FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
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Agricultural credit conditions at District banks

Our latest survey of 425 District agricultural banks found that the demand for farm loans and the availability of funds for lending continued somewhat above year-earlier levels during the fourth quarter of 1990. Farm loan repayment rates apparently slowed from the strong pace of earlier quarters and interest rates charged on farm loans edged slightly lower. In contrast to the normal seasonal decline, loan-to-deposit ratios at the surveyed banks held steady during the fourth quarter.

The overall measure of farm loan demand for the fourth quarter was 116, little changed from the readings of the second and third quarter (see table on page 2). The measure represents a composite of the 34 percent of the responding bankers who indicated that loan demand was up from a year earlier less the 18 percent who reported a softer fourth quarter farm loan demand. The remaining 48 percent of the bankers felt that loan demand was unchanged from the year before. Bankers from Illinois and Iowa accounted for virtually all of the indicated strength in farm loan demand. In contrast, the proportion of bankers from Michigan and Wisconsin that noted declines in fourth quarter loan demand slightly exceeded the proportion noting an increase.

Bankers from all five District states reported having ample funds for lending to farmers, a trend that has prevailed since the early 1980s. Districtwide, 31 percent of the bankers noted that the availability of funds for lending during the fourth quarter was up from a year earlier. In comparison only 7 percent of the bankers reported a decline. The remaining bankers indicated that fund availability was comparable to a year earlier.

Following five consecutive quarters of year-over-year gains, farm loan repayment rates apparently leveled-off during the fourth quarter. The slowing probably reflects the relatively weak grain prices last fall and the sharp downturn in milk prices. In comparison, strong earnings probably sustained repayment rates on most loans to livestock producers. Overall, 64 percent of the bankers indicated that the rate of repayment on farm loans during the fourth quarter was unchanged from the relative strong performance of the year before. The remaining bankers were evenly divided between those noting an increase in loan repayments and those noting a decline. The responses of bankers from the various District states suggested that farm loan repayments held up best in Indiana and tapered off the most in Wisconsin, the state hardest hit by the decline in milk prices.

Loan-to-deposit ratios at District agricultural banks held steady during the final three months of 1990. The leveling-off marked a notable departure from the historical pattern of a seasonal decline in the fourth quarter. The average of the ratios reported in the most recent survey, at .569, was up slightly from a year earlier and the highest year-ending value reported since 1981. Nevertheless, loan-to-deposit ratios remain well below the highs reached during the late 1970s and well below the levels that most bankers desire. As is typically the case, the average loan-to-deposit ratio varied considerably among the five District states. In both Illinois and Iowa, where agricultural banks tend to be smaller, the reported loan-to-deposit ratios averaged .521. In the other District states, the average loan-to-deposit ratios ranged from .634 in Indiana to .685 in Michigan.

The quality of the farm loan portfolios at agricultural banks apparently registered further improvement last year, despite the indication of a fourth-quarter leveling in repayment rates. The most recent survey asked the bankers to indicate the proportion of their farm loan portfolio that fell within various categories of repayment problems. The bulk of the farm loan portfolios, 85 percent on average, were regarded as having no repayment problems. Another 10 percent of the portfolios were judged to have "minor" repayment problems that could be remedied fairly easily. An additional 4 percent of the farm loan portfolios, on average, were characterized as having "major" repayment problems requiring long-term workouts. The remaining 1 percent of the farm loan portfolios were considered to have "severe" repayment problems that might eventually result in some loss to the bank. Michigan bankers noted a slightly larger share of farm loans with "major" or "severe" repayment problems. But in general, the reported loan distributions varied only slightly among the five District states. And compared to the responses given in past surveys, the latest readings imply that the quality of farm loans throughout the District continued to improve in 1990.

