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AGRICULTURAL LETTER

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Credit trends at District agricultural banks

Measures of credit conditions at agricultural banks in the Seventh Federal Reserve District continued their recent trends during the first three months of the year. The April 1 survey of almost 550 banks suggests that first quarter farm loan demand across the District was near last year's level. Loan-to-deposit ratios averaged higher than a year ago but were little changed from the ending 1984 level. Thus, fund availability does not appear to be constraining these institutions from lending to farm borrowers. However, further declines in the measure of farm loan repayment rates shows the continued presence of financial stress among many farm borrowers and the difficulties facing agricultural lenders.

After growing through much of last year, farm loan demand appears to have leveled off during the past two quarters. The measure of first quarter farm loan demand, at 107, suggests that there was little difference from the conditions in the same period a year ago (see table on page 2). The measure represents a composite of the 33 percent of the survey respondents who noted a year-to-year rise in farm loan demand, less the 26 percent who reported that farm loan demand was below a year ago. The remaining 41 percent of the bankers noted no change in the level of farm loan demand from last year.

Although growth in farm loan demand appears to have leveled off across the District, some variability is exhibited among the five states. Bankers in Indiana and Michigan indicated that demand was considerably stronger than a year ago. In contrast, Wisconsin bankers suggested that farm loan demand in the first quarter was down from last year.

An adequate supply of funds appeared to be available at District agricultural banks during the first quarter for lending to farmer borrowers. The measure of fund availability remained at a high level as the proportion of bankers reporting a year-to-year gain in funds available for loans to farmers again exceeded the proportion noting a decline by a substantial margin. About 31 percent of the respondents reported a year-to-year increase in fund availability during the first quarter, while only 11 percent noted a decline. The remaining 58 percent of the surveyed bankers indicated that funds available for lending to farmers remained at the previous year's high level. Among the five District states, the measure of fund availability ranged from 132 in Michigan to 109 in Indiana. Loan-to-deposit ratios at District agricultural banks held fairly steady during the first three months of 1985, but at 56 percent at the end of the period were up from the year-earlier level of about 54.5 percent. Average loan-to-deposit ratios of agricultural banks in each District state were up from a year ago, and ranged from almost 52 percent for surveyed banks in Illinois to almost 63 percent in Wisconsin. Although up, the average loan-to-deposit ratio at District agricultural banks is well below the desired level. At about 61 percent, the average of desired loan-to-deposit ratios of these banks was 5 percentage points above the current ratio. About 55 percent of the surveyed bankers indicated that their actual loan-to-deposit ratio at the end of March was below the desired level. In contrast, only 17 percent of the respondents expressed a preference for a lower ratio. The remaining 28 percent of the bankers were satisfied with their current level of lending. These sentiments were roughly comparable across the five District states.

Interest rates on farm loans at District agricultural banks fell during the first three months of 1985, continuing the downward trend that began last fall. At the end of the first quarter, the typical interest rates charged on new feeder cattle loans and farm operating loans averaged about 13.5 percent, while the average rates on new farm real estate loans at surveyed banks fell to about 13.2 percent. These levels mark declines of 13 to 16 basis points from the previous quarter, and declines of 20 to 35 basis points from the averages of a year ago. Interest rates on loans at Iowa and Indiana banks tended to exceed the District average in each category of loan while rates charged by surveyed banks in the other District states were below the five-state average.

The financial stress being experienced by many of the District's farm borrowers remains evident in the responses of the surveyed bankers. Declines in repayment rates on farm loans and increases in loan renewals and extensions during the first three months of the year continued to characterize the bankers' responses. The measure of farm loan repayment rates during the first quarter dropped to 47. After plateauing in 1983 when the PIK program boosted farm liquidity, the measure of loan repayment rates has been trending down. The bankers reporting improvement in the repayment rates of their farm borrowers compared to a year ago accounted for only 4 percent of the survey respondents. In contrast, 57 percent noted a year-to-year decline in the repayment rates of farm customers. The remaining 38 percent of the bankers noted that farm loan repayment rates were stable. Repayment difficulties among farm borrowers were also indicated by bankers' responses concerning increasing renewals and extensions on farm loans.

Among all five District states, the measures of loan repayment rates and of renewals and extensions indicate that, for the most part, bankers in each state have been facing a deteriorating situation. Responses from Iowa bankers, with more than two-thirds reporting a decrease in the rate of farm loan repayment, suggest that institutions in that state are faring worse than in other District states. On the other hand, a majority of agricultural bankers in Michigan reported that

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
1985						
Jan-Mar	107	120	47	13.48	56.1	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.

farm loan repayment rates during the first quarter were unchanged from a year ago.

The deteriorating repayment situation has coincided with a trend toward greater collateral requirements. Across the District, about 70 percent of the surveyed bankers reported that during the first quarter the amount of collateral required on farm loans was higher than during the comparable period of a year ago. None of the respondents noted a year-to-year decline in collateral requirements. Increasing collateral requirements have been noted by an unusually large proportion of bankers in the last several quarterly surveys, reflecting the declines in land and machinery values and the mounting repayment problems.

Financial stress in the agricultural sector contributed to a significant level of farm loan charge-offs at banks last year. Based on reports filed by most banks involved in farm lending, it appears that charge-offs of farm loans, net of recoveries, at banks nationwide ranged somewhere between $850 and $900 million last year. Among the banks that report this information, net charge-offs of farm loans in 1984 represented 2.2 percent of the year-end outstanding portfolio of farm loans held by those banks. Reporting banks from District states indicated that net charge-offs of farm loans in 1984 represented about 2.0 percent of outstandings.

