FEDERAL RESERVE BANK OF CHICAGO

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FEDERAL LAND BANKS (FLBs), the leading institutional suppliers of farm real estate financing, have recorded remarkable growth since the early 1960s. At the end of 1981, farm real estate loans outstanding at FLBs amounted to $43.6 billion compared with only $2.8 billion at the end of 1961. A recent Farm Credit Administration report on FLB lending activity provides information on the characteristics of FLB loans, collateral, and borrowers.

Federal land banks are part of the Cooperative Farm Credit System (CFCS) which began in 1916. The CFCS encompasses a national network of 37 cooperatively owned banks and numerous local associations under the direction of a 13-member Federal Farm Credit Board. The Farm Credit Administration, set up as an agency of the federal government, operates under policies established by the board and provides supervision, examination, and coordination for the system's banks and associations.

The CFCS provides three types of credit. The 12 federal land banks are assisted by the 483 federal land banks associations in providing long-term real estate mortgage loans in rural areas. The associations, whose memberships are made up of borrowers, process the loan applications and service the loans made by the land banks. A second group, the federal intermediate credit banks and production credit associations, provides short- and intermediate-term production credit. Banks for cooperatives and a central bank for cooperatives provide the third type of credit, lending to farmer-owned cooperatives engaged in processing or marketing farm products, purchasing or distributing farm supplies, or providing farm services.

FLBs were organized and capitalized initially by the federal government. However, the government capital was retired by a plan which required each land bank borrower to purchase stock in his local association equivalent to 5 percent of the loan. The local association, in turn, purchased an equivalent amount of the land bank's stock. By 1947, all government indebtedness was retired, and since then the land banks, for all practical purposes, have been borrower-owned cooperatives.

Share of FLB loans made by type of loan

	1960	1970	1980
		(percent)	
Purchase real estate	16.6	20.9	30.1
Refinance:			
FLB loans	24.8	20.8	18.3
Mortgage loans held by others	21.5	20.2	16.5
Short-term loans held by others	13.6	14.0	14.8
Improve land and buildings	10.2	10.5	9.9
Operating expenses	7.1	6.2	2.8
Other purposes	6.2	7.4	7.6
Total	100.0	100.0	100.0

Sale of bonds has always been the primary source of funding for FLB loans. However, in addition to providing capital, the federal government found it necessary to provide the FLBs with other sources of funds in the early years. These additional funds were provided in the form of Treasury deposits at the land banks or purchases of FLB bonds by the Treasury or other government agencies. Now the FLBs obtain loanable funds primarily through sales of consolidated, system-wide bonds and discount notes on national money markets. CFCS bonds and discount notes are sold through security dealers to commercial banks—who are the major purchasers—thrift institutions, corporations, governments, and others. The system-wide bonds have maturities ranging from 6 months to 20 years, while maturities of discount bonds range from 5 to 270 days.

FLBs make loans secured by first mortgages on farm real estate for a number of different purposes. Loans may be used to finance or refinance land purchases, building improvements, rural housing, operating expenses, livestock and machinery purchases, and other needs, including farm-related businesses. Loan maturities range from 5 to 40 years. The FLBs can extend up to

85 percent of the appraised value of the real estate security. Several repayment options are possible but most loans are fully amortized. Interest rates charged to borrowers are based on the average cost of funds to the FLBs on outstanding bonds and notes and vary with changes in the cost of funds. Frequency of adjustment, however, differs among the districts.

Lending activity has expanded greatly since the inception of the FLBs. But growth was erratic during their early history because of shortages of lendable funds in the late 1920s and early 1930s. In conjunction with emergency measures taken by the government during the Depression, outstandings at FLBs soared to $2.1 billion by the end of 1936. This level, which represented over 30 percent of all farm real estate debt, was not surpassed until the 1960s. Outstandings declined throughout the 1940s as the many loans made during the Depression years were paid off. At the end of 1948, outstanding farm real estate loans at FLBs were $868 million, the lowest level since 1923 and only 16 percent of all farm real estate debt. Since that time, outstanding farm real estate loans at FLBs have risen steadily, recording a particularly dramatic rise during the 1970s. At the end of 1981, outstanding farm real estate loans reached $43.6 billion, or 43 percent of all farm real estate debt.