Interest rates charged on farm loans by District agricultural banks, after holding steady during the spring and

Credit conditions at Seventh District agricultural banks

	Loan demand	Fund availability	Loan repayment rates	Interest rate on farm operating loans[1]	Average loan-to-deposit ratio[1]	Banks with loan-to-deposit ratio above desired level[1]
	(index)[2]	*(index)*[2]	*(index)*[2]	*(percent)*	*(percent)*	*(percent of banks)*
1982						
Jan-Mar	76	134	36	17.34	57.8	18
Apr-June	85	136	41	17.24	57.3	14
July-Sept	87	136	36	15.61	57.8	15
Oct-Dec	74	151	47	14.36	55.1	11
1983						
Jan-Mar	69	158	66	13.67	53.3	6
Apr-June	85	157	78	13.50	54.0	6
July-Sept	81	156	78	13.73	54.8	8
Oct-Dec	101	153	78	13.65	53.6	8
1984						
Jan-Mar	131	135	62	13.83	54.4	12
Apr-June	138	128	64	14.34	55.7	14
July-Sept	120	122	59	14.45	57.2	17
Oct-Dec	103	124	49	13.63	55.9	19
1985						
Jan-Mar	107	120	47	13.47	56.1	17
Apr-June	105	133	56	12.93	55.1	14
July-Sept	90	127	59	12.81	55.5	14
Oct-Dec	68	144	97	12.70	52.7	10
1986						
Jan-Mar	74	149	80	12.32	50.9	8
Apr-June	65	152	86	11.82	51.1	6
July-Sept	68	146	87	11.34	51.4	6
Oct-Dec	61	153	107	11.11	49.4	3
1987						
Jan-Mar	71	149	118	10.89	48.8	5
Apr-June	75	140	118	11.02	50.5	6
July-Sept	75	136	134	11.29	51.5	7
Oct-Dec	78	142	145	11.30	50.3	5
1988						
Jan-Mar	102	137	143	11.06	50.2	4
Apr-June	113	127	114	11.24	52.1	6
July-Sept	120	115	88	11.67	54.3	8
Oct-Dec	127	123	87	11.98	53.3	8
1989						
Jan-Mar	138	115	84	12.54	53.8	11
Apr-June	138	107	92	12.42	55.9	12
July-Sept	124	109	106	12.19	57.1	10
Oct-Dec	119	124	123	12.05	55.8	9
1990						
Jan-Mar	125	124	122	11.93	55.2	7
Apr-June	118	125	119	11.95	56.5	7
July-Sept	117	122	115	11.94	57.0	8
Oct-Dec	116	123	100	11.82	56.9	9

[1]At end of period.
[2]Bankers responded to each item by indicating whether conditions during the current quarter were higher, lower, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

summer months, registered slight declines during the fourth quarter. As of the end of December, the typical rates reported by the responding banks averaged 11.8 percent for feeder cattle and farm operating loans and 10.9 percent for farm real estate loans. The latest averages were down about 10 basis points from three months earlier and down about 25 basis points from a year ago. In general, the reported rates were lowest in Iowa and Wisconsin and highest among banks in Michigan and, to a lesser extent, in Indiana. The declines experienced in market rates of interest since late December imply that rates charged by banks on farm loans probably eased further in recent weeks.

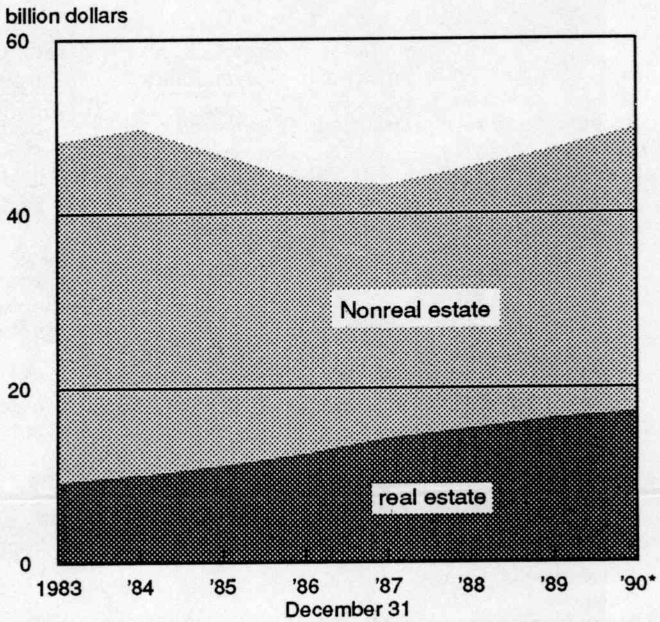
The combination of continued gains in farm loan demand during the fourth quarter and a leveling off in farm loan repayment rates suggests that farm loan portfolios at banks at the end of 1990 remained above the year-ago level. Preliminary tallies show that farm loans held by commercial banks nationwide as of the end of September exceeded $50.5 billion, up more than 5 percent from a year earlier and up 13 percent from the low of three years ago. Among banks in the five states of Seventh Federal Reserve District, farm loans at the end of September exceeded $11.9 billion, up 3 percent from the year before and up 11 percent from three years earlier. Total farm debt remains some 25 to 30 percent below the peak reached in 1983. Yet with the growth of the past three years, the portfolio of farm loans held by banks is once again approaching the earlier high.

