



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

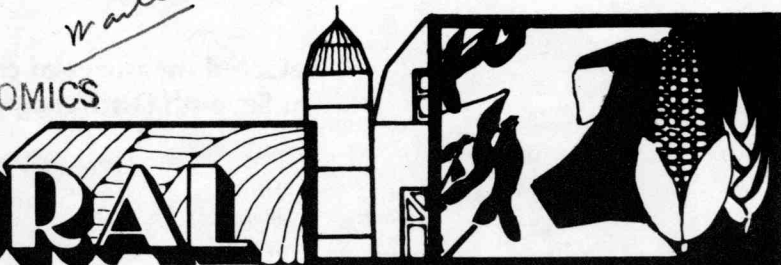
Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

WAITE MEMORIAL BOOK COLLECTION  
DEPT. OF AGRIC. AND APPLIED ECONOMICS  
FEDERAL RESERVE BANK OF CHICAGO

*Waite*



# AGRICULTURAL

ISSN 0002 - 1512

# LETTER

August 17, 1984

Number 1636

**AGRICULTURAL CREDIT CONDITIONS** at District banks in the second quarter were characterized by most of the same trends that began last fall. The consensus views expressed in a July 1 survey of 550 District agricultural banks suggest that farm loan demand continued to strengthen, despite further increases in farm loan interest rates. The availability of funds for lending to farmers remained ample, but some tightening is evident in the higher average loan/deposit ratio. Evidence of the financial stress that exists among many farmers was also noted in the continuing slow repayment on farm loans and in bankers' desires for more collateral on farm loans.

**Farm loan demand** at District agricultural banks has turned upward after four years of relative softness. The turnaround began last fall and gained momentum through the first half of this year. The measure of farm loan demand (see table on page 2) reached 138 in the second quarter, up from 131 in the first quarter and 85 in the second quarter of last year. The latest reading represents a composite of the nearly 54 percent of the bankers who noted farm loan demand in the second quarter was greater than a year ago, less the 16 percent who reported loan demand was less than a year ago. The remaining 30 percent of the bankers felt that second-quarter loan demand was unchanged from a year ago.

Bankers in each of the five District states noted the increase in farm loan demand, but the greatest strength appeared to be in Illinois, Indiana, and Iowa. The stronger farm loan demand mostly reflects this year's rebound in crop acreage and the attendant increase in farmers' needs for operating capital to finance the larger purchases of seeds, fuel, fertilizer, and chemicals. USDA figures show that corn and soybean acreage in District states is up 37 and 7 percent, respectively, from the PIK-reduced levels of last year.

While loan demand of crop farmers is up considerably this year, that for livestock producers is probably down. Livestock and dairy farmers have been cutting back nationwide and in District states. The available evidence for District states shows that the combined inventory of cattle in feedlots in Iowa and Illinois was down a

fifth from the year before on April 1 and the number of cattle placed on feed in those two states during the second quarter was down a third. Similarly, the combined inventory of hogs and pigs on farms in Illinois, Indiana, and Iowa in the second quarter was 7 percent lower than the year before. And total dairy cow numbers in the five District states were down 2 percent. While higher-than-year-ago feed costs would have been somewhat offsetting, the overall cuts in production suggest that loan demand of livestock and dairy farmers was softer in the second quarter.

**Loan-to-deposit ratios** at District agricultural banks have edged upward since the end of last year, suggesting that the stronger farm loan demand has boosted loan portfolio growth over that for deposits. As of mid-year, loan-to-deposit ratios at the surveyed banks averaged 55.7 percent, up from 53.6 percent six months earlier and 54 percent the year before. Despite the increase, the mid-year level remains well below the 1979 peak and roughly equivalent to the average loan-to-deposit ratios that prevailed during the 1960s and the early 1970s.

A large proportion of the bankers would like to see still higher loan-to-deposit ratios. Desired loan-to-deposit ratios among the bankers averaged over 62 percent, nearly 6.5 percentage points above the average of the actual ratios. Nearly two-thirds of the bankers indicated that their actual mid-year ratio was below their desired ratio, while only 14 percent indicated they were operating with a higher-than-desired loan-to-deposit ratio.

Bankers' desires for higher loan-to-deposit ratios are consistent with the continuing indication that agricultural banks have ample funds to lend to credit-worthy farm borrowers. The overall measure of fund availability, although trending downward the past couple of quarters, still indicates that considerably more banks are reporting year-to-year gains in fund availability than are reporting declines.

