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AGRICULTURAL LETTER

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District bankers report farm credit trends

Credit conditions at district agricultural banks during the fourth quarter continued the trends that have been apparent for the last year. The January 1 survey of 550 District agricultural banks indicates that farm loan demand during the fourth quarter of last year was holding near the previous year's level across most District states. Funds available for lending to farm borrowers at the surveyed banks remain in ample supply, despite a slight year-to-year increase evident in the average loan-to-deposit ratio among the institutions. However, financial stress among many farm borrowers is evident in the bankers' responses. The measure of farm loan repayment rates fell from its already low level during the fourth quarter as the incidence of repayment problems holds above the normal level.

Farm loan demand at District agricultural banks, after rising substantially through much of 1984, appears to have leveled off during the fourth quarter. The measure of farm loan demand, at 103, suggests little change from the final three months of 1983 (see table on page 2). The measure represents a composite of the 32 percent of the bankers who noted a year-to-year gain in farm loan demand during the fourth quarter, less the 29 percent who noted that farm loan demand was below year-ago levels. The remaining 39 percent of the respondents reported no change in the level of farm loan demand from last year. Although the measure of farm loan demand frequently drops during the fourth quarter, the marked decline in the current measure from the levels reached in earlier quarters may indicate a plateau in District farm loan demand.

Among the five District states, the measure of farm loan demand exhibited some variability. Indiana, Iowa, and Michigan all recorded measures near the District average, while Illinois and Wisconsin bankers reported substantial differences from the five-state average. Farm loan demand was up from a year ago according to 43 percent of the Illinois bankers surveyed, with only 22 percent noting a decline. As a result, the measure of farm loan demand in Illinois, at 121, was the highest in the District.

Wisconsin bankers, on the other hand, reported the weakest loan demand among the District states. Only 18 percent of the Wisconsin bankers surveyed felt loan demand was above year-ago levels, while 39 percent reported a drop. These responses by Wisconsin bankers translate into a composite measure of farm loan demand of 79, the lowest measure among the five District states.

Funds available for lending to farmers remained in ample supply at District agricultural banks during the fourth quarter of last year. The measure of fund availability edged up from the level recorded in the third quarter as the proportion of bankers reporting a year-to-year increase in funds available for agricultural loans continued to exceed that reporting a decline by a substantial margin. More than a third of the surveyed bankers reported an increase in fund availability during the fourth quarter, while less than 11 percent noted a decline. The remaining majority of bankers indicated that there was no change in funds available for lending to farmers from last year's high level.

Fourth quarter loan-to-deposit ratios at District agricultural banks, although down slightly from the previous quarter, continued to register year-to-year gains. At 56 percent, the average loan-to-deposit ratio was up from about 54 percent last year and at its highest level since 1981. Among the five District states, average loan-to-deposit ratios at the end of December ranged from 52 percent in Illinois to 63 percent in Wisconsin.

Despite last year's rise in loan-to-deposit ratios at surveyed banks, the current ratios are still well below the mid 60 percent range that prevailed in the late 1970s. Moreover, most of the surveyed banks expressed a preference for loan-to-deposit ratios higher than the current level, suggesting sufficient funds are available for loan customers.

The desired ratios of all survey respondents averaged about 61 percent, almost 5 percentage points above their actual loan-to-deposit ratios. More than 56 percent of the surveyed bankers indicated that their actual ratio at the end of December was below their desired ratio. In contrast, only 19 percent indicated that their current loan-to-deposit ratio was above the desired level. The remaining 25 percent of the respondents indicated that their current loan-to-deposit ratio matched their desired ratio.

Interest rates on farm loans at District agricultural banks dropped substantially during the final three months of 1984, reversing the upward trend that had emerged early in the year. At the end of the fourth quarter, the typical interest rates charged on new feeder cattle loans and farm operating loans averaged about 13.6 percent, while new farm real estate loans at District banks had a typical interest charge of 13.4 percent. These lower rates represent decreases of between 60 and 80 basis points from three months earlier, placing rates at or below year-ago levels. Average rates at banks in Iowa were the highest among the District states in each category of loan.