The trend in farm loan portfolios at banks has varied considerably among District states. Over the past three years, banks in Illinois and Iowa have expanded their farm loan portfolios 13 and 17 percent, respectively. Banks in Indiana and Wisconsin have registered more modest gains of 6 and 8 percent, respectively. And in marked contrast to the pattern elsewhere, the portfolio of farm loans held by banks in Michigan has continued to decline. As of the end of September, the portfolio of farm loans held by banks in Michigan was down 5 percent from the year before, down 14 percent from three years ago, and down 26 percent from the peak.

Banks have long been the predominate source of short and intermediate term loans to farmers. For the most part, those loans are secured by something other than real estate. But over the past decade, loans secured by real estate have registered rapid and uninterrupted growth. While total farm loans held by banks remain slightly below the peak reached in 1984, those secured by farm real estate are up 70 percent among banks nationwide and up nearly 80 percent among banks in District states. In 1984, farm loans secured by real estate accounted for 20 percent of all farm loans at banks, both in District states and nationwide. By September of 1990, the proportion secured by real estate had risen to 34 percent among banks nationwide and 38 percent among banks in District states. In individual District states, the real estate share as of September ranged from 32 percent among Iowa banks to more than 45 percent among Wisconsin banks.

The bulk of the farm real estate loans made by banks are used to finance the purchase of farm real estate or to refinance other indebtedness. The District bankers that responded to our latest survey indicated that over half (54 percent) of the farm real estate loans that they made in 1990 were used by the borrower to finance the purchase of farm real estate. An additional 16 percent, on average, was used to refinance existing farm mortgage debt while another 9 percent was used to refinance other debts of the borrower. About 16 percent of the funding obtained through farm real estate loans from banks was used by the borrowers to finance current

Farm loans held by U.S. banks



*Projection, based on year-over-year gains as of September 30.

operating expenses. The remaining 4 percent was used for other purposes.

Prospects for farm loan demand in the near-term are mixed. In general, District bankers are expecting some weakening in the demand for farm real estate loans and a pick-up in the demand for nonreal estate farm loans. Bankers from all District states are expecting considerable strength in the demand for farm operating loans and a downturn in the demand for dairy loans. The demand for farm machinery loans is expected to be slightly stronger in Illinois, Indiana, and Iowa but weaker in Michigan and Wisconsin. A similar geographical pattern was reported with respect to loans for crops in storage. Bankers from Iowa are expecting an increase in the demand for feeder cattle loans but those from other District states are expecting a decline.

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Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Receipts from farm marketings *($ millions)*	September	15,979	18.1	5	9
Crops*	September	8,163	36.5	7	13
Livestock	September	7,697	3.3	6	10
Government payments	September	119	22.7	-53	-72
Real estate farm debt outstanding *($ billions)*					
Commercial banks	September 30	17.3	1.1**	5	13
Farm Credit System	September 30	29.4	-0.5**	-3	-11
Life insurance companies	September 30	10.6	5.3**	11	14
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	September 30	33.2	4.1**	5	8
Farm Credit System	September 30	11.0	4.1**	7	12
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	January 1	11.82	-1.0**	-2	-1
Real estate loans	January 1	10.95	-1.2**	-2	-3
Commodity Credit Corporation	February	6.75	-5.3	-14	-25
Agricultural exports *($ millions)*	December	3,164	-9.6	-11	-13
Corn *(mil. bu.)*	December	142	-15.6	-45	-18
Soybeans *(mil. bu.)*	December	56	-11.0	-15	-19
Wheat *(mil. bu.)*	December	61	-24.6	-29	-43
Farm machinery sales^p *(units)*					
Tractors, over 40 HP	January	3,289	-52.1	-26	-21
40 to 100 HP	January	1,911	-33.0	-21	-12
100 HP or more	January	1,378	-65.6	-32	-30
Combines	January	645	-40.4	28	77

*Includes net CCC loans.

**Prior period is three months earlier.

^p Preliminary

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