FRB CHICAGO

# AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
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**District credit conditions**

Survey responses from agricultural bankers across the Seventh Federal Reserve District suggest that conditions in rural credit markets remained fairly steady during the second quarter of the year. The bankers reported that farm loan demand remains strong and that institutions have ample supplies of funds available for lending to farmers. Interest rates charged on farm loans stabilized following earlier declines, while the measure of repayment rates on loans to farmers dropped slightly from the high levels of earlier surveys. Nevertheless, further improvements in the overall conditions of farm loan portfolios at District agricultural banks were noted. The respondents expect farm lending at their institutions to continue expanding during the summer months, especially for operating funds and farm machinery purchases.

The measure of farm loan demand at District agricultural banks, although down slightly, continues to show strength. At 118, the measure is down from 125 three months earlier and 138 a year ago, which was the highest measure registered during the 1980s. The most recent measure reflects the 36 percent of the bankers who reported a pickup in farm loan demand during the spring months, less the 18 percent who reported a decline compared to the same months last year. The remaining 40 percent of the survey respondents indicated that farm loan demand at their banks was unchanged from the year-ago level. Among the individual District states, farm loan demand showed particular strength in Indiana and Iowa. Responses from Wisconsin bankers were similar to the District average, while Illinois and Michigan banks reported somewhat lower than average measures of farm loan demand during the second quarter.

The measure of fund availability rose sharply in late 1989 and has held at that high level during the first half of this year. At 125, the measure represents the composite of the 30 percent of the bankers who indicated that funds available for lending to farmers were up from a year earlier, less the 5 percent who reported a year-to-year drop during the second quarter. The remaining 65 percent of the respondents reported no change in the availability of funds for lending to farmers compared to the same period a year ago. The measure of fund availability was above 100 in each of the District states, indicating that larger proportions of bankers reported increases in fund availability than noted declines throughout the five state region.

The strengthening trend in farm loan demand that has been apparent from the survey during the last few years has coincided with rising loan-to-deposit ratios at District agricultural banks. At 56.5 percent at the end of the second quarter, the average of the loan-to-deposit ratios at responding banks was more than a percentage point higher than three months earlier. Agricultural banks in Michigan reported the highest average ratios at 69.5 percent, followed closely by Indiana and Wisconsin banks with average loan-to-deposit ratios of 64 percent. The ratios at Illinois and Iowa agricultural banks averaged somewhat lower than the District average, holding at about 51 percent at the end of the second quarter.

Although loan-to-deposit ratios have been trending higher since early 1987, a substantial majority of the responding bankers expressed a preference for still higher ratios. More than two-thirds of the bankers reported that their loan-to-deposit ratio at the end of the second quarter was below the desired level, while only 7 percent reported it was too high. The remaining fourth of the bankers felt their current loan-to-deposit ratio was at the desired level. Preference for higher ratios was most prevalent among Illinois and Iowa bankers, with about three-fourths of the respondents in those states indicating their loan-to-deposit ratios were below their desired levels.

Interest rates charged on loans to farmers, after dropping continuously during the four previous quarterly surveys, remained essentially unchanged during the second quarter. The average rates charged on feeder cattle and farm operating loans held at about 11.9 percent as of mid year, down from the previous cyclical high of about 12.5 percent in April of last year. However, there was some variation in these rates across the individual District states. Agricultural banks in Wisconsin continued to report the lowest average rates on feeder cattle and farm operating loans at the end of the second quarter, holding at about 11.6 percent. In contrast, respondents in Indiana and Michigan reported somewhat higher rates, averaging about 12.2 percent as of mid year.

Rates charged on farm real estate loans remained stable during the second quarter as well. The average of

