belt	South Plains	West	Under \$5	\$5-10	Over \$10	
Per cent of banks having one or more such men .....	49	43	47	41	50	72	24	47	68
Percentage of time spent on agriculture:									
Total	100	100	100	100	100	100	100	100	100
Full time .....	45	50	46	31	41	57	18	36	55
Part time .....	55	50	54	69	59	43	82	64	45

*Policy Statement* — Sixty-five banks, or 8.4 per cent of those responding, indicated that they had established a written farm loan policy for their bank. Little variation occurred regionally with the exception of the West. Here as many as 18 per cent reported written policy statements for farm loans. Use of such statements was most pronounced among the larger banks, with 13 per cent of those having \$10-million or more in deposits having written statements compared to only 5 per cent for the smaller banks.

*Credit Analysis Procedures* — Forty per cent of the banks utilize a comparative analysis in evaluating at least some of their farm loans. A somewhat smaller proportion, 30 per cent, use budgets or cash flow schedules. Both the comparative analysis and budgets were most frequently used by banks in the West, where each was being employed by 62 per cent of the banks. There was a definite tendency for a greater proportion of the larger banks to use both comparative analyses and budgets.

*Special Forms for Agricultural Lending* — Nearly seven out of 10 banks indicated that they used specially designed forms in obtaining farm financial statements. However, only about one-third of the banks used such forms for obtaining farm loan applications and operating statements. All but 1 per cent of the banks used some sort of a form in obtaining the asset, liability, and net worth picture of farm customers. In contrast, nearly one-third of the banks used no forms in taking farm loan applications or in obtaining farm income and expense records.

**THE USE OF CREDIT FORMS BY AGRICULTURAL BANKS  
MIDYEAR 1965**

Use	Forms		
	Loan Application	Financial Statement	Operating Statement
Total	100	100	100
Form especially designed for agriculture .....	34	69	37
Standard form .....	39	30	32
No form .....	27	1	31

Regionally, a substantially high proportion of the banks in the West used forms especially designed for agricultural lending. Such forms were used least in the South. In general, a greater proportion of the larger banks used such special forms. This regional variation is most pronounced for operating statements.

In general, bankers require about twice as many of their farm customers to submit financial statements as they ask to provide operating statements, with even fewer required to submit budgets or cash flow schedules. Regionally, farmer-borrowers in the West are generally asked for all three of the above statements. Considerably fewer farmers in the South than in other regions are asked to submit financial statements; however, a greater number of Southern farmers are requested to submit budgets than those located in the Corn Belt, East, and Plains. It is interesting to note that a smaller proportion of the farmers in the Corn Belt than in any other region are asked to provide budgets.

## STATISTICAL APPENDIX

A random sample of 1,272 banks with positive ratios of farm loans to assets, stratified by deposit size and region, serves as a panel representing all banks extending agricultural credit.

The panel is checked yearly for comparability with the universe of banks involved in agricultural lending as reported in the F.D.I.C. REPORT OF CALL.

### *Panel Response*

As of August 9, 1965, 798 questionnaires had been returned giving a response rate of 63 per cent. This response provides tolerance limits of approximately  $\pm 3.5$  per cent with a confidence level of 95 per cent. In other words, you can be 95 per cent sure that any figure in this survey, based on the total number of respondents, will be within  $\pm 3.5$  per cent. However, any figure based on a smaller number of the respondents because of breakdowns by region or deposit size could have a larger error.

The survey response netted 21.8 per cent of the total farm loan volume (excluding CCC), 17.5 per cent of loans secured by farmland, and 23.3 per cent of other loans to farmers held by all insured commercial banks.

### REGIONS

The boundaries of agricultural regions shown on the map that follows have been drawn to represent areas having certain significant characteristics of agricultural production which distinguish them from adjoining areas. The map includes a computed ratio of total farm loans to total assets from holdings, reported by banks in the June 1963, REPORT OF CALL to indicate the relative agricultural credit involvement of states within each region.

