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CREDIT CONDITIONS AT DISTRICT AGRICULTURAL BANKS during the third quarter continued to follow the course established last fall. The October 1 survey of 575 District agricultural banks indicates that farm loan demand remained strong during the third quarter, despite continued upward pressure on farm loan interest rates. Funds available for lending at the surveyed banks remain in ample supply, but evidence of some tightening was apparent in a further increase in the average loan-to-deposit ratio. However, financial stress among many farm borrowers remains evident in the survey responses. The measure of farm loan repayment rates dropped from its already low level during the third quarter, and a majority of the surveyed banks were requiring more collateral on farm loans.

Farm loan demand at District agricultural banks, following several years of relative weakness, has risen substantially during the past year. The measure of farm loan demand, at 120, is up sharply from 81 in the third quarter of last year (see table on page 2). The latest measure represents a composite of the 40 percent of the bankers who noted a year-to-year increase in farm loan demand during the third quarter, less the 20 percent who noted that farm loan demand was less than a year ago. The remaining 40 percent of the respondents reported that third quarter loan demand was unchanged from 1983 levels. Although up from the year-ago level, the overall measure of loan demand was down from the previous two quarters. This might be an indication that the rate of growth in loan demand has slowed.

The strength in farm loan demand at banks in District states reflects the sharp increase in this year's crop acreage. The acreage reduction programs and the effects of the severe drought last year curtailed farmers' demand for operating capital and contributed to the first decline in outstanding nonreal estate debt for the sector since 1956. The rebound in planted acreage and the expected large crops this year, however, have boosted crop farmers' loan demand above year-ago levels.

Loan demand by livestock producers in District states, on the other hand, is most likely down from last year's level. Recent USDA surveys indicated that inventories of cattle on feed were down in the Midwest, with inventories in Iowa showing the largest decline. The number of hogs and pigs on farms in Illinois, Indiana, and Iowa all registered declines from year-ago levels at the end of the third quarter. Furthermore, the number of dairy cows in all five District states is down 2 percent from a year ago, while milk production during the third quarter was off 3 percent from the 1983 level. The substantial cuts in inventories and production, although partially offset by higher feed costs, suggest that the loan demand of District livestock producers was likely below year-ago levels during the third quarter.

Funds available for lending to farmers remained high. The measure of fund availability, although at its lowest level in twelve quarters, indicates that the number of bankers reporting a year-to-year increase in funds available for agricultural lending still exceeds those reporting a decrease, but by a somewhat smaller margin. Overall, about a third of the respondents noted an increase in fund availability during the third quarter, while less than 12 percent noted a decline in funds for lending to farmers. The remaining majority of the bankers reported that fund availability was unchanged from the high level of a year ago.

Loan-to-deposit ratios at District agricultural banks continued their upward trend during the third quarter of this year. At 57.2 percent, the average of the ending September loan-to-deposit ratios reported by surveyed banks was up from 54.8 percent a year ago, and at its highest level in seven quarters. Among the five District states, average loan-to-deposit ratios at the end of September ranged from a high of 63 percent among banks in Wisconsin to a low of 54 percent among banks in Illinois.

Despite further gains during the third quarter, most of the surveyed banks expressed a preference for still higher loan-to-deposit ratios. The desired ratios of all respondents averaged about 62 percent, 5 percentage points above the average of their actual loan-to-deposit ratios. Almost 60 percent of the surveyed banks indicated that their actual ratio at the end of September was

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)
1979						
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
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

[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.

below their desired ratio, while only 17 percent indicated they were operating with a loan-to-deposit ratio above their desired level. Although this latter group is represented in all District states, the proportion of banks in Illinois and Iowa reporting higher-than-desired ratios was slightly greater than the District average.

Interest rates on farm loans at District banks edged higher during the third quarter, continuing the upward trend that began early in the year. At the end of the third quarter, the typical interest rates charged on new feeder cattle loans and farm operating loans averaged more than 14.4 percent, while new farm real estate loans at District banks carried a 14 percent interest charge. The higher rates mark an increase of about 10 basis points from three months ago and indicate year-to-year rises ranging from 65 to 70 basis points. Loan rates at banks in Indiana and Iowa were above the District average, while Wisconsin banks reported the lowest rates of the five state group.

The financial stress in agriculture remains evident in the responses of surveyed bankers. Sluggish farm loan repayment rates and a high incidence of renewals and extensions of farm loans during the third quarter continued to characterize the survey responses. The mea-

sure of third quarter farm loan repayment rates fell to 59, with the number of banks reporting a year-to-year decrease in repayments accounting for 46 percent of the respondents. Only 5 percent noted an increase. The remaining 49 percent of the banks surveyed indicated repayment rates were unchanged from the year-ago level. Similarly, the proportion of District banks citing a year-to-year increase in the number of loans renewed or extended far outweighed the proportion noting a decline. Among the five District states, the proportion of banks that reported declining repayment rates and mounting renewals and extensions was highest in Iowa and lowest in Indiana.

Further evidence of financial stress is reflected in the more stringent collateral requirements on farm loans at District banks. About 60 percent of the bankers surveyed indicated that collateral requirements were higher than a year ago, while virtually none of the bankers noted an easing of collateral requirements on farm loans. The move toward more stringent collateral requirements reflects the increasing incidence of debt servicing problems among some farm borrowers and the effects on farmer's equity of the downtrend in farm asset values of recent years.

