



**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)

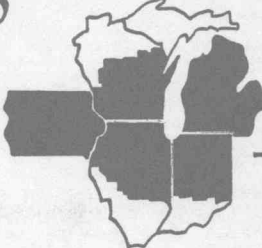
*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright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

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

July 26, 1974

IN LIBRARY USE ONLY

# Agricultural Letter



Number 1284

**THE EMERGENCY LIVESTOCK CREDIT ACT OF 1974** was passed by both Houses of Congress last week and presently awaits action by President Nixon. The act authorizes the Secretary of Agriculture to guarantee up to 80 percent of the losses on loans to eligible livestock producers. Loan guarantees outstanding under the act at any one time are restricted to a maximum of \$2 billion, while total loans guaranteed for any one borrower are restricted to a maximum of \$250,000. The authority to provide loan guarantees terminates in one year, but may be extended for an additional period of up to six months.

The act defines eligible livestock producers as bona fide farmers and ranchers who are primarily and directly engaged in raising, fattening, breeding, and marketing livestock—including beef and dairy cattle, swine, sheep, goats, chickens, and turkeys. Loans to corporations and partnerships are eligible only if the majority interest in the entity is held by individuals that are primarily and directly engaged in livestock production.

The guarantees apply to new loans and loans to refinance existing credit. In order to qualify for the guarantee, however, the loans must be payable in three years or less, but may be renewed for up to two additional years. In addition, lenders will have to certify that they are unwilling to provide credit to the borrower in the absence of the guarantee, that the proceeds of the loan are used for livestock production, and that the total loans made to the borrower—subject to the \$250,000 maximum—do not permit the borrower to expand his operations beyond the highest level achieved during the past 18 months.

There is little doubt that the Emergency Livestock Credit Act will encourage lenders to finance livestock producers since the guarantees will lower the loan risk. In the past few weeks, there has been considerable speculation that lenders have sharply curtailed credit extended to livestock producers. While new loans to livestock producers have no doubt declined, it appears that this is largely due to factors other than more restrictive credit standards. Demand for new loans has been reduced by lower feeder cattle prices and continued unprofitability. Moreover, the past losses that have reduced the equity to support new financing within lenders' risk standards must also be taken into consideration.

Preliminary evidence indicates that agricultural banks in the Seventh District, in general, have not significantly modified typical practices in financing cattle feeders. For example, only about one-tenth of the 750 banks that responded to a recent survey indicated they have raised equity requirements on new feeder cattle loans. Bankers also have been generally accommodative in cases where existing loans to cattle

feeders are overdue, or where the value of the collateral has been reduced below the amount of loan outstanding. For example, 31 percent of those banks experiencing such problems indicated they had renewed the loans, while 37 percent indicated they had requested the borrower to pledge additional collateral. Less than 8 percent reported they had encouraged the borrower to sell the cattle, while 17 percent indicated they had taken no action on overdue, or under-collateralized, loans. Thus, the recent report that indicated cattle feedlot activity is at the lowest level since 1968 would appear to be largely due to a lack of profit incentives to livestock producers rather than a reduction in availability of financing.

**Cattle on feed** in the major cattle-feeding states numbered 21 percent fewer than the record-high set a year ago on July 1. Most of the decline occurred during the second quarter when cattle placed into feedlots fell 29 percent short of the corresponding year-earlier level, while marketings from feedlots were about unchanged from a year ago.

The second-quarter curtailment in cattle moving into feedlots was particularly sharp in the Southwest, perhaps reflecting the withdrawal of outside investors from the large custom feedlots so predominate in that area. Placements in Texas—the leading cattle-feeding state—fell 44 percent short of the year-earlier level, while placements in Colorado and Kansas fell about 40 percent below the second quarter of last year. This is about double the percentage decline in placements in Iowa and Nebraska—the two leading cattle-feeding states in the Midwest.

Gary L. Benjamin  
Agricultural Economist

**ERRATA:** Last week's *Agricultural Letter*, No. 1283, contained incorrect information on the U.S. Department of Agriculture's projected range in soybean production for 1974. The correct figures are 1.39 to 1.47 billion bushels. The correct figures imply that the supply-demand balance for soybeans may be somewhat tighter in the 1974-75 marketing year.