## Selected measures of credit conditions at Seventh District agricultural banks

| | Loan demand (index)[2] | Fund availability (index)[2] | Loan repayment rates (index)[2] | Average rate on feeder cattle loans[1] (percent) | Average loan-to-deposit ratio[1] (percent) | Banks with loan-to-deposit ratio above desired level[1] (percent of banks) |
|---|---|---|---|---|---|---|
| **1980** | | | | | | |
| Jan-Mar | 85 | 49 | 51 | 17.12 | 66.4 | 51 |
| Apr-June | 65 | 108 | 68 | 13.98 | 65.0 | 31 |
| July-Sept | 73 | 131 | 94 | 14.26 | 62.5 | 21 |
| Oct-Dec | 50 | 143 | 114 | 17.34 | 60.6 | 17 |
| **1981** | | | | | | |
| Jan-Mar | 70 | 141 | 90 | 16.53 | 60.1 | 17 |
| Apr-June | 85 | 121 | 70 | 17.74 | 60.9 | 20 |
| July-Sept | 66 | 123 | 54 | 18.56 | 60.9 | 21 |
| Oct-Dec | 66 | 135 | 49 | 16.94 | 58.1 | 17 |
| **1982** | | | | | | |
| Jan-Mar | 76 | 134 | 36 | 17.30 | 57.8 | 18 |
| Apr-June | 85 | 136 | 41 | 17.19 | 57.3 | 14 |
| July-Sept | 87 | 136 | 36 | 15.56 | 57.8 | 15 |
| Oct-Dec | 74 | 151 | 47 | 14.34 | 55.1 | 11 |
| **1983** | | | | | | |
| Jan-Mar | 69 | 158 | 66 | 13.66 | 53.3 | 6 |
| Apr-June | 85 | 157 | 78 | 13.49 | 54.0 | 6 |
| July-Sept | 81 | 156 | 78 | 13.70 | 54.8 | 8 |
| Oct-Dec | 101 | 153 | 78 | 13.65 | 53.6 | 8 |
| **1984** | | | | | | |
| Jan-Mar | 131 | 135 | 62 | 13.82 | 54.4 | 12 |
| Apr-June | 138 | 128 | 64 | 14.32 | 55.7 | 14 |
| July-Sept | 120 | 122 | 59 | 14.41 | 57.2 | 17 |
| Oct-Dec | 103 | 124 | 49 | 13.61 | 55.9 | 19 |
| **1985** | | | | | | |
| Jan-Mar | 107 | 120 | 47 | 13.48 | 56.1 | 17 |
| Apr-June | 105 | 133 | 56 | 12.93 | 55.1 | 14 |
| July-Sept | 90 | 127 | 59 | 12.79 | 55.5 | 14 |
| Oct-Dec | 68 | 144 | 97 | 12.70 | 52.7 | 10 |
| **1986** | | | | | | |
| Jan-Mar | 74 | 149 | 80 | 12.34 | 50.9 | 8 |
| Apr-June | 65 | 152 | 86 | 11.81 | 51.1 | 6 |
| July-Sept | 68 | 146 | 87 | 11.31 | 51.4 | 6 |
| Oct-Dec | 61 | 153 | 107 | 11.06 | 49.4 | 3 |
| **1987** | | | | | | |
| Jan-Mar | 71 | 149 | 118 | 10.88 | 48.8 | 5 |
| Apr-June | 75 | 140 | 118 | 10.98 | 50.5 | 6 |
| July-Sept | 75 | 136 | 134 | 11.22 | 51.5 | 7 |
| Oct-Dec | 78 | 142 | 145 | 11.22 | 50.3 | 5 |
| **1988** | | | | | | |
| Jan-Mar | 102 | 137 | 143 | 11.02 | 50.2 | 4 |
| Apr-June | 113 | 127 | 114 | 11.17 | 52.1 | 6 |
| July-Sept | 120 | 115 | 88 | 11.61 | 54.3 | 8 |
| Oct-Dec | 127 | 123 | 87 | 11.91 | 53.3 | 8 |
| **1989** | | | | | | |
| Jan-Mar | 138 | 115 | 84 | 12.47 | 53.8 | 11 |
| Apr-June | 138 | 107 | 92 | 12.36 | 55.9 | 12 |
| July-Sept | 124 | 109 | 106 | 12.15 | 57.1 | 10 |
| Oct-Dec | 119 | 124 | 123 | 12.02 | 55.8 | 9 |
| **1990** | | | | | | |
| Jan-Mar | 125 | 124 | 122 | 11.88 | 55.2 | 7 |
| Apr-June | 118 | 125 | 119 | 11.90 | 56.5 | 7 |

[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.

rates among the responding bankers stood at almost 11.1 percent at the end of the period, unchanged from three months earlier, but down almost half a percentage point from the year-earlier level. Agricultural banks in Iowa continue to report the lowest mortgage rates, averaging 10.9 percent. Illinois and Wisconsin bankers report rates near the District average. Farm mortgage rates in Indiana and Michigan, averaging 11.3 and 11.6 percent, respectively.

The measure of farm loan repayment rates continued to point to improving conditions for farmers. At 119, the second quarter measure reflects the 24 percent of the survey respondents who noted improvement in farm loan repayment rates compared to a year earlier, less the 5 percent noting a slow down. The remaining 71 percent of the agricultural bankers reported no change from repayment rates of a year ago. The measures of loan repayment rates showed continued gains across the District states, particularly in Michigan and Wisconsin.