The extent of problem farm loans at banks has been documented by researchers at the Board of Governors of the Federal Reserve System. Their data indicate that the level of net charge-offs of farm loans in the first half of this year approached 0.7 percent of farm loans outstanding at commercial banks. While charge-offs in Illinois and Indiana were close to the national average, the only District state to exceed that level was Iowa, at 0.9 percent. Net charge-offs on farm loans at banks in Michigan and Wisconsin were 0.2 and 0.3 percent, respectively, falling well below the mid-year national average. Although historical data on farm loan charge-offs are not available, data on charge-offs of all types of loans at banks with assets of less than $500 million and with farm loans comprising more than 25 percent of the total loan portfolio indicate a steady rise throughout the 1980s.

The research also indicates that farm loans past due and still accruing interest at the end of June represented 3 percent of farm loans outstanding at banks. Banks in Illinois, Indiana, and Iowa had delinquency rates near the national average, ranging from 2.3 to 3.7 percent of farm loans outstanding. However, delinquent farm loans as a percent of farm loans outstanding at banks in Michigan and Wisconsin totaled 4.2 and 5.4 percent, respectively, significantly higher than the national average.

Lending activity at other financial institutions serving agriculture has been down this year. Loans made by production credit associations (PCAs)—the Farm Credit System's outlet for nonreal estate lending—dropped 5 percent from the year-ago level during the third quarter, continuing the slide in new lending by PCAs that began three years ago. The portfolio of nonreal estate loans outstanding at PCAs in September was down 4.7 percent from last year's level and 17 percent below the September 1981 level when the long slide in new lending began.

The depressed farm real estate market has contributed to declines in lending by the major institutions serving that market. New money loaned by federal land banks (FLBs) during the third quarter dropped 17 percent from last year's level, and is off almost 8 percent for the first nine months of the year. Despite the large reduction in new lending at FLBs, farm real estate loans outstanding at the end of September were about unchanged from the year-ago level. Although third quarter data is not yet available, farm mortgage portfolios of life insurance companies were down 1 percent from the previous year's level in June, continuing the downtrend started in 1982.

In the quarter ahead, credit demand at District agricultural banks is expected to remain stable. Almost half of the bankers surveyed expect the demand for all nonreal estate farm loans will be unchanged from a year ago during the fourth quarter, while 29 percent anticipate an increase. The remaining 22 percent of the survey respondents indicated fourth quarter farm loan demand was expected to be down from last year's level. Much of the strength in demand is expected to stem from crop storage and farm operating loans. Although more than half of the respondents expect feeder cattle and dairy loan demand to remain stable, about a third of the bankers surveyed indicated expectations of a year-to-year decline in demand during the final three months of 1984. Sentiments for a fourth quarter upturn in demand for farm machinery loans were shared by 12 percent of the bankers surveyed, but 43 percent expected a further decline.

The financial stress that is facing many farm borrowers is likely to continue. An expected downturn in net cash income and little change in farm sector debt outstanding this year may place additional pressure on farmers' repayment ability. However, the government's debt restructuring program may ease some of the pressure, particularly among financially-strapped FmHA borrowers. In addition, the movement of grain under loan with the Commodity Credit Corporation may provide added liquidity for servicing farm debt.

Peter J. Heffernan

Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Receipts from farm marketings *($ millions)*	July	10,763	+11.6	– 3	+ 2
Crops*	July	5,285	+41.2	– 6	+ 8
Livestock	July	5,148	– 9.8	– 1	– 9
Government payments	July	330	+73.7	+42	+489
Real estate farm debt outstanding *($ billions)*					
Commercial banks	June 30	10.0	+ 3.8†	+13	+18
Federal Land Banks	September 30	48.2	0	0	+ 3
Life insurance companies	July 31	12.5	– 0.5	– 1	– 4
Farmers Home Administration	June 30	10.1	+ 2.2†	+ 5	+10
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	June 30	41.3	+ 5.4†	+ 7	+16
Production Credit Associations	September 30	18.9	– 1.2	– 5	–13
Farmers Home Administration	June 30	16.7	+ 8.1†	+ 5	+ 4
Commodity Credit Corporation	June 30	6.53	–25.9†	–59	–34
Farm loans made *($ millions)*					
Production Credit Associations	September	1,564	–12.7	–14	–25
Federal Land Banks	September	188	–16.3	–22	–36
Life insurance companies	July	67	–43.0	–16	+16
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	October 1	14.44	+ 0.7†	+ 5	– 7
Real estate loans	October 1	14.00	+ 0.8†	+ 5	–10
Commodity Credit Corporation	November	11.25	– 4.3	+14	+15
Agricultural exports *($ millions)*	September	2,916	+12.8	– 2	+22
Corn *(mil. bu.)*	September	109	–20.3	–25	0
Soybeans *(mil. bu.)*	September	19	–38.4	–65	–67
Wheat *(mil. bu.)*	September	243	+63.9	+89	+80
Farm machinery sales[p] *(units)*					
Tractors, over 40 HP	September	4,766	+22.7	–11	–25
40 to 139 HP	September	3,053	+ 6.7	–19	–40
140 HP or more	September	1,713	+67.3	+ 9	+32
Combines	September	1,391	+45.2	– 6	–24

*Includes net CCC loans.
†Prior period is three months earlier.
[p]Preliminary

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