**Interest rates on farm loans** charged by District agricultural banks continued to rise in the second quarter.

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

	<u>Loan demand</u> (index) <sup>2</sup>	<u>Fund availability</u> (index) <sup>2</sup>	<u>Loan repayment rates</u> (index) <sup>2</sup>	<u>Average rate on feeder cattle loans<sup>1</sup></u> (percent)	<u>Average loan-to-deposit ratio<sup>1</sup></u> (percent)	<u>Banks with loan-to-deposit ratio above desired level<sup>1</sup></u> (percent of banks)
<b>1978</b>						
Jan-Mar	152	79	64	8.90	63.7	44
Apr-June	148	73	81	9.12	64.5	46
July-Sept	158	64	84	9.40	65.8	52
Oct-Dec	135	62	93	10.14	65.4	50
<b>1979</b>						
Jan-Mar	156	51	85	10.46	67.3	58
Apr-June	147	62	91	10.82	67.1	55
July-Sept	141	61	89	11.67	67.6	52
Oct-Dec	111	67	79	13.52	66.3	48
<b>1980</b>						
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
<b>1981</b>						
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
<b>1982</b>						
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
<b>1983</b>						
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
<b>1984</b>						
Jan-Mar	131	135	62	13.82	54.4	12
Apr-June	138	128	64	14.32	55.7	14

<sup>1</sup>At end of period.

<sup>2</sup>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.

As of mid-year, interest rates charged on new feeder cattle loans and on new farm operating loans averaged 14.3 percent among the surveyed banks. The updated readings mark increases of about 50 basis points from three months earlier and 80 basis points from a year ago. The increases appear to be consistent with the general trends in market rates of interest and probably reflect a rising cost of funds (deposits) at agricultural banks. Among the five District states, the average rates on farm loans ranged from about 14 percent in Wisconsin to

roughly 14.5 percent in Indiana and Iowa.

**The financial stress in agriculture** continues to be reflected in the credit conditions reported by the surveyed bankers. For instance, some 56 percent of the bankers noted that collateral requirements for their farm loans were higher than a year ago. Virtually none of the bankers reported an easing in collateral requirements. The tendency of a fairly large proportion of bankers to note that they have raised collateral require-

ments began in 1980 and has continued ever since, no doubt reflecting the greater incidence of debt-servicing problems—particularly among highly leveraged farmers—and the erosion in equity of farm borrowers that has coincided with the downtrend in farm asset values.

Further evidence is suggested by the continuing sluggishness in farm loan repayment rates and the increased incidence of renewals and extensions of farm loans. The measure of farm loan repayment rates for the second quarter held at 64, indicating that the proportion of bankers noting year-to-year declines in repayments substantially exceeded the proportion noting an increase. In the same vein, the proportion of bankers noting year-to-year gains in the incidence of renewals and extensions of farm loans substantially exceeded the proportion noting declines. Overall, 45 percent of the bankers noted that loan renewals and extensions were up from a year ago in the second quarter while only 5 percent reported a decline. Among the five District states, the proportion of bankers noting year-over-year declines in the farm loan repayment rate and increases in loan renewals and extensions was highest among Iowa bankers (55 percent) and lowest among Michigan bankers (31.5 percent).

The financial stress among farmers, and between farmers and their lenders, stems from several factors that have culminated in depressed farm earnings since the late 1970s. Recently revised USDA estimates indicate that farm sector income in 1983 and 1984, on a per farm basis and adjusted for inflation, will average the lowest since the early 1960s. A major factor behind the decline has been the fall-off in grain and soybean exports, down more a fifth since 1980. Major droughts that affected large areas of the Midwest in 1980 and again in 1983 were also a factor. Earnings of farmers in the drought areas, particularly those who had elected not to participate in the government crop programs, were severely depressed by the crop losses caused by the drought. Earnings of livestock farmers at times were severely squeezed by the high feed costs that followed the droughts and at times by the cyclical nature of their production that resulted in price-depressing abundant supplies. High interest rates throughout the period since the late 1970s have caused substantial increases in cash outflows for debt servicing among highly leveraged farmers. Asset values in the farm sector have declined after peaking in 1981, causing considerable equity losses among farmers and eroding their credit worthiness in the eyes of lenders.

**Lending activity among reporting institutions** serving farmers has been mixed so far this year. Along with banks, the Farmers Home Administration (FmHA)

has considerably expanded its lending activities to farmers. But new lending by Federal Land Banks (FLBs) and Production Credit Associations (PCAs) has continued to shrink. At the end of the first quarter, farm loans held by banks were up 9 percent from the year before. Indications of a strong farm loan demand at banks suggest that further growth occurred in the second quarter.