The proportion of farm loan charge-offs in 1984 varied widely among the five District states. Net charge-offs at banks in Indiana, Michigan, and Wisconsin represented about 1 per-

Use of FmHA debt adjustment program by surveyed banks

	Percent of banks applying	Applications per bank	Percent of applications: accepted	rejected	pending
Illinois	18	2	30	38	32
Indiana	20	1	31	32	37
Iowa	54	5	36	13	51
Michigan	37	5	45	7	48
Wisconsin	20	2	17	36	47
District states	31	4	35	17	48

cent of farm loans outstanding, falling considerably below the District and national averages. On the other hand, charge-offs of farm loans at banks in Illinois, at 1.9 percent, approached these averages, while charge-offs at Iowa banks were considerably higher. The 2.9 percent of farm loans charged off at Iowa banks in 1984 stands out among the District states, and ranks Iowa third behind California (at 6.1 percent) and Missouri (at 3.0 percent) in the proportion of farm loans written off by banks last year.

Mounting repayment problems in the agricultural sector spurred fears earlier in the year that a significant proportion of farmers would be denied operating credit this season. However, responses from a recent bank survey indicate that less than 5 percent of the farm loan customers that received credit from a District agricultural bank in 1984 did not receive operating credit from that bank this year. The proportions of farm loan customers that did not receive credit was at or below the District average among responding banks in Illinois, Indiana, and Wisconsin, while banks in Iowa and Michigan reported an above average proportion. While there may be a variety of reasons for a bank's farm loan customer not to receive credit, it seems likely that the responses largely reflect the eroding creditworthiness of farmers under financial stress.

In response to the financial stress in the agricultural sector and to help assure the flow of credit to farmers, the Farmers Home Administration (FmHA) instituted a debt-adjustment program this spring. The program allows 90 percent guarantees on problem farm loans in exchange for a reduction in loan principal or interest charges. About 31 percent of the District banks surveyed have applied for loan guarantees under the debt-adjustment program, averaging 4 applications per institution. Of the applications submitted, bankers indicated that about half were still pending as of late April. Of the remaining applications, acceptance for loan guarantees outstripped rejections by a two-to-one margin.

Use of the debt adjustment program by agricultural banks varies across the District states. About a fifth of the surveyed institutions in Illinois, Indiana, and Wisconsin applied for farm loan guarantees under the program, averaging about 2 applications per institution. In contrast, about 54 percent and 38 percent of surveyed banks in Iowa and Michigan, respectively, applied for an average of 5 guarantees. Moreover, acceptance of applications far outpaced rejections in Iowa and Michigan, but were more evenly distributed in Illinois and Indiana. Wisconsin bankers, on the other hand, reported the rate of acceptance was only about half that of rejections.

During the second quarter of this year, bankers' responses suggest that nonreal estate farm lending will remain near the year-ago level, while farm real estate loans will show further weakness. About 47 percent of the bankers surveyed expect that the volume of their nonreal estate farm lending will be unchanged from last year, while 23 percent reported an expected increase. However, about 30 percent of the respondents expect second quarter farm loan volume to be lower than a year ago. In contrast to the expected changes in nonreal estate farm loan volume, almost half of the bankers reported an expected drop in the volume of farm real estate loans. Of the remainder, 14 percent expect their bank's volume of farm real estate lending to be higher than a year ago and 38 percent expect the volume to be unchanged.

The volume of nonreal estate farm lending will be maintained largely by operating loans. Across the District, 41 percent of the respondents expect a year-to-year increase in farm operating loan volume, while 23 percent expected a decline. In contrast, fewer than 10 percent of the banks surveyed expected to increase lending for feeder cattle, dairy, or crop storage from the level of a year ago, while 30 to 40 percent foresee declines during the second quarter. Only 5 percent of the survey respondents expect to increase the volume of farm machinery lending, while 65 percent indicated that second quarter farm machinery loans would be lower than last year's volume.

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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)*	April	132	-1.5	-10	-2
Crops *(1977=100)*	April	126	-0.8	-10	1
Corn *($per bu.)*	April	2.68	0.8	-19	-9
Oats *($per bu.)*	April	1.63	-3.6	-10	6
Soybeans *($per bu.)*	April	5.86	-0.3	-25	-4
Wheat *($per bu.)*	April	3.40	0.6	-6	-9
Livestock and products *(1977=100)*	April	137	-2.8	-9	-6
Barrows and gilts *($per cwt.)*	April	41.80	-4.6	-13	-12
Steers and heifers *($per cwt.)*	April	59.70	-1.6	-8	-8
Milk *($per cwt.)*	April	13.00	-2.3	-1	-4
Eggs *(¢per doz.)*	April	53.0	-8.0	-42	-8
Prices paid by farmers *(1977=100)*	April	164	0	-1	3
Production items	April	153	0	-3	0
Feed	April	120	-0.8	-16	-8
Feeder livestock	April	161	-1.8	2	-6
Fuels and energy	April	201	3.1	-1	2
Producer Prices *(1967=100)*	April	293	0.2	1	4
Agricultural machinery and equipment	April	339	0	1	4
Fertilizer materials	April	232	0.2	-5	1
Agricultural chemicals	April	458	0.2	2	-1
Consumer prices *(1967=100)*	March	319	0.4	4	9
Food	March	310	0.1	3	7
Production or stocks					
Corn stocks *(mil. bu.)*	April 1	3,961	N.A.	22	-36
Soybean stocks *(mil. bu.)*	April 1	898	N.A.	14	-22
Beef production *(bil. lbs.)*	March	1.86	5.0	-4	-2
Pork production *(bil. lbs.)*	March	1.23	11.5	-8	-5
Milk production *(bil. lbs.)*	March	11.9	12.2	1	-2

N.A. Not applicable

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