The continuing improvement is also evident in the bankers' evaluations of the condition of their loan portfolios. At the end of the second quarter, the average proportion of District agricultural bank farm loan portfolios experiencing little or no repayment problems climbed to more than 95 percent, up from 94 percent a year ago. As a result, the proportion of agricultural banks' farm loan portfolios falling into more severe repayment problem categories continued to decline. An average of 3.5 percent of the farm loans held by responding banks were characterized as having major repayment problems that would require additional collateral and longer term workouts, down from more than 4 percent at the same time last year. An average of just over 1 percent of the farm loan portfolios across the District are characterized as experiencing severe repayment problems that might result in losses or require the forced sale of assets. The continuing trend toward improvement at District agricultural banks has curtailed sharply the proportions of loans falling into the major and severe categories. Four years ago, when agricultural was experiencing substantial financial stress, more than 17 percent of the bankers' portfolios were characterized as having major or severe repayment problems.

One of the responses to the declining condition of farm loan portfolios and the heightened financial stress on farmers during the 1980s was the marked expansion in loan guarantees provided by the Farmers Home Administration on farm loans made by commercial lenders. Since the mid 1980s, higher levels of guaranteed lending have offset a portion of the declines in direct lending to farmers by the FmHA. Under these programs, the FmHA guarantees up to 90 percent of any loss of principal and interest on farm ownership and operating loans. The recent survey indicates that almost 70 percent of the respondents have farm loans secured by an FmHA guarantee, with the proportion ranging from under 50 percent in Indiana to over 90 percent in Iowa.

The volume of farm lending at District agricultural banks, which has been trending upward the past few years, is likely to show additional growth during the third quarter of 1990. About 15 percent of the survey respondents expect nonreal estate loan volume at their banks to be down from a year earlier, while about 27 percent expect lending volume to be above last summer's level. The remaining 58 percent of the respondents foresee no change in the volume of farm lending this summer compared to last year.

The expected growth in nonreal estate lending volume continues to be attributed to expected strong demand for credit to finance farm operations and purchase machinery. More than 27 percent of the bankers expect operating loan volume to be above year-ago levels during the third quarter, while less than 17 percent foresee a decline. Indications of increased lending associated with farm machinery purchases are even more pronounced, with more than 40 percent of the respondents expecting increased volume and only 8 percent expecting a decline.

Responses from the agricultural bankers indicate that the volume of farm real estate lending will continue expanding during the third quarter as well. The proportion of bankers expecting a year-to-year increase in farm mortgage volume this summer is nearly double the proportion expecting a decline. The remaining two-thirds of the respondents expect farm real estate loan volume at their institutions to be unchanged from a year earlier.

Peter J. Heffernan

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Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago,IL 60690
Tel.no. (312) 322-5111

## Selected Agricultural Economic Indicators

| | Latest period | Value | Percent change from: Prior period | Year ago | Two years ago |
|---|---|---|---|---|---|
| **Receipts from farm marketings** *($ millions)* | March | 14,781 | 24.5 | 15 | 4 |
| Crops* | March | 5,071 | 20.2 | 8 | 20 |
| Livestock | March | 7,379 | 11.6 | 8 | 17 |
| Government payments | March | 2,331 | 123.1 | 73 | -36 |
| **Real estate farm debt outstanding** *($ billions)* | | | | | |
| Commercial banks | March 31 | 15.5 | 0.7† | 6 | 15 |
| Farm Credit System | March 31 | 26.1 | -1.1† | -4 | -11 |
| Life insurance companies | March 31 | 8.74 | -2.2† | 0 | -3 |
| **Nonreal estate farm debt outstanding** *($ billions)* | | | | | |
| Commercial banks | March 31 | 27.9 | -4.6† | 3 | 5 |
| Farm Credit System | March 31 | 9.19 | -3.2† | 4 | 2 |
| **Interest rates on farm loans** *(percent)* | | | | | |
| 7th District agricultural banks | | | | | |
| Operating loans | July 1 | 11.94 | 0.1† | -4 | 6 |
| Real estate loans | July 1 | 11.09 | 0.2† | -4 | 4 |
| Commodity Credit Corporation | August | 8.00 | -1.5 | -2 | 5 |
| **Agricultural exports** *($ millions)* | May | 3,203 | -2.7 | -3 | 8 |
| Corn *(mil. bu.)* | May | 214 | 10.5 | 1 | 19 |
| Soybeans *(mil. bu.)* | May | 23 | -47.1 | -2 | -42 |
| Wheat *(mil. bu.)* | May | 75 | -17.4 | -23 | -50 |
| **Farm machinery sales**p *(units)* | | | | | |
| Tractors, over 40 HP | June | 6,284 | 2.2 | 14 | 28 |
| 40 to 100 HP | June | 4,515 | 12.5 | 14 | 24 |
| 100 HP or more | June | 1,769 | -17.1 | 12 | 37 |
| Combines | June | 951 | 17.4 | 24 | 91 |

*Includes net CCC loans.
†Prior period is three months earlier.
pPreliminary


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Chicago, Illinois 60690
(312) 322-5111