Financial stress in the District's agricultural sector remains evident in the responses of surveyed bankers. Below year-ago repayment rates and a continued high incidence of renewals and extensions of farm loans during the final three months of 1984 were apparent in the bankers' responses. The measure of fourth quarter farm loan repayment rates fell to 49, the seventh consecutive quarterly decline. The number

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)
1978						
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
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
Oct-Dec	103	124	49	13.61	55.9	19

[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.

of banks reporting improvement in their farm customers repayment rates over that of a year ago accounted for only 8 percent of the survey respondents, while 59 percent noted a decline in repayment rates among farm customers. The remaining third of the bankers indicated that farm loan repayment rates were unchanged from the level of a year ago.

Similarly, the proportion of District agricultural banks citing a year-to-year increase in farm loan renewals or extensions outstripped the proportion citing a decline. Among the five District states, the measures of loan repayment rates and of renewals and extensions on farm loans suggest that debt servicing problems are greatest at Iowa banks. On the other hand, bankers in Indiana report somewhat less deterioration in the repayment situation than appears to be the case in the other states.

Financial stress is also reflected in the responses of the bankers regarding collateral requirements on farm loans. Across the District, more than 65 percent of the survey respondents indicated that the amount of collateral required on farm loans had risen from year-ago levels. Virtually none of the bankers reported an easing in collateral requirements in the fourth quarter. The large proportion of bankers reporting rising collateral requirements continues a trend that began in 1980, reflecting the erosion in farm equity that has accompanied the downtrend in land values and the greater incidence of debt-servicing problems among many highly leveraged borrowers.

Further evidence of debt-servicing difficulties among farmers is apparent in the responses of bankers in characterizing the repayment status of their farm loan portfolios. They note that the majority of their farm loan portfolios are not experiencing significant repayment problems, but that the proportion was below what they would expect under normal conditions. On average across the District, the bankers reported that about 83 percent of their portfolios fell in this category, compared to an expected norm of 94 percent.

The average proportion of the portfolios with little or no major repayment problems among the four District states other than Iowa were all above the District average. The proportions ranged from 85 percent of the portfolios in Illinois to 89 percent in Wisconsin. Similarly, the expected norms in these states were all at or above that of the District. Iowa bankers, on the other hand, reported a significantly different situation. They reported on average that the proportion of their portfolios experiencing no significant problems had slipped to 74 percent compared to the 91 percent of the portfolios that would be expected to exhibit little or no repayment problems if normal conditions prevailed.

The declines from normal levels in the proportions of portfolios with no significant repayment problems has resulted in an increased share falling into the categories of repayment difficulties. Farm loans with major repayment problems that require increased collateral or long-term workouts to restructure the balance sheets of affected borrowers comprised, on average, about 12 percent of banks' loan portfolios across the District, compared to the 5 percent that respondents would normally expect. Again, Iowa bankers reported the largest proportion of their loans falling into this category, almost 18 percent on average, while reports from other District states ranged from 7 percent in Wisconsin to 11 percent in Illinois.

The final category represents loans with severe repayment problems that will likely result in loan losses or require forced sales of borrowers' assets. This category of loans averages about 5 percent of the farm loan portfolios among surveyed banks, compared to the 1 percent of loan portfolios that bankers' would expect to be pressured by severe repayment difficulties under less stressful conditions. This proportion of loan portfolios under severe difficulties is consistent with bankers' responses on an earlier survey indicating that, on average, 4 to 5 percent of their farm customers would not receive operating credit in 1985.