Some of the characteristics of FLB loans and borrowers were detailed in a recent Farm Credit Administration report on 1980 lending activity. That year the FLBs closed a total of $10.3 billion in loans under all programs. That represented a 13 percent increase from the year before and a 61 percent gain over the 1978 level. Several factors had an important influence on the level of lending that year. Restricted credit availability from commercial banks and insurance companies stimulated lending at the FLBs. Also, during 1980 interest rates rose and farm incomes declined sharply from the year before. Loans made in 1980 were at a record level, capping a five-fold increase in farm real estate loans at FLBs over the last decade.

The number of loans made by FLBs under all programs in 1980 was 92,214, down 2 percent from the year earlier. This was the first year-to-year decline since 1976. The number of loans made in 1980 declined from the year before in eight of the twelve federal land bank districts. Average loan size, however, increased 15 percent from the year before to $111,415, triple the loan size of ten years ago. Average loan size was up in all districts except St. Louis.

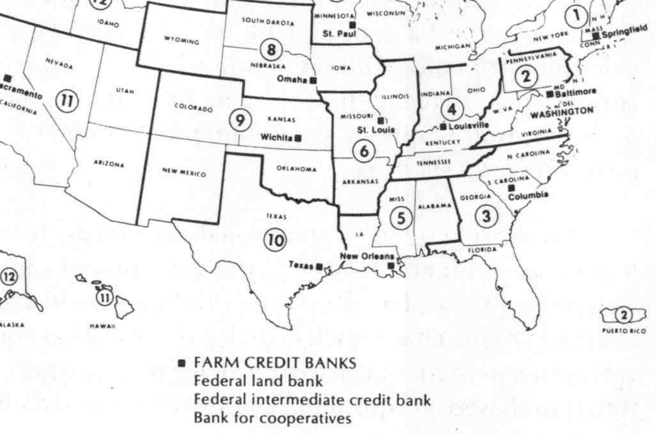
The FLBs have three lending programs—agricultural, rural home, and farm-related business. The agricultural loan program was by far the largest in 1980, accounting for 94 percent of the dollar volume of loans and 82 percent of the number of loans made. Rural housing made up 6 percent of the loan volume and 18 percent of the number of loans, while farm-related business loans accounted for only a fraction of a percent of both the volume and number of loans.

Characteristics of FLB loans in Seventh Federal Reserve District States, 1980

	Loan amount *(dollars)*	Loan-to-appraised value ratio *(percent)*	Interest rate *(percent)*	Term *(years)*
Illinois	$124,505	43	10.84	30
Indiana	131,702	54	10.01	30
Iowa	144,030	49	10.33	29
Michigan	104,936	54	10.14	25
Wisconsin	127,597	55	10.19	24
United States	$124,190	52	10.31	27

Loans under the agricultural program may be used to purchase real estate or to refinance existing long-term or short-term debt. In 1980, FLBs made $9.6 billion of agricultural loans. A third of the total was utilized to purchase real estate while half was utilized to refinance existing loans. Of those loans made for refinancing purposes, nearly equal amounts were used to refinance FLB loans, mortgage loans held by others, and short-term loans held by others. A fifth was made to improve land and buildings, pay operating expenses, or meet other needs. The shares of loans made for various purposes change from year to year with the economic conditions in the farm sector. Economic difficulties in farming caused many farmers to restructure their debt positions in 1980. As a result, the share of FLB loans made for refinancing purposes that year was the largest since 1977.

Cooperative farm credit system



■ FARM CREDIT BANKS
Federal land bank
Federal intermediate credit bank
Bank for cooperatives

Characteristics of FLB borrowers in Seventh Federal Reserve District States, 1980

	Age	Assets (thou. $)	Debts (thou. $)	Debts to assets (percent)	Have nonfarm income (percent)	Net nonfarm income (dollars)	Net farm* income (dollars)	Area farmed (acres)	Collateral (acres)	Have PCA loans (percent)
Illinois	45	1,227	354	29	80	30,010	63,494	625	134	17
Indiana	44	864	254	29	84	23,663	40,161	488	118	34
Iowa	46	1,141	346	30	54	14,941	60,031	584	143	9
Michigan	44	663	219	33	79	22,780	46,323	417	137	27
Wisconsin	44	635	234	37	60	13,805	45,862	371	194	38
United States	45	957	304	32	75	28,189	49,406	1,004	250	23

*Net farm income before principal and interest for debt service, social security and income taxes, and living expenses.

The shares of loans made for purchasing real estate were highest in the St. Louis and Wichita districts, while the shares made for refinancing purposes were highest in the St. Paul and Wichita districts. Corn and cotton farmers used the highest percentage of FLB loans for land purchases in 1980. Peanut, timber, and grain-livestock farmers used the most funds for refinancing.