In the second quarter of this year, loans made by the FmHA to farmers exceeded \$1.6 billion, up 72 percent from the same period the year before. The sharp increase mostly stemmed from a surge in lending through the Disaster Loan Program and the re-opening earlier this year of the Economic Emergency Loan Program. However, loans extended through the Operating Loan Program, which is the largest of the several FmHA farmer loan programs, in the second quarter, was also up 15 percent from the year before. In conjunction with their stepped-up lending, the portfolio of outstanding farm loans held by the FmHA—including farm real estate mortgages and non-real estate farm loans—at midyear was up 5 percent from a year ago.

In contrast to the rise for FmHA, new lending by PCAs and FLBs in the second quarter continued on the downtrend that began in late 1981. Loans made by PCAs in the second quarter totaled about \$7.5 billion. That marked a decline of 4 percent from the same period the year before and a decline of 17 percent from the second-quarter peak three years earlier. Similarly, new loans made by FLBs nationwide in the second quarter fell to \$970 million, off 2.4 percent from the year-earlier pace and off 63 percent from the peak second-quarter performance for FLBs in 1981. As of mid-year, the portfolio of farm mortgages held by FLBs nationwide was up less than 1 percent from the year-earlier level. The mid-year portfolio of non-real estate farm loans held by PCAs was down 6 percent from a year ago.

In terms of cash flows to farmers, a sharp cutback in CCC lending has also been important. This cutback stems from the relationship between market prices for crops and government support prices, rather than a conscious policy to tighten credit on the part of the CCC. In contrast to the experience following the 1981 and 1982 crop harvests, high crop prices since last summer have dramatically lowered the volume of grain put under loan with the CCC. This, coupled with the mechanics of the PIK transfers, had pulled the volume of outstanding CCC loans to farmers down to less than \$9 billion by the end of the first quarter, down from \$19 billion the year before. A further decline in the CCC portfolio of loans to farmers probably occurred in the second quarter.

Gary L. Benjamin



# Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Receipts from farm marketings (\$ millions)</b>	April	9,399	-22.6	- 9	-13
Crops*	April	3,228	-21.1	-14	-25
Livestock	April	5,757	- 6.5	- 2	- 7
Government payments	April	414	-78.2	-42	+19
<b>Real estate farm debt outstanding (\$ billions)</b>					
Commercial banks	March 31	9.63	+ 3.7†	+14	+16
Federal Land Banks	June 30	48.2	+ 0.1	+ 1	+ 4
Life insurance companies	April 30	12.6	+ 0.1	- 1	- 3
Farmers Home Administration	June 30	10.1	+ 2.2†	+ 5	+10
<b>Nonreal estate farm debt outstanding (\$ billions)</b>					
Commercial banks	March 31	39.2	+ 0.4†	+ 7	+18
Production Credit Associations	June 30	19.0	+ 2.3	- 6	-13
Farmers Home Administration	June 30	16.7	+ 8.1†	+ 5	+ 4
Commodity Credit Corporation	March 31	8.81	-18.1†	-54	-21
<b>Farm loans made (\$ millions)</b>					
Production Credit Associations	June	2,271	- 8.4	- 8	-21
Federal Land Banks	June	303	- 9.0	- 3	-45
Life insurance companies	April	121	+29.5	+19	+109
<b>Interest rates on farm loans (percent)</b>					
7th District agricultural banks					
Operating loans	July 1	14.34	+ 3.7†	+ 6	-17
Real estate loans	July 1	13.89	+ 3.5†	+ 5	-17
Commodity Credit Corporation	August	12.12	+ 1.0	+21	-13
<b>Agricultural exports (\$ millions)</b>	June	2,563	-19.7	- 8	-18
Corn (mil. bu.)	June	112	-31.7	-26	-38
Soybeans (mil. bu.)	June	41	-27.6	-39	-31
Wheat (mil. bu.)	June	113	- 6.9	- 9	-30
<b>Farm machinery sales<sup>P</sup> (units)</b>					
Tractors, over 40 HP	July	4,072	-40.0	-27	-39
40 to 139 HP	July	3,394	-35.8	-19	-36
140 HP or more	July	678	-54.6	-51	-49
Combines	July	815	+64.0	-19	-43

\*Includes net CCC loans.

†Prior period is three months earlier.

<sup>P</sup>Preliminary

AGRICULTURAL LETTER  
FEDERAL RESERVE BANK  
OF CHICAGO  
Public Information Center  
P.O. Box 834  
Chicago, Illinois 60690

Tel no. (312) 322-5111



FIRST-CLASS MAIL  
U.S. POSTAGE  
PAID  
Chicago, Ill.  
Permit No. 1942

AG  
HEAD-DEPT. OF AGRIC. ECON.  
INSTITUTE OF AGRICULTURE  
UNIVERSITY OF MINNESOTA  
ST. PAUL, MN 55101