The level of farm debt among District states provides additional insight to the degree of financial stress evident in bankers' responses. Farm debt outstanding in the five District states totaled $47.4 billion at the beginning of 1984, equivalent to more than a fifth of the U.S. total. More than $26 billion of the District total was accounted for by real estate debt, while the remaining $21 billion represented non-real estate debt.

The level of outstanding farm debt ranged from about $4.4 billion in Michigan, the District state with the smallest number of farm operations, to almost $16.8 billion in Iowa. On a per farm basis, including farms with no debt, the range in debt levels among District states show equally striking differences. Average debt per farm in Iowa is more than double that of Michigan and almost a third greater than Illinois, the next highest state. In addition, a comparison of debt-to-asset ratios of District states shows that farms in Iowa, with a ratio of more than 26 percent at the beginning of last year, are second only to Wisconsin's in the degree of financial leverage employed. Although these comparisons are imprecise in that they assume a constant incidence of debt across states, they do suggest that a higher than average debt load among Iowa farmers is contributing to the greater financial stress reported in the state.

During the first quarter of this year, credit demand at District agricultural banks is expected to remain stable. Almost 46 percent of the bankers surveyed expect that the volume of all non-real estate farm loans at their banks will be unchanged from a year ago, while 29 percent anticipate an increase in volume during the first three months of 1985. The remaining 25 percent of the survey respondents indicated they expected first quarter farm loan volume to be weaker than a year ago. According to the bankers' responses, a strengthening in farm operating loan demand will be countered by weak demand at banks for feeder cattle, dairy, crop storage, and farm machinery loans.

Across the District, more than 45 percent of the survey respondents expect a year-to-year increase in farm operating loan volume, while only 17 percent expect a decline from year-ago levels. In contrast, only about 12 percent of the bankers surveyed expect the volume of feeder cattle, dairy and crop storage loans to be above year-ago levels, while about a third expect a decline in the first three months of the year. The demand for farm machinery loans appears even weaker. Expectations of a first quarter increase in farm machinery loans were shared by only 8 percent of the respondents, while 55 percent expect further year-to-year declines in the volume of farm machinery loans.

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	January	134	-0.7	-8	5
Crops *(1977=100)*	January	125	0	-10	10
Corn *($per bu.)*	January	2.59	1.2	-18	10
Oats *($per bu.)*	January	1.71	-0.6	-6	17
Soybeans *($per bu.)*	January	5.77	-0.9	-27	4
Wheat *($per bu.)*	January	3.37	-0.3	-4	-6
Livestock and products *(1977=100)*	January	143	-1.4	-5	1
Barrows and gilts *($per cwt.)*	January	48.50	-2.4	-2	-14
Steers and heifers *($per cwt.)*	January	62.80	-0.5	-2	6
Milk *($per cwt.)*	January	13.90	-0.7	2	0
Eggs *(¢per doz.)*	January	51.7	-11.5	-46	-2
Prices paid by farmers *(1977=100)*	January	164	0	1	4
Production items	January	154	0.7	-1	3
Feed	January	123	0.8	-15	3
Feeder livestock	January	160	3.9	3	-3
Fuels and energy	January	195	-1.5	-4	-5
Producer Prices *(1967=100)*	January	293	0.1	1	3
Agricultural machinery and equipment	January	339	0.3	2	5
Fertilizer materials	January	233	0.4	1	1
Agricultural chemicals	January	454	-0.4	2	-1
Consumer prices *(1967=100)*	December	316	0.1	4	8
Food	December	305	0.3	4	6
Production or stocks					
Corn stocks *(mil. bu.)*	January 1	5,808	N.A.	18	-29
Soybean stocks *(mil. bu.)*	January 1	1,423	N.A.	10	-19
Beef production *(bil. lbs.)*	December	1.83	-4.9	-7	N.A.
Pork production *(bil. lbs.)*	December	1.22	-8.1	-10	N.A.
Milk production *(bil. lbs.)*	December	11.0	4.4	-3	N.A.

N.A. Not applicable

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