The average FLB farm loan made in 1980 was $124,190, up about an eighth from the year before. Four-fifths of that amount represented new money loaned that year. The interest rate averaged 10.3 percent, up more than 1 percentage point from the year before. The maturity of the loans averaged 27 years. Among individual states, the average loan ranged from $52,000 in West Virginia to $440,000 in Arizona. For the five states in the Seventh Federal Reserve District—Illinois, Indiana, Iowa, Michigan, and Wisconsin—the average loan was $126,554.

FLB borrowers in 1980 had an average of 1,000 acres in their operations. Less than 60 percent of that acreage was owned. Of the owned acreage, an average of 250 acres served as security for a loan. On average, the value of the land used as collateral was appraised at $953 per acre. Loan value relative to the appraised value of the security was 55 percent. For states in the Seventh Federal Reserve District, the average size of farms was 500 acres and the average value of land used as collateral was $1,775 per acre.

The composite or typical FLB farm borrower in 1980 had assets of $957,379, debts of $303,726, and a net worth of $653,653. This was about double the net worth of the average farmer in the United States. According to USDA analysts, the average farmer had assets of $405,000, debts of $67,000, and a net worth of $338,000 at the end of 1980. The composite borrower also had a net farm income of $49,406, substantially higher than the average for all U.S. farmers. About three-fourths of the borrowers had non-farm earnings. The average amount of such earnings was $37,585, considerably above the average for all U.S. farmers. The average age of FLB borrowers was 45 years. Farmer/landlords obtained the largest loans from FLBs and had the largest average net worth, net farm income, and size of farming operation.

Nearly a fifth of all FLB loans were made to young farmers—those under 35 years of age. This group had an average net worth of $310,615 and a net farm income of $33,914. The average loan was $85,952 and the average size in acreage of the farm operation was about half that of the composite FLB farm borrower.

About 4 percent of the number of agricultural loans were made under a joint program between the FLBs and the Farmers Home Administration in 1980. New loans closed jointly by FLBs and the FmHA were made to borrowers who have adequate repayment capacity but insufficient equity to borrow solely from an FLB. These were generally young farmers—average age 33—with net worths averaging $183,057 but net farm incomes that averaged $45,763. Subordination loans were also made to finance existing FmHA borrowers who became eligible to borrow from FLBs. (The FmHA loan is subordinate to the FLB loan.) In 1980 these borrowers had average net worths of $291,924 and net farm incomes of $51,019. They were older, averaging 39 years.

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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Index of prices received by farmers	1977=100	May	138	+ 2.2	– 3
Crops	1977=100	May	123	– 0.8	–13
Livestock	1977=100	May	151	+ 2.7	+ 7
Index of prices paid by farmers	1977=100	May	156	+ 0.6	+ 4
Production items	1977=100	May	151	+ 0.7	+ 1
Producer price index* *(finished goods)*	1967=100	May	278	+ 0.3	+ 3
Foods	1967=100	May	262	+ 1.0	+ 4
Processed foods and feeds	1967=100	May	254	+ 1.4	+ 2
Agricultural chemicals	1967=100	May	295	– 0.5	+ 6
Agricultural machinery and equipment	1967=100	May	307	+ 0.3	+ 7
Consumer price index** *(all items)*	1967=100	April	284	+ 0.4	+ 7
Food at home	1967=100	April	278	+ 0.3	+ 3
Cash prices received by farmers					
Corn	dol. per bu.	May	2.56	+ 0.4	–21
Soybeans	dol. per bu.	May	6.31	+ 2.3	–15
Wheat	dol. per bu.	May	3.61	– 1.9	– 9
Sorghum	dol. per cwt.	May	4.26	+ 3.9	–17
Oats	dol. per bu.	May	1.97	– 1.0	– 4
Steers and heifers	dol. per cwt.	May	67.10	+ 4.0	+ 5
Hogs	dol. per cwt.	May	56.20	+ 9.8	+37
Milk, all sold to plants	dol. per cwt.	May	13.30	– 0.7	– 1
Broilers	cents per lb.	May	28.0	+ 7.7	– 1
Eggs	cents per doz.	May	54.8	–13.0	– 2
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	4th Quarter	141	– 2.0	0
Net farm income	bil. dol.	4th Quarter	25	0	+26
Nonagricultural personal income	bil. dol.	April	2,484	+ 0.3	+ 8

*Formerly called wholesale price index.

**For all urban consumers.

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